APPENDIX B

City of San José
Norman Y. Mineta San José International Airport
Airport Revenue Bonds, Series 2011

Report of the Independent Airport Consultant

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RICONDO & ASSOCIATES

June 27, 2011

Mr. William F. Sherry
Director of Aviation
City of San José
1701 Airport Boulevard, Suite B-1130
San José, CA 95110-1206

Re: City of San José
Airport Revenue Bonds, Series 2011A-1 (AMT)
Airport Revenue Bonds, Series 2011B (Taxable)

Appendix B: Report of the Independent Airport Consultant

Dear Mr. Sherry:

This report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A), in conjunction with the planned issuance by the City of San José (the City) of its Airport Revenue Bonds, Series 2011A-1 (AMT) (the Series 2011A-1 Bonds), and its Airport Revenue Bonds, Series 2011B (Taxable) (the Series 2011B Bonds), expected to be issued before the end of 2011. The Series 2011A-1 Bonds and the Series 2011B Bonds (referred to collectively in this report as the Series 2011 Bonds) are being issued to refund certain outstanding commercial paper previously issued for improvements at Norman Y. Mineta San José International Airport (the Airport). The Airport is owned by the City, operated as a department of the City, and accounted for as a self-supporting enterprise fund in the basic financial statements of the City. This report is intended for inclusion in the Official Statements for the Series 2011 Bonds as Appendix B: Report of the Independent Airport Consultant.

Except as defined otherwise, the capitalized terms used in this report are as defined in the Master Trust Agreement discussed below. The period Fiscal Year (FY)[1] 2011 to FY 2017 is referred to in this report as the Projection Period.

Series 2011 Bonds

Proceeds of the Series 2011 Bonds will be used to refund outstanding commercial paper issued previously by the City to help fund or refinance the construction of (1) certain terminal and security improvements previously completed at the Airport and (2) a new consolidated rental car facility (the ConRAC) at the Airport which opened in June 2010. Proceeds of the Series 2011 Bonds will also be used to fund required debt service reserve deposits and costs of issuance associated with the Series 2011 Bonds.

[1] The City's fiscal year is the 12-month period ending June 30.

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Potential Refundings

If debt service savings can be achieved, the City is also considering the issuance of (1) additional Series 2011A-1 Bonds (AMT) to refund all or a portion of its outstanding Airport Revenue Refunding Bonds, Series 1998A and (2) its Airport Revenue Bonds, Series 2011A-2 (Non-AMT) to refund all or a portion of its outstanding Airport Revenue Bonds, Series 2001A. These potential refundings, and any associated Debt Service savings, are not incorporated in this report. If the City decides to issue such refunding bonds, the City expects that, relative to what is reflected in this report, Debt Service would be lower, but there would not be a material impact to projected Debt Service coverage ratios or passenger airline payments per enplaned passenger.

No Future Airport Bonds Expected During Projection Period

The City does not expect to issue any additional new money Airport Revenue Bonds (subsequent to the Series 2011 Bonds) during the Projection Period to fund Airport projects.

Master Trust Agreement

The Series 2011 Bonds are to be issued pursuant to the Master Trust Agreement, governing the City's Airport Revenue Bonds, and the Seventh and Eighth Supplemental Trust Agreements. The Master Trust Agreement and all Supplemental Trust Agreements are referred to collectively in this report as the Trust Agreement. The City's Airport Revenue Bonds are to be paid from and secured by (1) General Airport Revenues after the payment of Maintenance and Operation (M&O) Expenses) and (2) Other Available Funds (as defined in the Trust Agreement).

The Trust Agreement requires that certain covenants be met while any such bonds are outstanding and that certain financial tests be met before future Airport Revenue Bonds can be issued—including an additional bonds test requiring that projected Net General Airport Revenues and Other Available Funds provide sufficient coverage for Debt Service associated with outstanding Airport Revenue Bonds (including the Series 2011 Bonds). This report presents estimates of future Debt Service coverage ratios incorporating Debt Service requirements associated with outstanding Airport Revenue Bonds, the Series 2011 Bonds, and subordinated commercial paper. A separate analysis and certificate will be provided at the bond closing incorporating requirements of the additional bonds test contained in the Trust Agreement.

Use of Passenger Facility Charge Revenues

Pursuant to the Trust Agreement, the City may use passenger facility charge (PFC) collections and associated interest earnings (together, PFC Revenues) to pay Debt Service.

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As defined in the Trust Agreement, Annual Debt Service is equal to Debt Service for a given Fiscal Year less the Available PFC Revenues for such Fiscal Year. Pursuant to approvals previously received from the Federal Aviation Administration (FAA), during the Projection Period the City expects to use (but not pledge) certain PFC Revenues to pay a portion of the Debt Service associated with certain airfield and terminal projects already completed (funded in part with proceeds of the Outstanding Series 2001A Bonds, the Outstanding Series 2004 Bonds, the Outstanding Series 2007A Bonds, and commercial paper to be refunded with proceeds of the Series 2011A-1 Bonds).

The financial projections reflected in this report are based on the assumption that the $4.50 PFC level at the Airport is not increased during the Projection Period. If the current $4.50 maximum PFC level is increased by Congress during the Projection Period, the City plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC Revenues to reduce the level of projected airline payments reflected in this report.

Airline Agreement

The financial projections contained in this report for the Projection Period were developed based on the business terms and procedures for annual adjustment of rentals, fees, and charges contained in the current Airline Agreement, described in detail in Chapter V, Section 5.3 of this report. The current Airline Agreement expires at the end of FY 2012. For purposes of the financial projections in this report, it was assumed that airlines currently serving the Airport would continue to operate at the Airport throughout the Projection Period. It was also assumed for purposes of preparing financial projections that the business terms of the current Airline Agreement would extend beyond their expiration at the end of FY 2012 through FY 2017. Assuming the extension of current business terms beyond the current expiration date is reasonable and standard practice in preparing airport bond feasibility studies when specific changes to the current Airline Agreement have not been planned (as is the case at the Airport).

Rental Car Customer Facility Charge Revenues and Facility Rent

In connection with the construction costs and certain annual transportation expenses associated with the ConRAC at the Airport, the City imposes a rental car customer facility charge (CFC) on customers renting cars at the Airport and designates the CFC revenues collected (CFC Revenues) as Other Available Funds to pay debt service on Airport Revenue Bonds. The City currently imposes a CFC of $10.00 per transaction on vehicles rented at the Airport. As reflected in the financial projections in this report, pursuant to the State of California's recently amended CFC statute (the State CFC Statute), the City plans to change the CFC to $6.00 per transaction day (subject to a five-day maximum charge per transaction) in September 2011 and to $7.50 per transaction day (also subject to the five-day maximum charge) beginning January 1, 2014. The $6.00 per transaction day CFC and any subsequent

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increase of the per transaction day CFC are each subject to audit and substantiation by the California State Controller prior to City Council approval. Pursuant to a rental car agreement between the City and the rental car companies operating at the Airport (the Rental Car Agreement) that expires in June 2020 (subject to two optional 10-year extensions), the rental car companies operating at the Airport are required to pay Facility Rent to the City equal to, for a given Fiscal Year, the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, plus the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the rental car agreement. Facility Rent and other payments required to be made by the rental car companies to the City pursuant to the Rental Car Agreement (including concession fees and ground rents) are included in General Airport Revenues under the Trust Agreement.

Report of the Independent Airport Consultant and Findings

This report includes examinations of the underlying economic base of the Airport's Air Service Area (as defined in this Report) (Chapter I); the historical and projected air traffic activity at the Airport (Chapter II); a description of existing Airport facilities and potential future capital projects at the Airport (Chapter III); historical and projected rental car demand and customer facility charge revenue at the Airport (Chapter IV); and the financial structure of the Airport; Airport funding sources; the planned Series 2011 Bonds; projections of Debt Service, M&O Expenses, General Airport Revenues, and Other Available Funds; and projections of airline rates and charges and Debt Service coverage ratios (Chapter V).

On the basis of the assumptions and analyses described in this report, R&A is of the opinion that Net General Airport Revenues and Other Available Funds will be sufficient to meet the rate covenant requirement, as set forth in Section 7.13 of the Master Trust Agreement, during each Fiscal Year of the Projection Period.

Additional findings of these analyses include the following:

Economic Base

- **Considered the World's Top Technology Center.** As the largest city in Silicon Valley, the City of San Jose is often referred to as the "capital" of Silicon Valley. Silicon Valley, home to many of the world's largest technology companies, is considered by many to be the top technology center in the world.
- **Large Population Base and High Educational Attainment.** The Airport's Air Service Area, as defined in this report, has a substantial population base with

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approximately 4.7 million residents in calendar year (CY) 2010. The percentage of the Air Service Area's population with a college degree or higher (the category most likely to travel by air) was approximately 41 percent in CY 2009, substantially higher than that of California (approximately 30 percent) and of the nation (approximately 28 percent). In addition, the percentage of the Air Service Area's population between the ages of 35 and 54 (the age group most likely to travel by air) is slightly higher than that of California and the nation.

- **High Per Capita Personal Income.** Per capita personal income (PCI) in the Air Service Area in CY 2009 was significantly higher than that of California and the United States, and the percentage of households in the Air Service Area that earned more than $75,000 in CY 2009 (the income category that generates the greatest demand for airline travel) was substantially higher than California and the United States.
- **Diverse Employment Base.** Measured in percentages, employment in major industry divisions (services, trade, manufacturing, transportation, etc.) in the Air Service Area was generally consistent with that of California and the United States in CY 2009, indicating that the Air Service Area has a diversified employment base.
- **Large Number of Fortune 500 Companies.** In CY 2010, 23 Fortune 500 companies were headquartered in the Air Service Area (out of 57 Fortune 500 companies in California, or 40 percent of California's total), including Hewlett-Packard, Safeway, Apple, Cisco, Intel, Google, and Oracle—helping to stimulate demand for business travel.
- **Silicon Valley Ranked First in the Nation for Venture Capital.** Innovative and specialized companies and industries within the Air Service Area such as the technology and bio-tech sectors and their dependent industries (manufacturing and services) attract significant amounts of venture capital investment and support growth of the Air Service Area's economy.
- **Wide Range of Cultural/Recreational Attractions and Nearby Tourist Destinations.** The Air Service Area enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and will continue to attract visitors from all over the world. The Air Service Area is also located in close proximity to many Northern California tourist destinations and attractions (such as Carmel, Monterey, Napa Valley, San Francisco, and Sonoma Valley).
- As evidenced by the points above, the economic base of the Air Service Area is relatively stable and diversified, and is capable of supporting the projected air transportation activity at the Airport.

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Air Traffic

- **Stable Airline Base.** Nine of the 13 passenger airlines currently serving the Airport have been operating there since FY 1997.
- **Southwest Airlines Presence.** Southwest is the largest passenger airline based on enplaned passengers, airline operations, and landed weight at the Airport. It is projected that Southwest will continue to be the largest passenger airline in each category through the Projection Period.
- **High Percentage of Origin & Destination (O&D) Passenger Activity.** O&D passengers accounted for approximately 97.3 percent of total passengers at the Airport in FY 2010.
- **Passenger Growth Between FY 2003 and FY 2006.** Overall, passenger activity at the Airport increased at a compound annual growth rate (CAGR) of 1.3 percent between FY 2003 and FY 2006, the most recent recovery period for the Airport. Enplaned passenger growth at the Airport during this period was limited by continued reductions in air service by American Airlines as part of its de-hubbing activity. Excluding this de-hubbing activity by American and American Eagle's, enplaned passengers of all other airlines increased at a CAGR of 4.7 percent from FY 2003 to FY 2006.
- **Passenger Activity Between FY 2006 and FY 2010.** After a 1.3 percent increase in FY 2006, Airport enplaned passengers declined each year from FY 2007 through FY 2010. During this period rising fuel prices and a nationwide recession led to capacity cuts resulting in a loss of domestic O&D Bay Area passenger market share. In addition to the capacity cuts, the loss in Bay Area passenger market share was attributable to significant increases in airline service, lower fares, and increased airline competition at San Francisco International Airport (SFO). From FY 2006 to FY 2010, enplaned passengers decreased from 5,414,831 to 4,107,394, or an average annual decrease of 6.7 percent.
- **FY 2011 Enplaned Passengers Projected to Increase 2.1 Percent.** Based on ten months of actual data and two months of future OAG scheduled data, enplaned passengers are projected to increase from 4,107,394 in FY 2010 to 4,195,000 in FY 2011, an increase of 2.1 percent.
- **Enplaned Passenger Projections Through FY 2017.** After a projected increase in FY 2011 of 2.1 percent, enplaned passengers are projected to continue to increase to 4,794,700 in FY 2017. This increase represents a CAGR of 2.2 percent from FY 2010.

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- **Projected Passenger Growth is Lower Than FAA Forecast.** The 2010 FAA Terminal Area Forecast projects enplaned passengers to increase at a CAGR of 2.4 percent between Federal Fiscal Year (FFY) (ending September 30) 2010 and FFY 2017 for the Airport. In the FAA's forecast from FFY 2012 through FFY 2017, enplaned passengers are projected to increase at an average annual rate of 3.1 percent. As mentioned above, enplaned passenger projections presented here are projected to increase at a lower CAGR of 2.2 percent from FY 2010 through FY 2017.

Rental Car Activity

- **High Correlation to Passenger Activity.** Although rental car activity at the Airport is influenced by factors such as the economy, income, and car rental rates, it is primarily related to passenger activity at the Airport, which served as the basis for projecting future rental car demand at the Airport.
- **New Consolidated Rental Car Facility at the Airport.** The new seven-story ConRAC located immediately across the terminal roadway from the entrance to the new Terminal B is the most conveniently-located rental car facility of the three major Bay Area airports and is one of the most convenient airport rental car facilities in the nation.
- **Diverse Rental Car Market at the Airport.** Ten rental car brands currently operate at the Airport including nine brands owned by the four major rental car companies in the United States, as well as one smaller independent brand.
- **Lowest Rental Car Rates of the Bay Area Airports.** Of the three Bay Area airports, the Airport had the lowest weekend and weekday rental car rates (based on data recently obtained).
- **Rental Car Activity Is Recovering at the Airport.** Rental car transactions grew at a CAGR of 2.3 percent between FY 2003 and FY 2006. From FY 2007 to FY 2010, rental car transactions at the Airport decreased at an average annual rate of 12.2 percent, as deplaned passengers decreased by an average annual rate of 8.2 percent in response to the national economic recession. However, rental car transactions at the Airport have rebounded in the first nine months of FY 2011, increasing 13.9 percent compared to the same period for FY 2010.
- **Rental Car Activity Projections Through FY 2017.** Rental car transactions and transaction days are projected to grow 8.4 percent in FY 2011 and then increase with projected passenger growth between FY 2011 and FY 2017, at a CAGR of 2.3 percent between FY 2011 and FY 2017.

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Financial Analysis

- **Sufficient Airport Capacity with Minimal Capital Needs.** Existing Airport facilities (including new and improved terminal, rental car, parking, and terminal roadway facilities) are expected to satisfy airline and air passenger needs through and beyond the Projection Period at a cost that will produce reasonable levels of rates and charges to the users of the Airport facilities. The Airport's 2012-2016 Capital Improvement Program is estimated to cost $59.1 million, with approximately $29.9 million expected to be funded with federal grants, and remaining costs expected to be funded with Airport funds and other/third party funds. The City does not expect to issue additional new money Airport Revenue Bonds during the Projection Period.
- **M&O Expense Reductions.** In response to substantial decreases in airline activity at the Airport beginning in FY 2008 (as discussed in detail in Chapter II of this report), the City has cut M&O Expenses substantially, relative to both budgeted amounts and to prior year actual M&O Expenses. Cuts to M&O Expenses have included substantial reductions in Airport staffing levels and associated overhead, building rent, post-employment benefits costs, and other expenses. Actual FY 2010 M&O Expenses were 8.8 percent lower than actual FY 2009 M&O Expenses and approximately 12.7 percent lower than budgeted FY 2010 M&O Expenses. M&O Expenses for the proposed FY 2012 budget, which are based on certain assumptions, are estimated to be approximately 9.1 percent lower than M&O Expenses estimated for FY 2011. See Chapter V for more information.
- **Projections of Required Airline Rates and Charges Are Reasonable.** The Signatory Airline terminal rental rate per square foot is projected to increase from $140.13 in FY 2012 to $183.02 in FY 2017. The Signatory Airline landing fee rate per 1,000-pound unit of landed weight is projected to decrease from $2.14 in FY 2012 to $2.10 in FY 2017. Additionally, passenger airline cost per enplaned passenger (future dollars) is projected to increase from $11.11 in FY 2011 to $11.95 in FY 2017.
- **Airport Revenues Are Projected to be Sufficient to Meet Obligations.** Airline rates and charges, together with other General Airport Revenues and Other Available Funds, are projected to be sufficient to pay M&O Expenses, Debt Service, and required fund deposits in each Fiscal Year of the Projection Period (FY 2011 to FY 2017).
- **Projected Debt Service Coverage Ratios Exceed Rate Covenant Requirements.** In FY 2011, the debt service coverage ratio for Airport Revenue Bonds is estimated to be 2.75x. Between FY 2012 and FY 2017, the debt service coverage ratio for Airport Revenue Bonds is estimated to range from a low of 1.55x to a high of 1.83x, exceeding the rate covenant requirement in each Fiscal Year of the Projection Period.

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The techniques used in this report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While R&A believes the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Achievement of projections described in this report, therefore, is dependent upon the occurrence of future events, and variations may be material.

R&A complies with the recently enacted regulations related to Municipal Advisors, as it pertains to consulting firms such as R&A. Based on the definition of "Municipal Advisor" put forth in the Securities and Exchange Commission's (SEC) proposed rule implementing Section 975 of Title IX of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes firms providing feasibility studies for inclusion in an official statement for a municipal bond transaction, R&A has registered with both the SEC and the Municipal Securities Rulemaking Board as a Municipal Advisor.

Sincerely,

RICONDO & ASSOCIATES, INC.

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LIST OF EXHIBITS

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I. Economic Base for Air Transportation

The demand for air transportation at a particular airport is, to a large degree, a function of the demographic and economic characteristics of the airport's air service area (i.e., the primary geographical area served by an airport). The correlation between activity at Norman Y. Mineta San José International Airport (the Airport) and local economic characteristics of the surrounding region has been strong based on long-term historical data. This high correlation is due primarily to the fact that a majority of the Airport's passenger activity is origin and destination (O&D) in nature[1] - meaning that passengers either begin or end their trips at the Airport (whether they reside, work, commute for work in the San Jose area, or travel to the San Jose area for business or vacation) as opposed to connecting through the Airport to reach another destination. Based on United States Department of Transportation (DOT) data, O&D passengers accounted for approximately 97.3 percent of total passengers at the Airport in Fiscal Year[2] (FY) 2010.

This chapter describes the economic base of the Airport's air service area (Air Service Area), as defined in Section 1.2 below, including current conditions and trends. This chapter presents data that indicates that the economic base of the Airport's Air Service Area is capable of generating increased demand for air travel at the Airport during the projection period FY 2011 through FY 2017 (the Projection Period).

1.1 Summary

The Air Service Area's economy has shown early signs of recovery from the recent nationwide economic recession. Continued growth in population, a well-educated population base, per capita personal income significantly higher than the national average, and a real estate market that is showing signs of rebounding all provide evidence that the Air Service Area's economy will continue to drive demand for air transportation at the Airport.

A summary of key socioeconomic indicators and trends in the Air Service Area includes the following:

- **Population.** The Air Service Area has a substantial population base with approximately 4.7 million residents in 2010, representing approximately 60.2 percent of the 12 counties in the Air Service Area and the Bay Area (each as defined in Section 1.2 below). The Airport is located in San Jose, the largest city in the Bay Area, the third largest city in the State of California (California), and the tenth largest city in the nation. Population in the Air Service Area is projected to increase at a compound annual growth rate (CAGR) of 0.8 percent between 2010 and 2020 (similar rate of growth as the Bay Area yet slower than that of California and the nation). In 2009, the percentage of the Air Service Area's population between the ages of 35 and 54 (the age group most likely to travel by air) is slightly higher than that of California and the nation.
- **High Educational Attainment.** The percentage of the Air Service Area's population with a college degree or higher (the category most likely to travel by air) was approximately 41 percent in 2009, substantially higher than that for California and for the nation.

[1] The Airport served as a hub for American Airlines between the early 1990s and early 2000s.
[2] The Airport's fiscal year (Fiscal Year or FY) is the 12-month period ending June 30.

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- **Income.** Compared to California and the United States, per capita personal income (PCI) in the Air Service Area in 2009 was significantly higher and a greater percentage of its households earned more than $75,000 in 2009, the income category that generates the greatest demand for airline travel. This suggests a continuing ability by the Air Service Area's households to draw on discretionary income for spending on air travel. The Air Service Area's PCI is expected to increase at a CAGR of 3.7 percent between 2009 and 2017 (compared to 3.6 percent for the Bay Area and California, and 3.8 percent for the United States) and remain significantly higher than that of California and the nation through 2017.
- **Unemployment.** Annual unemployment rates for the Air Service Area have been below those for California every year from 1999 through 2010 with the exception of 2002 to 2005. This is likely due to the highly educated workforce in the Air Service Area and the impact that the Technology Industry recession had on employment in the Air Service Area.[3] Compared to the nation, the Air Service Area's unemployment rate was lower in 1996 through 2000, and equal to or higher in each year from 2001 through 2010. Unemployment is expected to remain relatively high in 2011 for the Air Service Area, California, and the United States.
- **Nonagricultural Employment.** Nonagricultural employment in the Air Service Area decreased at a compound annual rate of 3.4 percent from 2007 to 2009 during the nationwide recession, which was above the rate of decrease for California and the United States during this same period. Measured by percentages, employment in major industry divisions (services, trade, manufacturing, transportation, etc.) in the Air Service Area was generally consistent with that of California and the United States in 2009, indicating that the Air Service Area has a diversified employment base. Nonagricultural employment in the 12-County Area, as defined in Section 1.2 below, is projected to increase by approximately 260,400 employees between 2008 and 2018.

As evidenced by the points above, the economic base of the Air Service Area is relatively stable and diversified, and is capable of supporting the projected air transportation activity at the Airport (shown on Table II-14 of this report). The projections of aviation demand are supported by projected population growth, projected household income growth, a significant percentage of households in higher income categories, projected increases in employment, as well as other key demographic and socioeconomic characteristics of the Air Service Area summarized below:

- **Large Number of Fortune 500 Companies Stimulates Demand for Business Travel.** In 2010, 23 Fortune 500 companies were headquartered in the Air Service Area (out of 57 Fortune 500 companies in California, or 40 percent of California's total), including Hewlett-Packard, Safeway, Apple, Cisco, Intel, Google, and Oracle.
- **Housing Market and Commercial Real Estate.** Existing single family home prices have recently experienced year over year increases and prices are projected to continue to rise in 2011. Recent increases in building permits could be an indicator of increased housing construction in 2011, and office rental rates and occupancy rates are expected to increase in the next two to three years.

[3] As defined in Section 1.3, the various technology industries located in Silicon Valley (semiconductors, computer manufacturing, software, operating systems, internet, biotech, etc.) are referred to collectively in this report as the Technology Industry.

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- **Innovation and Venture Capital Investment Will Help Stimulate Demand.** Innovative and specialized companies and industries within the Air Service Area such as the technology and bio-tech sectors and their dependent industries (manufacturing and services) attract significant amounts of venture capital investment and support growth of the Air Service Area's economy. Silicon Valley's research and development and innovation functions are projected to stay in the Bay Area, expanded venture capital investment is expected to continue supporting these dynamic and creative businesses. New activities are expected to continue developing in the Air Service Area with the emergence of clean and green enterprises, solar technologies, environmental, and energy research ventures.
- **Cultural and Recreational Attractions.** The Air Service Area enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and will continue to attract visitors from all over the world. The Air Service Area is also located in close proximity to many Northern California tourist destinations and attractions (such as Carmel, Monterey, Napa Valley, San Francisco, and Sonoma Valley).
- **Importance to Regional and State Economies.** The San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) generated approximately $147 billion in gross regional product in 2008 — accounting for approximately 27.8 percent of the gross regional product of the 12-County Area and approximately 7.6 percent of California's gross state product in that year.

While the regional economy experienced the economic recession of the early 2000s, the Technology Industry recession in 2001 and 2002, and the recent national economic recession in 2008 and 2009, the regional economy has also shown the ability to rebound following economic downturns (and has at times experienced dramatic growth in connection with growth of the Technology Industry).

As pointed out in this Summary section, and discussed in greater detail in the sections which follow, the economic base of the Air Service Area is capable of supporting the projected air transportation activity at the Airport as discussed in Chapter II.

1.2 Air Service Area

Exhibit I-1 depicts the Air Service Area in relation to the San Francisco Bay Area (Bay Area), as defined below, and California. The Airport is located within the City of San Jose (two miles north of downtown), which is the third largest city in California (after Los Angeles and San Diego) and the tenth largest city in the nation, based on 2009 population estimates.

The Air Service Area is comprised of six California counties: Alameda, Monterey, San Benito, San Mateo, Santa Clara, and Santa Cruz. These six counties represent the Airport's primary air service area, as they capture the majority of the Airport's passengers due to the Airport's geographic proximity to their population and business centers. Alameda and San Mateo counties also belong to the air service areas of San Francisco International Airport and Oakland International Airport and are, therefore, part of an overlapping service area, as identified on Exhibit I-1.

For the purposes of this report, the Bay Area is defined to include the nine counties served by the Association of Bay Area Governments (ABAG): Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma. This definition of the Bay Area is consistent with definitions used by other government agencies (such as the Metropolitan

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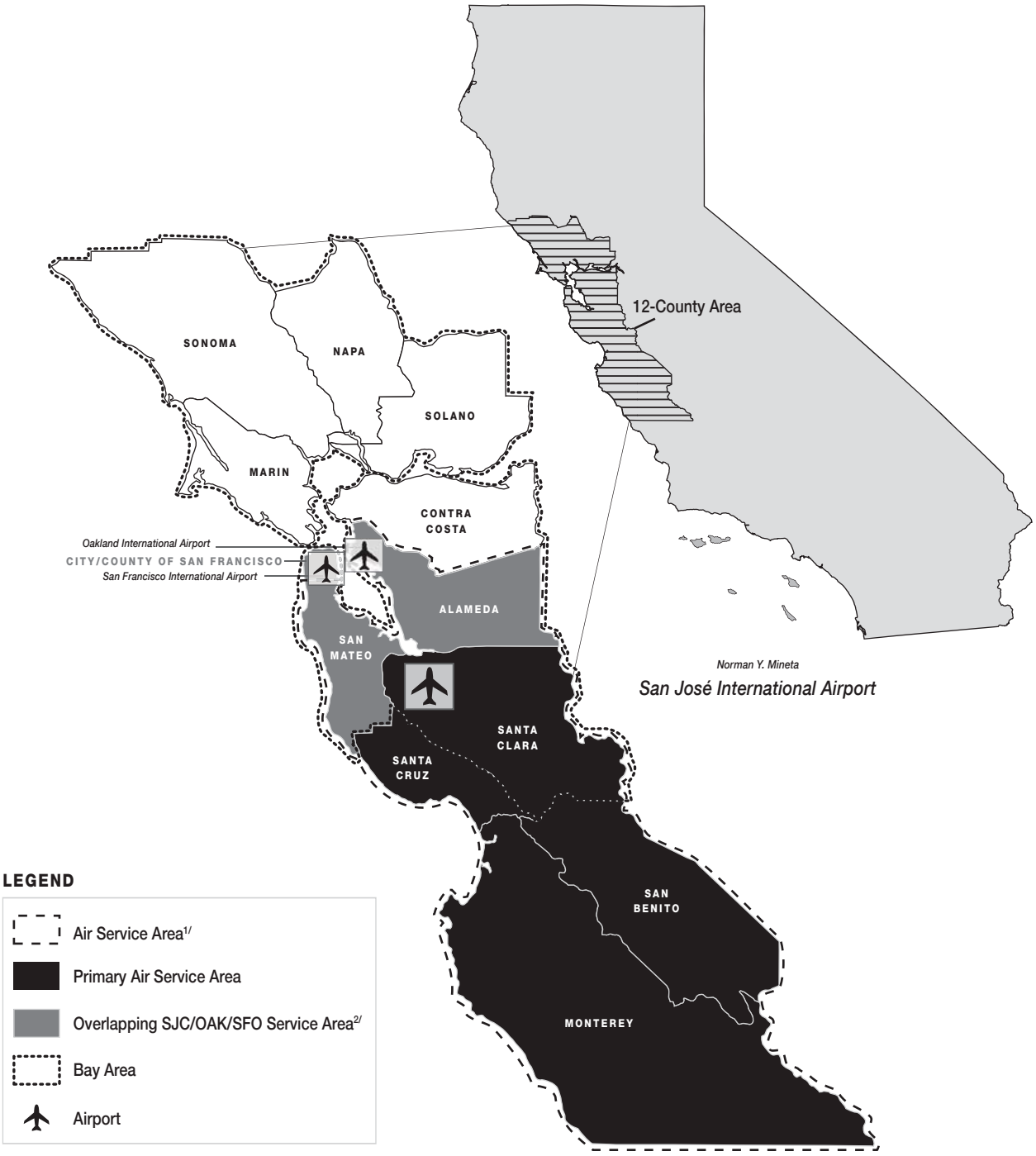

Note: The Bay Area, as defined in this report, does not include Monterey, San Benito, or Santa Cruz Counties.

1/ The Norman Y. Mineta San José International Airport's Air Service Area includes Alameda, San Mateo, Santa Cruz, Santa Clara, San Benito and Monterey counties.

2/ The City/County of San Francisco is included in the air service areas of San Francisco International Airport (SFO) and Oakland International Airport (OAK). The County of San Mateo is included in the air service areas of SFO and the Airport. Alameda County is included in the air service areas of OAK and the Airport.

Source: MapResources, 2007; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit I-1

Air Service Area, Bay Area, and 12-County Area

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Transportation Commission) and the Bay Area Census. Three of the counties in the Bay Area (Alameda, San Mateo, and Santa Clara) are also included in the Air Service Area.

The 12 counties that are included in either or both the Air Service Area or the Bay Area are referred to collectively in this report as the 12-County Area (as shown on Exhibit I-1). Based on the availability of data by region, various tables in this chapter reflect data for one or more of the Air Service Area, the Bay Area, and the 12-County Area, often in comparison to California and the United States.

Based on 2010 census population counts by the United States Census Bureau, **Table I-1** below shows the growth in population experienced between 2000 and 2010 for the Air Service Area and the Bay Area counties. In 2010, the Air Service Area's population accounted for approximately 60.2 percent of the total population for the 12-County Area. Three of the six Air Service Area counties (Alameda, San Mateo, and Santa Clara) ranked within the top five most populated counties of the Bay Area in 2010, with Santa Clara and Alameda Counties ranking first and second, and San Mateo County ranking fifth.

Table I-1

Air Service Area and Bay Area Population -- Historical 2000 and 2010 Data

	County	Air Service Area	Bay Area	Census 2000	Census 2010	Total Increase	Census 2010 Share
1.	Santa Clara	X	X	1,682,585	1,781,642	5.9%	22.6%
2.	Alameda	X	X	1,443,741	1,510,271	4.6%	19.2%
3.	Contra Costa		X	948,816	1,049,025	10.6%	13.3%
4.	San Francisco		X	776,733	805,235	3.7%	10.2%
5.	San Mateo	X	X	707,161	718,451	1.6%	9.1%
6.	Sonoma		X	458,614	483,878	5.5%	6.1%
7.	Monterey	X		401,762	415,057	3.3%	5.3%
8.	Solano		X	394,542	413,344	4.8%	5.2%
9.	Santa Cruz	X		255,602	262,382	2.7%	3.3%
10.	Marin		X	247,289	252,409	2.1%	3.2%
11.	Napa		X	124,279	136,484	9.8%	1.7%
12.	San Benito	X		53,234	55,269	3.8%	0.7%
	12-County Area			7,494,358	7,883,447	5.2%	100.0%
	Air Service Area			4,544,085	4,743,072	4.4%	60.2%
	Bay Area			6,783,760	7,150,739	5.4%	90.7%

Source: United States Department of Commerce, United States Census Bureau (Census 2000 & 2010 Population), April 2011.
Prepared by: Ricondo & Associates, Inc., April 2011.

The demographic and economic strength of the Air Service Area provides the primary base for supporting air transportation at the Airport.

1.3 Silicon Valley and the Technology Industry

The term “Silicon Valley” was first used in 1971 in a technology trade publication in reference to the material used to create most semiconductors and to the growing concentration of this industry in the Santa Clara Valley. Today, Silicon Valley is home to many of the world’s largest technology

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companies, and the term Silicon Valley has come to refer to all of the technology industries in the area (semiconductors, computer manufacturing, software, operating systems, internet, biotech, etc.). For purposes of this report, these various technology industries are referred to collectively as the Technology Industry. As the largest city in Silicon Valley, the City of San Jose is often referred to as the "capital" of Silicon Valley.

Silicon Valley's role in the Technology Industry actually dates back to the early 1900s, beginning with innovations in radio, radar, television, and military electronics. A key development in the history of both Silicon Valley and the Technology Industry was collaboration between Stanford University professors and nearby industry following World War II, and the leasing of Stanford University land to technology companies (such as Hewlett-Packard). The 1950s through the 1970s in Silicon Valley saw the development of semiconductors, a venture capital network, microchips, general purpose computers, operating systems, and early personal computers. The 1980s marked the advent of the personal computer era based on microprocessors pioneered by Intel, along with significant growth in startup companies in Silicon Valley, and the 1990s witnessed the start of the internet era, further innovations in computer software, and development of mobile devices (e.g., Palm Pilot). Investment in Silicon Valley companies and employment increased dramatically in both the 1980s and the 1990s. In addition, population increased dramatically in Silicon Valley. Between CY 1970 and CY 1990, population in the City of San Jose increased from approximately 446,000 to approximately 782,000, and the population in the Santa Clara County increased by nearly 500,000. During the last decade, online social networking services increased dramatically, with services provided by companies such as Facebook, which is headquartered in the Air Service Area and employs 1,000 people.

As discussed in Chapter II of this report, enplaned passengers at the Airport also increased dramatically in the 1980s and the 1990s. Enplaned passengers at the Airport increased from approximately 1.4 million in FY 1981 to approximately 3.4 million in FY 1990, representing a CAGR of approximately 10.7 percent. Between FY 1981 and FY 2001 (when Airport enplaned passengers reached its peak), enplaned passengers grew at a CAGR of 8.5 percent.

Silicon Valley is generally considered to have been the center of the significant growth in the Technology Industry, which began in the mid-1990s and slumped after the NASDAQ stock market began to decline dramatically in early CY 2000. Following the Technology Industry recession and the events of September 11, 2001, enplaned passengers at the Airport decreased 17.6 percent in FY 2002 (from an Airport record high 6.9 million enplaned passengers in FY 2001 to 5.7 million enplaned passengers in FY 2002). Enplaned passengers at the Airport further decreased by 9.0 percent in FY 2003 from FY 2002 levels, remained relatively constant through FY 2008, and due to the recent recession, decreased from 5.2 million enplaned passengers in FY 2008 to 4.1 million enplaned passengers in FY 2010.

1.4 Regional Transportation Network

The Air Service Area is supported by a comprehensive regional transportation network that includes:

- Norman Y. Mineta San José International Airport (SJC)
- Oakland International Airport (OAK)
- San Francisco International Airport (SFO)

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- An extensive network of local bus routes serving the urbanized portions of Santa Clara County (operated by Santa Clara Valley Transportation Authority)
- Several major highway corridors (including Interstates 280, 580, 680, and 880; U.S. Highway 101 and State Routes 85, 87 and 17; and the San Mateo/Dumbarton toll bridges)
- The Altamont Commuter Express (ACE) train service managed by the San Joaquin Regional Rail Commission
- Bay Area Rapid Transit (BART), with a 104-mile network and 43 stations that provide access to the four counties of San Francisco, San Mateo, Alameda, and Contra Costa and connections to Amtrak, the Alameda/Oakland ferry, and many regional bus networks
- Caltrain (commuter rail owned and operated by the Peninsula Corridor Joint Powers Board) serving 31 stations between San Francisco and Gilroy, with a total network of around 80 miles, and with connections to BART, to light rail, as well as to the Airport
- Two major freight rail companies, the Union Pacific Railroad and Burlington Northern Santa Fe Railway (BNSF), providing freight service to the Air Service Area and the Bay Area
- Amtrak, operating throughout the Bay Area and providing connectivity to the Air Service Area's other modes of transportation

1.5 Demographic Profile (Population, Age Distribution, Education)

Actual and projected population growth is a prevailing indicator when assessing demand for air travel. **Table I-2** illustrates historical and projected population for the Air Service Area, the Bay Area, California, and the United States. As shown in Table I-2, population for the Air Service Area increased at a CAGR of 0.8 percent between 1990 and 2010, which is below the CAGR of 0.9 percent for the Bay Area and the CAGR of 1.1 percent for California and the nation during this same period.

Population projections for 2020 indicate steady growth for the Air Service Area and for the Bay Area, at similar rates as experienced between 1990 and 2010. As also shown in Table I-2, population for the Air Service Area is projected to increase from approximately 4.7 million in 2010 to approximately 5.1 million in 2020. This increase represents a CAGR of 0.8 percent during this period (compared to 0.8 percent projected for the Bay Area, 1.0 percent for California, and 1.0 percent for the nation).

According to survey data from the United States Travel Association, air travel frequency in the United States varies by age group, and individuals between the ages of 35 and 54 tend to travel the most (46 percent of all air trips). Data in **Table I-3** shows that in 2009, Air Service Area residents between the ages of 35 and 54 made up approximately 29.9 percent of the population of the Air Service Area, compared with 28.2 percent of the population of California and 28.1 percent of the population of the United States. The Air Service Area's greater percentage of the population in the age category that travels most frequently represents an important source of demand for air service at the Airport.

Educational attainment of residents can also be a key indicator of an area's demand for air service, as evidenced by a 2007 study by Arbitron, Inc. that found that individuals with a college degree are more likely to travel by air. According to 2009 data shown in **Table I-4**, approximately 40.6 percent of the Air Service Area population over the age of 25 holds a bachelor's degree or higher advanced

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Table I-2

Historical & Projected Population

	Historical			Projected	CAGR			
County	1990	2000	2010	2020	1990-2000	2000-2010	1990-2010	2010-2020
Alameda County	1,279,182	1,443,741	1,510,271	1,607,202	1.2%	0.5%	0.8%	0.6%
Monterey County	355,660	401,762	415,057	444,674	1.2%	0.3%	0.8%	0.7%
San Benito County	36,697	53,234	55,269	62,855	3.8%	0.4%	2.1%	1.3%
San Mateo County	649,623	707,161	718,451	778,040	0.9%	0.2%	0.5%	0.8%
Santa Clara County	1,497,577	1,682,585	1,781,642	1,950,223	1.2%	0.6%	0.9%	0.9%
Santa Cruz County	229,734	255,602	262,382	281,016	1.1%	0.3%	0.7%	0.7%
Air Service Area	4,048,473	4,544,085	4,743,072	5,124,010	1.2%	0.4%	0.8%	0.8%
Bay Area	6,023,577	6,783,760	7,150,739	7,741,712	1.2%	0.5%	0.9%	0.8%
State of California	29,760,021	33,871,648	37,253,956	41,294,381	1.3%	1.0%	1.1%	1.0%
United States	248,709,873	281,421,906	308,745,538	341,251,668	1.2%	0.9%	1.1%	1.0%

Sources: U.S. Department of Commerce, Bureau of the Census, April 2011 (historical) and Woods and Poole Economics, Inc., *2011 Complete Economic and Demographic Data Source (CEDDS),* 2010 (projected).

Prepared by: Ricondo & Associates, Inc., April 2011.

Table I-3

Age Distribution (CY 2009)

	Air Service Area [1/]	State of California	United States
Total Population	4,661,701	36,961,664	307,006,556
By Age Group			
17 and Under	23.8%	25.5%	24.3%
18 - 34	24.3%	24.6%	23.5%
35 - 54 [2/]	29.9%	28.2%	28.1%
55+	22.0%	21.7%	24.1%
Total	100.0%	100.0%	100.0%
Median Age	36.4 years	34.9 years	36.8 years

Notes:

1/ Data for San Benito County is not available and was excluded for purposes of this table.

2/ Data from the US Travel Association shows that this age group travels more frequently by air than other age groups.

Source: U.S. Department of Commerce, Bureau of the Census, *American Community Survey 2009* .

Prepared by: Ricondo & Associates, Inc., February 2011.

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Table I-4

Educational Attainment (CY 2009)

Population 25 years and over	Air Service Area [1/] 3,123,880	State of California 23,782,109	United States 201,952,383
Less Than High School Diploma	15.5%	19.4%	14.7%
High School Graduate	18.1%	20.9%	28.5%
Some College or Associate's Degree	25.8%	29.8%	28.9%
Bachelor's Degree [2/]	23.9%	19.1%	17.6%
Graduate or Professional Degree [2/]	16.7%	10.7%	10.3%
Total	100.0%	100.0%	100.0%
Bachelor's Degree or Higher [2/]	40.6%	29.8%	27.9%

Notes:

1/ Data for San Benito County is not available and was excluded for purposes of this table.

2/ Data from Arbitron, Inc. shows that individuals with a bachelor's degree or higher travel by air more frequently than individuals with lower levels of educational attainment.

Source: U.S. Department of Commerce, Bureau of the Census, *American Community Survey 2009* .

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degree (e.g., graduate or professional degree). This percentage is significantly higher than that of both California and the United States where, respectively, 29.8 percent and 27.9 percent of the population over the age of 25 hold a bachelor's degree or higher advanced degree.

The Air Service Area is home to numerous public and private institutions of higher education, including Stanford University, California State University San Jose, Santa Clara University, the University of California at Santa Cruz, California State University Monterey Bay, and over 20 additional universities, colleges, and technical schools. Many of these universities and colleges were instrumental in the development of Silicon Valley and the Technology Industry and continue to play an important role in the economy of the Air Service Area, through corporate, medical, and government research; large student populations; contributions to the high levels of educational attainment in the Air Service Area; and significant contributions in terms of workforce for the Technology Industry and other industry sectors. The Air Service Area is also home to the NASA Ames Research Center located at Moffett Field, focusing on wind-tunnel, aeronautics, spaceflight, and information technology.

1.6 Income

A key indicator regarding demand for air travel is personal income. Personal income indicates the general level of affluence of local residents, which corresponds to an area's ability to afford air travel, as well as an area's attractiveness to business and leisure travelers.

Table I-5 illustrates historical per capita income (PCI) between 2000 and 2009 for the Air Service Area, the Bay Area, California, and the United States. As shown, the Air Service Area's PCI of $53,654 for 2009 is approximately $11,000 (or 26.8 percent) higher than California's PCI, approximately $14,500 (or 37.1 percent) higher than the nation's PCI, and approximately $2,700 (or 4.8 percent) lower than the Bay Area's PCI.

In 2009, PCI for the San Jose-Sunnyvale-Santa Clara MSA, which includes Santa Clara County and San Benito County, was the fifth highest of all MSAs in the nation, while Santa Clara County had the highest median household income of any county in California.[4]

The Air Service Area's PCI increased at a 1.2 percent CAGR for the period 2000 to 2009, compared to 1.6 percent for the Bay Area, 2.7 percent for California, and 2.9 percent nationwide. The CAGR for PCI in the Air Service Area for 2000 to 2009 was lower than the CAGRs for the Bay Area, California, and the United States as a result of lower growth during that period in San Benito, San Mateo, and Santa Clara Counties. As also shown, the Air Service Area's PCI is expected to increase at a CAGR of 3.7 percent between 2009 and 2017. PCI for the Bay Area, California, and the United States are expected to experience similar growth during this same period (with CAGRs between 3.6 percent and 3.8 percent). PCI for the Air Service Area and the Bay Area is projected to remain significantly higher than that of California and the nation.

As personal income increases, air travel becomes more affordable and can be used more frequently. The percentage of higher income households (defined as those earning $75,000 or more annually)

[4] Based on an average of 2006 through 2008 data compiled by the American Community Survey of United States Bureau of the Census, Santa Clara County ranked 19th among counties nationwide in median household income ($87,287).

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Table I-5

Per Capita Personal Income

Calendar Year	Per Capita Personal Income			
	Air Service Area	Bay Area	California	United States
Historical				
2000	$48,021	$48,867	$33,398	$30,318
2001	$45,043	$46,979	$33,890	$31,145
2002	$43,248	$45,497	$34,045	$31,462
2003	$44,015	$46,155	$34,977	$32,271
2004	$46,688	$49,023	$36,904	$33,881
2005	$49,335	$52,023	$38,767	$35,424
2006	$53,525	$56,262	$41,567	$37,699
2007	$56,737	$59,396	$43,402	$39,392
2008	$56,317	$59,231	$43,852	$40,166
2009	$53,654	$56,357	$42,324	$39,138
Projected				
2017	$71,947	$74,760	$56,352	$52,854
CAGR				
2000 - 2002	(5.1%)	(3.5%)	1.0%	1.9%
2002 - 2007	5.6%	5.5%	5.0%	4.6%
2007 - 2009	(2.8%)	(2.6%)	(1.2%)	(0.3%)
2000 - 2009	1.2%	1.6%	2.7%	2.9%
2009 - 2017	3.7%	3.6%	3.6%	3.8%

Income Category	Percentage of Households in Income Categories (2009)			
	Air Service Area	Bay Area	California	United States
Less than $75,000	57.2%	57.5%	68.8%	74.8%
$75,000 or More	42.8%	42.5%	31.2%	25.2%

Sources: Woods & Poole Economics, Inc., November 2010.
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within the Air Service Area is another key indicator of potential demand for air transportation services. According to the Travel Industry Association, 62 percent of airplane trips are taken by travelers with an annual household income of $75,000 or more.[5] In addition to PCI, Table I-5 presents the percentage of higher income households. As shown, 42.8 percent of the households in the Air Service Area earned $75,000 or more in 2009, compared to 31.2 percent for California and 25.2 percent for the nation. As also shown, the Air Service Area's distribution among the income categories is similar to that of the Bay Area.

1.7 Employment

Civilian labor force and unemployment rates are presented in **Table I-6** for the Air Service Area, the Bay Area, California, and the United States. The Air Service Area's civilian labor force increased at a CAGR of 0.3 percent between 1996 and 2010, tracking behind the Bay Area's CAGR of 0.5 percent, California's CAGR of 1.1 percent, and the nation's CAGR of 0.9 percent during this same period.

The Air Service Area's civilian labor force grew by approximately 205,000 workers between 1996 and 2001, with an associated CAGR of 1.7 percent, compared to the 1.4 percent growth nationwide. During this same period, 362,000 civilian labor force jobs were created in the Bay Area, approximately 45 percent of which can be attributed to the Air Service Area alone. Between 2001 and 2006, the Air Service Area's civilian labor force decreased by approximately 190,000 workers due to the global economic recession environment, including the September 11 aftermath, economic impacts, and more specifically to the Bay Area, the recession that hit Silicon Valley's Technology Industry and its associated sectors. The Air Service Area's civilian labor force increased at a CAGR of 1.0 percent between 2006 and 2010, similar to the growth experienced in the Bay Area (0.9 percent) and higher than that for California (0.6 percent) and for the nation (0.4 percent).

As also shown in Table I-6, unemployment rates for the Air Service Area, the Bay Area, California, and the United States follow a noticeably similar pattern that can be broken down into three phases. First, an economic recession and the Technology Industry recession led to a rise in the unemployment rates between 2001 and 2003. All areas reported relatively higher unemployment rates compared to 1999 and 2000 levels, with the Air Service Area's unemployment rate at 7.5 percent in 2003 (versus 3.8 percent in 1999 and 3.7 percent in 2000). Second, all areas experienced year-over-year declines in unemployment rates between 2004 and 2006, with the Air Service Area's unemployment rate declining from 7.5 percent in 2003 to 4.6 percent in 2006, illustrating a relative return to economic growth. Among the Bay Area, California, and the United States, the Air Service Area reported the largest decline in unemployment rates with a reduction of 2.9 percentage points between 2003 to 2006, compared to the Bay Area (2.4 percentage points), California (1.9 percentage points), and the United States (1.4 percentage points). Third, unemployment rates increased significantly between 2008 and 2010 due to the impacts of a global recession that officially started in December 2007 and ended in June 2009. The unemployment rate for the Air Service Area increased from 4.9 percent in 2007 to 6.2 percent in 2008 and then further to 10.5 percent in 2009 and 11.2 percent in 2010, while the 2010 unemployment rate reached 10.6 percent in the Bay Area, 12.4 percent in California, and 9.6 percent nationwide.

[5] *2006 Domestic Travel Market Report*, Travel Industry Association.

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Table I-6

Civilian Labor Force & Unemployment Rates
(Data Not Seasonally Adjusted)

	Civilian Labor Force (000's)			
Calendar Year	Air Service Area	Bay Area	State of California	United States
1996	2,288	3,393	15,436	133,943
1997	2,356	3,490	15,793	136,297
1998	2,399	3,562	16,167	137,673
1999	2,421	3,608	16,431	139,368
2000	2,486	3,736	16,858	142,583
2001	2,493	3,755	17,152	143,734
2002	2,431	3,679	17,344	144,863
2003	2,361	3,594	17,391	146,510
2004	2,310	3,525	17,444	147,401
2005	2,289	3,502	17,545	149,320
2006	2,303	3,531	17,719	151,428
2007	2,346	3,597	17,971	153,124
2008	2,395	3,679	18,191	154,287
2009	2,397	3,666	18,204	154,142
2010	2,395	3,656	18,177	153,889
CAGR				
1996-2001	1.7%	2.0%	2.1%	1.4%
2001-2006	(1.6%)	(1.2%)	0.7%	1.0%
2006-2010	1.0%	0.9%	0.6%	0.4%
1996-2010	0.3%	0.5%	1.1%	0.9%

	Unemployment Rates			
Calendar Year	Air Service Area	Bay Area	State of California	United States
1996	5.0%	4.5%	7.3%	5.4%
1997	4.4%	3.9%	6.4%	4.9%
1998	4.3%	3.5%	6.0%	4.5%
1999	3.8%	3.0%	5.3%	4.2%
2000	3.7%	3.4%	4.9%	4.0%
2001	5.1%	4.5%	5.4%	4.7%
2002	7.4%	6.6%	6.7%	5.8%
2003	7.5%	6.7%	6.8%	6.0%
2004	6.3%	5.7%	6.2%	5.5%
2005	5.4%	4.9%	5.4%	5.1%
2006	4.6%	4.3%	4.9%	4.6%
2007	4.9%	4.5%	5.3%	4.6%
2008	6.2%	5.8%	7.2%	5.8%
2009	10.5%	10.0%	11.3%	9.3%
2010	11.2%	10.6%	12.4%	9.6%

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2011.
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Table I-7 presents the employment trends by major industry divisions in the Air Service Area, the Bay Area and the United States. Similar to the discussion of Table I-6 above, the number of employees in the Air Service Area's nonagricultural sectors decreased at a compound annual rate of 3.5 percent between 2001 and 2004, due to a nationwide recession and the Technology Industry recession. The Bay Area also recorded a 2.9 percent decrease during the same period. However, signs of recovery were present during the period from 2004 to 2007, with CAGRs of 1.3 percent and 1.4 percent, respectively, for the Air Service Area and the Bay Area, which positioned these regions behind the nation's 1.5 percent CAGR for the same period. The recent economic recession resulted in a compound annual decrease of nonagricultural employment in the Air Service Area of 3.4 percent between 2007 and 2009 (compared to a 3.2 percent decrease for the Bay Area and a 2.5 percent decrease for the nation).

The diversity of employment in the Air Service Area is illustrated in **Exhibit I-2**, which highlights the comparable mix of industries compared to that of the Bay Area and the nation. As shown, the Air Service Area and the Bay Area's distribution among the nonagricultural industries is comparable to that of the nation. As also shown, the service industry represents an overwhelming portion of the nonagricultural workforce in the Air Service Area, the Bay Area, and the nation, with over 40 percent of the total nonagricultural workforce being employed by the services industry in 2009 (compared to 42.2 percent, 44.0 percent, and 41.4 percent, respectively, for the Air Service Area, the Bay Area, and the nation).

Table I-8 reflects the State of California Employment Development Department (CEDD) projections of increased employment by industry for each of the MSAs that comprise the 12-County Area. For each MSA, the top three industries based on largest projected employment increases to 2018 (i.e., ranked by increased number of jobs rather than growth rates) and the total projected nonagricultural employment increase to 2018 is reflected. Other industries have higher projected growth rates but represent a lower number of jobs.

Exhibit I-3 presents the change in nonagricultural employment by industry sector for the 12-County Area between 2008 and 2018, as projected by the CEDD. As shown, several industries are leading a return to growth in the Air Service Area: the services industry with an increase of approximately 178,000 employees between 2008 and 2018, the government industry with an increase of approximately 38,000 employees, and the trade industry with an increase of approximately 22,000 employees. The 12-County Area is projected by the CEDD to experience an increase in nonagricultural employment of approximately 260,400 employees between 2008 and 2018. This increase represents a CAGR of 0.7 percent during this period. The services, government, and trade industries are projected to increase at CAGRs of 1.1 percent, 0.7 percent, and 0.4 percent, respectively.

While the sectors of services, government, and trade are expected to be the leaders in employment growth in the Air Service Area and the Bay Area over the next decade, the outlook for the manufacturing sector is not as optimistic (although remaining more favorable than the outlook for the United States as a whole). The CEDD projections show a slight decline in manufacturing employment between 2008 and 2018, a loss of approximately 7,400 manufacturing jobs during this period, representing a decrease of 2.1 percent in total. By comparison, and based on projections by the Bureau of Labor Statistics, the manufacturing sector in the United States is projected to decline

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Table I-7

Employment Trends By Major Industry Division -- Calendar Years 2001-2009

Air Service Area
Nonagricultural Employment

Industry	2001	2004	2007	2008	2009	CAGR 2001-2004	CAGR 2004-2007	CAGR 2007-2009	2009 Share
Services	881,600	814,400	880,300	899,000	856,700	(2.6%)	2.6%	(1.3%)	42.2%
Government	311,500	310,000	314,700	308,700	306,300	(0.2%)	0.5%	(1.3%)	15.1%
Trade	341,800	310,700	322,300	314,600	291,000	(3.1%)	1.2%	(5.0%)	14.3%
Manufacturing	391,300	295,100	283,600	281,900	256,700	(9.0%)	(1.3%)	(4.9%)	12.6%
Construction	123,200	115,400	122,700	113,600	89,600	(2.2%)	2.1%	(14.5%)	4.4%
Fin/Ins/Real Estate	99,700	100,800	101,700	94,700	85,900	0.4%	0.3%	(8.1%)	4.2%
Information	94,600	75,100	76,300	80,300	76,500	(7.4%)	0.5%	0.1%	3.8%
Transportation/Utilities	88,900	73,100	74,200	72,800	66,800	(6.3%)	0.5%	(5.1%)	3.3%
TOTAL [1/]	2,332,300	2,094,300	2,175,700	2,165,200	2,029,300	(3.5%)	1.3%	(3.4%)	100.0%

Bay Area
Nonagricultural Employment

Industry	2001	2004	2007	2008	2009	CAGR 2001-2004	CAGR 2004-2007	CAGR 2007-2009	2009 Share
Services	1,377,200	1,292,000	1,402,200	1,432,200	1,366,300	(2.1%)	2.8%	(1.3%)	44.0%
Government	468,300	467,700	483,200	478,400	472,500	(0.0%)	1.1%	(1.1%)	15.2%
Trade	490,100	455,000	470,100	460,100	425,600	(2.4%)	1.1%	(4.9%)	13.7%
Manufacturing	466,200	358,100	345,000	343,800	313,900	(8.4%)	(1.2%)	(4.6%)	10.1%
Construction	197,500	186,100	194,700	180,100	143,700	(2.0%)	1.5%	(14.1%)	4.6%
Fin/Ins/Real Estate	213,900	208,700	205,600	194,300	179,300	(0.8%)	(0.5%)	(6.6%)	5.8%
Information	147,400	114,000	113,300	116,000	110,700	(8.2%)	(0.2%)	(1.2%)	3.6%
Transportation/Utilities	121,300	101,900	102,000	100,000	92,900	(5.6%)	0.0%	(4.6%)	3.0%
TOTAL [1/]	3,481,600	3,182,500	3,315,800	3,304,500	3,104,600	(2.9%)	1.4%	(3.2%)	100.0%

United States
Nonagricultural Employment (000's)

Industry	2001	2004	2007	2008	2009	CAGR 2001-2004	CAGR 2004-2007	CAGR 2007-2009	2009 Share
Services	49,415	51,249	55,185	55,524	54,237	1.2%	2.5%	(0.9%)	41.4%
Government	21,118	21,621	22,218	22,509	22,549	0.8%	0.9%	0.7%	17.2%
Trade	21,011	20,721	21,535	21,226	20,153	(0.5%)	1.3%	(3.3%)	15.4%
Manufacturing	16,441	14,315	13,879	13,406	11,883	(4.5%)	(1.0%)	(7.5%)	9.1%
Construction	7,432	7,567	8,354	7,929	6,737	0.6%	3.4%	(10.2%)	5.1%
Fin/Ins/Real Estate	7,808	8,031	8,301	8,145	7,758	0.9%	1.1%	(3.3%)	5.9%
Information	3,629	3,118	3,032	2,984	2,807	(4.9%)	(0.9%)	(3.8%)	2.1%
Transportation/Utilities	4,971	4,812	5,094	5,067	4,796	(1.1%)	1.9%	(3.0%)	3.7%
TOTAL [1/]	131,826	131,435	137,598	136,790	130,920	(0.1%)	1.5%	(2.5%)	100.0%

Note:
1/ Totals may not add due to individual rounding.

Sources: California Employment Development Department, Labor Market Information Division (Air Service Area & Bay Area);
U.S. Department of Labor, Burea of Labor Statistics (United States), January 2011.
Prepared by: Ricondo & Associates, Inc., February 2011.

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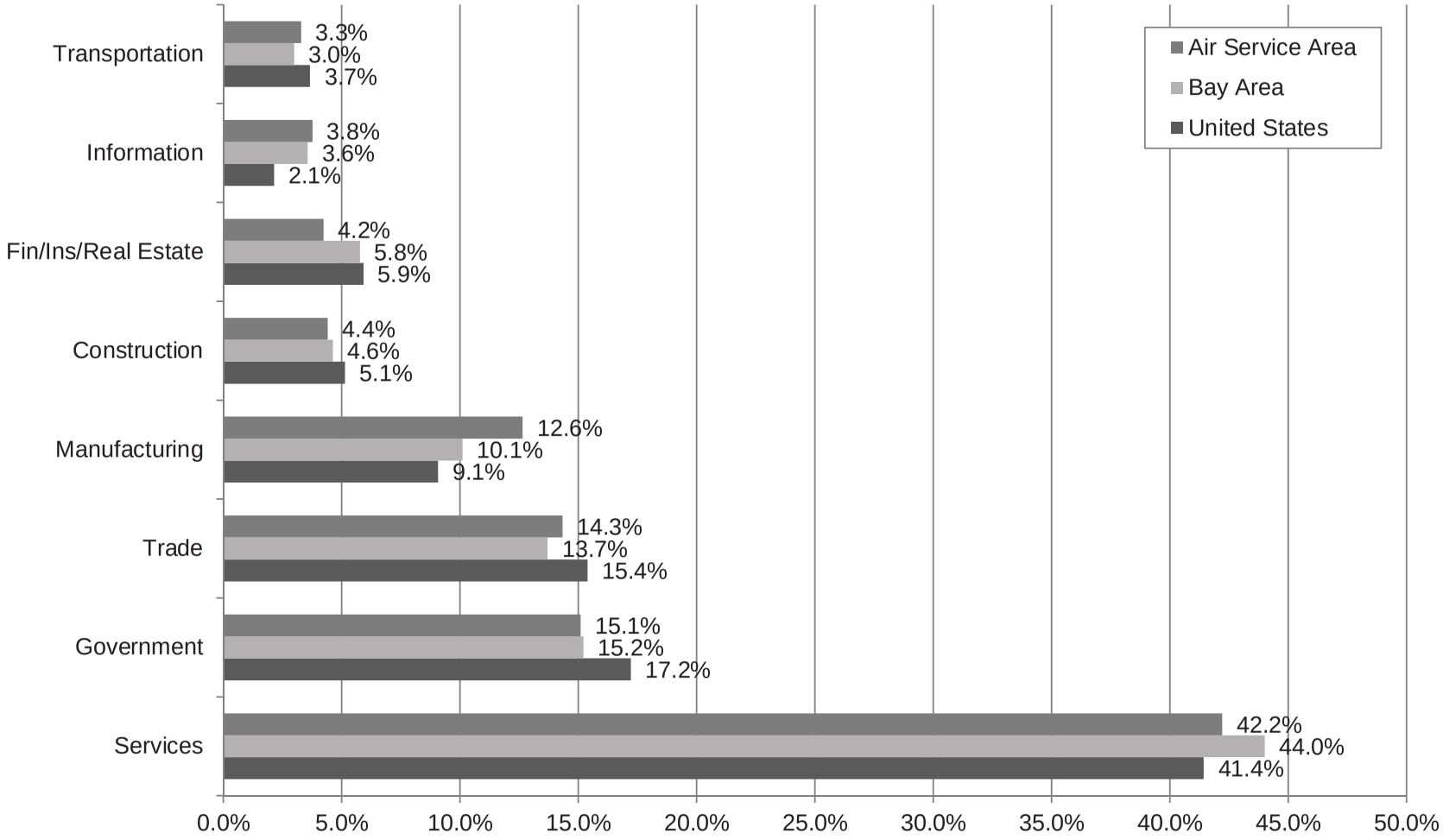

Note: Employment in the Technology Industry is included in multiple sectors (Manufacturing, Services, Trade, etc.).

Sources: California Employment Development Department; Labor Market Information Division (Air Service Area & Bay Area);
U.S. Department of Labor, Bureau of Labor Statistics (U.S.), January 2011.
Prepared by: Ricondo & Associates, Inc., January 2011.

Exhibit I-2

Percent of 2009 Nonagricultural Employment by Industry

Table I-8

Projections of Employment Growth by Industry for the 12-County Area--CY 2008 to CY 2018
(Industries are ranked based on increased employment)

County	CY 2008 - CY 2018 Increased Employment	CY 2008 - CY 2018 Total Growth Rate
Alameda & Contra Costa		
Educational and Health Services	28,300	22.0%
Professional and Business Services	18,400	11.3%
Government	13,300	7.5%
Total Nonagricultural Employment	74,000	7.2%
Monterey		
Educational and Health Services	3,400	26.0%
Government	3,200	9.9%
Leisure and Hospitality Services	2,000	9.3%
Total Nonagricultural Employment	8,900	6.9%
Napa [1/]		
Professional and Business Services	1,800	31.6%
Leisure and Hospitality Services	1,600	18.8%
Government	1,400	14.0%
Total Nonagricultural Employment	8,300	13.2%
San Benito & Santa Clara		
Professional and Business Services	16,800	9.4%
Educational and Health Services	16,700	15.5%
Information	9,800	23.2%
Total Nonagricultural Employment	65,500	7.2%
San Mateo, Marin, & San Francisco		
Professional and Business Services	20,700	9.9%
Leisure and Hospitality Services	12,600	9.9%
Educational and Health Services	9,600	8.9%
Total Nonagricultural Employment	64,100	6.4%
Santa Cruz [1/]		
Government	3,300	15.1%
Educational and Health Services	1,700	14.0%
Trade	1,200	6.9%
Total Nonagricultural Employment	8,300	8.7%
Solano [1/]		
Educational and Health Services	4,100	25.3%
Professional and Business Services	1,600	13.9%
Manufacturing	1,400	14.4%
Total Nonagricultural Employment	4,900	3.8%
Sonoma [1/]		
Professional and Business Services	6,600	29.9%
Trade	4,200	13.4%
Government	3,800	12.4%
Total Nonagricultural Employment	26,400	14.0%
Combined 12-County Area		
Educational and Health Services	67,600	16.2%
Professional and Business Services	67,100	11.0%
Government	38,200	7.2%
Total Nonagricultural Employment	260,400	7.3%

Note:
1/ Data for this county is reflected for CY 2006 to CY 2016.

Source: State of California Employment Development Department (EDD),
Projections of Employment by Industry and Occupation, June 2010 (2006 - 2016) and October 2010 (2008 - 2018).
Prepared by: Ricondo & Associates, Inc., February 2011.

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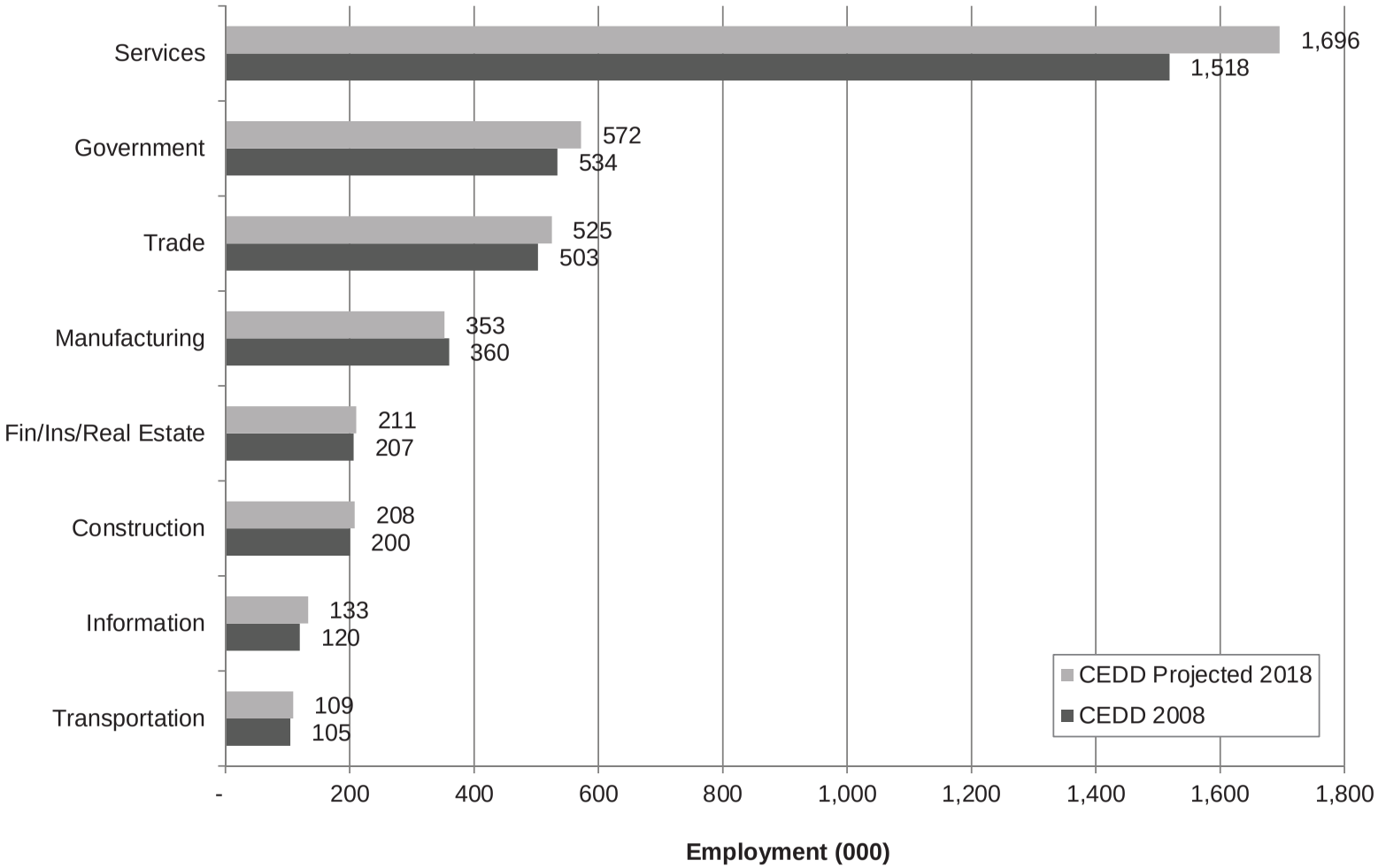

Note: Employment in the Technology Industry is included in multiple sectors (Manufacturing, Services, Trade, etc.).

Source: California Employment Development Department (CEDD), October 2010.
Prepared by: Ricondo & Associates, Inc., January 2011.

Exhibit I-3

Nonagricultural Employment Projections by Industry for the 12-County Area

by 9 percent between 2008 and 2018 as productivity gains, automation, and international competition adversely affect employment in most manufacturing industries.[6]

As presented in **Table I-9**, the Air Service Area benefits from the presence of many large companies that operate in various industries. The largest public and private employers in the Air Service Area include Cisco Systems Inc., Santa Clara County, Kaiser Permanente, Stanford University, and Apple. As of March 2011, Apple, Google, Intel, Cisco, and Hewlett-Packard each had a market capitalization (equal to current stock price multiplied by number of outstanding shares of stock) of greater than $90 billion (market capitalization of $310 billion, $179 billion, $110 billion, $95 billion, and $92 billion, respectively). In January 2011, Google announced that it would hire approximately 6,200 employees worldwide including approximately 2,000 employees in the Air Service Area.

As shown on **Table I-10**, 23 Fortune 500 companies are headquartered in the Air Service Area. These 23 companies represent approximately 40 percent of the 57 Fortune 500 companies located within California. The 31 Fortune 500 companies shown on Table I-10 for the Air Service Area and other counties in the Bay Area represent approximately 54 percent of the Fortune 500 companies located within California. Other than California, only five states (Illinois, New York, Ohio, Pennsylvania, and Texas) have as many Fortune 500 companies (23 or more) as the Air Service Area.

Exhibit I-4 reflects the proximity of various Technology Industry companies to the Airport (including, among others, Adobe, Apple, Cisco, eBay, Google, Hewlett-Packard, Intel, and Yahoo),

1.7.1 Services, Government, Trade, and Manufacturing

As shown in Table I-7, employment sectors including services (which include professional, business, educational, health, leisure, and hospitality services), government, trade, and manufacturing provide for the vast majority of employment in the Air Service Area. In 2009, these four sectors combined employed approximately 1.7 million workers, or approximately 84 percent of the total of 2.0 million workers employed in the Air Service Area.

The effects of the national economic recession in the early 2000s and the Technology Industry recession on employment in the Air Service Area and the Bay Area were unmistakable and substantial. With a high concentration of jobs in a few industries, as well as the highly specialized economy of Silicon Valley (high technology, biotech, semiconductors, and computer manufacturing), the Air Service Area employment numbers showed significant decreases between 2001 and 2004. While the government sector was insulated from the effects of the economy, the other three major industries lost jobs at compound annual rates of 9.0 percent for the manufacturing industry, 3.1 percent for the trade industry, and 2.6 percent for the services industry during this period.

With the exception of manufacturing, the period from 2004 through 2007 showed signs of recovery among the industries, as positive year-over-year growth in employment was experienced during this period. Although manufacturing decreased at a compound annual rate of 1.3 percent between 2004 and 2007, services increased at a CAGR of 2.6 percent, trade at 1.2 percent, and government at 0.5 percent.

[6] United States Bureau of Labor Statistics, Office of Occupational Statistics and Employment Projections, *Occupational Outlook Handbook, 2010-11 Edition.*

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Table I-9

Major Silicon Valley Employers [1/]

Rank	Employer	Product or Service	Number of Employees in Air Service Area
1	Cisco Systems Inc.	Networking	17,100
2	County of Santa Clara	Government	15,000
3	Kaiser Permanente Northern California	Health Care	13,501
4	Stanford University, SLAC National Accelerator Laboratory	Higher Education, Academic Research	11,979
5	Apple Inc.	Computer and Consumer Electronic Products	10,000
6	Oracle Corp.	Business Software	8,000
7	Lockheed Martin Space Systems Co.	Aerospace	7,845
8	State of California	State Government	7,454
9	Stanford Hospital & Clinics	Health Care	7,294
10	Google Inc.	Internet Applications	6,000
11	San Mateo County	Government	5,600
12	City of San Jose	Government	5,252 [2/]
13	Intel Corp.	Semiconductors Manufacturer	5,090
14	Yahoo Inc.	Internet Information Provider	4,895
15	County of Monterey	Government	4,848
16	New United Motor Manufacturing Inc.	Automobile Manufacturer	4,700
17	San Jose State University	State University	4,693
18	IBM Corp.	Information Technology	4,100
19	Wells Fargo Bank	Financial Services	4,049
20	University of California, Santa Cruz	Public University	4,000
21	U.S. Postal Service	Shipping and Mailing Services	3,885
22	Applied Materials Inc.	Nanomanufacturing Technology	3,500
22	Lucile Salter Packard Children's Hospital at Stanford	Children's Health Care	3,500
24	Department of Veterans Affairs, Palo Alto Health Care Syster	Veteran's Health Care	3,464
25	eBay Inc.	E-commerce	3,300
26	San Jose Unified School District	School District	3,035
27	AT&T Inc.	Telecommunications	3,000
27	Palo Alto Medical Foundation	Health Care	3,000
29	NVIDIA Corp.	Semiconductors	2,723
30	Juniper Networks Inc.	Networking	2,700
30	Sun Microsystems Inc.	Computer Software, Services, Microelectronics	2,700
30	VMware Inc.	Software Developer	2,700
33	Fremont Unified School District	School District	2,684
34	NetApp Inc.	IT-Storage/Date Management	2,496
35	El Camino Hospital	Health Care	2,368
36	Space Systems/Loral	Satelite Manufacturer	2,350
37	Community Hospital of the Monterey Peninsula	Health Care	2,300
37	County of Santa Cruz	Government	2,300
37	Salinas Valley Memorial Healthcare System	Health Care	2,300
40	Symantec Corp.	Software Developer	2,200
41	Sanmina-SCI Corp.	Electronics Manufacturer	2,170
42	Pacific Gas and Electric Co.	Electric and Gas Utility	2,154
43	SAP Labs U.S.	Business Software	2,109
44	Santa Clara Valley Transportation Authority	Transportation and Congestion Management	2,053
45	Hewlett-Packard Co.	Computer Products	2,001
46	Brocade Communications Systems Inc.	Networking	2,000
46	Electronic Arts Inc.	Video Games	2,000
46	Hitachi Global Storage Technologies/Hitachi America Ltd.	Hard Disk Drive Manufacturer	2,000
46	Pajaro Valley Unified School District	School District	2,000
46	Western Digital Corp.	Hard Disk Drive Manufacturer	2,000

Notes:

1/ The Business Journal's list defines Silicon Valley to include: Santa Clara County; Fremont, Newark, and Union City in Alameda County; Atherton, Belmont, East Palo Alto, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, and Woodside in San Mateo County; San Benito County, Santa Cruz County, and Monterey County.

2/ The City of San Jose's FY 2012 Proposed Operating Budget includes approximately 5,252 full-time equivalent positions.

Source: San Jose/Silicon Valley Business Journal 2011 Book of Lists (December 2010 CD); City of San Jose, May 2011.

Prepared by: Ricondo & Associates, Inc., May 2011.

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Table I-10

"Fortune 500" Companies Headquartered in the Air Service Area and the Bay Area--2010

Air Service Area

	Company	City	County	Revenues ($ millions)	Fortune 500 rank	State Rank (of 57 Fortune (500s in CA)
1	Hewlett-Packard	Palo Alto	Santa Clara	$ 114,552	10	2
2	Safeway	Pleasanton	Alameda	40,851	52	5
3	Apple	Cupertino	Santa Clara	36,537	56	6
4	Cisco Systems	San Jose	Santa Clara	36,117	58	8
5	Intel	Santa Clara	Santa Clara	35,127	62	10
6	Google	Mountain View	Santa Clara	23,651	102	12
7	Oracle	Redwood City	San Mateo	23,252	105	13
8	Sun Microsystems	Santa Clara	Santa Clara	11,449	204	22
9	eBay	San Jose	Santa Clara	8,727	267	25
10	Synnex	Fremont	Alameda	7,756	294	27
11	Ross Stores	Pleasanton	Alameda	7,184	316	29
12	Gilead Sciences	Foster City	San Mateo	7,011	324	30
13	Yahoo	Sunnyvale	Santa Clara	6,460	343	33
14	Symantec	Mountain View	Santa Clara	6,150	353	35
15	Clorox	Oakland	Alameda	5,450	384	39
16	Advanced Micro Devices	Sunnyvale	Santa Clara	5,403	390	41
17	Sanmina-SCI	San Jose	Santa Clara	5,178	405	44
18	Core-Mark Holding	South San Francisco	San Mateo	5,016	419	46
19	Applied Materials	Santa Clara	Santa Clara	5,014	421	47
20	Agilent Technologies	Santa Clara	Santa Clara	4,481	461	50
21	Con-way	San Mateo	San Mateo	4,269	483	53
22	Electronic Arts	Redwood City	San Mateo	4,212	494	55
23	Franklin Resources	San Mateo	San Mateo	4,194	495	56
				$ 408,041		

Other Counties in the Bay Area

	Company	City	County	Revenues ($ millions)	Fortune 500 rank	State Rank (of 57 Fortune (500s in CA)
1	Chevron	San Ramon	Contra Costa	$ 163,527	3	1
2	McKesson	San Francisco	San Francisco	106,632	14	3
3	Wells Fargo	San Francisco	San Francisco	98,636	19	4
4	Gap	San Francisco	San Francisco	14,197	162	18
5	PG&E Corp.	San Francisco	San Francisco	13,399	173	19
6	URS	San Francisco	San Francisco	9,249	252	24
7	Visa	San Francisco	San Francisco	6,911	326	31
8	Charles Schwab	San Francisco	San Francisco	4,414	465	51
				$ 416,965		

Source: Fortune Magazine, January 2011.

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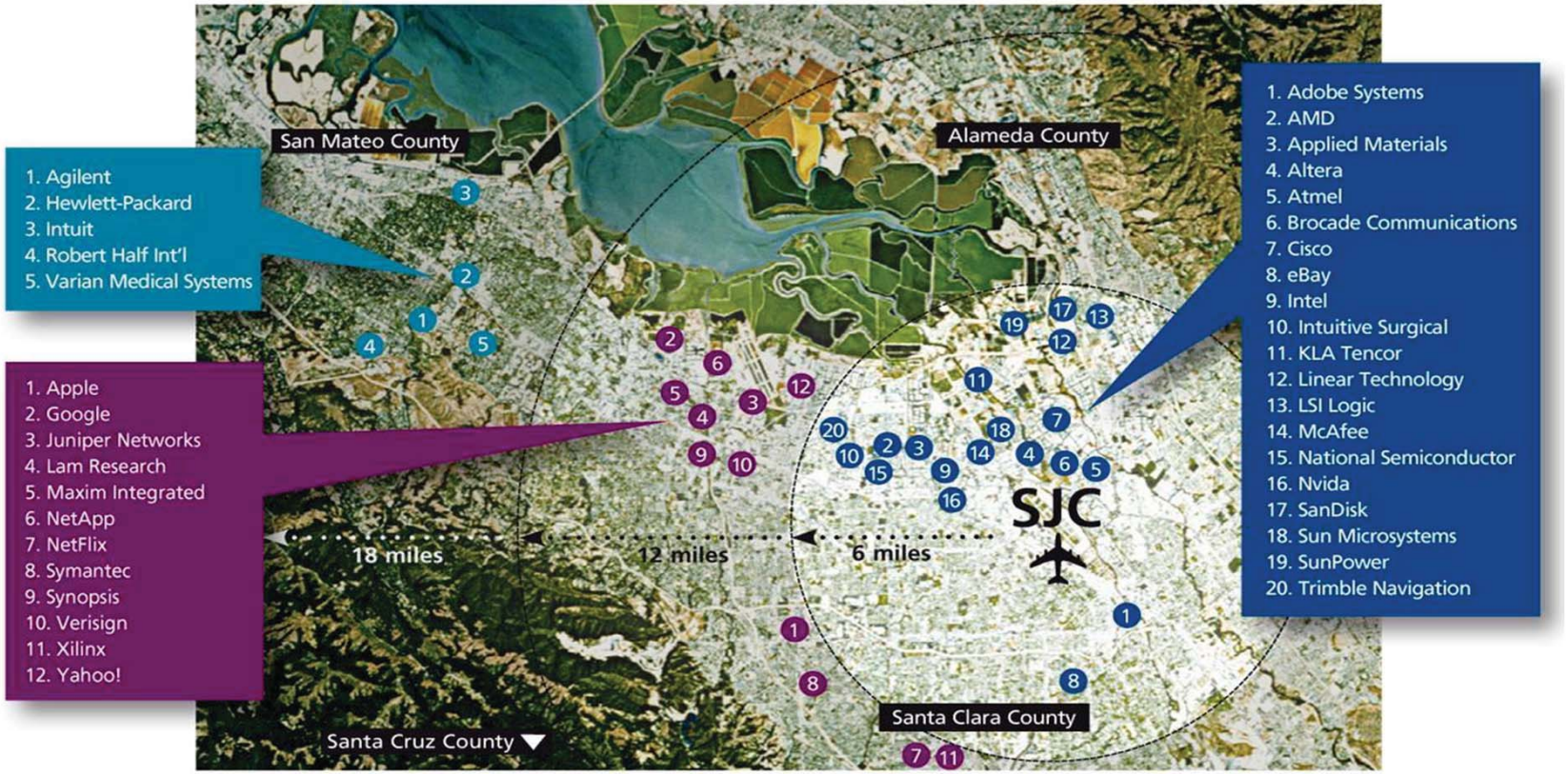

Source: Bloomberg Financial, Securities and Exchange Commission, San Jose Mercury News, April 2010.
Prepared by: San José Norman Y. Mineta International Airport, February 2011

Exhibit I-4

Silicon Valley Companies
Located Around the Airport

While retail sales are an indicator of consumer spending, they can also be linked to the retail trade sector's employment, as revenues generated by retail sales contribute to salaries and employment. Retail sales consist of all net sales (gross sales minus refunds and allowances for returns). **Table I-11** presents the total retail sales volumes for the Air Service Area, the Bay Area, California, and the United States. As shown, the Air Service Area's retail sales volumes increased at a CAGR of 1.2 percent between 2000 and 2007, compared to 1.5 percent for the Bay Area, 2.2 percent for California, and 1.9 percent for the nation during this same period. While the recent recession contributed to decreases in retail sales in 2008 and 2009 for each area depicted, retail sales are projected to increase at a CAGR of 2.2 percent in the Air Service Area and in the Bay Area between 2009 and 2017, comparable to the 2.5 percent growth projected for California and the 2.4 percent growth projected for the nation during this same period.

1.7.2 Construction, Financial/Insurance/Real Estate, Information, and Transportation/Utilities

The construction, financial/insurance/real estate (FIRE), information, and transportation/utilities sectors collectively represented approximately 16 percent of the total nonagricultural employment in the Air Service Area in 2009.

As shown in Table I-7, the Air Service Area's employment in the construction industry decreased from 123,200 employees in 2001 to 115,400 in 2004, a compound annual decrease of 2.2 percent during this period. Construction employment in the Air Service Area, however, nearly rebounded to 2001 levels of employment with 122,700 employees in 2007, increasing at a CAGR of 2.1 percent between 2004 and 2007. With the nationwide downturn in construction, which hit California especially hard, construction employment in the Air Service Area decreased from 122,700 in 2007 to 89,600 in 2009, a compound annual decrease of 14.5 percent during this period. This recent trend can also be seen for the Bay Area and the nation, as construction employment for these areas decreased at a compound annual rate of 14.1 percent and 10.2 percent, respectively, during this same period.

The FIRE industry represented approximately 4.2 percent of the total nonagricultural employment in the Air Service Area in 2009. This percentage is lower than in the Bay Area and the United States where FIRE employment accounted for 5.8 percent and 5.9 percent of nonagricultural employment in 2009, respectively. Similar to nationwide trends, FIRE employment in the Air Service Area and the Bay Area remained relatively constant between 2001 and 2007, followed by decreases in 2008 and 2009.

The information industry represented approximately 3.8 percent of the total nonagricultural employment in the Air Service Area in 2009. This percentage is higher than in the Bay Area and the United States where information jobs accounted for 3.6 percent and 2.1 percent of nonagricultural employment in 2009, respectively. During the period from 2001 to 2004, information industry employment in the Air Service Area decreased at a compound annual rate of 7.4 percent (compared to compound annual decreases of 8.2 percent for the Bay Area and 4.9 percent for the nation). From 2004 to 2009, employment in the information industry remained relatively flat (compared to slight decreases in the Bay Area and for the nation).

The transportation/utilities industry represented approximately 3.3 percent of the total nonagricultural employment in the Air Service Area in 2009. This percentage is higher than in the Bay Area and lower than in the United States. During the period from 2001 to 2004, the transportation/utilities industry employment decreased at a compound annual rate of 6.3 percent, followed by a period of

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Table I-11

Retail Sales

(Amounts in Millions of 2005 Dollars)

Calendar Year	Air Service Area	Bay Area	California	United States
Historical				
2000	$63,263	$95,174	$413,428	$3,613,909
2001	$63,588	$96,297	$422,779	$3,627,082
2002	$63,270	$96,446	$431,845	$3,642,407
2003	$63,935	$97,650	$442,761	$3,727,549
2004	$65,608	$100,346	$459,285	$3,869,610
2005	$67,159	$102,865	$472,584	$3,992,285
2006	$68,322	$104,721	$481,268	$4,084,437
2007	$68,693	$105,334	$482,702	$4,109,239
2008	$66,386	$101,637	$463,926	$3,947,379
2009	$62,299	$95,229	$433,509	$3,682,032
Projected				
2017	74,240	113,453	$527,428	$4,465,222
CAGR				
2000 - 2007	1.2%	1.5%	2.2%	1.9%
2007 - 2009	(4.8%)	(4.9%)	(5.2%)	(5.3%)
2009 - 2017	2.2%	2.2%	2.5%	2.4%

Sources: Woods & Poole Economics, Inc., November 2010.
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slight recovery between 2004 and 2007. Between 2007 and 2009, employment in the transportation/utilities industry decreased at a compound annual rate of 5.1 percent.

1.8 Housing and Commercial Real Estate Market

According to the most recent data from the National Association of Realtors, the median sales price of existing single family homes in the San Jose-Sunnyvale-Santa Clara MSA increased from $585,000 in Q4 2009 to $591,000 in Q4 2010, a 1.0 percent increase. The median sales price of existing single-family homes for the United States as a whole increased from $170,300 in Q4 2009 to $170,600 in Q4 2010 (a 0.2 percent increase). Although the March 2011 median home price for single family homes within the City of San Jose fell 5.9 percent below the March 2010 median, the overall Air Service Area housing market may be recovering more quickly than the rest of the nation.

Based on data from the Bureau of the Census as of December 31, 2010, total residential single-family building permits for the San Jose-Sunnyvale-Santa Clara MSA increased by 34.1 percent from 2009 to 2010, compared to a 0.7 percent increase for California and a 1.4 percent increase for the United States. The increase in building permits could be an indicator of increased housing construction in 2011.

The California Association of Realtors recently concluded that 2010 was a year of transition toward stability, based on 2010 performance in terms of median price, sales, and unsold inventory. The California Association of Realtors predicts that 2011 will continue to move forward toward stabilization, expecting median prices to increase approximately 2.0 percent with foreclosures expected to remain high in 2011 (as unemployment rates are expected to remain relatively high in 2011).

According to the Allen Matkins/UCLA Anderson Forecast (Winter/Spring 2011), the Silicon Valley and Bay Area office markets, as with the rest of California office markets, are characterized by "falling rental rates, vacancy rates in the mid to high teens, and little construction activity." The forecast states that their recent Bay Area Office Market Survey is showing signs of recovery in the Bay Area and Silicon Valley office markets. The report predicts "rental rates and occupancy rates increasing sharply in the next two to three years as increased demand for technology and software push up employment in office using fields."

If the first quarter of 2011 is an indication of the turnaround in the Silicon Valley office market, sharp increases in rental rates and occupancy rates have begun. According to real estate brokerage firm Jones Lang LaSalle, the amount of occupied office space in Silicon Valley is on pace to increase by 3.0 million square feet in 2011, which would be the largest one-year increase since 1999.[7] Rents for the best space in the most highly desired market, downtown Palo Alto, are up 25.1 percent from a year ago, while the vacancy rates has fallen from 14.0 percent in 1Q 2010 to 7.3 percent in 1Q 2011, the brokerage firm reported.

1.9 Venture Capital

Venture capital is financial capital provided to early-stage, high growth potential startup companies. According to the National Venture Capital Association, the leading trade association representing the venture capital industry in the country, approximately 11 percent of private sector jobs comes from venture capital-based companies, and venture capital-backed revenues account for approximately 21 percent of United States Gross Domestic Product. These investments benefit several industries, with

[7] Jones Lang LaSalle defines Silicon Valley as Cupertino/West Valley, Fremont/Newark, Milpitas, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale.

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the software, semiconductors and networking industries ranking as the top three sectors among all. Other sectors that receive venture capital funding include health care, consumer technology, biotechnology, IT services and infrastructure, clean/"green" technology, digital media and financial services.

Table I-12 presents venture capital investment in the United States between 2000 and 2010. As shown, Silicon Valley accounted for 30.9 percent to 39.9 percent of total venture capital during this period. After reaching a high of $32.1 billion in 2000 prior to the Technology Industry recession, venture capital to Silicon Valley averaged approximately $8.5 billion per year between 2002 and 2010. On a weighted average basis, venture capital to Silicon Valley averaged 36.5 percent of the total United States amount during this period. The NASDAQ crash and Technology Industry slump that started in March 2000 unsettled the venture capital industry, as valuations for startup technology companies collapsed. The recovery in venture capital investments started in 2003, supporting and feeding the general economic recovery. While venture capital funding to Silicon Valley startups slowed to 32.2 percent of the total in the first quarter of 2010, this percentage share increased to 43.6 percent of the total in the second quarter of 2010, 36.3 percent in the third quarter of 2010, and 39.9 percent in the fourth quarter of 2010 (39.0 percent for the entire year).

As shown in **Exhibit I-5**, Silicon Valley ranked first among all regions to receive venture capital investment in 2010 with approximately $8.5 billion (39.0 percent of the total amounts invested nationwide). In California, the Los Angeles/Orange County and San Diego regions also benefit from significant amounts of venture capital investment, with approximately $1.6 billion and $847 million, respectively, in 2010.

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Table I-12

Venture Capital Investment--United States
(Billions of Dollars)

Calendar Year	Silicon Valley [1/]	Other Areas	Total U.S. [2/]	Silicon Valley Percent of U.S.
2000	$32.1	$67.9	$100.1	32.1%
2001	$11.8	$26.4	$38.2	30.9%
2002	$6.8	$14.0	$20.9	32.7%
2003	$6.4	$12.5	$18.9	33.7%
2004	$7.8	$14.0	$21.8	35.6%
2005	$8.1	$14.5	$22.6	35.6%
2006	$9.5	$16.6	$26.1	36.3%
2007	$10.9	$19.1	$30.0	36.4%
2008	$10.9	$17.2	$28.1	38.9%
2009	$7.3	$11.0	$18.3	39.9%
2010	$8.5	$13.3	$21.8	39.0%

Notes:
1/ Defined as "Northern California, bay area, and coastline" in source report.
2/ Totals may not add due to rounding.

Source: PricewaterhouseCoopers/National Venture Capital Association Moneytree Report, January 2011.
Prepared by: Ricondo & Associates, Inc., March 2011.

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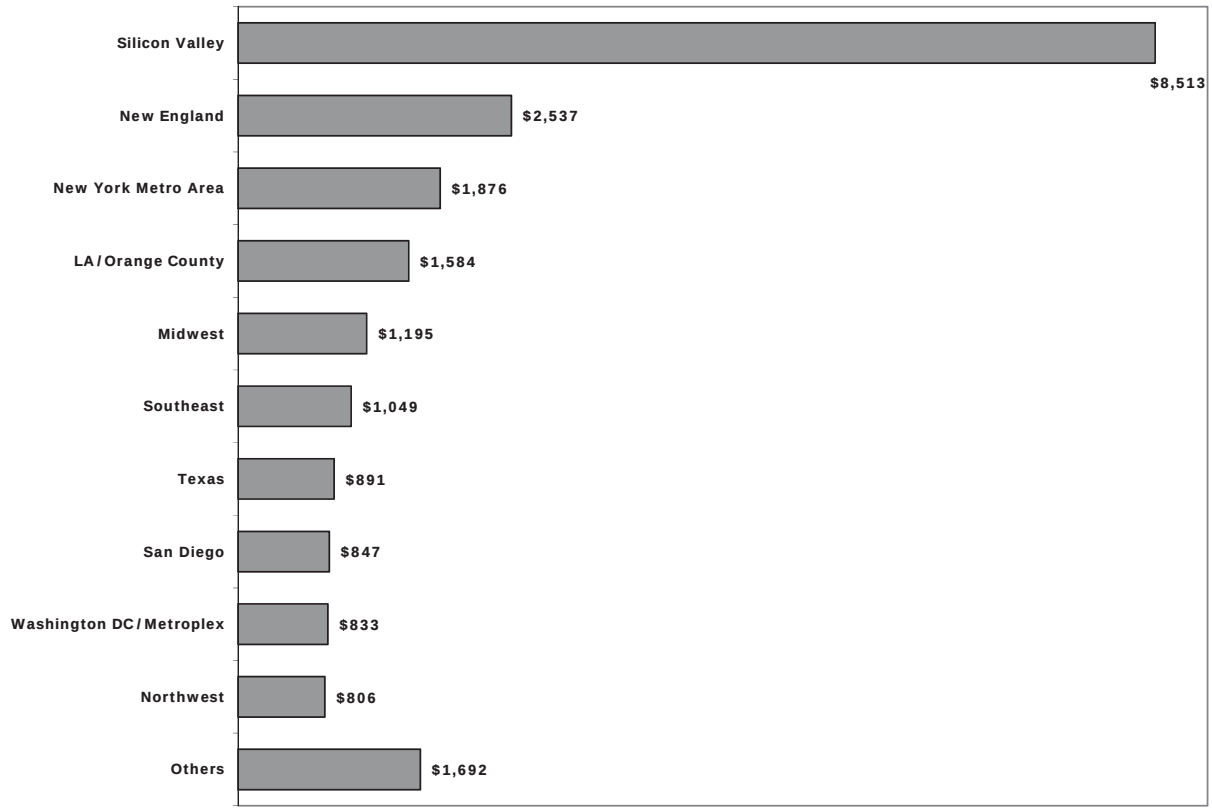
Exhibit I-5

United States Venture Capital Investment by Region – 2010 Total ($ millions)



Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report, 2010.
Prepared by: Ricondo & Associates, Inc., March 2011.

1.10 Gross Domestic Product

As reflected in **Table I-13**, Gross Domestic Product (GDP) for the San Jose-Sunnyvale-Santa Clara MSA (which includes Santa Clara County and San Benito County) decreased from $118.1 billion in 2001 to $110.4 billion in 2002 (a 6.5 percent decrease) primarily due to the Technology Industry recession and generally remained at that level in 2003. However, its GDP grew at a CAGR of 6.4 percent between 2003 and 2008, compared to a 6.1 percent CAGR for the 12-County Area, a 5.7 percent CAGR for California, and a 5.2 percent CAGR for the nation. Due to the recent global recession, GDP for all four areas decreased in 2009 from 2008 levels.

GDP for the San Jose-Sunnyvale-Santa Clara MSA as a percentage of GDP for the 12-County Area, California, and the United States has remained relatively steady since 2003.

1.11 Cultural and Recreational Attractions

The Air Service Area enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and attract visitors from all over the world. It is home to numerous major sporting and entertainment venues, museums, a world-renowned aquarium, theme parks, retail centers, and other attractions.

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Table I-13

Gross Domestic Product
(Amounts in Billions of Dollars)

	San Jose-Sunnyvale-Santa Clara (MSA) [1/]						
Calendar Year	Amount	Share of 12-County Area GDP	Share of California GDP	Share of United States GDP	12-County Area	California	United States
2001	$118.1	28.9%	8.8%	1.1%	$408.9	$1,338.1	$10,286.2
2002	$110.4	27.3%	8.0%	1.0%	$404.4	$1,385.7	10,642.3
2003	$111.3	26.7%	7.6%	1.0%	$417.1	$1,460.3	11,142.1
2004	$120.1	27.1%	7.6%	1.0%	$442.4	$1,571.2	11,867.8
2005	$129.6	27.0%	7.7%	1.0%	$480.5	$1,692.0	12,638.4
2006	$139.1	27.2%	7.7%	1.0%	$511.5	$1,800.8	13,398.9
2007	$149.1	27.6%	7.9%	1.1%	$540.6	$1,881.8	14,061.8
2008	$151.9	27.1%	7.9%	1.1%	$560.9	$1,925.5	14,369.1
2009	$147.4	26.7%	7.8%	1.0%	$552.8	$1,884.5	14,119.0
CAGR							
2001 - 2002	(6.5%)				(1.1%)	3.6%	3.5%
2002 - 2003	0.8%				3.1%	5.4%	4.7%
2003 - 2008	6.4%				6.1%	5.7%	5.2%
2008 - 2009	(3.0%)				(1.4%)	(2.1%)	(1.7%)

Notes:
1/ Includes Santa Clara County and San Benito County.
N/A = Not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2011.
Prepared by: Ricondo & Associates, Inc., March 2011.

Noteworthy attractions and venues in the Air Service Area include:

- HP Pavilion
- The Tech Museum
- Children's Discovery Museum
- San Jose McEnery Convention Center
- San Jose Event Center
- San Jose Museum of Art
- Shoreline Amphitheatre
- Opera San Jose
- Happy Hollow Park & Zoo
- Santa Clara Convention Center
- Logitech Ice at San Jose
- Lick Observatory
- Santana Row Retail Center
- Stanford Shopping Mall
- Monterey Bay Aquarium
- Cannery Row
- Mazda Raceway Laguna Seca

Construction will begin in 2011 to renovate and expand the 192,000 square foot San Jose McEnery Convention Center. In addition to renovating the existing facilities, this two-year construction project will add 35,000 square feet of new ballroom space and 25,000 square feet of additional breakout space (approximately 30 percent of new space to the existing base).

San Jose is home to the National Hockey League's San Jose Sharks and the Arena Football League's San Jose SaberCats. Both of these teams play their home games at the HP Pavilion in San Jose, a 17,500-seat indoor arena that hosts an average of 190 events a year, including many non-sporting events (concerts, Cirque Du Soleil, etc.). San Jose's Major League Soccer team, the San Jose Earthquakes play at Buck Shaw Stadium at Santa Clara University. San Jose State University, Santa Clara University, and Stanford University each compete in various NCAA Division I sports including football, basketball, volleyball, track & field, golf, and others. Venues include Stanford Stadium, Spartan Stadium at San Jose State University, and Buck Shaw Stadium at Santa Clara University. The George F. Haines International Swim Center located in the City of Santa Clara has produced over 50 United States Olympic and World Record swimmers, divers, and synchronized swimmers.

Prominent theme parks located in the Air Service Area include Santa Cruz Beach Boardwalk, California's Great America in Santa Clara, Raging Waters, and Gilroy Gardens.

Important events and festivals that occur annually in the Air Service Area include, among others, the San Jose Jazz Festival, San Jose's Cinco de Mayo Parade and Festival, the Monterey Jazz Festival, the Silicon Valley Marathon, the Gilroy Garlic Festival, the Pebble Beach National Pro-Am Golf Tournament, the Watsonville Strawberry Festival, the Monterey Historic Automobile Races at Mazda Raceway Laguna Seca, and the Pebble Beach Concours d'Elegance Car Show.

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The Airport's proximity to popular tourist destinations in Northern California, in driving miles, is reflected below.

Destination	Driving Miles from the Airport
Santa Cruz, CA	30
Downtown San Francisco	45
Monterey, CA	75
Carmel, CA	80
Napa, CA	80
Sonoma, CA	90
Yosemite National Park	190
Lake Tahoe	215

1.12 Economic Outlook

Despite showing some signs of improvement from the recent global economic recession, the United States economy continues to experience weakness in housing construction, consumer spending, and business investment, as well as relatively high unemployment rates and low GDP growth.[8]

The most recently published surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for modest GDP growth in 2011.[9] The Blue Chip Economic Indicators and the NABE forecast panels both project an annual unemployment rate of 8.5 percent for the United States in 2011, and both expect consumer spending to be restrained as savings-conscious households reduce debt. The California Department of Finance currently projects that the unemployment rate for California will decrease to 12.1 percent in 2011, 11.3 percent in 2012, and 10.0 percent in 2013.

The Blue Chip Economic Indicators forecast annual GDP growth of 2.9 percent for the United States in 2011. The NABE forecasts 2.8 percent growth in GDP for the United States in 2011.

As discussed in earlier sections of this chapter, population, per capita personal income, and employment are all projected to grow in the Air Service Area during the Projection Period.

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[8] Building Permits - States and Metro Areas, National Association of Homebuilders, http://www.nahb.org/reference_list.aspx?sectionID=130, accessed January 2011; Table 2.1. Personal Income and Its Disposition, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/TableView.asp, accessed January 2011; Table 5.3.2. Contributions to Percent Change in Real Private Fixed Investment by Type and Table 5.6.6B. Change in Real Private Inventories by Industry, Chained Dollars, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/ TableView.asp, accessed January 2011; Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics, http://www.bls.gov/cps/, accessed January 2011; Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/TableView.asp, accessed January 2011.

[9] *Blue Chip Economic Indicators*, Vol. 36, No. 4, April 10, 2011, Aspen Publishers; *NABE Outlook*, May 2011, National Association for Business Economics.

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A January 2011 forecast from the University of the Pacific Business Forecasting Center predicts San Jose's employment growth in 2011 to be 1.5 percent (compared to 1.0 percent for California and 0.5 percent for both Oakland and San Francisco). The forecast cites the concentration of fast-growing industries like the Technology Industry in San Jose, while the economies of other cities depend on industries that have been slower to rebound, such as financial services in San Francisco. Statewide, an increase of 5.3 percent in Information Technology jobs in March 2011 outpaced all other industries, as companies, particularly in the Bay Area, continued to expand amid booming demand for social networking, clean technology, and other services.

A December 2010 survey by the National Venture Capital Association and Dow Jones (with responses from 330 venture capitalists and 118 chief executive officers of United States-based venture capital firms), reflects that venture capital investment in the United States is expected to increase in 2011, and Silicon Valley is expected to continue to rank first among all areas across the nation receiving venture capital investment. Fifty-one percent of all respondents expect venture capital investment to increase in 2011, while 58 percent of chief executive officers responding expect 2011 investment to increase. Approximately 79 percent of venture capitalist respondents and 68 percent of chief executive officers predict that Silicon Valley will remain the most active region of investment in the United States.

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II. Air Traffic

This chapter describes historical traffic activity at the Airport; key factors affecting these activity levels; and assumptions and methodologies analyzed and incorporated in projections of Airport activity. Following an Airport overview (Section 2.1), this chapter discusses Bay Area airport regional aviation demand and air service (Section 2.2), airlines serving the Airport (Section 2.3), historical passenger activity at the Airport (Section 2.4), historical air service at the Airport (Section 2.5), historical aircraft operations and landed weight at the Airport (Section 2.6), factors affecting aviation demand and the airline industry (Section 2.7), and projections of aviation demand at the Airport (Section 2.8) for the period FY 2011 to FY 2017 (the Projection Period).

It should be noted that some tables and exhibits in this chapter reflect fiscal year information and others reflect calendar year information, depending upon the availability of data.

2.1 Airport Overview

The Airport is classified by the FAA as a Medium Hub airport based on its percentage of nationwide enplaned passengers and ranked 42nd nationwide in terms of enplaned passengers in CY 2009.

The Airport's facilities (described in Chapter III of this report) accommodate a wide variety of aviation activity, including commercial passenger airlines, all-cargo airlines, and general aviation. A diverse mix of airlines provide service from the Airport with scheduled air service available to 27 non-stop destinations including 17 of the Airport's 20 top O&D destinations (as of June 2011). As presented in Section 2.3 of this report, as of June 15, 2011, scheduled passenger service is provided by the following airlines:

- Mainline – Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, United Airlines, and US Airways (formerly America West)**.**
- Regional/commuter – American Eagle Airlines, Horizon Air, and SkyWest.
- Foreign flag – Volaris.

Aviation activity at the Airport is also augmented by air cargo and general aviation activity. Three all-cargo airlines operate at the Airport, namely Air Transport International, FedEx, and United Parcel Service.

Enplaned passengers at the Airport increased significantly between FY 1981 through FY 2001, as significant growth occurred in the Technology Industry and various airlines (including PSA, AirCal, Southwest Airlines, and Reno Air) started or increased service at the Airport and American Airlines established a hub at the Airport in FY 1990. Between FY 1981 and FY 2001, annual enplaned passengers at the Airport increased from approximately 1.4 million to approximately 6.9 million, representing a compounded annual growth rate (CAGR) of approximately 8.5 percent. In FY 2002, following the September 11th terrorist attacks, the nationwide recession, and the Technology Industry recession, enplaned passengers decreased approximately 17.6 percent compared to FY 2001. Enplaned passengers at the Airport were depressed further in FY 2002 as a result of service cuts by American Airlines, which marked the beginning of American's de-hubbing at the Airport. Between FY 2003 and FY 2006, enplaned passengers increased at a CAGR of 1.3 percent. During this time,

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passenger growth was limited by continued reductions in air service by American. Excluding American and American Eagle, enplaned passengers by all other airlines increased by a CAGR of 4.7 percent during that timeframe.

Since FY 2007, enplaned passengers at the Airport have decreased each Fiscal Year to approximately 4.1 million enplaned passengers in FY 2010. In addition to the economic recession that the nation entered in December 2007, Airport enplaned passengers between FY 2007 and FY 2010 were impacted by high oil prices and increased airline competition in the Bay Area. The initiation of service at San Francisco International Airport (SFO) by Virgin America and Southwest's pre-emptive re-initiation of service at SFO resulted in a shifting of enplaned passenger market shares among Bay Area airports.

Data regarding monthly enplaned passengers at the Airport for the period FY 2005 through FY 2011 YTD (through March 2011), is presented in **Exhibit II-1**. Included in Exhibit II-1 are total monthly enplaned passenger levels, the year-over-year percentage change for each month, and the percentage change of the rolling 12-month total enplaned passenger count. As shown, year over year enplaned passenger declines at the Airport during this period were most severe in March 2009 with more than a 23 percent decrease in monthly enplaned passengers compared to March 2008. With the exception of October 2010, year-over-year enplaned passenger growth was experienced in each month between September 2010 and March 2011, with year-over-year increases of 4.8 percent in November 2010, 4.1 percent in December 2010, 7.5 percent in January 2011, 6.8 percent in February 2011, and 4.6 percent in March 2011, respectively.

Since July 2010, the rolling 12-months percentage change in Airport enplaned passengers as compared to the prior year is positive; a trend that indicates that enplaned passengers at the Airport are increasing.

2.2 Bay Area Airport Passenger Demand and Air Service

The Bay Area is served by three commercial service airports - the Airport, Oakland International Airport (OAK), and SFO. As shown earlier in Exhibit I-1, SFO is located in northern San Mateo County, approximately 34 driving miles northwest of the Airport, while OAK is located in Alameda County, approximately 36 driving miles north of the Airport. These three airports serve the entire 12-County Area, ranging from Sonoma County to the north and Monterey County to the south. This section provides an overview of historical passenger demand, travel patterns, and air service levels from each of the three primary Bay Area Airports.

2.2.1 Bay Area Airport Passenger Demand

Both the Airport and OAK serve predominately domestic origin and destination (O&D) traffic on short- to medium-haul routes. SFO is considered the Bay Area's international gateway, serving as the primary point of departure and arrival for international passengers traveling between Pacific Rim countries and the United States. In addition, SFO is a major domestic hub and the principal international gateway to Asian/Pacific destinations for United Airlines. Each of the three airports operates with fiscal years ending June 30.

A 2009 survey of Bay Area residents conducted for the Regional Airport Planning Committee of the Association of the Bay Area Governments (ABAG) identified that 71 percent of respondents had taken at least one commercial passenger airline trip in the last 12 months that originated at a Bay

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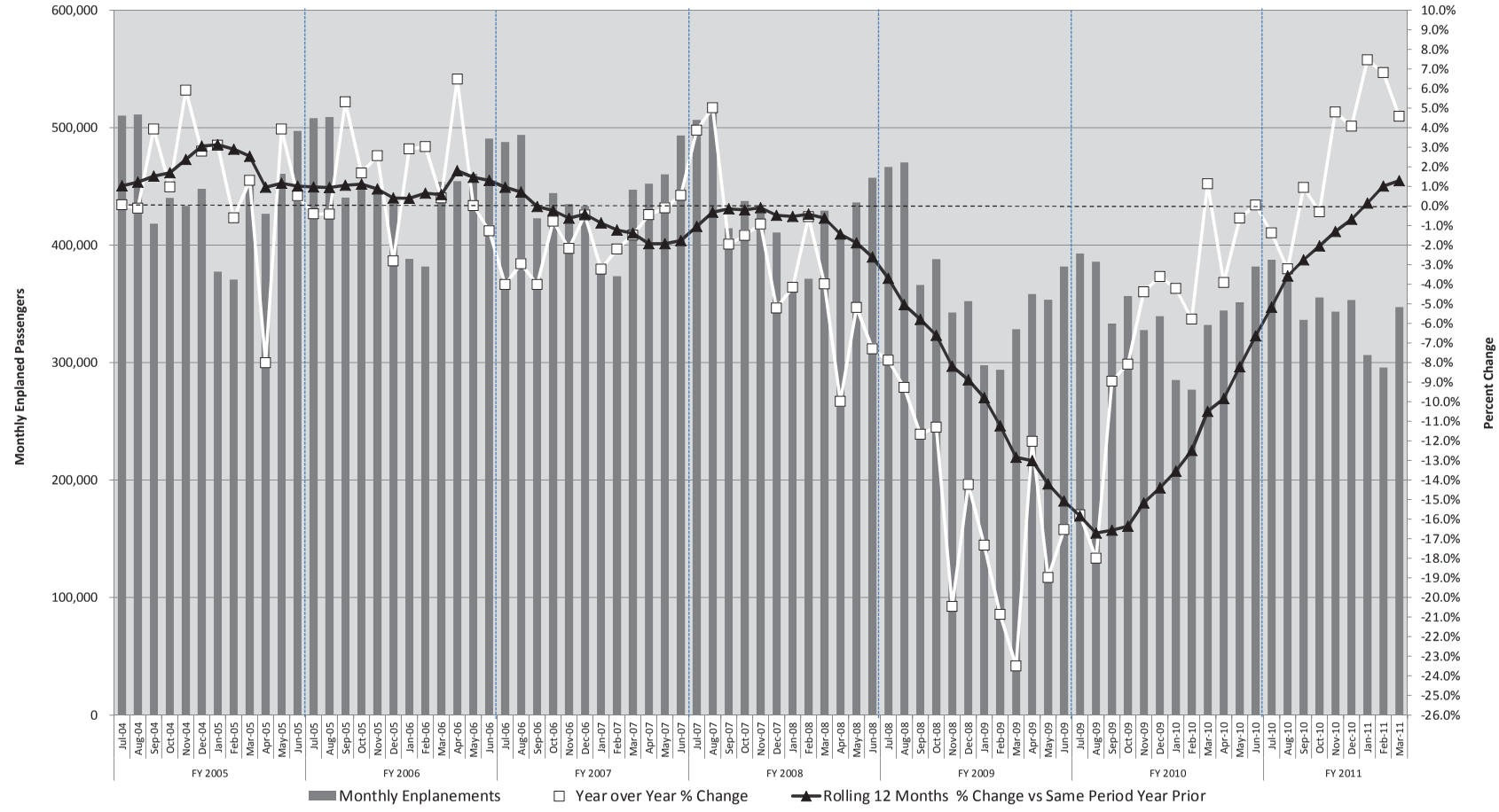
Exhibit II-1

Monthly Enplaned Passengers (SJC)



Source: San José Norman Y. Mineta International Airport, April 2011.

Prepared by: Ricondo & Associates, Inc., April 2011.

Area airport. Among those that had taken a commercial passenger airline trip in the last 12 months, the survey results indicated that approximately 20 percent flew mostly out of the Airport, approximately 46 percent flew mostly out of SFO, and approximately 31 percent flew mostly out of OAK. However, 59 percent of those that had taken a flight in the last 12 months indicated that they had flown out of more than one Bay Area airport during that period. These survey results highlight both the willingness of Bay Area passengers to utilize any of the airports in the region and the competition between the Airport, SFO, and OAK to capture passenger activity market share.

Table II-1 presents historical domestic and international enplaned passengers for the Airport, OAK, and SFO from FY 1997 through FY 2010. Total enplaned passengers at these three airports (including O&D and connecting passengers) decreased to approximately 28.0 million in FY 2010 (an average annual decrease of 0.4 percent over the period FY 1997 through FY 2010) after peaking in FY 2001 at approximately 32.0 million enplaned passengers. A number of factors contributed to this overall decrease, including the terrorist attacks of September 11, 2001, the Technology Industry recession, the spread of Severe Acute Respiratory Syndrome (SARS) and a new strain of swine flu, designated as H1N1, and two national recessions. Overall, the three Bay Area airports experienced a 1.5 percent increase in enplaned passengers in FY 2010 as compared to FY 2009, and experienced a 2.9 percent increase for the first nine months of FY 2011. While enplaned passengers for these three airports combined have recovered from the recent slump in FY 2009, combined passenger levels have yet to recover to the peak level experienced in FY 2001.

The Airport, however, has experienced decreases in enplaned passengers in each year from FY 2007 through FY 2010. During this period, the United States entered into an economic recession in December 2007 and two low-cost airlines initiated new service from SFO. Virgin America launched nonstop service from SFO to New York – JFK and Los Angeles in August 2007. Virgin selected SFO over other major United States airports as its principal base of operations as SFO lacked a genuine low-cost alternative after Southwest pulled out in 2001. However, Southwest returned to SFO after a six-year absence with 18 daily flights in August 2007 in order to enhance its competitive position in the Bay Area compared to other low-cost airlines. Additionally, JetBlue introduced nonstop service from SFO to Boston and New York – JFK in May 2007 and to Salt Lake City in July 2007.

Table II-2 illustrates the trends in domestic O&D passenger shares for the three airports. From FY 1999 through FY 2002, the Airport experienced an increase in its share of the domestic O&D Bay Area passengers from a 24.5 percent share in FY 1999 to a high of a 26.9 percent share in FY 2002. During the period FY 2003 to FY 2007, the Airport's share of domestic O&D passengers in the Bay Area decreased to approximately 24.2 percent. Since FY 2007, the Airport's share of domestic O&D Bay Area passengers has decreased substantially to 20.0 percent in FY 2010, primarily attributable to increased airline service, lower fares, and increased airline competition at SFO during this period. OAK's share of domestic O&D Bay Area passengers has decreased even more significantly since FY 2007 (from 33.3 percent in FY 2007 to 22.3 percent in FY 2010), whereas SFO's share has increased substantially from 40.9 percent in FY 2003 to 57.8 percent in FY 2010.

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Table II-1

Comparison of Bay Area Airport Enplaned Passengers

	SJC				SFO				OAK				Total Bay Area Airports			
Fiscal Year	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth
1997	4,947,290	139,152	5,086,442	--	16,148,720	3,406,354	19,555,074	--	4,670,211	441	4,670,652	--	25,766,221	3,545,947	29,312,168	--
1998	4,893,654	151,554	5,045,208	(0.8%)	16,490,131	3,439,006	19,929,137	1.9%	4,574,723	1,426	4,576,149	(2.0%)	25,958,508	3,591,986	29,550,494	0.8%
1999	5,297,035	172,692	5,469,727	8.4%	16,178,679	3,425,363	19,604,042	(1.6%)	4,743,156	14,437	4,757,593	4.0%	26,218,870	3,612,492	29,831,362	1.0%
2000	5,875,167	176,638	6,051,805	10.6%	16,361,868	3,786,351	20,148,219	2.8%	5,025,226	35,014	5,060,240	6.4%	27,262,261	3,998,003	31,260,264	4.8%
2001	6,723,262	214,115	6,937,377	14.6%	15,356,235	4,067,045	19,423,280	(3.6%)	5,619,735	39,713	5,659,448	11.8%	27,699,232	4,320,873	32,020,105	2.4%
2002	5,568,043	150,874	5,718,917	(17.6%)	11,926,656	3,612,399	15,539,055	(20.0%)	5,713,312	43,905	5,757,217	1.7%	23,208,011	3,807,178	27,015,189	(15.6%)
2003	5,082,877	122,110	5,204,987	(9.0%)	11,249,563	3,365,822	14,615,385	(5.9%)	6,575,442	68,653	6,644,095	15.4%	22,907,882	3,556,585	26,464,467	(2.0%)
2004	5,157,673	134,176	5,291,849	1.7%	11,706,115	3,690,024	15,396,139	5.3%	6,865,566	91,664	6,957,230	4.7%	23,729,354	3,915,864	27,645,218	4.5%
2005	5,207,491	138,142	5,345,633	1.0%	12,319,662	3,929,431	16,249,093	5.5%	7,048,894	122,247	7,171,141	3.1%	24,576,047	4,189,820	28,765,867	4.1%
2006	5,277,777	137,054	5,414,831	1.3%	12,392,819	4,097,526	16,490,345	1.5%	7,082,017	105,570	7,187,587	0.2%	24,752,613	4,340,150	29,092,763	1.1%
2007	5,216,491	102,368	5,318,859	(1.8%)	12,608,974	4,333,798	16,942,772	2.7%	7,180,316	86,854	7,267,170	1.1%	25,005,781	4,523,020	29,528,801	1.5%
2008	5,111,144	67,459	5,178,603	(2.6%)	13,807,474	4,566,015	18,373,489	8.4%	6,716,004	86,482	6,802,486	(6.4%)	25,634,622	4,719,956	30,354,578	2.8%
2009	4,339,181	60,381	4,399,562	(15.0%)	14,003,850	4,221,214	18,225,064	(0.8%)	4,903,613	52,129	4,955,742	(27.1%)	23,246,644	4,333,724	27,580,368	(9.1%)
2010	4,044,957	62,437	4,107,394	(6.6%)	14,859,869	4,240,533	19,100,402	4.8%	4,658,588	118,926	4,777,514	(3.6%)	23,563,414	4,421,896	27,985,310	1.5%
FYTD [1/]																
2010	2,987,322	42,618	3,029,940		10,929,980	3,087,209	14,017,189		3,459,086	94,215	3,553,301		17,376,388	3,224,042	20,600,430	
2011	3,045,309	54,588	3,099,897	2.3%	11,296,522	3,274,842	14,571,364	4.0%	3,446,602	76,773	3,523,375	(0.8%)	17,788,433	3,406,203	21,194,636	2.9%
CAGR																
FY 1997 - 2001	8.0%	11.4%	8.1%		(1.3%)	4.5%	(0.2%)		4.7%	208.1%	4.9%		1.8%	5.1%	2.2%	
FY 2001 - 2003	(13.1%)	(24.5%)	(13.4%)		(14.4%)	(9.0%)	(13.3%)		8.2%	31.5%	8.4%		(9.1%)	(9.3%)	(9.1%)	
FY 2003 - 2006	1.3%	3.9%	1.3%		3.3%	6.8%	4.1%		2.5%	15.4%	2.7%		2.6%	6.9%	3.2%	
FY 2006 - 2010	(6.4%)	(17.8%)	(6.7%)		4.6%	0.9%	3.7%		(9.9%)	3.0%	(9.7%)		(1.2%)	0.5%	(1.0%)	
FY 1997 - 2010	(1.5%)	(6.0%)	(1.6%)		(0.6%)	1.7%	(0.2%)		(0.0%)	53.8%	0.2%		(0.7%)	1.7%	(0.4%)	

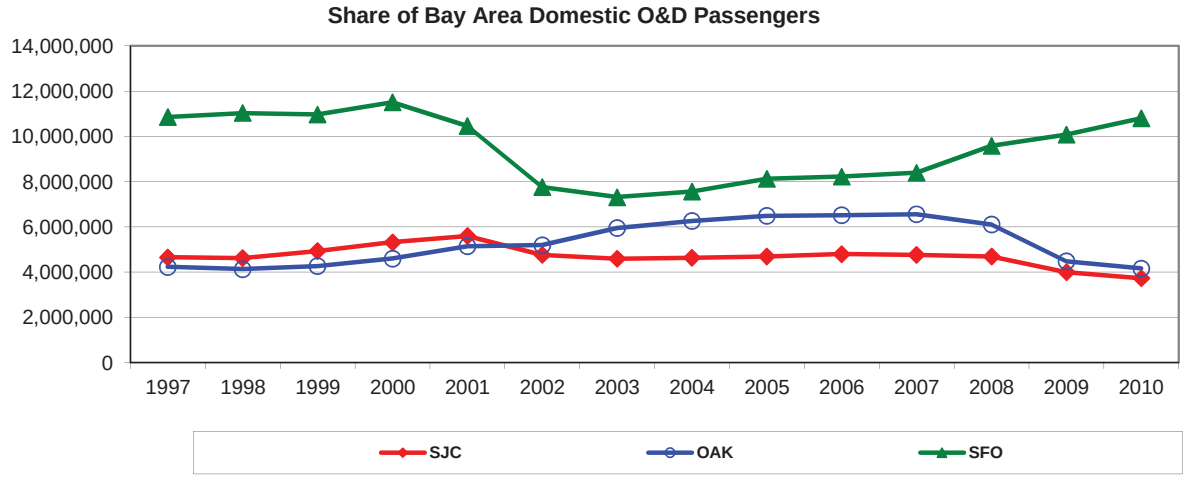
Note:
1/ Fiscal Year-To-Date (FYTD) includes July - March.

Sources: San José Norman Y. Mineta International Airport; San Francisco International Airport; Oakland International Airport, April2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

Table II-2

Comparison of Bay Area Airport Domestic Originating Passengers

	O&D Passengers			Share of Total Bay Area		
Fiscal Year	SJC	OAK	SFO	SJC	OAK	SFO
1997	4,659,210	4,234,010	10,857,670	23.6%	21.4%	55.0%
1998	4,625,690	4,137,100	11,031,950	23.4%	20.9%	55.7%
1999	4,928,280	4,265,890	10,962,290	24.5%	21.2%	54.4%
2000	5,322,150	4,602,030	11,503,080	24.8%	21.5%	53.7%
2001	5,598,950	5,145,960	10,465,980	26.4%	24.3%	49.3%
2002	4,765,330	5,195,530	7,762,990	26.9%	29.3%	43.8%
2003	4,599,280	5,952,130	7,314,570	25.7%	33.3%	40.9%
2004	4,640,530	6,260,620	7,559,240	25.1%	33.9%	40.9%
2005	4,697,390	6,483,820	8,129,100	24.3%	33.6%	42.1%
2006	4,799,240	6,512,580	8,229,160	24.6%	33.3%	42.1%
2007	4,765,340	6,561,030	8,395,160	24.2%	33.3%	42.6%
2008	4,695,380	6,112,160	9,588,920	23.0%	30.0%	47.0%
2009	4,000,880	4,481,280	10,077,200	21.6%	24.1%	54.3%
2010	3,734,480	4,165,080	10,805,380	20.0%	22.3%	57.8%
FYTD [1/]						
2010	1,942,410	2,187,870	5,660,980	19.8%	22.3%	57.8%
2011	1,946,800	2,184,010	5,802,210	19.6%	22.0%	58.4%



Notes:

1/ Fiscal Year-To-Date (FYTD) includes July - December.

2/ Share percentages may not total 100.0 percent due to rounding.

Source: O&D Survey of Airline Passenger Traffic, U.S. DOT, April 2011.

Prepared by: Ricondo & Associates, Inc., April 2011.

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2.2.2 Overview of Bay Area Airport Air Service

Table II-3 illustrates the trends in average domestic fares and average yields for the three airports from FY 1997 through FY 2010, respectively.[1] As shown, average fares at the Airport have consistently been above average fares at OAK but substantially lower than average fares at SFO. Yields for the Airport for FY 1997 through FY 2008 were the highest for the three airports, and only recently in FY 2009 and FY 2010 have yields at the Airport dipped slightly below yields at OAK. SFO yields have declined post-FY 2008, primarily due to increased airline competition resulting from new activity by Virgin America, Southwest, JetBlue, and AirTran. Since FY 2005, average yield at the Airport has increased at a CAGR of 2.7 percent between FY 2005 to FY 2010. Since FY 2008, the spread between the average yields at both the Airport and OAK compared to SFO has grown, reflecting the significant declines in enplaned passengers and seat capacity at the Airport and OAK compared to SFO.

Exhibit II-2 presents a comparison of domestic nonstop weekly flights at each Bay Area airport between CY 2006 and CY 2010. Weekly nonstop domestic departures at SFO grew at a CAGR of 3.6 percent between CY 2006 and CY 2010, compared to average annual decreases of 10.4 percent for OAK and 8.1 percent for the Airport.

2.2.3 Overview of Other Bay Area Airport Characteristics

As previously presented, results of a survey conducted for ABAG indicated that the majority of Bay Area residents who had taken a commercial flight within 12 months of completing the survey had used more than one Bay Area airport. Bay Area residents' decisions on which airport to use when starting their travels is subject to many factors including the availability of flights, airfares, proximity of their residence or place of business to the airport, airport accessibility, and overall airport reliability, among other factors. Data presented in the following sections summarize historical data regarding existing and projected runway capacity, average delay times, and aircraft gate usage metrics.

Taken individually, none of these factors are considered to materially impact an airport's passenger demand. When considered collectively, however, they can influence passenger travel patterns and activity levels at Bay Area airports over the Projection Period and beyond. As discussed further below, these factors reinforce the expectation for continued long-term growth in passenger traffic at the Airport (as discussed further in Section 2.8).

Table II-4 reflects information regarding airfield capacity, average delay times, and terminal facilities at the Airport compared to OAK and SFO.

An update to the Regional Aviation System Plan (RASP) is currently being undertaken jointly by ABAG, the San Francisco Bay Conservation and Development Association, and the Metropolitan Transportation Commission. The RASP, expected to be completed in 2011, will serve as the Bay Area's overall policy document for aviation planning by identifying the region's future demand and capacity needs and identifying and evaluating potential strategies for accommodating future aviation demand through 2035. The RASP's Baseline Runway Capacity and Delays Report, published in August 2010, estimated the airfield capacity limits at each of the primary Bay Area airports and

[1] Revenue yield provides a relative measure of the profitability of the market, and is defined as the average revenue received from each passenger for each mile flown on particular route.

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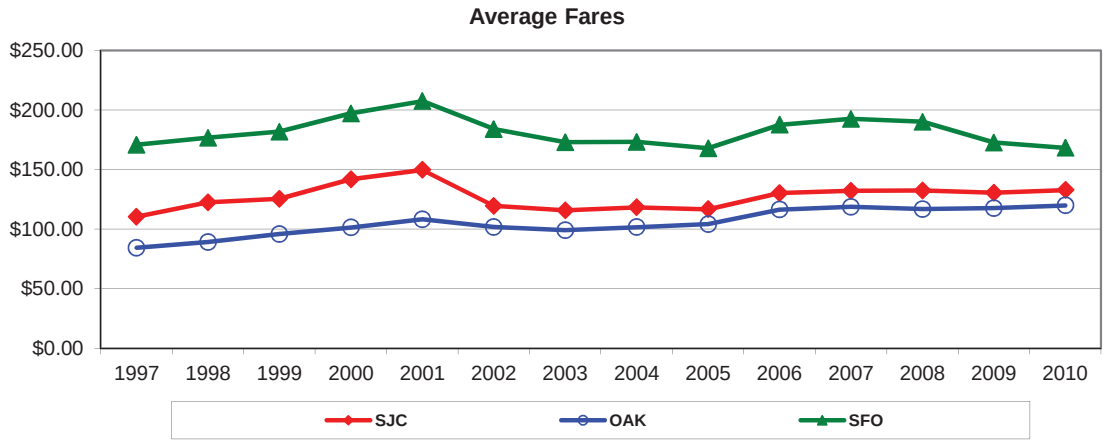
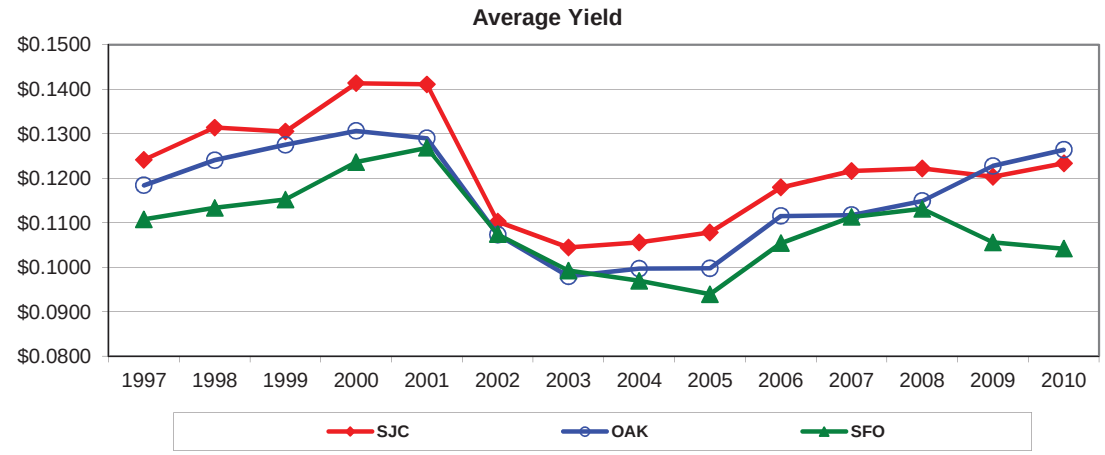
Table II-3

Comparison of Bay Area Airport Domestic Fares and Yields

	Average Fare			Average Yield		
Fiscal Year	SJC	OAK	SFO	SJC	OAK	SFO
1997	$110.27	$84.43	$170.81	$0.1241	$0.1184	$0.1108
1998	$122.46	$89.17	$176.73	$0.1314	$0.1240	$0.1134
1999	$125.46	$95.85	$181.87	$0.1305	$0.1275	$0.1152
2000	$141.81	$101.39	$197.06	$0.1413	$0.1306	$0.1236
2001	$149.71	$108.12	$207.43	$0.1411	$0.1290	$0.1268
2002	$119.55	$101.82	$183.98	$0.1103	$0.1073	$0.1074
2003	$115.77	$99.13	$172.93	$0.1045	$0.0979	$0.0993
2004	$118.29	$101.65	$173.29	$0.1056	$0.0997	$0.0970
2005	$116.70	$104.23	$167.73	$0.1078	$0.0998	$0.0940
2006	$130.19	$116.43	$187.54	$0.1179	$0.1115	$0.1054
2007	$132.09	$118.76	$192.45	$0.1216	$0.1117	$0.1113
2008	$132.43	$116.87	$190.02	$0.1222	$0.1149	$0.1131
2009	$130.51	$117.57	$172.62	$0.1203	$0.1227	$0.1056
2010	$132.80	$119.90	$168.21	$0.1233	$0.1264	$0.1042





Source: O&D Survey of Airline Passenger Traffic, U.S. DOT, January 2011.
Prepared by: Ricondo & Associates, Inc., February 2011.

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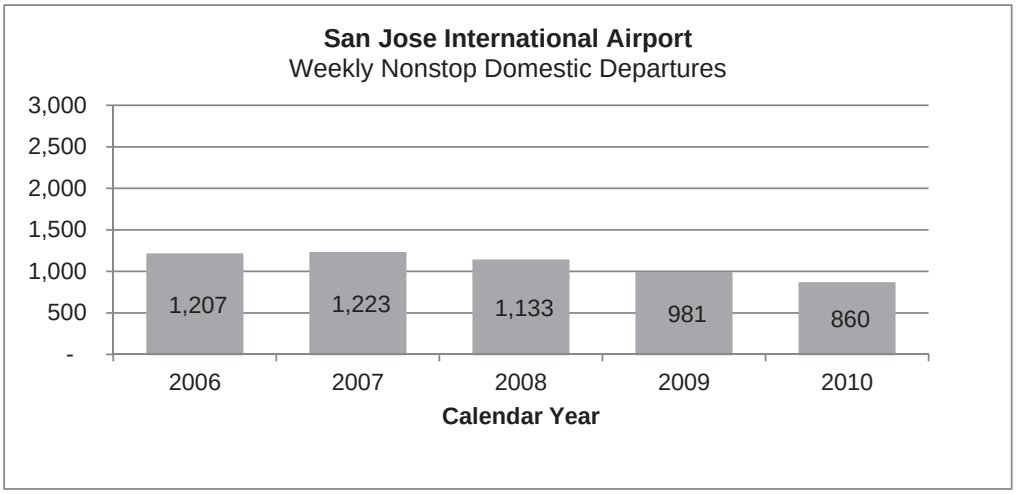
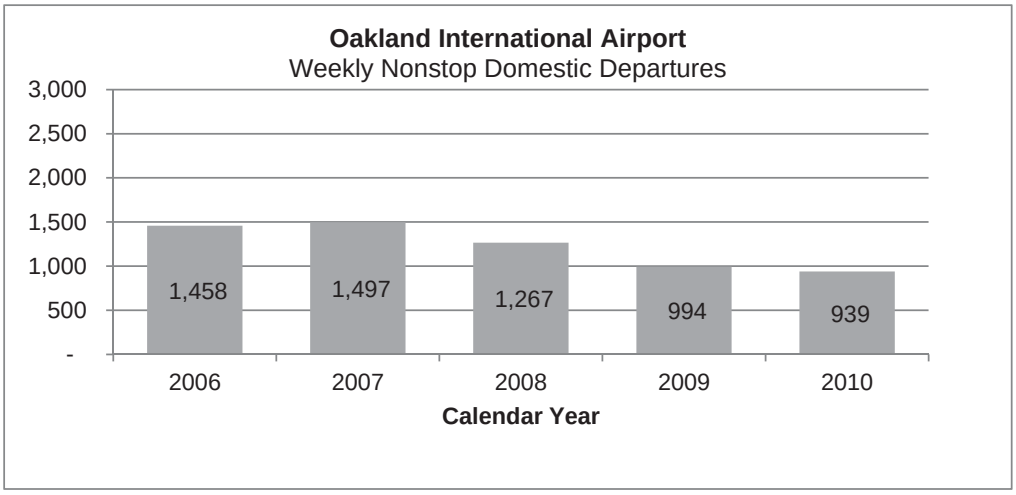
Exhibit II-2

Bay Area Airport Weekly Nonstop Domestic Departures





Source: Official Airline Guide, January 2011.

Prepared by: Ricondo & Associates, Inc., January 2011.

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Table II-4

Comparison of Bay Area Airports - Airfield Capacity [1/], Average Delay, and Terminal Facilities
(Best percentages or values are highlighted)

	Airfield Capacity Characteristics		
Airport	Maximum Airfield Capacity [2/]	Total Operations (2010)	Demand/Capacity Ratio (2010)
SJC	550,000	138,300	25%
OAK	450,000	228,743	51%
SFO	485,000	383,457	79%

	Approximate Average Delay per Aircraft Operation - 2020 (minutes)		
Airport	VFR [3/]	IFR [4/]	Average
SJC	0.3	3.2	0.3
OAK	1.0	4.0	1.5
SFO	6.0	24.0	8.4

	Comparison of Terminal Facilities		
Airport	Total Enplaned Passengers FY10	Total Gates	Total Enplaned Passengers per Gate (FY10)
SJC	4,107,394	28	146,693
OAK	4,777,514	29	164,742
SFO	19,100,402	95	201,057

Notes:

1/ For domestic flights only.

2/ Upper range of the ultimate airfield capacity identified in the RASP Update.

3/ Visual flight rule conditions.

4/ Instrument flight rule conditions.

Source: Regional Airport System Plan (RASP) Update, Baseline Runway Capacity and Delay Reports, (all data except 2010 total operations and demand capacity ratio); Flight Transportation Associates, August 2010.
Airport websites (2010 total operations), accessed January 2011.
Norman Y. Mineta San Jose International Airport (SJC enplaned passengers and gates), February 2011.
Individual airport websites for SFO and OAK passengers and gates, February 2011.

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developed projections of future aviation activity to determine when these capacity limits would likely be reached. In addition, this component of the RASP used simulation modeling to estimate average aircraft delay at each of the airports in the benchmark years 2020 and 2035. The simulation modeling process used in the RASP incorporated airport-specific characteristics, such as airfield geometry, operating procedures, weather, user characteristics, and the baseline projections of aviation activity that were developed for each airport as part of the RASP. Table II-4 presents estimates from the RASP. Based on RASP analysis, maximum annual airfield capacity, presented in terms of total annual aircraft operations, ranges from 450,000 operations at OAK, 485,000 operations at SFO, to approximately 550,000 at the Airport. Based on actual 2010 aircraft operations statistics for each airport and estimated maximum annual airfield capacities, calculated demand/capacity ratios for Bay Area airports are 25 percent for the Airport, 51 percent for OAK, and 79 percent for SFO. In general, as an airport's ratio of demand to capacity increases, aircraft delays become more prevalent in all weather conditions. Unacceptable levels of delay can be encountered well before the demand capacity ratio reaches 100 percent.

While the RASP is tasked with identifying and evaluating alternatives for addressing future capacity constraints, and it only examines airfield constraints given current facility and operational characteristics, the results do provide a comparative illustration of how Bay Area airports could be impacted by facility constraints and aircraft delays in the future given projected activity levels. As shown in Table II-4, the estimated average delay per aircraft operation at SFO in 2020 is significantly higher than projections for the Airport and OAK.

The analysis and projections presented in the RASP's Baseline Runway Capacity and Delays Report indicate that it is likely that SFO will reach existing maximum airfield capacity sooner than the Airport and OAK. According to the RASP, the average aircraft delay at SFO is expected to increase exponentially over the analysis period of the RASP even before the airfield at SFO reaches its maximum estimated capacity. As a result, both the Airport and OAK are in a comparatively better situation to serve increased enplaned passenger and aircraft operational levels.

Airport terminal facilities and their ability to efficiently process arriving and departing passengers is another factor impacting overall airport capacity. The analysis conducted in the RASP focuses exclusively on airfield capacity and constraints at Bay Area airports. Although a comparable analysis related to terminal facilities has not been conducted, a summary review of existing gate information for Bay Area airports is also presented in Table II-4. While it is often difficult to measure the capacity of an airport's terminal facilities, a number of factors can be examined to assess the overall terminal and aircraft gate capacity at an airport, including terminal facilities, layout, and airline operational characteristics. The summary data presented in Table II-4 is intended to illustrate existing facilities and activity levels at Bay Area airports.

As shown in Table II-4, dividing the Airport's 4.1 million total enplaned passengers in FY 2010 by the total number of aircraft gates (28) results in a ratio of 146,693 total enplaned passengers per gate. Using the same approach, comparable ratios of 164,742 enplaned passengers per gate and 201,057 enplaned passengers per gate are calculated for OAK and SFO, respectively.

Given the role that Southwest plays at the Airport, having enplaned over 51 percent of the Airport's total FY 2010 enplaned passengers, and its reputation as one of the most efficient users of gate and terminal space among airlines, it is reasonable to assume that the Airport's existing 28 gates could accommodate significantly more passenger activity.

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It is important to note that each of the Bay Area airports currently have plans that would allow the construction of additional aircraft gates in the future, if needed, to accommodate additional aircraft activity and passenger demand. As a result, terminal capacity is not anticipated to impact projected activity and passenger demand at the Bay Area airports during the Projection Period, but could potentially in the long term. However, the Airport enjoys the greatest amount of existing capacity, allowing for growth with no significant capital costs required during the Projection Period and relatively lower capital costs required in the longer term.

2.3 Airlines Serving the Airport

As of June 2011, the Airport has scheduled passenger service provided by the airlines presented in **Table II-5**. The Airport is provided with scheduled passenger service by 13 airlines, including nine mainline, three regional/commuters, and one international airline. In addition, three all-cargo airlines provide scheduled cargo service at the Airport.

Table II-6 presents the historical airline base at the Airport since FY 1997. The Airport has benefited from a large and relatively stable mix of airlines during this period, which has helped promote competitive pricing and scheduling diversity in the Airport's major markets. Since FY 1997, the Airport's airline base has increased from 12 airlines to 13 airlines (Skywest is listed twice--for United Express and Delta Connection).

Specific points concerning the Airport's historical airline base are presented below:

- Nine of the 13 passenger airlines currently serving the Airport have been operating there since FY 1997.
- The Airport's strong O&D passenger base is supported by the presence of four airlines, including Alaska, Horizon, Southwest, and US Airways that provide high frequency, low-fare service to densely populated markets located within the West Coast corridor. JetBlue provides low-fare service from the Airport to New York and Boston. In addition to service by these domestic airlines, the Airport is served by American, Continental, Delta, Hawaiian, United, and their regional/commuter affiliates.
- In recent years, two airlines have initiated new service at the Airport, including Mesaba and Volaris, while two airlines (Frontier and Mexicana) have discontinued service.
    - Mesaba began operating at the Airport in FY 2010 and provided regional/commuter service as Delta Connection. In June 2011, Mesaba operations have been replaced by SkyWest.
    - Volaris initiated service in FY 2010 with nonstop service to Guadalajara, Mexico.
    - Frontier discontinued service at the Airport in FY 2010. Frontier had offered nonstop service to Denver.
    - Mexicana initiated international service at the Airport in FY 1990. In early FY 2011, Mexicana ceased system-wide operations.

2.4 Historical Passenger Activity

This section presents historical trends in enplaned passengers at the Airport and the major factors influencing these trends, as well as historical market shares of enplaned passengers by airline.

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Table II-5

Airlines Serving the Airport [1/]

Mainline (9)	Regional/Commuter (3)	Foreign Flag (1)	All-Cargo (3)
Alaska	American Eagle	Volaris	Air Transport International
American	Horizon Air		FedEx Corporation
Continental [2/]	SkyWest		United Parcel Service
Delta			
Hawaiian			
JetBlue			
Southwest			
United [2/]			
US Airways			

Passenger Carrier Groups [1/ 3/]

Alaska Carriers	American Carriers	Delta Carriers	United Carriers
Alaska	American	Delta	United [2/]
Horizon	American Eagle	SkyWest	SkyWest

Notes:

1/ As of June 15, 2011.

2/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.

3/ Hawaiian, JetBlue, and Southwest operate all routes under their mainline service. Continental and US Airways currently operate all routes under their mainline service; however historically these airlines have provided service under their regional/commuter airline affilates.

Source: Official Airline Guide (OAG), May 2011.

Prepared by: Ricondo & Associates, Inc., May 2011.

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Table II-6

Airlines Serving the Airport Since FY 1997

Airline	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 1/
American Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Alaska Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Continental Airlines 2/	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Delta Air Lines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Southwest Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
SkyWest (United Express)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
United Airlines 2/	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
US Airways	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Horizon Air	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
American Eagle		●	●	●		●	●	●	●	●	●	●	●	●	●
JetBlue Airways								●	●	●	●	●	●	●	●
Skywest (Delta Connection)									●	●	●	●	●	●	●
Hawaiian Airlines										●	●	●	●	●	●
Volaris														●	●
Airlines No Longer Serving the Airport															
Mesaba														●	●
Mexicana Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Frontier Airlines							●	●	●	●	●	●	●	●	
Mesa Air										●	●	●	●		
Independence									●	●					
ATA							●	●							
Air Wisconsin						●	●								
Air Canada			●	●	●	●									
Trans World Airlines	●	●	●	●	●	●									
Western Pacific	●	●													

Notes:
1/ As of June 2011.
2/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.

Source: Official Airline Guide, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

2.4.1 Enplaned Passengers

The Airport is classified by the FAA as a Medium Hub airport based on its percentage of nationwide enplaned passengers and ranked 42nd nationwide in terms of enplaned passengers in CY 2009.[2] **Table II-7** presents historical data for enplaned passengers at the Airport between FY 1997 and FY 2010, and for the Airport and the United States for the 12-month periods ending September 30, 1997 through 2010.

Overall passenger activity at the Airport decreased from 5,086,442 enplaned passengers in FY 1997 to 4,107,394 in FY 2010 as described in more detail below. This decline represents an average annual decrease of 1.6 percent during this period. Following decreases in the Airport's enplaned passengers in FY 2002 and FY 2003, total enplaned passengers increased modestly, from 5,204,987 in FY 2003 to 5,414,831 in FY 2006, representing a CAGR of 1.3 percent. Excluding American's and American Eagle's de-hubbing activity, enplaned passengers by all other airlines operating at the Airport increased by a CAGR of 4.7 percent between FY 2003 and FY 2006, with much of this growth coming from Alaska, JetBlue, Southwest, and US Airways.

From FY 2006 through FY 2010, enplaned passengers at the Airport have declined on a year over year basis for various reasons described below. In FY 2006, Airport enplaned passengers totaled 5,414,831 and decreased to 4,107,394 in FY 2010. This decline represents an average annual decrease of 6.7 percent.

Specific details concerning enplaned passengers at the Airport between FY 1997 and FY 2011 (to-date) are discussed below:

- **FY 1997 - FY 2001.** The rapid expansion of the Technology Industry triggered significant growth in the Silicon Valley economy in the late 1990's. The information technology (IT) sector played a large role in this increase; employment in IT industries increased 67 percent and directly accounted for nearly 30 percent of job growth in the Bay Area during this five-year period.

  Similarly, the Airport also experienced significant growth in enplaned passengers between FY 1997 and FY 2001, increasing from 5,086,442 enplaned passengers in FY 1997 to 6,937,377 enplaned passengers in FY 2001, the all-time peak in fiscal year enplaned passengers at the Airport. This increase represents a CAGR of 8.1 percent during this period. The initiation of service at the Airport by Southwest in FY 1993 and continued expansion through FY 2001, and the rapid growth in the local economy were the primary factors contributing to this significant growth in passenger activity at the Airport.

- **FY 2001 - FY 2003.** Passenger activity at the Airport decreased from a high of 6,937,377 enplaned passengers in FY 2001 to 5,204,987 in FY 2003, a total decrease of 25.0 percent. A number of factors contributed to the dramatic decreases in the Airport's enplaned passengers in FY 2002 and FY 2003, including the Technology Industry recession, the terrorist attacks of September 11, and the subsequent national recession.

- **FY 2003 - FY 2006.** Overall, passenger activity at the Airport increased from 5,204,987 enplaned passengers in FY 2003 to 5,414,831 in FY 2006. This increase represents a CAGR

[2] As defined by the FAA, a medium hub airport enplanes more than 0.25 percent and less than 1.0 percent of nationwide enplaned passengers during a calendar year.

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Table II-7

Historical Airport Enplaned Passengers

Fiscal Year Ending June 30			12-Month Period Ending September 30					
Fiscal Year	Airport Enplaned Passengers	Airport Growth	12-Month Period Ending Sept. 30	Airport Enplaned Passengers	Airport Growth	U.S. Domestic Enplaned Passengers	U.S. Growth	Airport Share of U.S.
1997	5,086,442	-	1997	5,120,419	-	577,800,000	-	0.886%
1998	5,045,208	(0.8%)	1998	5,091,774	(0.6%)	590,400,000	2.2%	0.855%
1999	5,469,727	8.4%	1999	5,570,709	9.4%	610,900,000	3.5%	0.895%
2000	6,051,805	10.6%	2000	6,315,451	13.4%	641,200,000	5.0%	0.985%
2001	6,937,377	14.6%	2001	6,937,294	9.8%	626,800,000	(2.2%)	1.107%
2002	5,719,213	(17.6%)	2002	5,354,769	(22.8%)	574,600,000	(8.3%)	0.932%
2003	5,204,987	(9.0%)	2003	5,222,165	(2.5%)	587,800,000	2.3%	0.888%
2004	5,291,849	1.7%	2004	5,307,339	1.6%	628,500,000	6.9%	0.844%
2005	5,345,633	1.0%	2005	5,363,567	1.1%	669,500,000	6.5%	0.801%
2006	5,414,831	1.3%	2006	5,361,690	(0.0%)	668,400,000	(0.2%)	0.802%
2007	5,318,859	(1.8%)	2007	5,354,154	(0.1%)	690,100,000	3.2%	0.776%
2008	5,178,603	(2.6%)	2008	5,042,240	(5.8%)	681,300,000	(1.3%)	0.740%
2009	4,399,562	(15.0%)	2009	4,208,424	(16.5%)	631,300,000 1/	(7.3%)	0.667%
2010	4,107,394	(6.6%)	2010	4,092,473	(2.8%)	634,100,000 2/	0.4%	0.645%
FY 2010 (Jul - Mar)	3,029,940							
FY 2011 (Jul - Mar)	3,099,897	2.3%						
CAGR			CAGR					
FY 1997 - 2001	8.1%		1997 - 2001	7.9%		2.1%		
FY 2001 - 2003	(13.4%)		2001 - 2003	(13.2%)		(3.2%)		
FY 2003 - 2006	1.3%		2003 - 2006	0.9%		4.4%		
FY 2006 - 2010	(6.7%)		2006 - 2010	(6.5%)		(1.3%)		
FY 1997 - 2010	(1.6%)		1997 - 2010	(1.7%)		0.7%		

Notes:
1/ Estimated by the FAA.
2/ Forecast by the FAA.

Sources: Norman Y. Mineta San José International Airport, April 2011.
FAA (U.S. activity), March 2011.

Prepared by: Ricondo & Associates, Inc., June 2011.

of 1.3 percent. Enplaned passenger growth at the Airport during this period, however, was limited by continued reductions in air service by American. Combined, American and American Eagle's enplaned passengers decreased from 1,382,143 in FY 2003 to 1,029,154 in FY 2006, representing an average annual decrease of 9.4 percent. Excluding American's and American Eagle's de-hubbing activity, enplaned passengers by all other airlines increased by a CAGR of 4.7 percent from FY 2003 to FY 2006.

- **FY 2006 – FY 2010.** After a 1.3 percent increase in FY 2006, Airport enplaned passengers declined in each year from FY 2007 through FY 2010. In FY 2007 and FY 2008, Airport enplaned passengers decreased 1.8 and 2.6 percent respectively. During this period, capacity cuts were made in American and American Eagle service to Southern California (Los Angeles, Orange County, and San Diego) and by United to Chicago O'Hare and Denver. In FY 2009, Airport enplaned passengers decreased 15.0 percent to 4,399,562 due to a nationwide recession and the Airport's loss of domestic O&D Bay Area passenger market share during this timeframe. As discussed above in Section 2.2, this loss in Bay Area passenger market share was primarily attributable to significant increases in airline service, lower fares, and increased airline competition at SFO. Southwest, the Airport's largest passenger carrier, along with the majority of other scheduled passenger carriers reduced capacity and enplaned fewer passengers at the Airport. Frontier and JetBlue were the only two scheduled passenger airlines to experience increased enplaned passengers in FY 2008 and FY 2009. Below is a list of notable capacity reductions in FY 2009:

  - American reduced capacity to Austin, Dallas/Ft. Worth, and Orange County while American Eagle continued to trim capacity to Los Angeles and San Diego.
  - Alaska reduced capacity to Seattle and Portland. Regional/commuter affiliate Horizon reduced daily nonstop service to Boise from two to one.
  - Continental discontinued service to New York/Newark.
  - Delta's reductions included dropping service to Atlanta and a shift of one mainline daily nonstop to regional/commuter affiliate SkyWest (dba Delta Connection) on its Salt Lake City route.
  - Southwest's largest reductions were to Burbank, Chicago, Las Vegas, Los Angeles, Ontario, and Reno. Southwest increased capacity to Denver.
  - Nonstop service to United's hubs in Chicago O'Hare, Denver, and Washington Dulles was reduced.
  - US Airways reduced capacity to Las Vegas, but increased capacity to Phoenix.

  In FY 2010, as the impacts of the nationwide recession persisted and as increases in airline service, lower fares, and airline competition continued at SFO, enplaned passengers at the Airport declined to 4,107,394, a decrease of 6.6 percent from FY 2009. Southwest's enplaned passengers increased to 2.1 million, an increase of 1.9 percent over FY 2009. Southwest continued to trim capacity in FY 2010 even as demand returned. Alaska Carriers and Delta Carriers also experienced increased enplaned passengers in FY 2010. The 14.1 percent enplaned passenger increase by Alaska Carriers is a result of new service initiated to Austin, Kahului (Maui), Kona, Mammoth Lakes, Spokane, and increased service to Portland and Sacramento. JetBlue, United Carriers, and American Carriers, experienced the largest percentage decrease in FY 2010.

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- JetBlue discontinued service to Long Beach.
- United Carriers continued service reductions to Denver and eliminated nonstop service to Chicago O'Hare.
- American and American Eagle continued to trim capacity to Southern California markets and also reduced nonstop service to Austin.
- Frontier discontinued service at the Airport in May 2010.
- Foreign Flag carrier Volaris initiated service to Guadalajara in April 2010.

Airport construction activity in FY 2008, FY 2009, and FY 2010 may have also contributed to decreases in enplaned passengers in those Fiscal Years.

- **Fiscal Year-To-Date (FYTD) 2011 (July 2010 – March 2011).** Airport enplaned passengers increased 2.3percent for the first nine months of FY 2011 compared to the same period in FY 2010. Southwest and Alaska Carriers enplaned passengers increased at 4.3 and 51.5 percent respectively. Alaska's increased enplaned passengers are a result of new service to Austin, Kona, Los Angeles, and Maui with the addition of new international service to Cabo San Lucas and Guadalajara, Mexico. Southwest increased service to Austin and announced additional service to Denver, Los Angeles, Orange County, San Diego, and Seattle starting in the second half of FY 2011. During this period, Continental experienced a 3.6 percent increase in enplaned passengers. Mexicana ceased system-wide operations in August 2010 and is in the process of reorganizing. Foreign flag carrier Volaris continues to operate at the Airport and added three additional weekly nonstop operations to Guadalajara in March 2011.

Table II-8 presents historical enplaned passengers at the Airport from FY 1997 through FY 2010 by type of airline, including mainline, regional/commuter, and international. A number of fundamental shifts have occurred in the Airport's airline makeup since FY 1997, which are further described below:

- The mainline share of total Airport enplaned passengers peaked at approximately 96.1 percent in FY 2001. From FY 1997 to FY 2001, enplaned passengers provided by mainline service increased at a CAGR of 8.1 percent to 6.7 million, primarily as a result of increased hubbing activity by American and American's acquisition of Reno Air in FY 2000. Since FY 2001, the mainline share of total Airport enplaned passengers has decreased from 96.1 percent in FY 2001 to 88.5 percent in FY 2010 due to decisions by some airlines to shift service to regional/commuter affiliates on selected routes. As passenger demand decreased and mainline airlines shifted selected service to regional/commuter affiliates, mainline enplaned passengers declined from 6.7 million in FY 2001 to 3.6 million in FY 2010 or at an average annual decrease of 6.5 percent.
- The regional/commuter share of total enplaned passengers remained relatively constant through FY 2002, averaging approximately 1.7 percent of total Airport enplaned passengers from FY 1997 to FY 2002. Since that time, however, the regional/commuter share of total Airport enplaned passengers increased to 10.6 percent in FY 2006. This increase was primarily a result of American converting its mainline service to Southern California to regional jet service on American Eagle. In addition, US Airways, Delta, and United augmented their mainline service with regional jet service on regional/commuter affiliates to Phoenix, Salt Lake City, Denver and Southern California, respectively. While the

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Table II-8

Historical Airport Enplaned Passengers by Carrier Type

	Domestic Enplaned Passengers							
	Mainline		Regionals/Commuters		International [1/]		Total Airport	
Fiscal Year	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share
1997	4,887,854	96.1%	59,436	1.2%	139,152	2.7%	5,086,442	100.0%
1998	4,790,474	95.0%	103,180	2.0%	151,554	3.0%	5,045,208	100.0%
1999	5,207,835	95.2%	89,200	1.6%	172,692	3.2%	5,469,727	100.0%
2000	5,808,992	96.0%	66,175	1.1%	176,638	2.9%	6,051,805	100.0%
2001	6,664,821	96.1%	58,441	0.8%	214,115	3.1%	6,937,377	100.0%
2002	5,421,403	94.8%	146,936	2.6%	150,874	2.6%	5,719,213	100.0%
2003	4,772,654	91.7%	310,223	6.0%	122,110	2.3%	5,204,987	100.0%
2004	4,651,137	87.9%	506,536	9.6%	134,176	2.5%	5,291,849	100.0%
2005	4,660,730	87.2%	546,761	10.2%	138,142	2.6%	5,345,633	100.0%
2006	4,706,038	86.9%	571,739	10.6%	137,054	2.5%	5,414,831	100.0%
2007	4,686,496	88.1%	529,995	10.0%	102,368	1.9%	5,318,859	100.0%
2008	4,584,448	88.5%	526,696	10.2%	67,459	1.3%	5,178,603	100.0%
2009	3,907,376	88.8%	431,805	9.8%	60,381	1.4%	4,399,562	100.0%
2010	3,636,146	88.5%	408,811	10.0%	62,437	1.5%	4,107,394	100.0%
CAGR								
FY 1997 - 2001	8.1%		(0.4%)		11.4%		8.1%	
FY 2001 - 2010	(6.5%)		24.1%		(12.8%)		(5.7%)	
FY 1997 - 2010	(2.2%)		16.0%		(6.0%)		(1.6%)	

Note:
1/ Includes enplaned passengers from U.S. and Foreign Flag airlines serving international destinations.

Source: Norman Y. Mineta San José International Airport, January 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

regional/commuter share of total enplaned passengers has decreased from a high in FY 2006, it has remained stable between FY 2007 and FY 2010. However, over this same period, regional/commuter enplaned passengers have decreased at an average annual rate of 8.3 percent. The majority of this decline is a result of continued capacity cuts by American Eagle to Southern California (i.e. Los Angeles, San Diego, and Orange County). As of January 2011, service to Los Angeles continues, however service to San Diego and Orange County has discontinued.

- The share of international enplaned passengers at the Airport remained relatively constant between FY 1997 and FY 2006, averaging approximately 2.8 percent during the years shown. Following the discontinuation of American's flight to Tokyo Narita in October 2006, the share of international enplaned passengers at the Airport decreased to approximately 1.9 percent in FY 2007. Between FY 2008 and FY 2010, international enplaned passengers declined, but the share of international enplaned passengers has slowly increased. In FY 2008 and FY 2009, Mexicana was the only foreign flag airline operating at the Airport. In FY 2010, Volaris, another foreign flag airline based in Mexico, initiated service at the Airport and foreign flag enplaned passengers increased 1.5 percent from FY 2009. In August 2010, Mexicana ceased system-wide operations and is in the process of re-organizing.

2.4.2 Long-Term Historical Enplaned Passengers

Exhibit II-3 reflects historical enplaned passengers at the Airport from FY 1981 to FY 2010, and projected FY 2011 to FY 2017 (as discussed in Section 2.8 of this chapter). Exhibit II-3 identifies certain key events that have impacted enplaned passenger levels at the Airport over this period. Enplaned passengers increased at a CAGR of 8.5 percent between FY 1981 and FY 2001. Over the period FY 1981 to FY 2010, enplaned passengers grew at a CAGR of 3.9 percent.

Exhibit II-4 reflects year-over-year growth rates for the 12-month periods ending June 30, 1981 to 2010, for the Airport, OAK, SFO and the domestic revenue enplaned passengers for the United States as a whole. Exhibit II-4 indicates that, with certain exceptions, the Airport and OAK experienced substantially higher positive growth rates through FY 2001, and in recent years have experienced more significant decreases relative to SFO and the United States.

2.4.3 Enplaned Passengers by Airline

As shown earlier in Table II-6, the Airport has a relatively large and diverse airline base. To further illustrate this point, **Table II-9** presents the historical share of enplaned passengers by the carriers serving the Airport between FY 2006 and FY 2010. Southwest's share of Airport enplaned passengers has increased in each of the years shown, from 40.6 percent in FY 2006 to 51.7 percent in FY 2010. The American Carriers (i.e., American Airlines and American Eagle) had the second highest share of Airport enplaned passengers with a 11.7 percent share of enplaned passengers in FY 2010, which is a decrease from a 19.0 percent share in FY 2006. Overall, the top five carriers at the Airport accounted for nearly 88.4 percent of the Airport's annual enplaned passengers in FY 2010.

2.5 Historical Air Service

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as approximately 97 percent of its passengers are O&D passengers. The Airport serves as a major

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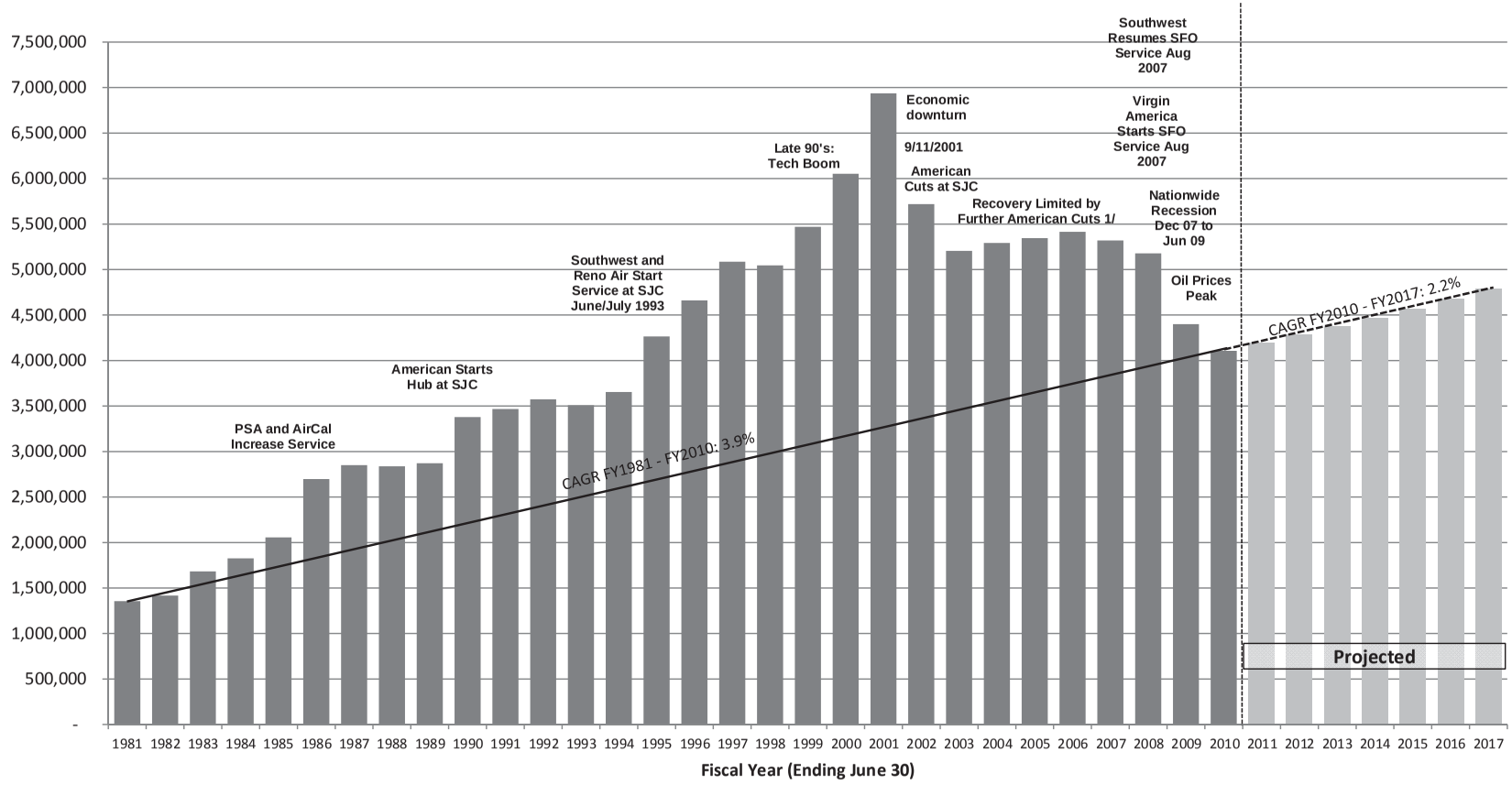
Exhibit II-3

Historical and Projected Airport Enplaned Passengers (FY 1981 - FY 2017)



Note:

1/ Excluding the American cuts during this time, enplaned passengers grew at a CAGR of 4.7 percent between FY 2003 and FY 2006.

Source: Norman Y. Mineta San José International Airport for historical data; Ricondo & Associates, Inc. for projected, April 2011.

Prepared by: Ricondo & Associates, Inc., April 2011.

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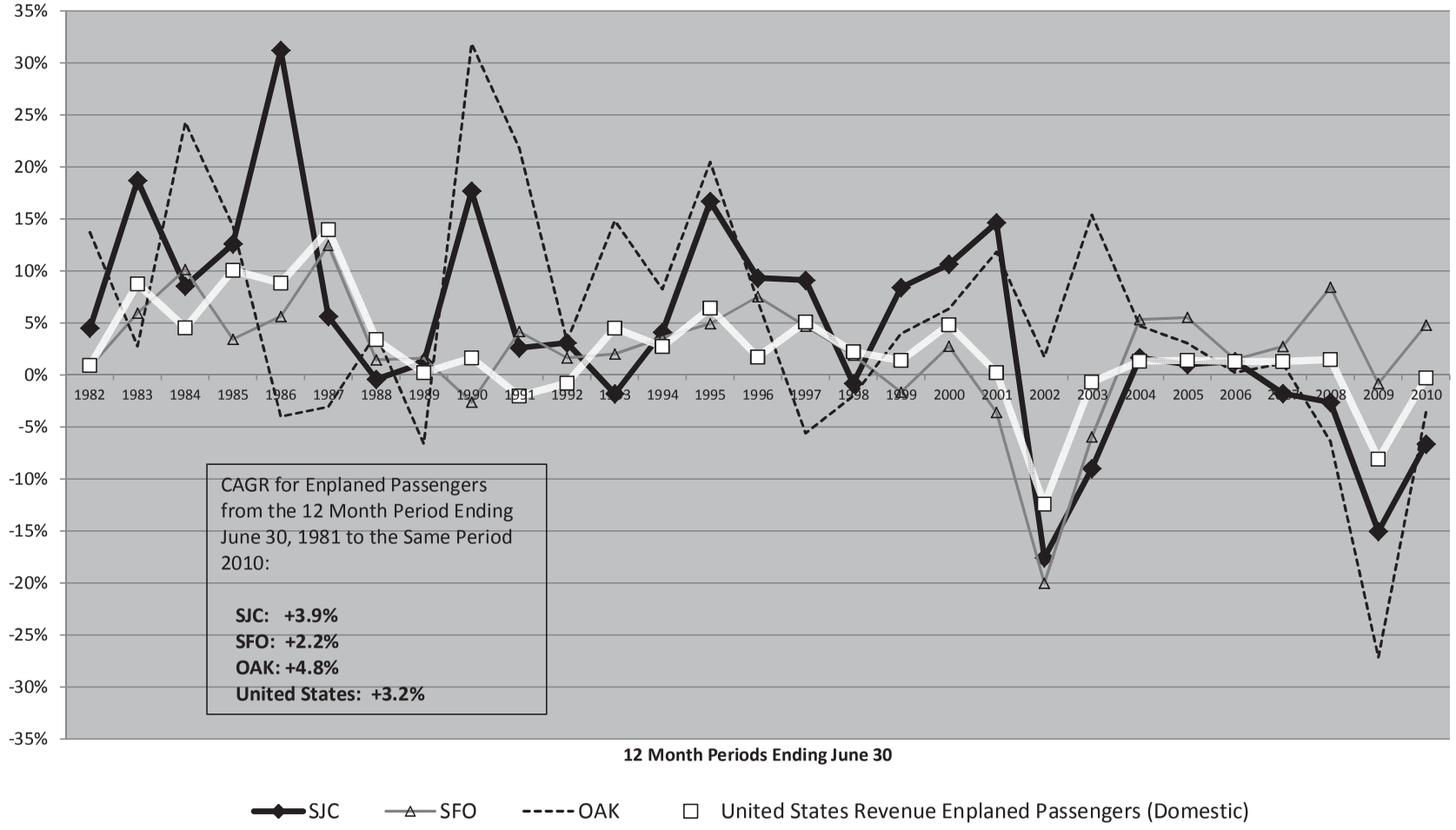
Exhibit II-4

Year-Over-Year Growth Rates for Enplaned Passengers for 12-Month Periods Ending June 30



Sources: San José Norman Y. Mineta International Airport for SJC; bond official statements and website data (SFO and OAK); Air Transport Association (United States); February 2011.

Prepared by: Ricondo & Associates, Inc., February 2011.

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Table II-9

Historical Airport Enplaned Passengers by Airline [1/]

	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
Airline	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share
Southwest Airlines	2,198,806	40.6%	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%
American Carriers	1,029,154	19.0%	923,052	17.4%	771,429	14.9%	632,723	14.4%	480,402	11.7%
Delta Carriers	507,273	9.4%	491,234	9.2%	451,609	8.7%	401,655	9.1%	427,644	10.4%
Alaska Carriers	489,022	9.0%	467,324	8.8%	445,689	8.6%	345,419	7.9%	393,982	9.6%
US Airways Carriers	316,935	5.9%	323,328	6.1%	314,740	6.1%	254,389	5.8%	208,809	5.1%
United Carriers [2/]	408,400	7.5%	384,341	7.2%	349,962	6.8%	208,184	4.7%	138,836	3.4%
Continental Carriers [2/]	155,324	2.9%	169,220	3.2%	171,189	3.3%	136,153	3.1%	132,942	3.2%
JetBlue Airways	136,666	2.5%	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%
Hawaiian Airlines	62,261	1.1%	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%
Volaris	-	0.0%	-	0.0%	-	0.0%	-	0.0%	8,072	0.2%
Other [3/]	110,990	2.0%	101,682	1.9%	139,518	2.7%	108,728	2.5%	27,406	0.7%
AIRPORT TOTAL [4/]	5,414,831	100.0%	5,318,859	100.0%	5,178,603	100.0%	4,399,562	100.0%	4,107,394	100.0%

Notes:

1/ As appropriate, mainline airline and their regional/commuter affiliates are grouped to show relative market share by carrier.

2/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.

3/ Consists of airlines no longer serving the Airport and charter airlines.

4/ Columns may not add to totals shown because of rounding.

Source: Norman Y. Mineta San José International Airport, January 2011.

Prepared by: Ricondo & Associates, Inc., March 2011.

O&D point for major markets throughout the United States and was ranked 37th in terms of domestic O&D traffic in FY 2010.[3]

Table II-10 presents historical data on the Airport's primary (i.e., top 20) O&D markets for FY 1997, FY 2001, FY 2006, and FY 2010. The Airport's top 20 O&D markets constituted approximately 76.5 percent of the total domestic O&D traffic at the Airport in FY 1997 and approximately 72.4 percent in FY 2010. The Airport primarily served short- and medium-haul markets in the periods depicted, with an average stage length (i.e., passenger trip distance) of 890 miles in FY 1997 and 1,032 miles in FY 2010.[4] The Airport's average stage lengths during these periods reflects the Airport's geographical location and strong local demand for service to major regional markets in California and along the West Coast corridor. Changes in the O&D rankings and passenger levels are discussed below.

- Overall, the rankings for the top 20 O&D markets from FY 1997 to FY 2010 have remained relatively stable. The Los Angeles market, which includes the airports of Los Angeles International, Bob Hope (Burbank), LA/Ontario International, and John Wayne (Orange County), has consistently been the Airport's top O&D market over the last 14 years.
- O&D passengers (enplaned passengers and deplaned passengers) for the Airport's top 20 markets increased from 7.7 million in FY 1997 to nearly 9.0 million in FY 2001 as a result of growth in the local economy and increased airline competition between American and Southwest. Since FY 2001, however, the number of O&D passengers for the Airport's top 20 markets decreased, from nearly 9.0 million passengers in FY 2001 to 7.6 million passengers in FY 2006. This decrease was primarily due to a decrease of overall passenger demand resulting from the economic downturn in the region, and a drop in the supply of seats at the Airport (primarily as a result of service reductions by American). In FY 2010 O&D passengers continued to decrease to 5.8 million as a result of a continued decline in overall passenger demand.
- Reflecting the Airport's diverse range of airlines and choices in air service, daily nonstop service was provided to 17 of the top 20 O&D markets in FY 2010.
- As a result of new service to medium- and long-haul markets since FY 1997, the Airport's average trip length has increased from 890 miles in FY 1997 to 1,032 miles in FY 2010.

Nonstop scheduled air service available from the Airport is presented in **Table II-11**. As of June 15, 2011, 25 markets were served with a total of 133 daily nonstop flights. The Los Angeles area, the largest O&D market for the Airport, was provided 43 daily nonstop flights by American Eagle, Horizon, Southwest, and United Express to the four airports serving the Los Angeles market, including Los Angeles International, Burbank, LA/Ontario International, and Orange County. Other top daily nonstop markets from the Airport include: Phoenix (11), San Diego (10), Denver (9), Las Vegas (9), Portland (9), and Seattle (9). In addition to the Airport's domestic service, scheduled daily international service is provided by Alaska and Volaris to Guadalajara. In addition to the daily non-stops reflected on Table II-11, Alaska Airlines provides nonstop service to Lihue, Hawaii with three flights per week and to Los Cabos, Mexico with two flights per week.

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[3] U.S. DOT data.

[4] Short haul is defined as a passenger trip distance of zero to 600 miles; medium haul is defined as 601 to 1,800 miles; and long haul as over 1,800 miles.

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Table II-10

The Airport's Primary O&D Passenger Markets

FY 1997				FY 2001				FY 2006				FY 2010				
Rank	Market	Trip Length [1]	Total O&D Passengers [2]	Rank	Market	Trip Length [1]	Total O&D Passengers [2]	Rank	Market	Trip Length [1]	Total O&D Passengers [2]	Rank	Market	Daily Nonstop Service [3]	Trip Length [1]	Total O&D Passengers [2]
1	Los Angeles Area [4]	SH	2,741,450	1	Los Angeles Area [4]	SH	2,829,780	1	Los Angeles Area [4]	SH	2,235,050	1	Los Angeles Area [4]	●	SH	1,730,200
2	San Diego	SH	763,550	2	San Diego	SH	862,180	2	San Diego	SH	775,600	2	San Diego	●	SH	601,960
3	Seattle	MH	649,260	3	Las Vegas	SH	684,230	3	Las Vegas	SH	607,250	3	Las Vegas	●	SH	464,460
4	Las Vegas	SH	576,480	4	Seattle	MH	662,910	4	Seattle	MH	566,740	4	Seattle	●	MH	440,960
5	Portland	SH	515,260	5	Portland	SH	545,080	5	Phoenix	MH	454,460	5	Phoenix	●	MH	362,890
6	Phoenix	MH	433,460	6	Phoenix	MH	503,670	6	Portland	SH	433,500	6	Denver	●	MH	322,640
7	Reno	SH	282,670	7	New York/Newark	LH	319,350	7	New York/Newark	LH	323,000	7	Portland	●	SH	315,770
8	Dallas	MH	214,070	8	Denver	MH	302,490	8	Chicago	MH	296,830	8	Dallas	●	MH	225,220
9	Chicago	MH	209,720	9	Chicago	MH	295,310	9	Denver	MH	291,090	9	Chicago	●	MH	216,670
10	Denver	MH	179,870	10	Dallas	MH	288,740	10	Dallas	MH	243,370	10	New York/Newark	●	LH	156,330
11	Boston	LH	176,790	11	Austin	MH	247,360	11	Austin	MH	238,200	11	Austin	●	MH	145,320
12	Austin	MH	173,610	12	Boston	LH	230,370	12	Boston	LH	167,500	12	Houston	●	MH	116,780
13	Salt Lake City	SH	172,600	13	Reno	SH	216,590	13	Washington D.C.	LH	155,000	13	Washington, DC	●	LH	104,330
14	Houston	MH	108,540	14	Salt Lake City	SH	165,590	14	Houston	MH	147,440	14	Honolulu	●	LH	98,070
15	New York/Newark	LH	96,400	15	Washington D.C.	LH	149,340	15	Reno	SH	139,880	15	Salt Lake City	●	SH	90,570
16	Colorado Springs	MH	88,180	16	Atlanta	LH	143,820	16	Salt Lake City	SH	136,800	16	Orlando		LH	89,360
17	Albuquerque	MH	86,710	17	Houston	MH	143,350	17	Atlanta	LH	109,660	17	Philadelphia		LH	87,430
18	Tucson	MH	85,850	18	Baltimore	LH	127,420	18	Orlando	LH	93,470	18	Long Beach		SH	79,660
19	Washington D.C.	LH	85,740	19	Raleigh	LH	119,420	19	Baltimore	LH	86,270	19	Reno	●	SH	75,540
20	Atlanta	LH	78,250	20	Orlando	LH	115,720	20	Honolulu	LH	83,310	20	Minneapolis	●	MH	75,330
Total Top 20 O&D Markets		76.5%	7,718,460	Total Top 20 O&D Markets		68.8%	8,952,720	Total Top 20 O&D Markets		72.9%	7,584,420	Total Top 20 O&D Markets			72.4%	5,799,490
Other O&D Markets		23.5%	2,367,446	Other O&D Markets		31.2%	4,052,007	Other O&D Markets		27.1%	2,822,507	Other O&D Markets			27.6%	2,213,696
O&D Passengers		100.0%	10,085,906	O&D Passengers		100.0%	13,004,727	O&D Passengers		100.0%	10,406,927	O&D Passengers			100.0%	8,013,186
Total Airport Passengers			10,249,904	Total Airport Passengers			13,908,799	Total Passengers			10,851,853	Total Passengers				8,232,446
O&D % of Total Passengers			98.4%	O&D % of Total Passengers			93.5%	O&D % of Total Passengers			95.9%	O&D % of Total Passengers				97.3%
Average Trip Length				Average Trip Length				Average Trip Length				Average Trip Length				
Airport [5]		890		Airport [5]		1,061		Airport [5]		1,105		Airport [5]			1,032	
United States		766		United States		800		United States		871		United States			870	

Notes:

1/ (SH) Short Haul = 0 to 600 miles
(MH) Medium Haul = 601 to 1,800 miles
(LH) Long Haul = over 1,800 miles

2/ Enplanements plus deplanements.

3/ Based on OAG schedule for January 21, 2011.

4/ Includes Los Angeles International Airport, John Wayne Airport, Ontario International Airport, and Bob Hope Airport.

5/ Average calculated for all of the Airport's O&D markets.

Source: O&D Survey of Airline Passenger Traffic, U.S. DOT, January 2011.
Prepared by: Ricondo & Associates, Inc., February 2011.

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Table II-11

Daily Nonstop Markets and Flights from the Airport
(Alphabetical Order)

	Market	Daily Nonstop Flights	Airline(s)
1	Atlanta	1	Delta Air Lines
2	Austin	2	Southwest Airlines
3	Boise	1	Horizon Air
4	Boston	1	JetBlue Airways
5	Burbank	8	Southwest Airlines
6	Chicago (Midway)	1	Southwest Airlines
6	Chicago (O'Hare)	2	American Airlines
7	Dallas/Ft. Worth	6	American Airlines
8	Denver	9	Southwest Airlines (4), United Airlines (5)
9	Guadalajara, Mexico	2	Alaska Airlines, Volaris
10	Honolulu	1	Hawaiian Airlines
11	Houston (George Bush Int'l)	2	Continental Airlines
12	Kahului - Maui	1	Alaska Airlines
13	Kona	1	Alaska Airlines
14	Las Vegas	9	Southwest Airlines
15	Los Angeles	22	American Eagle (6), Horizon Air (3), Southwest Airlines (10), United Express (3)
16	Minneapolis/St. Paul	2	Delta Air Lines
17	New York (JFK)	1	JetBlue Airways
18	Ontario	5	Southwest Airlines
19	Orange County	8	Southwest Airlines
20	Phoenix	11	Southwest Airlines (6), US Airways (5)
21	Portland	9	Alaska Airlines (2), Horizon Air (3), Southwest Airlines (4)
22	Reno	3	Southwest Airlines
23	Salt Lake City	5	Delta Air Lines (1), Delta Connection (4)
24	Sacramento	1	Horizon Air
25	San Diego	10	Southwest Airlines
26	Seattle	9	Alaska Airlines (6), Southwest Airlines (3)
	TOTAL DAILY NONSTOP FLIGHTS [1/]	133	

Note:

1/ In addition to the daily nonstops reflected on Table II-11, Alaska Airlines provides nonstop service to Lihue, Hawaii with three flights per week and to Los Cabos, Mexico with two flights per week.

Source: Official Airline Guide, Inc., week of June 12 -18, 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

2.6 Historical Aircraft Operations and Landed Weight

This section presents historical commercial aircraft operations (takeoffs and landings) by mainline, regional/commuter and international carriers. Landed weight is presented based on the individual airline or carriers grouping, including a grouping of all-cargo carriers[5].

2.6.1 Aircraft Operations

Table II-12 presents historical aircraft operations at the Airport between FY 1997 and FY 2010. Total commercial activity at the Airport decreased from a high of 300,007 operations in FY 1997 to 131,590 operations in FY 2010. Specific points concerning trends in operational activity by major user categories at the Airport are discussed below.

- **Passenger Airlines.** Passenger airline operations at the Airport increased from approximately 128,936 operations in FY 1997 to a peak of 154,054 operations in FY 2001. This increase represents a CAGR of 4.6 percent, compared to 2.1 percent experienced by passenger carriers nationwide. This growth between FY 1997 and FY 2001 was primarily due to the rapid growth of the regional economy and increased competition between the airlines at the Airport. From FY 2001 to FY 2006 passenger airline activity decreased from 154,054 operations to 127,954 operations, representing an average annual decrease of 3.6 percent. These annual decreases were primarily due to the downturn in the Technology Industry in early 2001 and the impacts of the September 11 terrorist attacks and the subsequent elimination or reduction of service by American. Increases in operations by the regional/commuter airlines served to offset some of the decreases by mainline airlines. In particular, American and Delta shifted certain operations to American Eagle and Delta Connection. In FY 2007 and FY 2008, passenger airline operations remained flat as mainline airlines reduced service or shifted some operations to regional/commuters. As noted earlier, due to the economic downturn, which lead to reduced demand, airlines cut capacity at the Airport, including the majority of airports across the nation. From FY 2008 through FY 2010, passenger airline operations declined from 126,364 to 95,800, or at an average annual decrease of 12.9 percent.
- **General Aviation**. General aviation activity at the Airport, which includes activity by air taxi operators (for-hire charters, fixed base operators, etc.), decreased steadily from 166,910 operations in FY 1997 to 122,435 operations in FY 2001. Operations by general aviation decreased 36.0 percent to 78,618 in FY 2002 from FY 2001 levels, primarily due to a corresponding decrease by based aircraft storage facilities and the closure of two fixed base operators (FBOs) on the southwest side of the Airport (Aris and AirOne). Another key factor affecting general aviation activity levels was the FAA's initiation of a new operations counting policy at the Airport, which made the counting more accurate yet reduced the reported number of general aviation operations at the Airport in FY 2002 from previous years. Since that time, general aviation operations continued to decrease to 61,907 operations in FY 2006. After nearly flat operational growth from FY 2007 to FY 2008, general aviation operations continued to decline to 33,439 in FY 2010. Once again, due to the economic slowdown and higher operating costs (i.e. fuel and insurance), operations declined at an

[5] All-cargo carrier grouping includes numerous unscheduled cargo operators, but primary carriers include ABX Air, Air Transport International, Federal Express (FedEx), and United Parcel Service (UPS). Over the last five fiscal years, these four carriers accounted for 95 – 99 percent of all-cargo operations and over 99 percent of all-cargo landed weight. ABX Air discontinued service in June 2008.

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Table II-12

Historical Aircraft Operations at the Airport

Fiscal Year	Passenger Airlines: Mainline	Passenger Airlines: Regionals/ Commuters	Passenger Airlines: International Operations [1/]	Passenger Airlines: Total Airline Operations	General Aviation	All Cargo	Military	Airport Total
1997	119,468	7,294	2,174	128,936	166,910	3,827	334	300,007
1998	116,484	10,598	2,280	129,362	156,200	4,502	230	290,294
1999	127,058	6,110	2,300	135,468	152,911	5,704	631	294,714
2000	129,173	4,848	1,882	135,903	146,202	6,028	225	288,358
2001	146,984	5,094	1,976	154,054	122,435	6,208	238	282,935
2002	127,603	10,385	1,716	139,704	78,618	5,815	211	224,348
2003	112,264	19,032	1,708	133,004	62,510	4,636	125	200,275
2004	101,706	30,838	1,820	134,364	59,521	3,586	113	197,584
2005	97,118	29,672	1,774	128,564	63,708	3,594	99	195,965
2006	95,310	30,756	1,888	127,954	61,907	3,464	83	193,408
2007	95,620	28,806	1,976	126,402	55,021	3,388	103	184,914
2008	95,352	29,504	1,508	126,364	55,146	3,140	64	184,714
2009	85,418	23,830	1,250	110,498	46,674	2,558	242	159,972
2010	74,774	19,776	1,250	95,800	33,439	2,076	275	131,590
CAGR								
FY 1997 - 2001	5.3%	(8.6%)	(2.4%)	4.6%	(7.5%)	12.9%	(8.1%)	(1.5%)
FY 2001 - 2006	(8.3%)	43.3%	(0.9%)	(3.6%)	(12.7%)	(11.0%)	(19.0%)	(7.3%)
FY 1997 - 2006	(2.5%)	17.3%	(1.6%)	(0.1%)	(10.4%)	(1.1%)	(14.3%)	(4.8%)
FY 1997 - 2010	(3.5%)	8.0%	(4.2%)	(2.3%)	(11.6%)	(4.6%)	(1.5%)	(6.1%)

Note:

1/ Includes operations from U.S. and Foreign Flag airlines serving international destinations.

Source: Norman Y. Mineta San José International Airport, January 2011.

Prepared by: Ricondo & Associates, Inc., May 2011.

average annual decrease of 2.2 percent from FY 2008 through FY 2010. Based on a Federal Fiscal Year (October – September), the nation's general aviation operations have declined at an average annual decrease of 8.3 percent from 2008 through 2010. See Chapter III of this report for the City's plans with respect to general aviation facilities at the Airport.

- **All-Cargo Carriers.** Similar to passenger airline activity, operations by all-cargo carriers at the Airport peaked in FY 2001 at 6,208 annual operations. Following FY 2001, all-cargo operations at the Airport decreased nine out of the ten years between FY 2001 and FY 2010, from approximately 6,208 operations in FY 2001 to 2,076 in FY 2010. These decreases were primarily a result of the downturn of the economy in FY 2002 and FY 2003 and FY 2009 and FY 2010. Between FY 2004 and FY 2007, during the economic recovery and expansion all-cargo operations remained stable and averaged approximately 3,500 operations per year. Also noted, ABX Air reduced service in FY 2008 and eventually discontinued service in July 2008. ABX Air recorded 516 operations in FY 2007 and reduced operations to 422 in FY 2008.

2.6.2 Landed Weight by Commercial Airlines

Table II-13 presents the historical share of landed weight at the Airport between FY 2006 and FY 2010. As shown, total landed weight has decreased consistently since FY 2006, from 7,499,072 thousand pounds to 5,732,784 thousand pounds in FY 2010. In FY 2006, Southwest accounted for 40.9 percent of landed weight at the Airport, with the next top nine airlines accounting for an additional 44.8 percent of landed weight. Overall, Southwest's share of landed weight at the Airport has increased each year shown, from 40.9 percent in FY 2006 to 52.9 percent in FY 2010, however total landed weight for the carrier has decreased from 3,065,960 to 3,033,408 thousand pounds over the comparable period. As with enplaned passengers, American and American Eagle's share of Airport landed weight has decreased each year shown. The all-cargo carriers' share decreased from 6.4 percent to 5.6 percent of the Airport's total landed weight between FY 2006 and FY 2010.

2.7 Factors Affecting Aviation Demand and the Airline Industry

This section discusses qualitative factors that could influence future aviation activity at the Airport. While data and/or information related to these factors (e.g., jet fuel prices) have not specifically been incorporated into the projections of Airport activity discussed in Section 2.8, these factors were indirectly considered and analyzed in developing the projections.

2.7.1 Regional Economy

The underlying economic conditions of the Airport's Air Service Area are anticipated to continue to recover, driving future demand for air travel at the Airport and several factors that impact demand bode well for the region. The Air Service Area's key resources, including its universities, research labs, skilled workforce, and high income levels relative to California and the nation remain intact. Recent data shows the regional economy is improving somewhat, as evidenced by continued population growth, reduced unemployment rates, and increased contributions of venture capital (see Chapter 1 of this report – Economic Base for Air Transportation). Expected improvements in economic conditions for the regional economy and California are anticipated to lead to future growth in activity at the Airport.

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Table II-13

Historical Airport Landed Weight by Airline
(Weight in 1,000 Pound Units)

	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
Airline	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share
Southwest Airlines	3,065,960	40.9%	3,197,472	42.6%	3,366,428	45.5%	3,236,828	49.4%	3,033,408	52.9%
American Airlines	850,139	11.3%	733,523	9.8%	572,925	7.7%	480,870	7.3%	366,797	6.4%
Alaska Airlines	490,114	6.5%	472,515	6.3%	441,300	6.0%	337,540	5.2%	363,017	6.3%
US Airways	377,223	5.0%	415,366	5.5%	387,348	5.2%	316,454	4.8%	262,199	4.6%
SkyWest Airlines	151,419	2.0%	166,716	2.2%	146,500	2.0%	174,983	2.7%	217,883	3.8%
United Airlines [1/]	515,943	6.9%	490,735	6.5%	474,724	6.4%	277,027	4.2%	182,268	3.2%
Delta Air Lines	367,240	4.9%	334,490	4.5%	296,483	4.0%	220,738	3.4%	168,315	2.9%
Horizon Air	104,759	1.4%	98,525	1.3%	115,790	1.6%	111,530	1.7%	144,240	2.5%
Continental Airlines [1/]	164,858	2.2%	178,500	2.4%	181,657	2.5%	142,465	2.2%	133,055	2.3%
American Eagle	391,471	5.2%	346,514	4.6%	305,779	4.1%	254,983	3.9%	131,181	2.3%
JetBlue Airways	155,706	2.1%	124,565	1.7%	147,688	2.0%	188,439	2.9%	115,710	2.0%
Hawaiian Airlines	87,360	1.2%	128,960	1.7%	115,545	1.6%	109,970	1.7%	94,075	1.6%
Volaris	-	0.0%	-	0.0%	-	0.0%	-	0.0%	8,320	0.1%
Mesaba	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,624	0.0%
All Cargo Carriers	478,376	6.4%	511,763	6.8%	492,624	6.7%	421,088	6.4%	322,267	5.6%
Other [2/]	298,504	4.0%	301,652	4.0%	359,959	4.9%	278,242	4.2%	188,425	3.3%
AIRPORT TOTAL [3/]	7,499,072	100.0%	7,501,296	100.0%	7,404,750	100.0%	6,551,157	100.0%	5,732,784	100.0%

Notes:
1/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.
2/ Consists of airlines no longer serving the Airport and charter airlines.
3/ Columns may not add to totals shown because of rounding.

Source: Norman Y. Mineta San José International Airport, January 2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

2.7.2 National Economy

Air travel demand nationwide is directly correlated to consumer income, business profits, and United States Gross Domestic Product (GDP). As consumer income, business profits, and GDP increases, so does demand for air travel. Recent econometric research by the International Air Transport Association [6] and the MIT International Center for Air Transportation [7] found that demand for air passenger service is responsive to changes in GDP with a very high correlation coefficient.

As discussed in Chapter 1 of this report, the nation experienced an economic recession between December 2007 and June 2009, which was marked by a combination of declines in construction activity, falling home prices, rising oil prices and a falling stock market. Demand for air travel weakened nationwide in 2008, registering a 3.1 percent decline, followed by an additional 5.2 percent decline nationwide in 2009. As noted in Southwest's first quarter 2009 earnings statement, the airline attributed its operating loss of $50 million to a rapid weakening in passenger demand during the same quarter, particularly among business travelers.

Recently, trends in United States GDP have improved, with the nation recording an increase of 1.6 percent in the third quarter of 2009, followed by additional gains of 5.0 percent and 3.7 percent in the fourth quarter of 2009 and the first quarter of 2010, respectively. According to the "third" estimate released by the Bureau of Economic Analysis (BEA), United States GDP increased at an annual rate of 1.7 percent in the second quarter of 2010. For the third and fourth quarters of 2010, United States GDP increased at an annual rate of 2.6 percent and 3.1 percent respectively, according to the "third" estimate released by the BEA. The rise in real GDP in recent quarters is reflective of positive contributions from stronger consumer spending, private inventory investment, nonresidential fixed investment, exports, and federal government spending, during these periods. In September 2010, the National Bureau of Economic Research determined that a trough in business activity occurred in the United States economy in June 2009, thus officially marking the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II. The most recently published surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for modest GDP growth in 2011.[8] According to United States Bureau of Transportation Statistics data, air travel demand began to rebound in late 2009. In 2010, total scheduled enplaned passengers on United States airlines increased to 720.5 million from 703.9 million in 2009, or an increase of 2.4 percent. In January 2011, total scheduled enplaned passengers on United States airlines increased 2.2 percent compared to January 2010.

Exhibit II-5 shows the quarterly United States GDP percent change from the preceding period from the first quarter of 2007 through the fourth quarter of 2010.

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6 *Air Travel Demand, IATA Economics Briefing No. 9,* International Air Transport Association, April 2008.

7 *Analysis of Interaction Between Air Transportation and Economic Activity: A Worldwide Perspective,* MIT International Center for Air Transportation, March 2009.

8 *Blue Chip Economic Indicators,* Vol. 36, No. 4, April 10, 2011, Aspen Publishers; *NABE Outlook,* May 2011, National Association for Business Economics.

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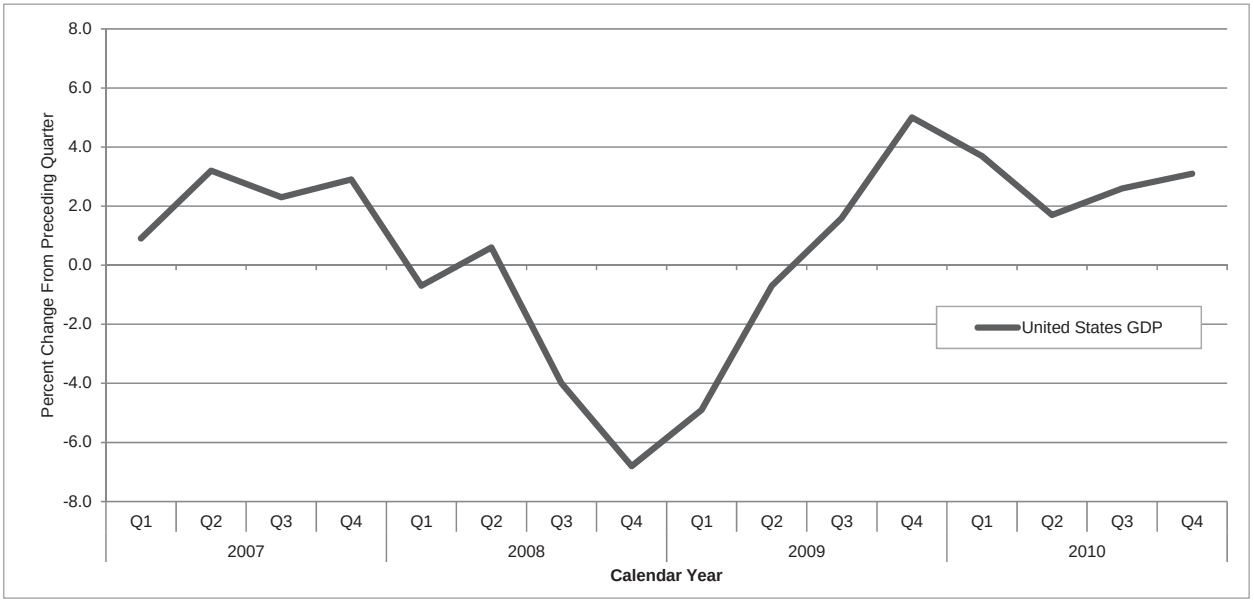
Exhibit II-5

Historical Quarterly GDP (United States)



Source: United States Department of Commerce, Bureau of Economic Analysis, April 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

The Blue Chip Economic Indicators forecast projects annual GDP growth of 2.9 percent for the United States in 2011. The NABE forecasts 2.8 percent growth in GDP for the United States in 2011. According to the latest forecast from the Congressional Budget Office (CBO), United States GDP is projected to grow by 3.1 percent in 2011, 2.8 percent in 2012, and by an average of 3.4 percent between 2013 and 2016,[9] which suggests the upward trend in nationwide air travel should continue. However, should the economy stall, or again trend downward (e.g., encounter a "double-dip" recession), aviation demand nationwide would likely be negatively impacted.

2.7.3 State of the Airline Industry

In the aftermath of the events of September 11th, the airline industry saw a downturn in demand for air travel. The result was five years of reported industry operating losses, totaling more than $28 billion dollars (excluding extraordinary charges and gains). The airline industry finally gained ground in 2007 with virtually every United States airline posting profits. However, in 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for United States airlines since the September 11th terrorist attacks. In response, most airlines announced significant capacity reductions, increased fuel surcharges, increased fares and fees, and adopted other measures to address the financial challenges. Whereas the capacity reductions following the events of September 11th were the direct result of terror threats targeting the traveling public, the industry reductions starting in late 2008 and continuing through the first half of 2009 were primarily driven by

[9] Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, available online at http://www.cbo.gov/ftpdocs/120xx/doc12061/FY2011Outlook_Testimony.pdf, January 27, 2011.

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significant increases in fuel costs over a span of two and a half years, a weak dollar exacerbating the impact of increased fuel costs, and the contraction of the United States economy.

After nearly $10 billion of losses in 2009 and a $16 billion profit for the global airline industry in 2010, the International Air Transport Association (IATA) is predicting a $8.6 billion profit in 2011. Globally, passenger traffic is forecast to rise 5.6 percent in 2011. Even though recovery is uneven across different regions, North American airline profits are projected by IATA to be $3.2 billion in 2011, below the $4.7 billion profits earned in 2010.

2.7.3.1 Airline Mergers and Acquisitions

In recent years airlines have experienced increased costs and industry competition both domestically and internationally. As a result, airlines have merged and acquired competitors in an attempt to combine operations in order to increase cost synergies and become more competitive. In 2009, Delta fully completed its merger with Northwest Airlines which initiated a wave of airline mergers and acquisitions within the United States. That same year, Republic Airways Holdings, a regional airline, bought Frontier Airlines and Midwest Airlines. In October 2010, United Airlines and Continental Airlines merged, creating the world's largest airline in terms of operating revenue and revenue passenger miles.

On September 27, 2010, Southwest Airlines announced it had entered into an agreement to acquire all of the outstanding common stock of AirTran Holdings, Inc., the parent company of AirTran Airways, for a combination of cash and Southwest Airlines' common stock. The acquisition will extend Southwest's route network and add new markets, such as Atlanta (the largest domestic market Southwest currently does not serve) and Reagan National Airport (Washington, D.C.), and provides access to international leisure markets in the Caribbean and Mexico. Southwest plans to integrate AirTran into the Southwest brand by transitioning the AirTran fleet to the Southwest's livery and consolidating corporate functions into its Dallas headquarters. Southwest Airlines' integration plans include transitioning the operations of the two carriers to a single operating certificate. The merger closed in May 2011. The acquisition of AirTran by Southwest is not expected to have any major impact at the Airport as AirTran does not serve the Airport. However, SFO could potentially be a stronger draw for certain Bay Area residents once Southwest completes its purchase of AirTran Airways and acquires AirTran's operations at San Francisco.

2.7.3.2 Cost of Aviation Fuel

The price of fuel is one of the most significant forces affecting the airline industry today. In 2000, jet fuel accounted for nearly 14 percent of airline industry operating expenses and, historically, fuel expense was the second highest operating expense for the airline industry behind labor. In 2008, jet fuel surpassed labor as an airline's largest operating expense and, according to the ATA, fuel comprised approximately 30.6 percent of an airline's total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airline industry's largest operating expense representing 25.8 percent of total operating expenses while fuel was at 21.3 percent. As of the third quarter of CY 2010, fuel once again was the largest percentage of total operating expense at 25.4 percent followed by labor at 24.7 percent.

The average price of jet fuel was $0.82 per gallon in 2000 compared to $2.24 per gallon in 2010, an increase of 172 percent. According to the ATA, every one-cent increase in the price per gallon of jet fuel increases annual airline operating expenses by approximately $190 million to $200 million.

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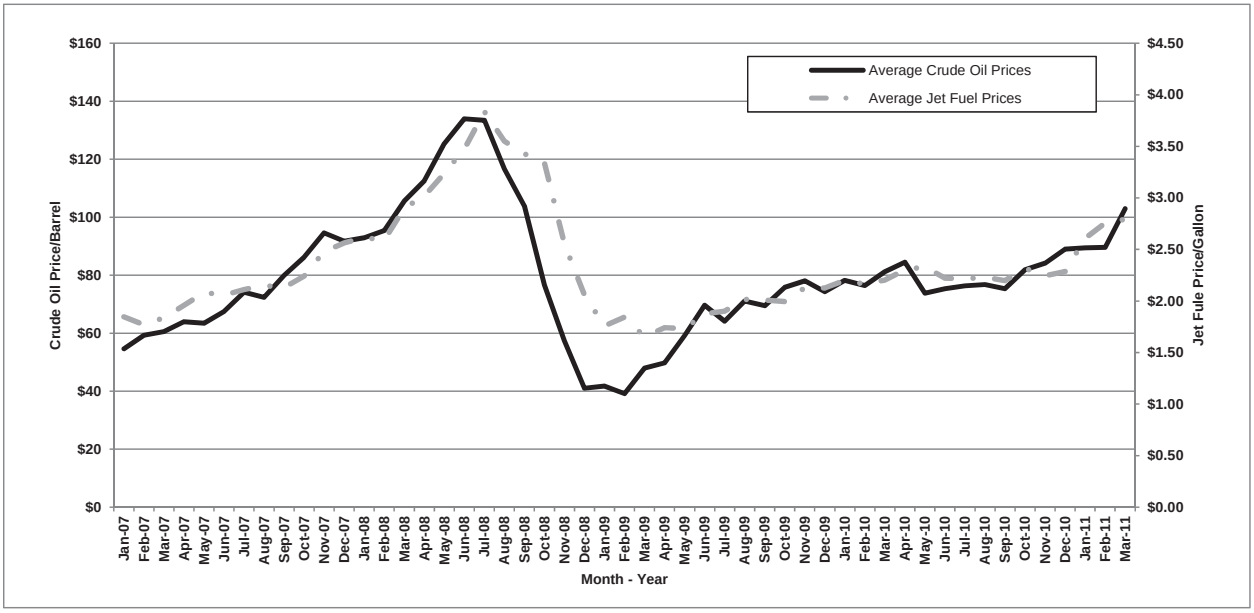
If jet fuel prices approach or surpass their mid-2008 peak (July's average price of $3.84 per gallon), aviation demand nationwide may be negatively impacted due to potential activity reductions by the airlines or higher ticket prices the airlines might impose in efforts to remain profitable. The average price of jet fuel in March 2011 was $2.79 per gallon, a 26.7 percent increase over the March 2010 average price.

Exhibit II-6 shows the monthly averages of jet fuel and crude oil prices from January 2007 through March 2011.

Exhibit II-6

Historical Monthly Averages of Jet Fuel and Crude Oil Prices



Source: Air Transport Association (ATA), May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

2.7.3.3 Airport Security and Threat of Terrorism

As has been the case since the September 11th terrorist attacks, the recurrence of terrorism incidents against either domestic or international aviation targets during the Projection Period remains a risk to achieving the activity projections contained herein. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services. With the enactment of the Aviation and Transportation Security Act (ATSA) in November 2001, the Transportation Security Administration (TSA) was created, which established different and improved security processes and procedures. The ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. The ATSA also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. In November 2002, Congress enacted the Homeland Security Act, which created the Department of Homeland Security (DHS) to accomplish several primary goals: (1) prevent terrorist attacks within the United States, (2) reduce the nation's vulnerability to terrorism, (3) minimize the damage of and assist in the recovery from terrorist attacks that do occur, and (4) monitor connections between illegal drug trafficking and terrorism and coordinate efforts to sever such connections. The TSA is now a part of the DHS. Increased security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand.

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2.7.4 High Speed Rail in California

In November 2008, California voters passed a referendum allowing the State to issue approximately $9.0 billion of bonds to help fund the first phase of a high-speed rail system that would ultimately connect various cities in Northern California (including San Jose) to cities in Southern California. According to information from the California High Speed Rail Authority, high speed rail service would not begin until 2020 (after the Projection Period).

2.8 Projections of Aviation Demand

Projections of aviation demand were developed based on an analysis of local socioeconomic and demographic factors; the Airport's historical share of United States enplaned passengers; the impacts of the factors described previously; projected departing seats and load factors, and anticipated activity trends at the Airport. Market share, socioeconomic regression, and departing seats/load factor approaches were used to assist in the development of Airport activity projections. The following provides a general overview of these methodologies:

- **Market Share Approach.** In this methodology, judgments are made as to how and to what extent the Airport's rate of growth in domestic enplaned passengers will differ from the rate of growth projected for the nation by the FAA. The FAA's activity projections contained in FAA Aerospace Forecasts, Fiscal Years 2010 - 2030, were used as a basis for the market share analysis. On a macro scale, the United States projection provides a base for anticipated industry traffic growth. The FAA's United States forecast considers factors such as the nation's economic health, aviation industry trends, and airline fuel and fare pricing trends. In the absence of significant local influences, activity at an airport would be expected to increase at a rate comparable to the national rate. The growth rate used for the Airport can be reflected as an increase or decrease in its future share of the market.

- **Socioeconomic Regression Approach.** A regression analysis compares proven relationships between various socioeconomic variables for the Airport's Air Service Area to aviation activity. A mathematical regression analysis model was developed to correlate the historical relationships of these socioeconomic variables to the Airport's enplaned passengers. Airport enplaned passengers were then projected using independent forecasts of these economic/demographic variables. Independent variable inputs were tested, and a simple trend line was determined to test the resulting projections. Of interest in the analyses, among other factors, was how well each socioeconomic variable explained the annual variations in enplaned passengers at the Airport (i.e., the model's correlation coefficient).

  The Airport's long-term demand for air service is generally driven by factors directly related to the Air Service Area's demographic and economic characteristics. Three socioeconomic variables that were analyzed as independent variables for the regression analysis include:

  - **Population.** The number of persons residing in the region.
  - **Employment.** Number of persons employed in the region, based on nonagricultural employment data collected by the United States Department of Labor, Bureau of Labor Statistics.
  - **Per Capita Income (PCI).** PCI indicates a relationship between the wealth of the residents of the Air Service Area with the population level for the region. Residents with higher relative income levels are more likely to travel by air.

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In addition to the socioeconomic regression analyses, a linear trend analysis was undertaken. The linear trend analysis examines the historical growth in enplaned passengers and then produces a linear formula that best describes the Airport's historical activity by a straight line. The resulting straight line represents the "best fit," in which an equal number of historical data observations are both above and below that line. This line is then extended outward to provide enplaned passenger projections.

- **Departing Seats/Load Factor Approach.** In addition to the other two approaches, a departing seats/load factor approach was utilized. In this approach, airline schedule information provided from Official Airline Guide, Inc. was analyzed, as well as service announcements, along with certain assumptions in future aircraft load factors were made to project future activity for the Airport through the Projection Period.

2.8.1 Activity Projection Assumptions

Activity projections for the Airport are based on a number of underlying assumptions that are further based on national aviation trends, regional economic conditions, and our professional judgment. The following presents the specific assumptions used in developing activity projections at the Airport for the Projection Period.

- Southwest will continue to be the largest passenger carrier to operate at the Airport over the Projection Period. Mainline, regional/commuter, and foreign flag shares will remain relatively constant.
- Long-term activity at the Airport is assumed to increase as a result of expected growth in population and projected improvement to the economic conditions in the Air Service Area.
- The Airport is assumed to continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its airline base will also continue to foster competitive pricing and scheduling diversity. The mix of mainline, regional/commuter, and international airlines operating at the Airport is expected to remain the same throughout the Projection Period.
- In the near-term, SFO is assumed to continue to attract certain passenger demand from the Airport's Air Service Area, particularly if Virgin America, Southwest, and other airlines continue expanding service and reducing fares at SFO. Southwest's acquisition of AirTran could potentially attract additional Air Service Area passengers to SFO, but this specific assumption has not been assumed.
- It is anticipated that air fares among the three San Francisco Bay Area airports will continue to converge; however, fares at SFO are assumed to remain higher than fares at the Airport or OAK primarily as a result of the United Airlines hub and international service.
- For the purposes of these projections, no additional growth at the Airport is assumed as a result of potential capacity constraints at SFO (discussed in Section 2.2.1) during the Projection Period (through FY 2017).
- Future airline consolidation/mergers (including United/Continental and Southwest/AirTran) or bankruptcies that may occur during the Projection Period are not likely to have a long-term negative impact on passenger activity levels at the Airport due to the size of the local market and the diverse airline base serving the Airport.

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- The Airport will continue its role in the San Francisco Bay Area in serving O&D passengers in short- to medium-haul markets. Continued growth in medium- and long-haul markets is assumed to occur in Southern, Midwestern, and Northeastern United States markets during the Projection Period.
- For these analyses, and similar to the Federal Aviation Administration's (FAA) nationwide projections, it is assumed that there will not be terrorist incidents against either domestic or international aviation during the Projection Period. Additionally, it is assumed that the aviation industry will not undergo a major contraction through bankruptcy, consolidation, or liquidation during this same period. Although strategies and success levels can be expected to differ among air carrier groupings, the aviation industry in aggregate will not be materially altered during the Projection Period.
- It is assumed that fuel prices will not spike during the Projection Period to levels that would negatively impact airline traffic nationwide or at the Airport (e.g., due to potential route reductions airlines might make or higher fares the airlines might impose in efforts to remain profitable).
- Economic disturbances will likely occur in the Projection Period causing year-to-year traffic variations; however, long-term increases in nationwide and Airport traffic are expected to occur.
- It is assumed no major "Acts of God", such as earthquakes, which may disrupt the national and/or global airspace system and negatively impact aviation activity at the Airport, will occur during the Projection Period.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified, and any projection is subject to uncertainties. As a result, the projection process should not be viewed as precise. Actual future traffic levels at the Airport may differ from projections presented herein because events and circumstances do not occur as expected, and these differences may be material. The projections contained herein depict anticipated long-term trends, and as such, variations can be expected year to year.

2.8.2 Enplaned Passenger Projections

Table II-14 presents historical and projected enplaned passengers at the Airport. Specific assumptions and points regarding projected enplaned passengers for the Near-Term (FY 2011 and FY 2012) and the Longer-Term (FY 2013 to FY 2017) are discussed below. As shown on Table II-14, total enplaned passengers are projected to increase 2.1 percent from FY 2010 to FY 2011. Overall, enplaned passengers at the Airport are projected to increase at a CAGR of 2.2 percent from FY 2010 to FY 2017.

For projecting Near-Term enplaned passengers at the Airport, the "scheduled departing seats/load factor" methodology was utilized. Based on discussions with Official Airline Guide, Inc., scheduled airline seat data can be considered reliable up to six months in the future. The quality of scheduled data beyond six months tends to be limited, as airlines are still in the planning/design process for intermediate and future schedules. As a result, the scheduled departing seat analysis was limited to the last three months of FY 2011 in comparison to a similar period in FY 2010.

Actual data for the first nine months of FY 2011, airline schedule information for the remainder of FY 2011 provided from Official Airline Guide, Inc. data, load factor information, specific airline

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Table II-14
Enplaned Passenger Projections

Fiscal Year	Mainline	Regional/ Commuters	International [1/]	Airport Total
Historical				
1995	4,072,006	77,086	114,927	4,264,019
1996	4,468,713	69,804	123,040	4,661,557
1997	4,887,854	59,436	139,152	5,086,442
1998	4,790,474	103,180	151,554	5,045,208
1999	5,207,835	89,200	172,692	5,469,727
2000	5,808,992	66,175	176,638	6,051,805
2001	6,664,821	58,441	214,115	6,937,377
2002	5,421,403	146,936	150,874	5,719,213
2003	4,772,654	310,223	122,110	5,204,987
2004	4,651,137	506,536	134,176	5,291,849
2005	4,660,730	546,761	138,142	5,345,633
2006	4,706,038	571,739	137,054	5,414,831
2007	4,686,496	529,995	102,368	5,318,859
2008	4,584,448	526,696	67,459	5,178,603
2009	3,907,376	431,805	60,381	4,399,562
2010	3,636,146	408,811	62,437	4,107,394
FYTD - 2010 [2/]	2,672,027	315,295	42,618	3,029,940
FYTD - 2011 [2/]	2,764,187	281,122	54,588	3,099,897
Projected				
2011	3,751,800	384,200	59,000	4,195,000
2012	3,830,500	393,700	60,000	4,284,200
2013	3,909,900	403,300	60,300	4,373,500
2014	3,991,900	412,900	63,200	4,468,000
2015	4,083,500	423,100	66,100	4,572,700
2016	4,176,100	433,400	69,000	4,678,500
2017	4,279,000	443,700	72,000	4,794,700
Compounded Annual Growth				
1995 - 2001	8.6%	(4.5%)	10.9%	8.4%
2001 - 2003	(15.4%)	130.4%	(24.5%)	(13.4%)
2003 - 2006	(0.5%)	22.6%	3.9%	1.3%
2006 - 2010	(6.2%)	(8.0%)	(17.8%)	(6.7%)
FYTD 2010 - 2011	3.4%	(10.8%)	28.1%	2.3%
2010 - 2011	3.2%	(6.0%)	(5.5%)	2.1%
2010 - 2017	2.4%	1.2%	2.1%	2.2%

Note:
1/ Includes enplaned passengers from U.S. and Foreign Flag airlines serving international destinations. Projected enplanements for foreign flag carriers only.
2/ FYTD (Jul - Mar).

Source: Norman Y. Mineta San José International Airport (historical), Ricondo & Associates, Inc. (projected), May 2011.
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service announcements, and industry information were all analyzed in developing Airport passenger projections for FY 2011 and FY 2012. Based on these analyses, enplaned passengers at the Airport are expected to increase from 4,107,394 in FY 2010 to approximately 4,195,000 in FY 2011, representing an increase of 2.1 percent.

For longer-term projections of enplaned passengers, the market share and regression approaches were analyzed, and the FAA's 2010 Terminal Area Forecast (TAF) was also reviewed. The FAA's TAF projected enplaned passengers to reach approximately 4.8 million enplaned passengers in Federal Fiscal Year (FFY) 2017, representing a CAGR of 2.4 percent from FFY 2010 to FFY 2017.

Specific points concerning the Airport's projected enplaned passengers are presented below:

- **Mainline Enplaned Passengers.** Mainline enplaned passengers are expected to increase from 3,636,146 in FY 2010 to approximately 4,279,000 in FY 2017, representing a CAGR of 2.4 percent. In FY 2011, mainline airlines enplaned passengers are projected to increase 3.2 percent due to increased load factors and increased announced service by Alaska, Delta, and Southwest. Estimated mainline share of total Airport enplaned passengers is projected to decrease slightly from 89.4 percent in FY 2011 to 89.2 percent in FY 2017. Over the Projection Period, mainline airlines' average seats per departure and load factor are assumed to increase on a year over year basis resulting in increased enplaned passengers. Excluding the projected increase of 3.2 percent in FY 2011, mainline enplaned passengers are projected to increase at CAGR of 2.2 percent from FY 2011 through FY 2017.
- **Regional/Commuter Enplaned Passengers.** The regional/commuter share of total enplaned passengers at the Airport is expected to remain relatively stable at approximately nine percent during the Projection Period. Due to service reductions by American Eagle and SkyWest (dba United Express), regional/commuter enplaned passengers are projected to decrease from 408,811 in FY 2010 to 384,200 in FY 2011, at a rate of 6.0 percent. Following a projected decrease in enplaned passengers in FY 2011, regional/commuter enplaned passengers are projected to increase to approximately 443,700 in FY 2017, representing a CAGR of 1.2 percent from FY 2010 to FY 2017. Over the Projection Period, it is assumed regional/commuter airlines will increase operations, average seats per departure will remain stable, and load factors are assumed to increase on a year over year basis resulting in increased enplaned passengers. After the projected decline in FY 2011, regional/commuter enplaned passengers are projected to increase at CAGR of 2.4 percent from FY 2011 through FY 2017.
- **Foreign Flag Enplaned Passengers.** Based on nine months of actual data, foreign flag enplaned passengers are anticipated to decrease to approximately 59,000 in FY 2011 as a result of discontinued service by Mexicana (August 2010). Volaris, the only foreign flag airline currently operating at the Airport, initiated service at the Airport in April 2010 and has formed a partnership with Southwest to provide connecting service to Volaris's Mexican destinations. Volaris added three additional weekly flights to Guadalajara in March 2011. Beyond FY 2011, international enplaned passengers are projected to increase to approximately 72,000 by FY 2017, representing a CAGR of 2.1 percent between FY 2010 and FY 2017. After the projected decline in FY 2011, foreign flag enplaned passengers are projected to increase at CAGR of 3.4 percent from FY 2011 through FY 2017.

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Based on points and assumptions discussed below, enplaned passengers at the Airport are projected to increase from 4,107,394 in FY 2010 to 4,794,700 in FY 2017, resulting in a CAGR of 2.2 percent during this period.

2.8.3 Aircraft Operations Projections

Table II-15 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, and military. Total aircraft activity at the Airport is projected to increase from 131,590 operations in FY 2010 to approximately 133,970 operations in FY 2017, representing a CAGR of 0.3 percent.

Passenger airline operations at the Airport are projected to increase slightly from 95,800 operations in FY 2010 to 97,560 in FY 2017. In general, passenger airline operations will increase at a lower rate than enplaned passengers as a result of assumed increases in the average number of aircraft seats and aircraft load factors. In addition, passenger airline projections were developed based on historical relationships among enplaned passengers, load factors, and average seating capacities of aircraft utilized at the Airport. Over the Projection Period, it is assumed that airlines will focus on increasing load factors and aircraft size, before adding additional operations. Specifically, projections of operations for the Airport's passenger airlines are based on the following factors:

- **Mainline Operations.** From FY 2001 to FY 2010, the mainline airlines reduced their aircraft fleets, decreasing seat capacity and increasing average aircraft load factors. Nationwide, domestic aircraft load factors for large jet airlines have increased from 70 percent in 2001 to 81.6 percent in 2010. Average load factors at the Airport for mainline airlines have followed the same trend, increasing from approximately 63 percent in FY 2001 to approximately 70 percent in FY 2010.

  The Airport's largest airline, Southwest, operates Boeing 737s with a 122-seat or 137-seat configuration. It is projected that as demand increases Southwest will phase out the older 122-seat aircraft and maintain operations in the 137-seat aircraft. In FYTD 2011, Southwest's operations represented approximately 65 percent of total mainline operations. Average seats per departure for mainline airlines at the Airport is projected to be approximately 140 seats in FY 2011 and is anticipated to remain largely unchanged at approximately 141 seats in FY 2017, primarily due to Southwest's share of operations. In FYTD 2011, load factors for some mainline airlines averaged in the 80 percentile; however Southwest's average load factor was approximately 69 percent. As a result of Southwest's market share, load factors for mainline airlines are anticipated to increase from approximately 70 percent in FY 2010 to 77 percent in FY 2017. Mainline operations at the Airport are also projected to increase from 74,774 in FY 2010 to approximately 78,180 in FY 2017, representing a CAGR of 0.6 percent.

- **Regional/Commuter Operations.** Over the last several years, certain mainline airlines have shifted some of their capacity to their regional/commuter affiliates. In addition, as a result of restructured agreements with the mainline airlines the regional/commuter airlines have been allowed to operate larger regional jet aircraft in the 75- to 99-seat range in recent years. As a result, the average size of regional/commuter aircraft has increased nationwide, from 40.5 seats in 2001 to 56.2 seats in 2010. Similarly, the Airport's average seats per aircraft for regional/commuter aircraft have also increased from 40.7 seats in FY 2001 to 55.1 seats in FY 2010. Based on published airline schedules for regional/commuter airlines, average seats

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Table II-15

Operations Projections

Fiscal Year	Passenger Airlines: Mainline	Passenger Airlines: Regional/ Commuters	Passenger Airlines: Foreign Flag [1/]	Passenger Airlines: Total	General Aviation	All Cargo	Military	Airport Total
Historical								
2001	146,984	5,094	1,976	154,054	122,435	6,208	238	282,935
2002	127,603	10,385	1,716	139,704	78,618	5,815	211	224,348
2003	112,264	19,032	1,708	133,004	62,510	4,636	125	200,275
2004	101,706	30,838	1,820	134,364	59,521	3,586	113	197,584
2005	97,118	29,672	1,774	128,564	63,708	3,594	99	195,965
2006	95,310	30,756	1,888	127,954	61,907	3,464	83	193,408
2007	95,620	28,806	1,976	126,402	55,021	3,388	103	184,914
2008	95,352	29,504	1,508	126,364	55,146	3,140	64	184,714
2009	85,418	23,830	1,250	110,498	46,674	2,558	242	159,972
2010	74,774	19,776	1,250	95,800	33,439	2,076	275	131,590
FYTD - 2010 [2/]	56,162	15,422	904	72,488	25,450	1,610	204	99,752
FYTD - 2011 [2/]	53,724	12,120	744	66,588	22,849	1,538	206	91,181
Projected								
2011	72,600	16,000	900	89,500	32,200	2,060	280	124,040
2012	73,500	16,360	1,040	90,900	32,500	2,090	280	125,770
2013	74,400	16,720	1,040	92,160	32,800	2,120	280	127,360
2014	75,300	17,080	1,085	93,465	33,000	2,150	280	128,895
2015	76,200	17,440	1,130	94,770	33,300	2,180	280	130,530
2016	77,100	17,800	1,175	96,075	33,600	2,210	280	132,165
2017	78,180	18,160	1,220	97,560	33,900	2,230	280	133,970
Compounded Annual Growth								
2001 - 2003	(12.6%)	93.3%	(7.0%)	(7.1%)	(28.5%)	(13.6%)	(27.5%)	(15.9%)
2003 - 2006	(5.3%)	17.3%	3.4%	(1.3%)	(0.3%)	(9.3%)	(12.8%)	(1.2%)
2006 - 2010	(5.9%)	(10.5%)	(9.8%)	(7.0%)	(14.3%)	(12.0%)	34.9%	(9.2%)
FYTD 2010 - 2011	(4.3%)	(21.4%)	(17.7%)	(8.1%)	(10.2%)	(4.5%)	1.0%	(8.6%)
2010 - 2011	(2.9%)	(19.1%)	(28.0%)	(6.6%)	(3.7%)	(0.8%)	1.8%	(5.7%)
2010 - 2017	0.6%	(1.2%)	(0.3%)	0.3%	0.2%	1.0%	0.3%	0.3%

Notes:

1/ Includes historical operations from U.S. and Foreign Flag carriers serving international destinations. Projected operations are foreign flag airlines.

2/ FYTD (Jul - Mar).

Source: Norman Y. Mineta San José International Airport (historical), Ricondo & Associates, Inc. (projected), May 2011.

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per departure at the Airport are projected to reach 60.0 seats in FY 2011, an increase of more than 20 percent from FY 2009, when average seats per departures were 49.6 seats.

Average seats per departure for the regional/commuter airlines at the Airport are projected to increase slightly from 60.0 in FY 2011 seats to approximately 60.2 seats by FY 2017, based on the significant increase experienced from FY 2009 to FY 2011. In addition, average aircraft load factors for the regional/commuter airlines are anticipated to increase from approximately 75.4 percent in FY 2010 to 81.0 percent in FY 2017.

Regional/commuter carrier operations at the Airport are projected to decrease from 19,776 in FY 2010 to approximately 16,000 in FY 2011, representing a decrease of 19.1 percent. The majority of this decrease can be attributed to a reduction in service by American Eagle and SkyWest. American Eagle discontinued service to San Diego and Orange County. SkyWest (dba United Express) discontinued operations to Santa Barbara. From FY 2011 to FY 2017, regional/commuter carrier operations are projected to increase from approximately 16,000 to 18,160, representing a CAGR of 2.1 percent. Regional/commuter carrier operations are projected to decrease from 19,776 in FY 2010 to 18,160 in FY 2017, representing an average annual decline of 1.2 percent.

- **Foreign Flag Operations.** Foreign flag operations at the Airport have steadily declined over the past ten years. As mentioned earlier, due to Mexicana's termination of service, foreign flag operations are projected to decrease sharply from 1,250 in FY 2010 to approximately 900 in FY 2011, representing a decrease of 28.0 percent. From FY 2011 through FY 2012, foreign flag operations are projected to increase, notably due to a full year of Volaris's additional service to Guadalajara, from 900 operations to 1,040 operations. Foreign flag operations are projected to remain flat in FY 2013 and increase to 1,220 operations in FY 2017. Foreign flag operations are projected to decline at an average annual rate of 0.3 percent from FY 2010 through FY 2017; however from FY 2011 through FY 2017, operations are projected to increase at a CAGR of 5.2 percent.

Projected operations by general aviation, all-cargo, and military activity are discussed below:

- **General Aviation.** For the first nine months of FY 2011, general aviation operations were 10.2 percent below that for the same period in FY 2010. Reflecting recent historical trends, general aviation activity at the Airport is expected to continue to decrease from 33,439 operations in FY 2010 to approximately 32,200 operations in FY 2011. From FY 2011 through FY 2017, general aviation operations are projected to increase from 32,200 to 33,900, this increase represents a CAGR of 0.8 percent. General aviation operations are projected to increase from 33,439 in FY 2010 to 33,900 in FY 2017, at a CAGR of 0.2 percent.
- **All Cargo.** All-cargo activity at the Airport during the first nine months of FY 2011 was 4.5 percent below that for the same period in FY 2010. Similar to general aviation operations, this relationship is assumed to continue through the end of FY 2011. As a result, all-cargo activity at the Airport is expected to decrease nominally from 2,076 operations in FY 2010 to approximately 2,060 operations in FY 2011. Thereafter, projected growth in all-cargo operations at the Airport is expected to recover as the regional economy improves, reaching approximately 2,230 operations in FY 2017. From FY 2010 through FY 2017, all-cargo activity is projected to increase at a CAGR of 1.0 percent.

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- **Military.** Future military activity at the Airport will be influenced by United States Department of Defense policy, which largely dictates the level of military activity at an airport. Given its unpredictability, military activity at the Airport is projected to remain constant at approximately 280 operations each year during the Projection Period, comparable to its estimated activity level for FY 2011.

2.8.4 Commercial Airline and All-Cargo Landed Weight Projections

Projected increases in landed weight are expected as a result of anticipated use of larger aircraft and/or increased operations at the Airport during the Projection Period as described in the previous section. **Table II-16** presents historical and projected commercial airline landed weight at the Airport. As shown, passenger airline landed weight is projected to increase from 5,410,517 thousand pounds in FY 2010 to 5,762,838 thousand pounds in FY 2017 or at a CAGR of 0.9 percent. As also shown, all-cargo landed weight at the Airport is projected to increase from 322,267 thousand pounds in FY 2010 to 341,875 thousand pounds in FY 2017, representing a CAGR of 0.8 percent.

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Table II-16

Landed Weight Projections
(Weight in Thousand Pounds)

	Domestic					
Fiscal Year	Mainline	Regional/ Commuters	Foreign Flag [1/]	Passenger Airlines Total	All Cargo	Airport Total
Historical						
2001	9,569,736	105,389	308,431	9,983,556	747,929	10,731,485
2002	8,316,987	232,223	249,955	8,799,165	734,778	9,533,943
2003	7,241,752	425,177	234,993	7,901,922	648,405	8,550,327
2004	6,548,183	677,143	247,408	7,472,734	547,057	8,019,791
2005	6,227,308	660,694	241,205	7,129,207	531,843	7,661,050
2006	6,159,200	677,843	183,653	7,020,696	478,376	7,499,072
2007	6,235,556	638,449	115,528	6,989,533	511,763	7,501,296
2008	6,152,953	656,298	102,875	6,912,126	492,624	7,404,750
2009	5,488,347	553,726	87,996	6,130,069	421,088	6,551,157
2010	4,816,695	506,737	87,085	5,410,517	322,267	5,732,784
FYTD - 2010 [2/]	3,614,607	392,292	61,773	4,068,672	249,241	4,317,913
FYTD - 2011 [2/]	3,505,749	330,028	50,366	3,886,142	241,146	4,127,288
Projected						
2011	4,757,795	441,891	65,700	5,267,001	315,782	5,582,394
2012	4,822,288	453,060	76,440	5,353,424	320,386	5,673,416
2013	4,886,917	464,284	76,960	5,429,817	324,990	5,754,406
2014	4,951,680	475,561	80,833	5,509,751	329,595	5,838,939
2015	5,016,578	486,893	84,750	5,589,919	334,199	5,923,706
2016	5,081,612	498,278	88,713	5,670,321	338,804	6,008,707
2017	5,158,657	509,718	92,720	5,762,838	341,875	6,104,292
Compounded Annual Growth						
2001 - 2003	(13.0%)	100.9%	(12.7%)	(11.0%)	(6.9%)	(10.7%)
2003 - 2006	(5.3%)	16.8%	(7.9%)	(3.9%)	(9.6%)	(4.3%)
2006 - 2010	(6.0%)	(7.0%)	(17.0%)	(6.3%)	(9.4%)	(6.5%)
FYTD 2010 - 2011	(3.0%)	(15.9%)	(18.5%)	(4.5%)	(3.2%)	(4.4%)
2010 - 2011	(1.2%)	(12.8%)	(24.6%)	(2.7%)	(2.0%)	(2.6%)
2010 - 2017	1.0%	0.1%	0.9%	0.9%	0.8%	0.9%

Notes:
1/ Includes enplaned passengers from U.S. and Foreign Flag airlines serving international destinations. Projected enplanements for foreign flag carriers only.
2/ FYTD (Jul - Mar).

Source: Norman Y. Mineta San José International Airport (historical), Ricondo & Associates, Inc. (projected), May 2011.
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III. Airport Facilities and Development

This chapter presents a review of existing Airport facilities (including new facilities and improvements that were recently completed as part of a comprehensive modernization of the Airport) and a discussion of potential future capital improvements at the Airport.

3.1 Existing Airport Facilities

The Airport occupies approximately 1,050 acres of land in San José, California (in Santa Clara County), approximately two miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. Existing Airport facilities are described in the following sections and reflected in **Exhibit III-1** (Existing Airport Facilities) and **Exhibit III-2** (Terminal Area Facilities).

In 2010, the City completed Phase 1 of the Airport's Development Plan, a comprehensive modernization of the Airport which (as discussed in sections below) included construction of the new Terminal B; renovation, expansion, and upgrade of Terminal A; demolition of the Airport's oldest facility, Terminal C; construction of a seven-story consolidated rental car facility located immediately across the terminal roadway from the entrance to Terminal B; construction of new automated baggage screening systems for both Terminal A and Terminal B; and construction of various parking, roadway, signage, and public art improvements. The City utilized a "design/build" process for Phase 1, and Phase 1 was completed on time and approximately $140 million under budget. The completion of Phase 1 has resulted in a state of the art international airport with innovations in the use of technology and delivery of services that serves as the gateway for San José and Silicon Valley.

3.1.1 Airfield Facilities

The airfield facilities at the Airport consist of three parallel runways, including two air carrier runways (Runway 30L and Runway 30R) and one general aviation runway (Runway 11-29), and connecting taxiways. The primary air carrier runway for departures, Runway 30R, is 11,000 feet in length and the primary air carrier runway for arrivals, Runway 30L, is 11,000 feet in length. Both air carrier runways are 150 feet wide and are capable of handling aircraft serving any domestic and many international destinations.

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

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. The City is currently studying future alternatives related to Runway 11-29 including required maintenance, possible closure/removal, and impacts on Airport runway capacity. For purposes of this report, it has been assumed that future actions related to Runway 11-29 do not have a material impact on aviation demand at the Airport during the Projection Period.

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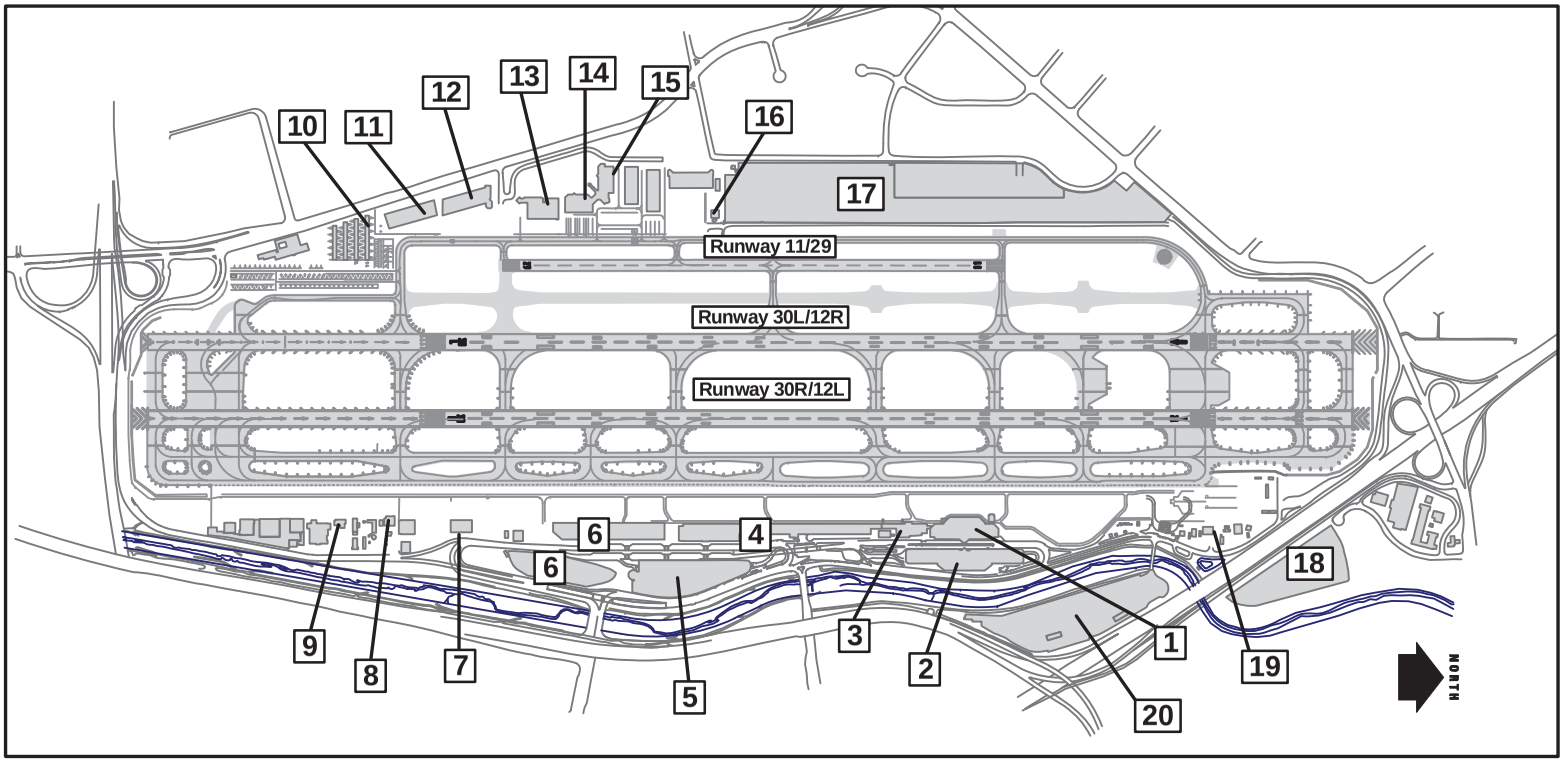

1. Terminal A
2. Terminal A Hourly Parking and Employee Parking Garage
3. International Arrivals Facility
4. Terminal B
5. Consolidated Rental Car Facility and Terminal B Hourly Parking
6. Terminal B Hourly and Daily Surface Parking
7. Air Freight
8. Fire Station 20
9. SJPD Airport Division
10. GA West
11. AvBase Aviation
12. Atlantic Aviation
13. HP Aviation (Corporate)
14. FAA-FSDO
15. Atlantic San Jose (Fueling & Transient Services)
16. FAA Air Traffic Control Tower
17. Economy Parking Lot (Future General Aviation Development)
18. Fuel Farm Location
19. North Air Cargo
20. Economy Surface Parking Lot

Source: City of San Jose, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit III-1

Existing Airport Facilities

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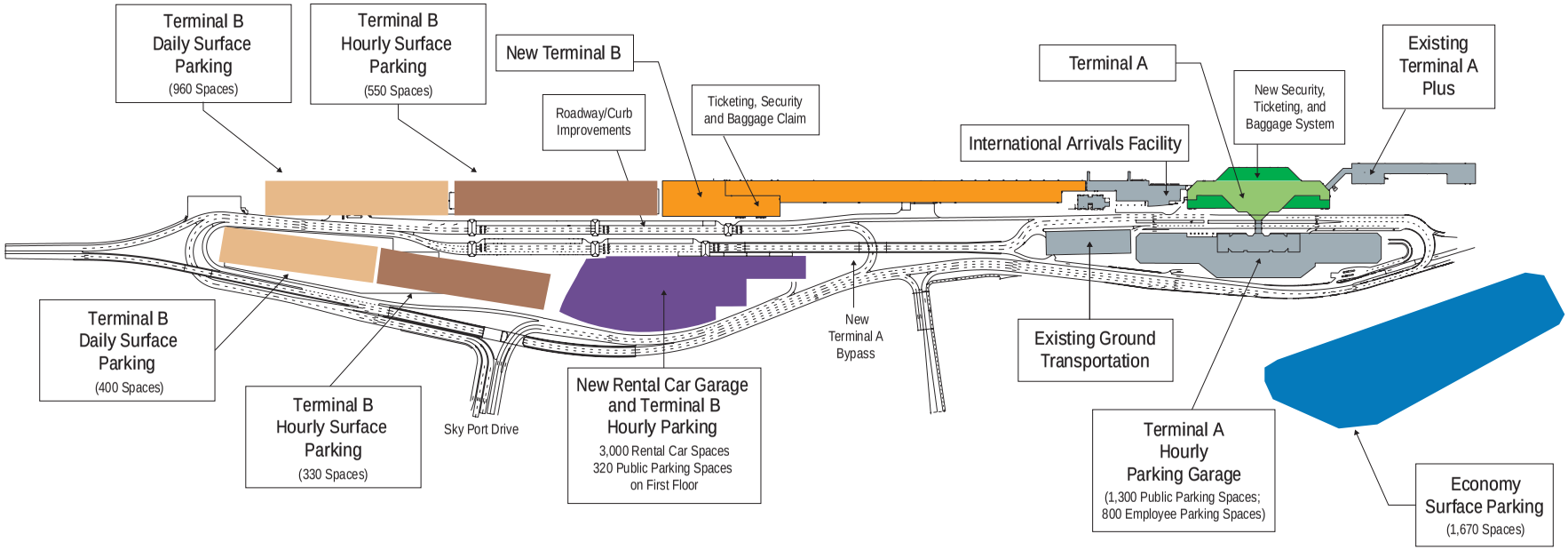

Source: City of San Jose, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit III-2

Terminal Area Facilities

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

3.1.2 New and Improved Terminal Facilities

Terminal facilities at the Airport include the new Terminal B (12 gates), the renovated and expanded Terminal A (14 gates), and the International Arrivals Facility (2 gates), which combine for a total of 28 gates, all of which have passenger loading bridges. Southwest, Delta, Alaska, and Horizon are currently located in the new Terminal B. American, Continental, Hawaiian, JetBlue, United, US Airways, and Volaris are currently located in Terminal A.

3.1.2.1 New Terminal B

The new Terminal B (including the Terminal B Concourse) opened in June 2010, replacing the out-of-date and inadequately sized Terminal C, which was demolished in September 2010. Terminal B has 12 gates (each with passenger loading bridges) and includes approximately 380,000 square feet of terminal space. The first level includes ticket counters, baggage claim areas, and concession areas. The second level contains passenger security screening areas, public circulation space, passenger holdroom areas, airline and other tenant offices, and concession areas.

Terminal B includes a variety of shops and restaurants, free wireless services, and ample power outlets for passengers. There are currently 16 different food and beverage concessions and 10 retail merchandise shops in Terminal B. The passenger security checkpoint in Terminal B has eight lanes but is expandable to ten. Terminal B also utilizes a common use technology system to improve airline flexibility and efficient use of Terminal B equipment and facilities.

Terminal B is designed to handle up to approximately 6.1 million passengers annually. The look of the new terminal is futuristic and was inspired by a data cable untwisting to welcome the next-generation broadband world. Terminal B's façade features a curved roof made of perforated metal panels, which create a translucent, glowing appearance at night. A glass and steel curtain wall stretches more than 500 feet, allowing for expansive views and day-lit spaces up to 55 feet high. Each ground connection of the façade's curved metal panels can glide up to 28 inches horizontally to accommodate expansion/contraction and meet seismic requirements for earthquakes. The arrivals hall has a 62-foot arched ceiling, built to allow ample natural daylight for passengers checking in at ticket counters and self-service kiosks. Passengers ascend to the second floor, with a 45-foot vaulted ceiling for security checkpoints and the concourse. A 240-foot skylight runs the length of the concourse, again, bringing in natural light and reducing energy consumption. Thirteen-foot-high curtain walls give passengers a view of activity on the airfield.

Terminal B utilizes the new state-of-the-art continuous-feed CTX-9800 baggage screening equipment, which is faster and more efficient than manual baggage screening systems, allowing both TSA and the airlines to operate with fewer personnel, less manual handling of baggage, and lower costs, which help enhance the Airport’s competitiveness for airlines. This system is used in Terminal A as well. The Airport was the first airport in the nation to use this type of baggage screening equipment.

Terminal B has achieved the Leadership in Energy and Environmental Designs (LEED®) Silver certification from the United States Green Building Council in recognition of the Airport’s

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significant commitment to environmentally sustainable design and construction. Terminal B is the first new passenger terminal west of the Mississippi River to be given this certification.

Public art in Terminal B features the nation's most extensive permanent exhibit of technology and digitally-based artworks in a public setting and was selected to showcase the innovation, diversity, and dynamism of San José and Silicon Valley.

Terminal B also features state of the art terminal seating. The "air chair", a new seating product, merges passenger amenities with environmental efforts. The new seats are designed to diffuse air throughout seating areas more efficiently and effectively than standard air diffusing systems. The seating also features integrated power outlets for charging laptops, cell phones, etc.

Terminal B also includes permanent facilities at the Airport for the USO.

3.1.2.2 Renovated and Expanded Terminal A

Terminal A, including a terminal extension located at the north end of Terminal A (referred to as Terminal A+), opened in 1990. Terminal A also includes the International Arrivals Facility (located at the south end of Terminal A) that opened in 2002. In 2009, Terminal A was renovated and expanded as part of the Airport's Phase 1 Development Program. Terminal A is a multi-story facility with 16 total gates (each with passenger loading bridges).

The first level of Terminal A includes new ticket counters, baggage claim areas, and ground transportation service counters. The second level contains passenger security screening areas, public circulation space, passenger holdroom areas, and concession areas. The third level of Terminal A contains airline and other tenant offices. The passenger security checkpoint in Terminal A has eight lanes but is expandable to ten. A common use technology system was also implemented in Terminal A to improve airline flexibility and efficient use of Terminal A equipment and facilities. The renovated and expanded Terminal A is designed to handle up to approximately 7.2 million passengers annually.

As part of the Airport's Phase 1 Development Program, renovation and expansion of Terminal A was completed in 2009. Terminal A's functionality was improved by doubling the capacity of security checkpoints on the second floor, nearly doubling the number of ticket counters (including the addition of six curbside counters and two bag drop counters inside), and increasing passenger queuing areas for ticket counters by approximately 60 percent. The amount of concession space in Terminal A was increased significantly. There are currently nine different food and beverage concessions and nine retail merchandise shops in Terminal A. Terminal A was also completely renovated with new terrazzo flooring and carpeting, new ceilings, new bathrooms and new seating throughout. Renovations in Terminal A also included procurement and installation of new pre-conditioned air passenger boarding bridges, new furniture and equipment, and technology upgrades. In addition, new automated baggage handling systems were installed in Terminal A. As discussed above for the new Terminal B, Terminal A is also equipped with state-of-the-art continuous-feed CTX-9800 baggage screening equipment, which allows both the TSA and the airlines to operate with fewer personnel, less manual handling of baggage, and lower costs, which helps enhance the Airport's competitiveness for airlines.

Effective July 12, 2011, the City plans to temporarily deactivate six gates in the Terminal A+ extension and shift airline operations associated with those gates to gates in Terminal A and the International Arrivals Facility. This shift is expected to concentrate passenger activity in areas with a

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wider variety of concession choices and increase sales at concession locations in Terminal A. These temporary gate deactivations will remain in effect until the City decides that flight or passenger activity levels justify their re-activation.

As reflected on Exhibit III-2, the International Arrivals Facility is located at the south end of Terminal A, and is accessible from either the south end of Terminal A or the north end of Terminal B. The first level includes bag claim areas, customs and agricultural checkpoints, currency exchange, and traveler information areas. The second level includes duty free, concessions, and passenger holdroom areas. As part of the Airport's Phase 1 Development Program, general improvements were made to the International Arrivals Facility including restroom upgrades, carpet replacement, painting, and upgrade finishes enhancing the appearance of the facilities. The International Arrivals Facility is designed to handle up to approximately 1.1 million passengers annually.

3.1.2.3 Terminal Roadway

The passenger terminal facilities at the Airport are served by a single-level, one-way public roadway with a Terminal A bypass, allowing drivers to go directly to Terminal B and the consolidated rental car facility (discussed in the next section) without circling by Terminal A. The terminal roadway also provides access to public parking facilities and public roads. As part of the Airport's Phase 1 Development Program, the terminal roadway was recently widened, straightened, repaved, and re-marked. These improvements, along with new roadway signage and lighting, have significantly improved access and navigation on the Airport's terminal roadway.

3.1.3 New Consolidated Rental Car Facility

Currently, ten rental car company brands (associated with five rental car companies) operate at the Airport in the new seven-story consolidated rental car facility (the ConRAC) located immediately across the terminal roadway from the entrance to the new Terminal B. The ConRAC, which opened in June 2010, includes 3,000 ready/return spaces and approximately 320 hourly public parking spaces located on the first floor. The ConRAC is now the most conveniently-located rental car facility of the three major Bay Area airports and one of the most convenient airport rental car facilities in the nation. See Chapter IV of this report for detailed information regarding rental car activity and rental car companies at the Airport.

The ConRAC includes all facilities necessary for each of the ten rental car company brands serving the Airport and their associated operations, including customer service, administrative offices, ready/return parking, fueling, and maintenance facilities. The ConRAC is the first elevated "quick-turn-around" (QTA) facility to open at an airport in the United States. The QTA allows the rental car company brands to wash and fuel all their cars on site in order to return them to service efficiently. The three-level indoor elevated fueling station represents a significant technological and engineering achievement to ensure reliable and safe operations.

The ConRAC was constructed with a one megawatt solar power array on the roof, with more than 4,500 solar panels covering 3.4 acres. The City estimates that this solar power system provides approximately 20 percent of the power required by the ConRAC.

3.1.4 Public Parking Facilities

As of June 2011, the Airport had a total of approximately 5,530 available public parking spaces, as reflected in the various parking facilities shown on Exhibit III-2.

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The six-story Terminal A parking garage is connected directly to Terminal A and includes approximately 1,300 hourly parking spaces.

The first floor of the ConRAC is dedicated to hourly public parking for Terminal B and includes approximately 320 spaces. In addition, two surface parking lots (one adjacent to Terminal B and one adjacent to the ConRAC) provide a total of approximately 880 hourly public parking spaces for Terminal B. There are two additional surface parking lots that provide a total of approximately 1,360 daily 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.

A free parking area for "cell phone" waiting is located very close to the Airport on both sides of Airport Parkway between Technology Drive and the Highway 87 overcrossing.

As part of the Airport's Phase 1 Development Program completed in 2010, each of the Airport's parking facilities now has an integrated parking access control system and automatic vehicle identification system, in addition to updated ticket booths, control arms, and cameras. Electrical vehicle charging stations are located on the first floor of the Terminal A parking garage.

All of the Airport's public parking spaces are currently operated by AMPCO System Parking, pursuant to a management agreement with the City. See Chapter V of this report for more information regarding the agreement between the City and AMPCO.

3.1.5 General Aviation Facilities

All general aviation activity is located on the west side of the Airfield Area. As of May 1, 2011, there were approximately 60 general aviation aircraft based at the Airport. General aviation facilities at the Airport currently include a combination of T-hangars and tie-down spaces. Other general aviation facilities at the Airport are provided by fixed-base operators (FBOs) that provide services such as aircraft sales, rentals and maintenance, charter service, flight instruction, and aircraft radio sales. FBOs currently operating at the Airport include ACM Aviation Services, Atlantic Aviation, and AvBase. Hewlett-Packard also leases a site at the Airport for its own corporate aviation operations.

The City is currently exploring options for general aviation development on 40 acres on the west side of the Airport at the site where the Airport's economy parking lot used to be located. See Section 3.2.1 below for more information related to the Airport's general aviation facilities.

3.1.6 Fuel, Cargo, and Other Support Facilities

A new Airport fuel farm completed in June 2010 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 new 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 an underground pipeline connected to the San José Kinder Morgan Products Terminal which is located approximately 2 miles from the fuel farm. This underground pipeline, which was completed in 2009, eliminated the need for fuel trucks bringing fuel to the Airport.

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A state-of-the-art compressed natural gas (CNG) fueling station located near the northeast corner of the Airport on Airport Parkway serves CNG buses, taxis, and private sector vehicles that operate at the Airport, and is also open to the public.

Airline ground support equipment maintenance and air cargo (belly freight) operations are currently located near the northeast and southeast corners of the airfield. The City operates a 19,200 square foot cargo building (located near the southeast corner of Airport property) for air freight and cargo operations at the Airport.

The Aircraft Rescue and Firefighting (ARFF) facility at the Airport is currently located near the southeast corner of Airport property.

3.2 Future Airport Projects

The City intends to undertake future Airport projects only as they become required by airline traffic demand, are economically justified, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by discrete funding sources such as grants, PFCs, or other/third party funding and reasonable Airport user fees.

3.2.1 5-Year Capital Improvement Program

The Airport's 2012-2016 Adopted Capital Improvement Program (CIP) totals approximately $59.1 million as summarized below. As discussed below, projects that comprise approximately 75 percent of the estimated CIP cost (the Completion of Taxiway W Improvements and the Non-Terminal Area Projects) are contingent upon the receipt of grant funding expected by the City from the FAA and the availability of future Airport funds. The City does not plan to use any of the proceeds of the Series 2011 Bonds for CIP projects and does not plan to issue any Airport Revenue Bonds during the Projection Period for CIP projects.

5-Year Capital Improvement Program	**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

The City does not expect any of the projects in the CIP to have a material impact on projected operating expenses or revenues, and no impacts have been assumed in the financial analysis incorporated in this report.

Completion of Taxiway W Improvements includes certain extensions of Taxiway W and the strengthening and reconstruction of Taxiways C, H, 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. These improvements are contingent upon

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receiving grant funding expected from the FAA and the availability of resources to fund the required local match.

The Non-Terminal Area Projects provide for planning and site preparation work for future facilities and improvements outside of the terminal zone, including the west side of the Airport. Future improvements on the southeast area of the Airport 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. Airport support facilities such as shuttle bus storage and other Airport operational support may be developed in the northeast quadrant. These 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.

3.2.2 Phase 2 – Airport Development Program

As stated in Section 12.03 of the Airline Agreement (which is discussed in Chapter V of this report), the City may undertake Phase 2 of the Airport's Development Program, without additional approvals from the airlines, subject to certain activity demand triggers being met (including 217 scheduled departures at the Airport on any one day or 12.2 million total enplaned and deplaned passengers in any given Fiscal Year). Total enplaned and deplaned passengers were roughly 8.2 million in FY 2010. Peak day scheduled departures were 157 in FY 2010. Based on the projections of airport activity discussed in Chapter II of this report, the activity demand triggers specified in the Airline Agreement for Phase 2 projects are not expected to be met until after the Projection Period, and therefore Phase 2 projects (described below) and any associated financial impacts are not reflected in this report.

Phase 2 of the Airport's Development Program is primarily related to additional terminal expansion including the addition of twelve (12) terminal gates, increasing the Airport's total number of terminal gates to 40. Projects currently included in Phase 2 include:

- Terminal B Phase 2 (6 gates)
- South Concourse of Terminal B (6 gates)
- Apron Expansion
- New Central Plant
- Other Utility Improvements

The City has estimated that Phase 2 projects will cost roughly $400 million in current dollars, and a plan of finance has not been finalized. The City expects sources of funding for Phase 2 projects to include (but not necessarily be limited to) federal grants, PFC funds, internally-generated Airport funds, and, if necessary and supported by reasonable Airport user fees, the proceeds of additional Airport Revenue Bonds or commercial paper.

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IV. Rental Car Activity and Customer Facility Charge Revenue

As described in more detail in the sections below, in connection with construction costs associated with the new Consolidated Rental Car Facility (ConRAC) at the Airport, the City imposes a rental car customer facility charge (CFC) on customers renting cars at the Airport and designates the CFC revenue collected (CFC Revenues) as Other Available Funds under the Trust Agreement (discussed in Chapter V of this report). While the Series 2011B Bonds are outstanding, the City plans to continue to designate CFC Revenues as Other Available Funds. As discussed in Chapter V of this report, rental car companies operating at the Airport also pay Facility Rent to the City (which is included in General Airport Revenues under the Trust Agreement) in connection with the costs of the ConRAC. Pursuant to the rental car agreement between the City and the rental car companies operating at the Airport (described in more detail in Section 4.4 below and in Chapter V), the Facility Rent requirement for a given Fiscal Year is equal to the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, plus the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the rental car agreement. Debt service associated with the City's Airport Revenue Bonds (including the Series 2011 Bonds) is paid and secured by Net General Airport Revenues and Other Available Funds.

This chapter provides information on the national market for rental cars including descriptions of the major rental car companies and brands; the rental car market at the Airport, including the relationship between rental car demand and passenger activity at the Airport; historical and projected rental car activity at the Airport; the current and proposed CFC at the Airport; and projected CFC Revenues at the Airport.

4.1 Rental Car Industry

The United States rental car market consists of two basic components: (1) the airport segment and (2) the local/insurance replacement segment. According to the most recent historical data from Auto Rental News, car rentals at the top 100 airports accounted for roughly 51 percent of total United States rental car activity based on gross revenues.[1] As discussed later in this chapter, demand within the airport segment is directly related to trends in the national economy, with airport-related rental car activity declining significantly following the terrorist attacks of September 11, growing steadily between CY 2002 and CY 2008 as the national economy expanded, declining again in CY 2009 due to the economic recession, and then rebounding in CY 2010.

The United States rental car industry is dominated by four major rental car companies that operate a total of nine national brands: Avis Budget Group, Inc. (owner of the Avis Rent a Car and Budget Rent a Car brands), Dollar Thrifty Automotive Group, Inc. (owner of the Dollar Rent a Car and Thrifty Rent a Car brands), Enterprise Holdings, Inc. (owner of the Enterprise Rent-A-Car, Alamo Rent A Car, and National Car Rental brands), and the Hertz Global Holdings, Inc. (owner of Hertz

[1] Source: Auto Rental News, *Revenue and Market Share Data*, January / February 2005.

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Car Rental and Advantage Rent a Car brands). Below are brief profiles of each major national brand, obtained from their respective websites, grouped by their parent organization:

Avis Budget Group, Inc., owner of Avis Rent a Car and Budget Rent a Car:

- **Avis Rent a Car** was founded in 1946 and was the first company to rent cars from airport locations. The company's business mix is 60 percent corporate and 40 percent leisure; 75 percent airport and 25 percent off-airport; and 85 percent United States domestic and 15 percent international. The company has 344 United States airport locations and 905 United States off-airport locations. [2]
- **Budget Rent a Car** was founded in 1958 and the name was chosen to appeal to the "budget minded" or "value-conscious" renter. The company's business mix is 30 percent corporate and 70 percent leisure, 75 percent airport and 25 percent off-airport, and 90 percent United States and 10 percent international. It has 272 United States airport locations and 559 United States off-airport locations.[3]

Dollar Thrifty Automotive Group, Inc., owner of Dollar Rent a Car and Thrifty Rent a Car

- **Dollar Rent a Car** was founded in 1966 in Los Angeles, California. The company has more than 640 worldwide locations in 53 countries, including more than 260 in the United States. [4]
- **Thrifty** was founded in 1958. The company brands itself as a value-oriented car rental company that has a significant presence both in the airport and local car rental markets. In the United States, approximately 80 percent of its business is focused on the airport market and 20 percent in the local market.[5]

  On September 30, 2010, shareholders of the Dollar Thrifty Automotive Group accepted a bid from Avis Budget Group that is currently under review by the Federal Trade Commission (FTC). See below for more detail.

Enterprise Holdings, Inc., owner of Enterprise Rent-A-Car, Alamo Rent a Car, and National Car Rental

- **Enterprise Rent-A-Car** was founded in 1957 in St. Louis. The company has more than 5,000 neighborhood and airport branch offices located within 15 miles of 90 percent of the United States population.[6]
- **Alamo Rent a Car** was founded in 1974 in Florida, and it is known for pioneering the concept of unlimited free mileage. The company provides rental cars primarily to family and leisure travelers.[7]

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2 Source: www.Avis.com, *Investor Presentation dated 11-09-10.*
3 Source: www.Budget.com, *Investor presentation dated 11-09-10.*
4 Source: www.Dollar.com, *Corporate Background*, last accessed May 2011.
5 Source: www.Thrifty.com, *General Information*, last accessed May 2011.
6 Source: www.Enterprise.com, *Fact Sheet*, last accessed May 2011.
7 Source: www.Alamo.com, *About Alamo Rent A Car*, last accessed May 2011.

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- **National Car Rental** was founded in 1947 by a group of 24 independent car rental operators. The company brands itself as a premium, international recognized brand serving the daily rental needs of the frequent airport business traveler.[8]

Hertz Global Holdings, Inc., owner of Hertz Car Rental and Advantage Rent a Car

- **Hertz Car Rental** was founded in 1918 in Chicago with a dozen Model T Ford cars. The company has approximately 8,100 locations in 147 countries. Hertz is the largest general use car rental brand in the world and the leading rental car brand in the United States airport market segment.[9]
- **Advantage Rent a Car** was founded in San Antonio, Texas in 1963. The company started out to serve the large military population in San Antonio but expanded quickly, and at its peak operated over 150 United States locations and 130 locations internationally. Advantage filed for protection under Chapter 11 of the United States Bankruptcy Code in December 2008 and closed about 40 percent of its United States locations. On April 18, 2009, Hertz purchased the assets of Advantage Rent a Car (including its brand and website) for $33 million. Hertz plans to use Advantage for 'further expansion into the price-oriented travel demographic' as the acquisition allows Hertz to sell under an additional brand.[10]

Table IV-1 presents the overall United States rental car market share, based on gross revenues, held by each company, and with the four leaders combined, accounting for an estimated 94.1 percent of total gross rental car revenues generated in the United States in CY 2010.[11] As shown in Table IV-1, as of CY 2010 Enterprise Holdings held the largest share (47.7 percent) of the total United States rental car market, with $9.8 billion of gross revenues estimated for CY 2010, due in large part to its dominance of the insurance/car replacement market through its Enterprise Rent-A-Car brand.

These same four companies, and the brands they operate, also dominate the airport segment, representing 98 percent of the gross revenues generated at the top 190 United States airports during the first eight months of CY 2009.[12] **Table IV-2** presents the market share of each company from CY 2003 – CY 2009, based on gross revenues, in the airport segment by brand. Based on the strength of its Alamo and National brands, Enterprise Holdings, Inc. is currently the largest operator in the airport segment after surpassing Avis Budget Group, Inc. in the nine months ended September 30, 2009. Avis Budget Group Inc., with its Avis and Budget brands, held 28.9 percent of the airport segment for the nine months ended September 30, 2009, followed by Hertz Global Holdings, Inc. at 25.7 percent and Dollar Thrifty Automotive Group, Inc. at 12.0 percent. While Hertz Global Holdings, Inc. ranks third on a corporate basis, its Hertz Car Rental brand held the largest share for an individual brand in the airport segment for the nine months ended September 30, 2009 at 25.7 percent, followed by Alamo/National at 21.2 percent and Avis at 18.5 percent.

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8 Source: www.NationalCar.com, *Company Information*, last accessed May 2011.
9 Source: www.Hertz.com, *Hertz History*, last accessed May 2011.
10 Sources: USA Today, "Advantage Rent-A-Car Files for Bankruptcy," December 18, 2008; www.Hertz.com, last accessed May 2011.
11 Source: Auto Rental News, http://www.autorentalnews.com/Content/Research-Statistics.aspx, May 2011
12 Source: Hertz Global Holdings Inc., 2009 Annual Report, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Mzc2NTI0fENoaWxkSUQ9Mzc1MTMxfFR5cGU9MQ==&t=1

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Table IV-1

U.S. Rental Car Company Market Share
(Calendar Years, Dollars in Billions)

	Total U.S. Rental Car Market					
	2008		2009		2010 Estimate [1/]	
Operator	Gross Revenues	Share	Gross Revenues	Share	Gross Revenues	Share
Enterprise Holdings, Inc.	$10.400	48.4%	$9.500	47.4%	$9.800	47.7%
Avis Budget Group, Inc.	4.700	21.9%	4.000	20.0%	3.850	18.7%
Hertz Global Holdings, Inc.	3.670	17.1%	3.950	19.7%	4.158	20.2%
Dollar Thrifty Automotive Group, Inc.	1.690	7.9%	1.467	7.3%	1.540	7.5%
Others	1.029	4.8%	1.128	5.6%	1.203	5.9%
Total	$21.489	100.0%	$20.045	100.0%	$20.551	100.0%

Note:
1/ Latest data available.

Source: Auto Rental News, http://www.autorentalnews.com/Content/Research-Statistics.aspx, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

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Table IV -2

US Airport Car Rental Market Share[1/]
(Calendar Years)

Company / Brand	2003	2004	2005	2006	2007	2008	2009 [2/]
Enterprise Holdings, Inc.	25.8%	25.8%	26.4%	27.4%	28.3%	29.2%	31.4%
Enterprise Rent-A-Car	5.0%	6.0%	7.0%	7.7%	8.5%	9.1%	10.2%
Alamo Rent a Car / National Car Rental	20.8%	19.8%	19.4%	19.7%	19.8%	20.1%	21.2%
Avis Budget Group, Inc.	31.6%	30.4%	30.7%	30.1%	30.0%	30.0%	28.9%
Avis Rent a Car	21.2%	20.2%	20.2%	19.8%	19.8%	19.6%	18.5%
Budget Rent a Car	10.4%	10.2%	10.5%	10.3%	10.2%	10.4%	10.4%
Hertz Global Holdings, Inc.	29.0%	29.6%	29.2%	28.5%	27.9%	27.4%	25.7%
Hertz Car Rental	29.0%	29.6%	29.2%	28.5%	27.9%	27.4%	25.7%
Dollar Thrift Automotive Group, Inc.	11.8%	12.2%	11.4%	11.5%	11.4%	11.3%	12.0%
Dollar Rent a Car	7.4%	7.7%	7.1%	7.1%	7.1%	6.9%	7.1%
Thrifty	4.4%	4.5%	4.3%	4.4%	4.3%	4.4%	4.9%
Others	1.8%	2.0%	2.3%	2.5%	2.4%	2.1%	2.0%

Notes:

1/ Based on revenues on which concession or off-airport permit fees are reported to the operators of the approximately 190 largest U.S. airports where Hertz has operations.

2/ For the nine months ended September 30.

Source: Hertz Global Holdings, Inc. 2009 Annual Report, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Mzc2NTI0fENoaWxkSUQ9Mzc1MTMxfFR5cGU9MQ==&t=1, May 2011.

Prepared by: Ricondo & Associates, Inc. May 2011.

On September 30, 2010, shareholders of the Dollar Thrifty Automotive Group, Inc. rejected a $1.46 billion dollar takeover offer from Hertz Global Holdings Inc. The shareholder vote cleared the way for a $1.53 billion dollar offer from Avis Budget Group, Inc. that is currently under review by the FTC. The transaction, if approved by the FTC, would solidify the new Avis Budget Group, Inc. as the second largest rental car company in the nation with 26.2 percent of the overall United States market (as presented in Table IV-1 for estimated 2010) market, trailing Enterprise Holdings, Inc.'s 52.3 percent share (see Table IV-1). The new Avis Budget Group, Inc. would become the largest rental car company in the airport segment (see Table IV-2), with a 40.9 percent share at the nation's top 190 airports, topping Enterprise Holdings, Inc. at 31.4 percent. The FTC could reject Avis' bid, in which case Hertz might receive further consideration in a second round with the possibility of FTC reopening its review of the Hertz bid.

Whether or not the Dollar Thrifty Automotive Group, Inc. is eventually bought by either the Avis Budget Group, Inc. or Hertz Global Holdings, Inc., or remains independent, it should have minimal effect on the demand for rental cars at the nation's airports; as such demand is largely a function of economic conditions and resultant origin & destination (O&D) passenger activity at a particular location. It is also worth noting that previous rental car company mergers, such as Enterprise's acquisition of Vanguard (parent of the Alamo and National brands) and Avis's combination with Budget, over the last ten years had minimal effects on the demand for rental cars in the airport segment of the market. **Exhibit IV-1** presents a timeline regarding the creation of multi-brand rental car organizations since CY 1995.

4.2 Rental Car Industry Trends

Although growth of the United States airport rental car market is influenced by factors such as the economy and car rental rates, it is primarily related to O&D passenger activity—more specifically, destination or inbound passenger levels.

Exhibit IV-2 depicts total United States rental car gross sales compared to total United States domestic O&D deplaned passengers between CY 1994 and CY 2010; and **Exhibit IV-3** shows the yearly percentage change of total United States rental car gross sales compared to total United States domestic O&D deplaned passengers and total United States gross domestic product (GDP), between CY 1995 and CY 2010. These two exhibits demonstrate the strong relationship between economic conditions and demand for travel-related services including rental car gross sales. The United States economy expanded at a 6.1 percent CAGR, as measured by GDP, between CY 1995 and CY 2000. The strong economy spurred demand for travel, with deplaned passengers rising at a 3.6 percent CAGR and total United States rental car gross sales increasing at a 8.3 percent CAGR during this period. The United States economy began to weaken in early CY 2001, a trend that was exacerbated by the terrorist attacks of September 11. Furthermore, air travel demand was depressed by the outbreak of severe acute respiratory syndrome during this period. For the period CY 2001 to CY 2002, GDP growth slowed to 3.4 percent, with deplaned passengers declining 2.9 percent and total United States rental car gross sales declining 9.7 percent.

The United States economy began to rebound in CY 2003, with GDP rising at a 6.0 percent CAGR between CY 2003 and CY 2007. During this same period, total United States domestic O&D deplaned passengers increased at a CAGR of 4.5 percent, while total United States rental car gross sales grew at a 7.0 percent CAGR, reflecting gains in both the airport and local/insurance

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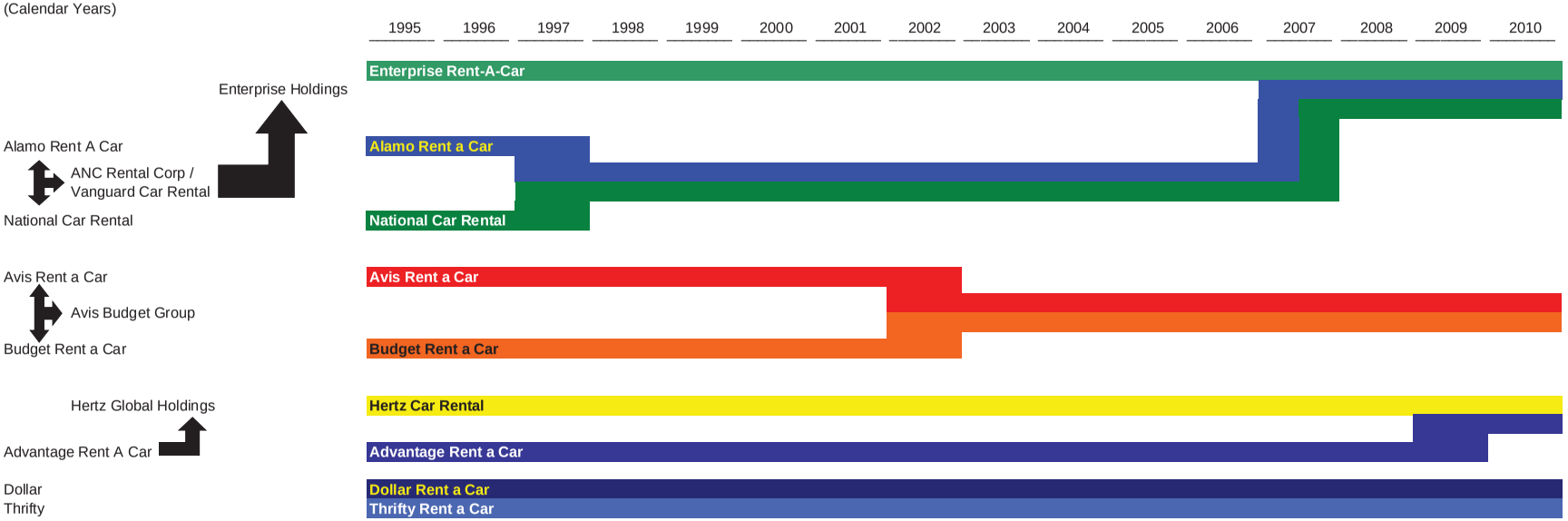
Exhibit IV-1

Timeline of Rental Car Company Brand Consolidation
(Calendar Years)



Note:
This table presents the timing of transactions that resulted in a combination of rental car brands under a holding company, not every financial transaction where a brand changed ownershi

Sources: Dunn, Darrell, InformationWeek.com, March 15, 2004, http://www.informationweek.com/news/software/showArticle.jhtml?articleID=18312125 (accessed June 14, 2010; AvisBudgetGroup.com http://www.avisbudgetgroup.com/about/our_brands/the_avis_budget_timeline.cfm (accessed June 14, 2010); Enterprise.com, http://aboutus.enterprise.com/who_we_are/milestones.html (accessed June 10, 2010); dtag.com, http://www.dtag.com/phoenix.zhtml?c=71946&p=irol-abouthistory (accessed June 14, 2010).

Prepared by: Ricondo & Associates, Inc., May 2011.

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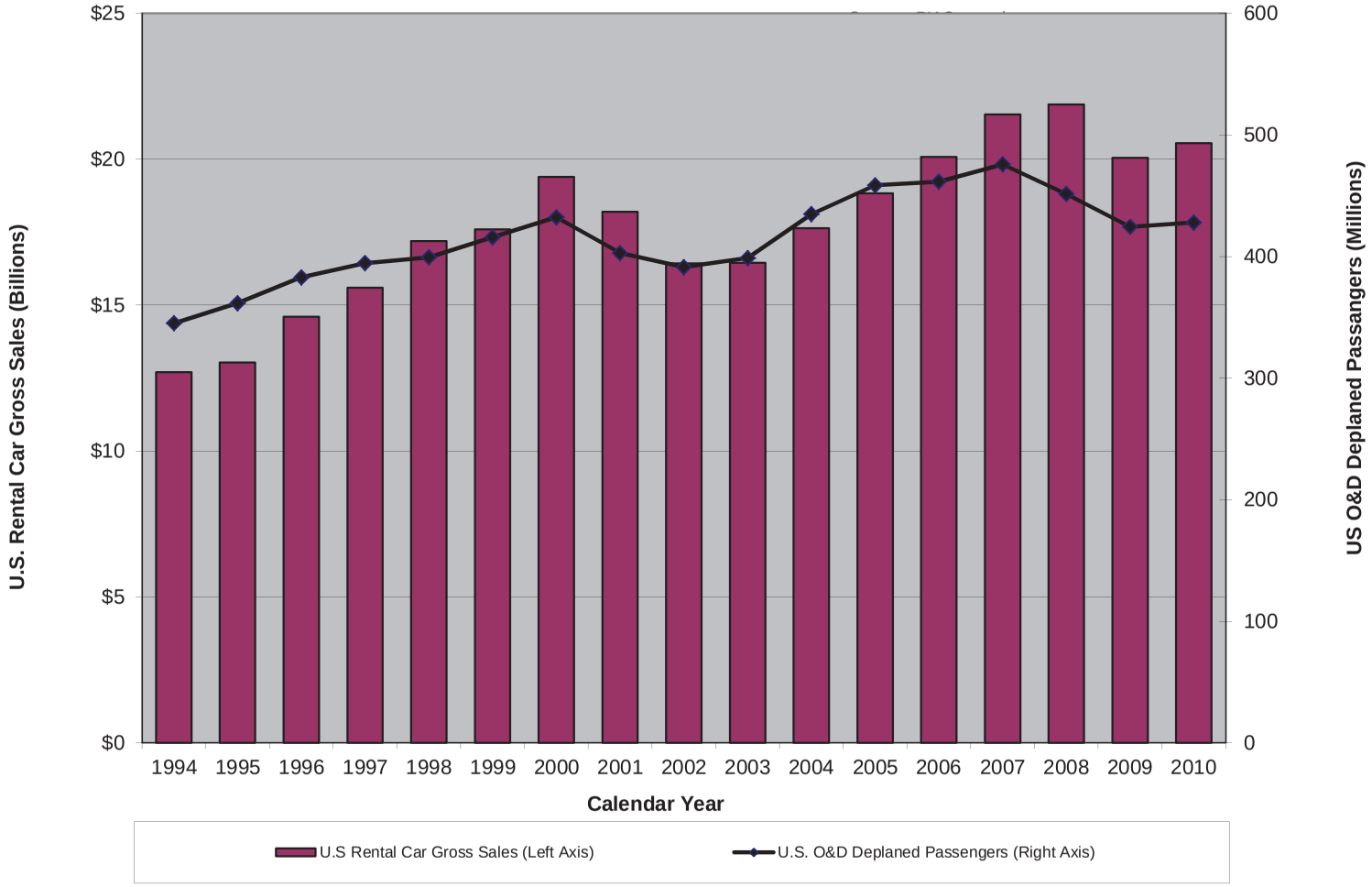
Exhibit IV-2

U.S. Rental Car Market Gross Sales
(Calendar Years)



Sources: Auto Rental News; US DOT Origin & Destination Survey of Airline Passenger Traffic; Bureau of Economic Analysis, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

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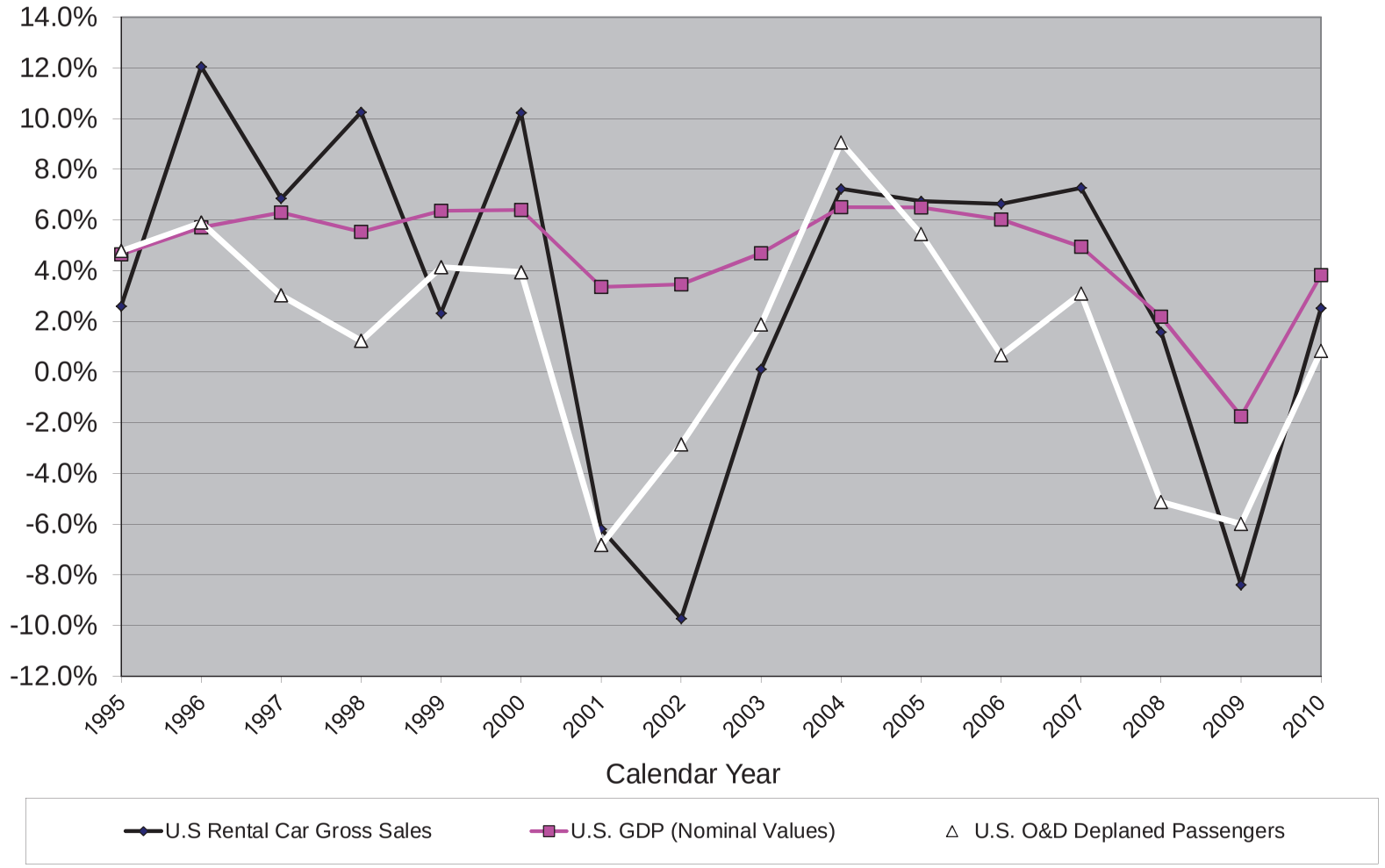
Exhibit IV-3

U.S. Rental Car Gross Sales Annual Percent Change Comparison
(Calendar Years)



Sources: Auto Rental News; US DOT Origin & Destination Survey of Airline Passenger Traffic; Bureau of Economic Analysis, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

replacement markets. In December 2007 the economy entered an economic downturn,[13] with GDP growth slowing to 2.6 percent for CY 2008 and a 1.3 percent decline for CY 2009. Due to the economic weakness and the airlines' actions to reduce system wide capacity, the number of deplaning passengers decreased 5.1 and 6.0 percent nationwide in CY 2008 and CY 2009, respectively, while the United States rental car gross sales recorded a modest increase of 1.6 percent in CY 2008 and a decrease of 8.5 percent in CY 2009. In CY 2010, the United States economy began to recover, with a reported United States GDP growth rate of 3.8 percent spurring growth in travel services, with 0.8 percent growth in O&D deplaned passengers and 2.5 percent growth in rental car gross sales.

4.3 Rental Car Demand at the Airport

Demand for rental cars at an airport is highly correlated to passenger activity; however, additional factors weigh in on a traveler's decision to rent a car at their destination, such as rental rates, CFCs and other local fees assessed on rental cars, gas prices, availability of alternative modes of transportation, time constraints, distance between the local origin and destination points, the number of places to be visited, and convenience. This section presents information on the rental car market at the Airport, including the companies that serve the Airport and their market share, and historical rental car activity, as well as factors that influence rental car demand including rental rates, the CFC and other local governmental fees, and alternative modes of transportation.

4.3.1 Rental Car Companies Serving the Airport and Market Share

Table IV-3 presents the ten rental car brands that operate at the Airport including nine brands owned by the four major national rental car companies as well as one smaller independent brand. All of the airport rental car brands serving the Airport (the Airport Rental Car Brands) operate from the new ConRAC located directly across the terminal roadway from the entrance to Terminal B. Currently, there are no off-Airport rental car brands serving the Airport and any potential future off-Airport rental car brands would be required to pick up customers from the ConRAC.

Exhibit IV-4 below presents the market share held by each of the ten current brands as measured by rental car gross sales reported to the City for FY 2010. Hertz (including Advantage) is the largest brand in terms of gross sales market share at the Airport, with an approximate 32 percent share in FY 2010. Avis held the second largest share of the market for FY 2010 at 19 percent. On a holding company basis, Hertz Global Holdings, Inc. held the largest market share in FY 2010 at 32 percent, followed by the Avis Budget Group, Inc. at 28 percent, Enterprise Holdings, Inc. at 24 percent, Dollar Thrifty Automotive Group, Inc. at 13 percent, and Fox Rent A Car at 3 percent.

[13] Source: National Bureau of Economic Research Business Cycle Dating Committee, "Determination of the December 2007 Peak in Economic Activity", December 11, 2008.

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Table IV-3
Car Rental Brands Currently Serving the Airport (As of May 2011)

	Brand	Brand Owned By
1	Advantage	Hertz Global Holdings, Inc.
2	Alamo	Enterprise Holdings, Inc.
3	Avis	Avis Budget Group, Inc.
4	Budget	Avis Budget Group, Inc.
5	Dollar	Dollar Thrifty Automotive Group, Inc.
6	Enterprise	Enterprise Holdings, Inc.
7	Fox	Fox Rent A Car, Inc.
8	Hertz	Hertz Global Holdings, Inc.
9	National	Enterprise Holdings, Inc.
10	Thrifty	Dollar Thrifty Automotive Group, Inc.

Source: San José Norman Y. Mineta International Airport, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

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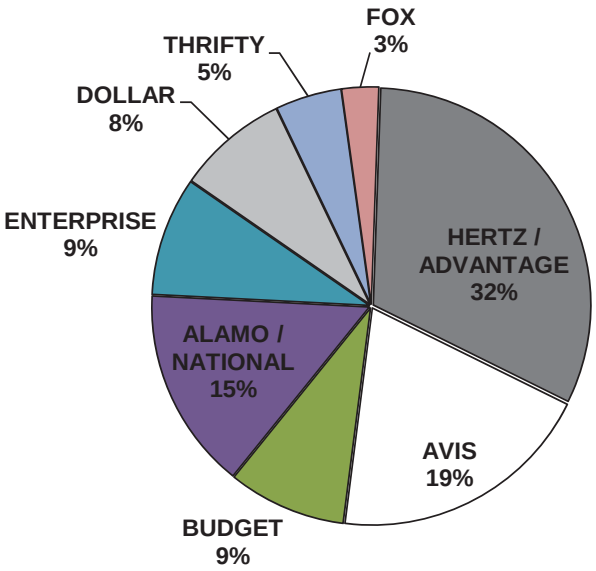
Exhibit IV-4

San José International Airport Rental Car Market Share Based on FY 2010 Gross Sales



Note: Certain data is submitted to the City by brand and others are submitted by company.

Source: San José Norman Y. Mineta International Airport, February 2011.
Prepared by: Ricondo & Associates, Inc., March 2011.

4.3.2 Historical Rental Car Activity at the Airport

Table IV-4 presents historical rental car data for the Airport from FY 2003 through FY 2010, and a comparison of the first nine months of FY 2010 to the first nine months of FY 2011.

Rental car transactions at the Airport increased at a CAGR of 2.3 percent from FY 2003 to FY 2006. From FY 2007 to FY 2010, rental car transactions at the Airport decreased at an average annual rate of 12.2 percent, as deplaned passengers decreased by an average annual rate of 8.2 percent in response to the national economic recession. During this time, various terminal area roadway and terminal construction at the Airport may have also had a negative impact on rental car activity. However, rental car transactions at the Airport have rebounded in the first nine months of FY 2011, increasing 13.9 percent compared to the same period the previous year. This increase in transactions for the first nine months of FY 2011 is substantially higher than the 2.5 percent increase in O&D deplaned passengers for the same period, likely as a result of other factors that influence rental car activity at the Airport, including, among others, the convenience of the ConRAC which opened at the beginning of FY 2011 and improving economic conditions.

Rental car transactions per O&D deplaned passenger have ranged from a low of 0.150 in FY 2010 to a high of 0.173 in FY 2007, with a four year average of 0.162 for FY 2007 to FY 2010. Rental car transactions per O&D deplaned passenger for the first nine months of FY 2011 were 0.163 compared to 0.147 for the first nine months of FY 2010. Rental car transaction days per transaction have

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Table IV-4

Historical Rental Car Activity at the Airport
(Fiscal Years Ending June 30)

		Historical								First nine months of FY	
		2003	2004	2005	2006	2007	2008	2009	2010	2010	2011
Gross Rental Car Sales [1/]	[A]	$111,172,972	$110,548,087	$111,081,267	$125,355,751	$142,115,487	$156,573,989	$128,168,995	$114,614,430	$83,586,539	$92,448,475
Annual % Change			-0.6%	0.5%	12.9%	13.4%	10.2%	-18.1%	-10.6%	-	10.6%
Deplaned Passengers	[B]	5,200,221	5,275,550	5,381,512	5,437,022	5,334,958	5,202,222	4,421,890	4,125,052	3,052,590	3,117,040
O&D Deplaned Passengers	[C]	4,940,563	4,999,710	5,107,992	5,213,977	5,160,306	5,068,092	4,304,075	4,015,422	2,966,628	3,040,258
Annual % Change			1.2%	2.2%	2.1%	-1.0%	-1.8%	-15.1%	-6.7%	-	2.5%
Percentage of O&D to Total Deplaned Passengers	[D = C / B]	95.0%	94.8%	94.9%	95.9%	96.7%	97.4%	97.3%	97.3%	97.2%	97.5%
Gross Rental Car Sales per O&D Deplaned Passenger	[E = A / C]	$22.50	$22.11	$21.75	$24.04	$27.54	$30.89	$29.78	$28.54	$28.18	$30.41
Annual % Change			-1.7%	-1.6%	10.6%	14.5%	12.2%	-3.6%	-4.1%		7.9%
Rental Car Transactions	[F]	838,454	836,634	859,483	897,820	890,222	851,204	669,580	602,847	436,363	497,065
Annual % Change			-0.2%	2.7%	4.5%	-0.8%	-4.4%	-21.3%	-10.0%	-	13.9%
Per O&D Deplaned Passenger	[G = F / C]	0.170	0.167	0.168	0.172	0.173	0.168	0.156	0.150	0.147	0.163
Estimated Average Days Per Transaction [2/]	[H]	n/a	n/a	n/a	n/a	3.38	3.35	3.39	3.43	3.46	3.56
Estimated Rental Car Transaction Days [3/]	[I = F * H]	n/a	n/a	n/a	n/a	3,010,476	2,855,031	2,270,923	2,067,765	1,509,816	1,769,551
Annual % Change							-5.2%	-20.5%	-8.9%		17.2%
Average Transaction Amount [4/]	[J = A / F]	$132.59	$132.13	$129.24	$139.62	$159.64	$183.94	$191.42	$190.12	$191.55	$185.99
Annual % Change			-0.3%	-2.2%	8.0%	14.3%	15.2%	4.1%	-0.7%		-2.9%

Notes:
1/ Gross rental car sales do not include CFC collections.
2/ Average days per transaction based on Avis, Budget, and Hertz for FY 2007-FY 2009; Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty for FY 2010 and FY 2011. FY 2010 and FY 2011 year-to-date average days per transaction based on six months of data ending December 31, 2010.
3/ Rental car transaction days are estimated using estimated average days per transaction.
4/ Does not include CFC.

Sources: San José Norman Y. Mineta International Airport; Rental car companies serving the airport, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

ranged from a low of 3.35 in FY 2008 to a high 3.43 in FY 2010[14]. **Exhibit IV-5** display rental car transactions and O&D deplaned passengers. This exhibit highlights the close correlation between O&D deplaned passengers and rental car transactions at the Airport.

4.3.3 Rental Car Rates

Table IV-5 reflects average two-day leisure (weekend) and three-day business (weekday) rental car rates for the Airport, SFO, and OAK. Rental rates were obtained on February 16, 2011 from the websites of three of the ten United States rental car brands operating at the Airport and were based on the following:

Two-day weekend rental:

Pick up Friday, March 4, 2011 at 5pm
Drop off Sunday, March 6, 2011 at 5pm
Standard size car (Pontiac G6 or similar)

Three-day weekday rental:

Pick up Monday, March 7, 2011 at 10am
Drop off Thursday, March 10, 2011 at 10am
Standard size car (Pontiac G6 or similar)

As shown on Table IV-5, the average rate at the Airport for a 2-day weekend rental is approximately $67, which is the lowest among the three airports. SFO has the highest rate for a 2-day weekend rental at approximately $87, with OAK second highest.

The Airport has the lowest rate of the three airports for weekday rentals, with an average 3-day weekday rental rate of approximately $272. SFO has the highest rate of the three airports for a 3-day weekday rental at approximately $358. Table IV-5 also reflects the breakdown of other charges and taxes charged at each airport. As shown, CFCs, facility fees, and/or transportation charges range from 15 to 23 percent of total rental rates for weekend rentals (with the Airport at 15 percent), and from 4 to 6 percent of total rental rates for weekday rentals (with the Airport at 4 percent).

Compared to rental car rates at SFO and OAK, rental car rates at the Airport are competitive and are not considered to have a negative impact on rental car demand at the Airport.

4.3.4 Customer Facility Charges

CFCs have become a common user fee levied by airports around the nation to support the development of new rental car facilities. Some airports also levy a transportation charge to recover capital and operating expenses related to a common use transportation system serving the airport passenger terminals and consolidated rental car facilities.

Table IV-6 provides information on rental car CFC and transportation fees assessed at several United States airports. Most airports in the United States levy the CFC on a per transaction day basis

[14] Average days per transaction were estimated based on data from Avis, Budget, and Hertz for FY 2007-FY 2009; and data from Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty for FY 2010 and FY 2011.

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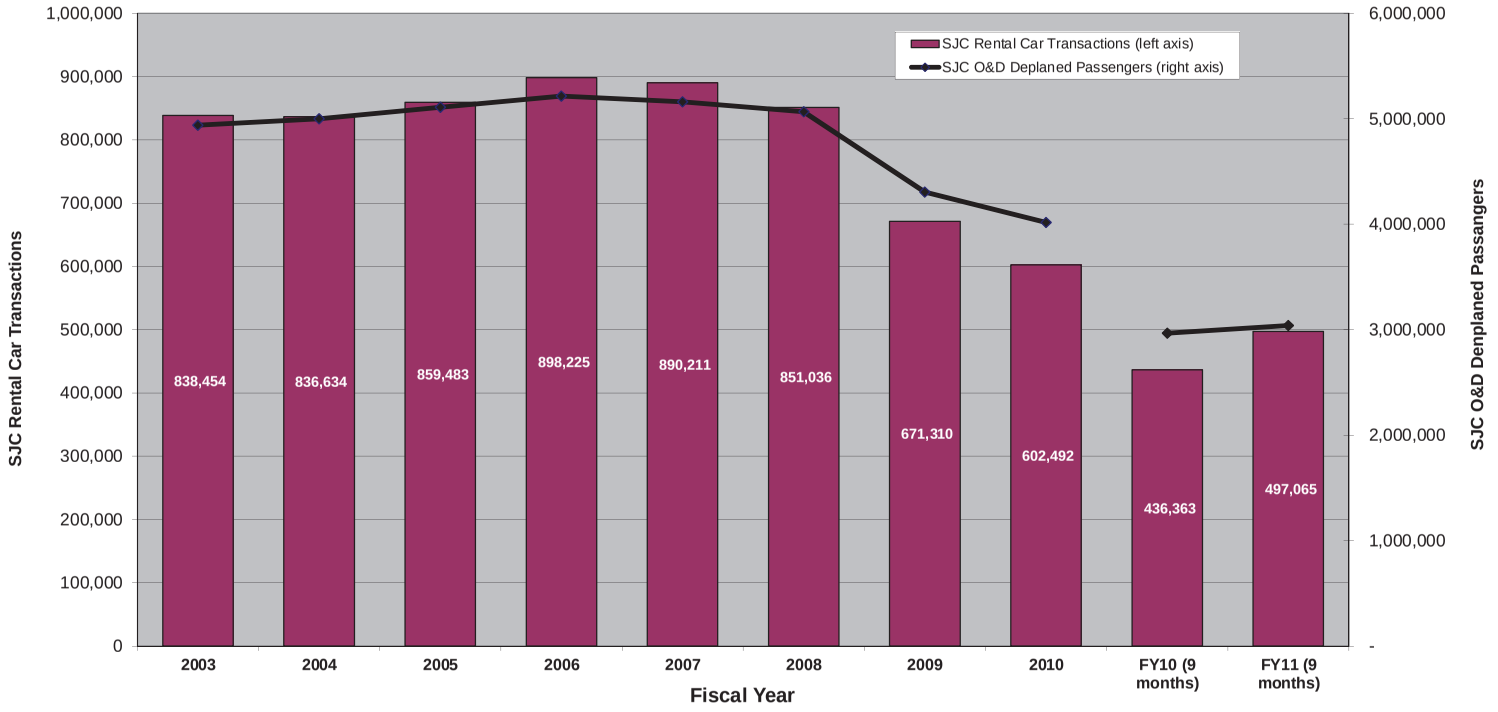
Exhibit IV-5
Rental Car Transactions and O&D Deplaned Passengers at the Airport
(Fiscal Years)



Source: San José Norman Y. Mineta International Airport, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table IV-5

Car Rental Rate Comparison - Major Bay Area Airports

2-Day Weekend Rental [1/]
(ordered most expensive to least expensive)

	San Francisco International (SFO)	Oakland International (OAK)	San Jose International (SJC)
Base Rental Rate	$52.92	$45.09	$44.87
Taxes	5.49	4.94	4.66
Customer Facility Charge:	20.00	10.00	10.00
Airport concession fee recovery	5.95	5.06	5.06
Vehicle Licensing Cost Recovery	0.66	0.66	0.66
California Tourism Commission Assessment	1.85	1.58	1.57
Total Rental Rate	$86.87	$67.33	$66.82
Base Rental Rate	61%	67%	67%
Facility /Transportation Charges	23%	15%	15%
Other Charges	10%	11%	11%
Taxes	6%	7%	7%
Total	100%	100%	100%

3-Day Weekday Rental [2/]
(ordered most expensive to least expensive)

	San Francisco International (SFO)	Oakland International (OAK)	San Jose International (SJC)
Base Rental Rate	$269.47	$214.73	$208.70
Taxes	27.77	23.34	21.53
Customer Facility Charge:	20.00	10.00	10.00
Airport concession fee recovery	30.04	23.93	23.29
Vehicle Licensing Cost Recovery	0.99	0.99	0.99
California Tourism Commission Assessment	9.43	7.52	7.30
Total Rental Rate	$357.70	$280.51	$271.81
Base Rental Rate	75%	77%	77%
Facility /Transportation Charges	6%	4%	4%
Other Charges	11%	12%	12%
Taxes	8%	8%	8%
Total	100%	100%	100%

Notes:
1/ Standard car (Pontiac G6 or similar); pick-up Friday, March 04, 2011 at 5pm; drop off Sunday, March 6, 2011 at 5pm.
2/ Standard car (Pontiac G6 or similar); pick-up Monday, March 7, 2011 at 10am; drop off Thursday, March 10, 2011 at 10am.

Sources: www.Hertz.com, www.Avis.com, www.enterprise.com, February 16, 2011.
Prepared by: Ricondo & Associates, Inc. May 2011.

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Table IV-6

Customer Facility Charge and Transportation Fees at Select U.S. Airports

Airport	Airport Code	Hub Size	CFC	Additional Fee	Fee Maximum
Charged Per Transaction Day			Per Day		
Chicago - O'Hare	ORD	L	$8.00		
Anchorage	ANC	M	6.50		
New Orleans	MSY	M	6.20		
Phoenix	PHX	L	6.00		
Seattle	SEA	L	5.00		
Providence	PVD	M	5.00		
Atlanta	ATL	L	5.00		
Miami	MIA	L	4.60		
Nashville	BNA	M	4.50		
Dallas/Fort Worth	DFW	L	4.00	$2.20 1/	
Albuquerque	ABQ	M	4.00		
Fort Lauderdale	FLL	L	3.95		7 days
Columbus	CMH	M	3.85	3.46 2/	
Houston	IAH	L	3.75	4.49 3/	
Chicago - Midway	MDW	L	3.75		
Cincinnati	CVG	M	3.75		
Baltimore	BWI	L	3.75		
Las Vegas	LAS	L	3.75		
Austin	AUS	M	3.50		
Charleston	CHS	S	3.50		
Minneapolis	MSP	L	3.25		
Kansas City	MCI	M	3.00		
Orlando	MCO	L	2.50		5 days
Washington Reagan	DCA	L	2.50		
Burlington	BTV	S	2.00		
Denver	DEN	L	1.60		
Charged Per Contract			Per Contract		
San Francisco	SFO	L	$20.00		
Los Angeles	LAX	L	10.00		
San Diego	SAN	L	10.00		
Burbank	BUR	M	10.00		
Oakland	OAK	M	10.00		
San Jose	SJC	M	10.00 4/		
Fresno	FAT	S	10.00		
Ontario	ONT	S	10.00		
Palm Springs	PSP	S	10.00		
Louisville	SDF	M	5.00		
Tucson	TUC	M	4.50		

Notes:
1/ Transportation fee per transaction day.
2/ Garage recoupment charge per transaction.
3/ Busing fee per transaction.
4/ The City of San Jose plans to begin charging a $6.00 per transaction day fee in September 2011 (subject to a five day maximum).

Source: www.Enterprise.com, February 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

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(for example, a five day rental equals five transaction days, with the CFC charged each day). Prior to 2011, airports in California desiring to impose a CFC had been required by state statute to levy the CFC on a per transaction basis (meaning the CFC is a flat charge, regardless of the length of the transaction). Chicago – O'Hare currently levies the highest CFC per transaction day in the nation at $8.00, while SFO has the highest CFC per transaction at $20.00. When compared on a per transaction day basis, SFO's CFC equates to the highest for a one- or two-day rental, while Chicago – O'Hare becomes the highest CFC for rentals of three days or more.

At least three airports, Houston George Bush Intercontinental, Dallas Fort Worth International, and Port Columbus International, impose both a CFC (per transaction day) and a separate fee for bussing or facility maintenance costs (either per day or per transaction).

As discussed in more detail in Section 4.4 below, the City currently imposes a $10.00 per transaction CFC on vehicles rented at the Airport. Pursuant to recent State of California legislation regarding CFCs, the City expects to begin charging a $6.00 per transaction day CFC at the Airport in September 2011 (subject to a 5 day maximum). The $6.00 per transaction day CFC is subject to audit and substantiation by the California State Controller and City Council approval.

4.3.5 Alternative Modes of Transportation

Passengers arriving at the Airport have several transportation alternatives (other than renting a car) to reach their destinations, including door-to-door and hotel shuttle buses, public transportation, taxis, and scheduled bus service to limited destinations (not including downtown San Jose)—each varying in terms of cost and convenience (schedule, availability, luggage handling, etc.).

- Door-to-door shuttle buses to downtown San José cost about $20-$25 one-way and are accessible from Terminal A and Terminal B (on-demand service).
- Metro Light Rail to downtown San José involves taking the Santa Clara Valley Transportation Authority (VTA) Airport Flyer VTA Route #10 bus from the Airport to the Metro Light Rail Station located approximately 1.5 miles from the Airport, and then taking Light Rail to downtown San José. The Airport Flyer departs every 15-30 minutes from 5:00 am to 11:30 pm and Light Rail departs every 10 to 15 minutes on weekdays and every 15 to 30 minutes on weekends. The total one-way cost including the Airport Flyer and Light Rail is $2.00 for adults (non-express, 18-64 years old).
- Taxi service from Terminal A or Terminal B to downtown San José costs approximately $15-$18.
- Scheduled bus service from the Airport is available to select destinations, but not to downtown San Jose.

A review of the VTA's Short Range Transit Plan for 2010 to 2019 indicates that planning efforts are underway regarding a future Airport people mover connecting the Airport to light rail, BART, and Caltrain, but there is no indication the VTA expects such a people mover to be completed by 2019. Any potential changes to alternative transportation modes at the Airport are not expected to have a significant effect on rental car demand at the Airport during the Projection Period.

4.4 Current and Planned Customer Facility Charge at the Airport

The City currently imposes a $10.00 per transaction CFC on vehicles rented at the Airport to help pay for debt service associated with the ConRAC and certain operating expenses related to the

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transportation of rental car customers from Terminal A to the ConRAC. The City began collecting a $5.00 CFC per transaction in May 2000. The City subsequently increased the CFC and began collecting the current $10.00 per transaction in January 2008.

Pursuant to a ten year Rental Car Operations Agreement and Lease between the City and the Airport Rental Car Companies which expires in May 2020 (the Rental Car Agreement), discussed in more detail in Chapter V of this report, the CFC is to be collected by the Airport Rental Car Companies, which must itemize the CFC as a separate charge on its customers' rental agreements or invoices. The Airport Rental Car Companies are required to remit CFC Revenues to the City. CFC Revenues can be designated by the City as Other Available Funds (discussed in more detail in Chapter V of this report). The Rental Car Agreement requires the Airport Rental Car Companies to conduct all of their operations serving Airport customers at the ConRAC. The Rental Car Agreement also requires the Airport Rental Car Companies to pay certain concession, Facility Rent, and ground rent amounts to the City which are included in General Airport Revenues (as discussed in Chapter V of this report). Pursuant to the Rental Car Agreement, for a given Fiscal Year, the Airport Rental Car Companies must pay Facility Rent to the City equal to the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the Rental Car Agreement.

Pursuant to the State of California's recently amended CFC statute (the State CFC Statute), as of January 1, 2011, the Airport has two options for establishing the rate structure of the CFC:

- Option 1
  Ten dollars ($10.00) per rental car transaction. This was the only option available prior to January 1, 2011.
- Option 2
  Effective January 1, 2011 an airport can impose an alternative CFC on a per transaction-day basis, in lieu of the $10.00 per transaction CFC. To impose the alternative CFC, the amended CFC statute requires an airport to follow a specific process to substantiate the need to impose the alternative per-transaction-day CFC. The amended statute also mandates additional reporting requirements to the State legislature. The alternative CFC has the following restrictions:
  - Commencing January 1, 2011, the CFC rate may not exceed $6.00 per day.
  - Commencing January 1, 2014, the CFC rate may not exceed $7.50 per day.
  - Commencing January 1, 2017, the CFC rate may not exceed $9.00 per day.
  - In no event shall the CFC be collected from any customer for more than five days for each individual rental car transaction.

In order to help reduce the Facility Rent to be paid by the Airport Rental Car Companies, the City may increase the CFC to $6.00 per transaction day, to a maximum of five days, on each rental instead of the $10.00 per rental transaction CFC the City currently charges. The City currently plans to bring this proposed CFC increase to the City Council for approval in August 2011, with the increased CFC recommended to be effective in September 2011. For purposes of this report, it was assumed that the $6.00 per transaction day CFC is effective September 1, 2011. The City also plans

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to increase the CFC per transaction day to $7.50 (subject to the 5-day maximum) beginning January 1, 2014. The $6.00 per transaction day CFC and any subsequent increase of the per transaction day CFC are each subject to audit and substantiation by the California State Controller prior to City Council approval. The Airport Rental Car Companies have expressed to the City their support regarding the City's plans regarding changes to the CFC. Based on analysis of historical rental car activity at the Airport in relation to prior increases in the cost of renting a car at the Airport (including but not limited to the increase in the CFC from $5 to $10 per transaction in January 2008), the City's plan to begin collecting a $6.00 CFC per transaction day in September 2011 and a $7.50 CFC per transaction day (subject to a five-day maximum) beginning January 2014 is not expected to have a significant impact on rental car activity at the Airport.

If the City were not able to change the CFC at the Airport (as outlined above), future CFC Revenues at the Airport would be substantially lower and Facility Rent would be substantially higher than as projected in this report. Projected CFC Revenues assuming the current $10.00 per transaction CFC would be approximately $4.2 million to $8.9 million lower than as projected in this report.

4.5 Projected Rental Car Activity and CFC Revenue at the Airport

Rental car transaction activity at the Airport has generally followed the trends for O&D deplaned passengers in each Fiscal Year between FY 2005 and FY 2010, but not necessarily at the same growth rate in any given fiscal year. Other factors such as the cost of renting a car at the Airport, convenience, and economic conditions affect rental car activity to some extent, but rental car activity is primarily related to O&D deplaned passenger levels. Based on this relationship, the passenger projection for the Airport detailed in Chapter II serves as the basis for the projection of rental car activity at the Airport. Specific assumptions made by R&A regarding rental car activity at the Airport are as follows:

- **O&D Deplaned Passengers**. The percentage of O&D deplaned passengers to total deplaned passengers at the Airport is assumed at 97.3 percent throughout the Projection Period, equal to the percentage for FY 2010. Total deplaned passengers are assumed to equal total enplaned passengers for the Projection Period.
- **Rental Car Transactions.** The number of rental car transactions per O&D deplaned passenger is assumed to be 0.160 throughout the Projection Period, slightly lower than (1) the actual level experienced for the first nine months of FY 2011 at 0.163 and (2) the overall average for FY 2007 to FY 2010 at 0.162.
- **Average Days Per Transaction.** The number of rental car days per transaction is assumed to be 3.43 throughout the Projection Period, based on FY 2010 data reported by eight of the ten current airport rental car brands representing approximately 97 percent of rental car gross sales at the Airport.
- **Adjustment to Transaction Days Related to 5-Day Maximum.** Transaction days are assumed to be adjusted downward by 15.0 percent to account for transaction days over the 5-day maximum. This reduction is based on CY 2009 and CY 2010 data received from four rental car brands representing approximately 56 percent of rental car gross sales at the Airport.
- **Local/National Economy.** The economic base of the Air Service Area will remain stable and diversified during the Projection Period, as described in Chapter I of this report.

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- **Passenger Levels at the Airport.** Passenger projections provided in Chapter II will be realized.
- **Car Rental Rates.** Average daily car rental rates at the Airport will remain competitive in relation to other means of transportation during the Projection Period and are not anticipated to decrease rental car demand.
- **CFC Rate.** The current CFC of $10.00 per rental car transaction at the Airport is assumed to change to $6.00 per transaction day (subject to a 5 day maximum charge) beginning September 1, 2011, and to $7.50 per transaction day (subject to a 5 day maximum) on January 1, 2014.
- **Rental Car Companies.** The Airport Rental Car Companies will continue to operate at the Airport for the duration of the Projection Period. In the event one or more Airport Rental Car Companies leave the market, the Airport Rental Car Companies remaining (and any new entrant rental car companies) will act to serve demand and capture the market share of any departing companies.
- **Alternative Forms of Transportation.** No significant changes in the forms of alternative transportation or expansion of existing modes of alternative transportation are expected at the Airport that would influence rental car demand during the Projection Period.

Based on these assumptions, R&A developed its projection of rental car activity and CFC Revenues (as reflected in **Table IV-7**) by:

- Multiplying projected O&D deplaned passengers by the assumed ratio of transactions per O&D deplaned passenger of 0.160 to derive projected transactions. As discussed in Section 4.3.2, the assumed ratio of 0.160 is slightly lower than the actual ratio of 0.163 for the first nine months of FY 2011 and the average of 0.162 for FY 2007 to FY 2010.
- Multiplying the projected number of transactions by the assumed average number of days per transaction of 3.43 to derive the number of annual transaction days.
- Adjusting the total projected number of rental car transaction days downward by 15.0 percent to account for transaction days longer than the 5-day maximum.
- Multiplying the number of projected transactions by the CFC rate of $10.00 per transaction for FY 2011 and the first two months of FY 2012 yields CFC Revenues for FY 2011 and the first two months of FY 2012.
- Multiplying the number of adjusted transaction days by $6.00 per transaction day for September 1, 2011 to December 31, 2013, and by $7.50 for January 1, 2014 through the remainder of the Projection Period yields CFC Revenues for FY 2012 through FY 2017.

Rental car transactions and transaction days are projected to increase by 8.4 percent in FY 2011 from FY 2010 levels, based on a 1.7 percent increase in deplaned passengers in FY 2011, and an increase in the ratio of rental car transactions per O&D deplaned passenger. Rental car transactions are projected to grow with projected passenger activity for FY 2012 through FY 2017 and the average number of days per transaction is assumed to remain constant through the Projection Period. This results in a CAGR of 2.3 percent for the number of rental car transaction days between FY 2011 and FY 2017.

As the CFC rate is assumed to change to $6.00 per transaction day beginning September 1, 2011, and

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Table IV-7

Projection of Rental Car Activity and CFC Revenues
(Fiscal Years Ending June 30)

		Actual	Estimated	Projected					
		2010	2011	2012	2013	2014	2015	2016	2017
Total Airport Deplaned Passengers [1/]	[A]	4,125,052	4,195,000	4,284,200	4,373,500	4,468,000	4,572,700	4,678,500	4,794,700
Annual % Change			1.7%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
Percentage of O&D Deplaned Passengers to Total Deplaned Passengers (=FY 2010)	[B]	97.3%	97.3%	97.3%	97.3%	97.3%	97.3%	97.3%	97.3%
O&D Deplaned Passengers	[C = A * B]	4,015,422	4,083,500	4,170,300	4,257,300	4,349,300	4,451,200	4,554,200	4,667,300
Annual % Change			1.7%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
Rental Car Transactions Per O&D Deplaned Passenger [2/]	[D]	0.150	0.160	0.160	0.160	0.160	0.160	0.160	0.160
Rental Car Transactions	[E = C * D]	602,847	653,400	667,200	681,200	695,900	712,200	728,700	746,800
Annual % Change			8.4%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
CAGR FY 2011 - FY 2017									2.3%
Average Rental Car Transaction Days Per Transaction (= FY 2010) [3/]	[F]	3.43	3.43	3.43	3.43	3.43	3.43	3.43	3.43
Estimated Rental Car Transaction Days	[G = E * F]	2,067,765	2,241,200	2,288,500	2,336,500	2,386,900	2,442,800	2,499,400	2,561,500
Annual % Change			8.4%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
CAGR FY 2011 - FY 2017									2.3%
Estimated Reduction Associated with 5-Day Maximum [4/]	[H = G * - 15%]			(343,300)	(350,500)	(358,000)	(366,400)	(374,900)	(384,200)
Rental Car Transaction Days CFC Applies To in FY12-FY17	[I = G + H]			1,945,200	1,986,000	2,028,900	2,076,400	2,124,500	2,177,300
Annual % Change					2.1%	2.2%	2.3%	2.3%	2.5%
CFC Rate per Transaction	[J]	$10.00	$10.00	$10.00 7/1/11-8/31/11;	n/a	n/a	n/a	n/a	n/a
CFC Rate per Transaction Day	[K]	n/a	n/a	$6.00 9/1/11-6/30/12;	$6.00	$6.00 for 7/1/13-12/31/13; $7.50 for 1/1/14-6/30/14	$7.50	$7.50	$7.50
CFC Revenues (per Transaction basis) [5/]	[L = E * J]	$6,021,365	$6,009,000	$1,112,000	n/a	n/a	n/a	n/a	n/a
CFC Revenues (per Transaction Day basis) [6/]	[M = I * K]	n/a	n/a	9,726,000	11,916,000	13,695,000	15,573,000	15,934,000	16,330,000
Total CFC Revenues	[N = L + M]	$6,021,365	$6,009,000	$10,838,000	$11,916,000	$13,695,000	$15,573,000	$15,934,000	$16,330,000
Annual % Change			-0.2%	80.4%	9.9%	14.9%	13.7%	2.3%	2.5%

Notes:
1/ Deplaned passengers are assumed to equal enplaned passengers for FY 2011 to FY 2017.
2/ The assumption of 0.160 for FY 2011 through FY 2017 is slightly lower then the number of actual rental car transactions per O&D deplaned passenger for the first 9 months of FY 2011. See Table IV-4.
3/ See Table IV-4.
4/ Estimated reduction for transaction days over 5-day maximum per State CFC Statute.
5/ FY 2011 CFC Revenues reflected to match current amount City is using, which is conservative relative to estimated transactions multiplied by $10.00 per transaction.
6/ Displays projected CFC Revenues if a CFC rate of $6.00 per transaction day would be implemented on September 1, 2011, and a CFC rate of $7.50 per transaction day would be implemented on January 1, 2014.

Sources: San José Norman Y. Mineta International Airport; Rental car companies serving the Airport; Ricondo & Associates (Projections), May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

to $7.50 on January 1, 2014, CFC Revenues are projected to increase from approximately $6.0 million in FY 2011 to approximately $16.3 million in FY 2017.

4.6 Flow of CFC Revenues

The City may designate CFC Revenues as Other Available Funds (discussed in Chapter V of this report). Debt service associated with the City's Airport Revenue Bonds is paid from and secured by Net General Airport Revenues and Other Available Funds. After the City files the appropriate paperwork with the Trustee for the City's Airport Revenue Bonds, CFC Revenues are deposited in the General Airport Revenue Fund. See Chapter V of this report for more information regarding General Airport Revenues and Other Available Funds.

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V. Financial Analysis

This chapter examines the financial structure of the Airport; Airport funding sources; the planned Series 2011 Bonds; debt service, operating expenses, and revenue projections; and presents projections of debt service coverage, airline rates and charges, and other key financial measures.

5.1 Airport Financial Structure

The Airport is owned by the City, is operated as a department of the City, and is accounted for as a self-supporting enterprise fund in the basic financial statements of the City. The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation for the Department and reports directly to the City Manager.

The Department's annual operating budget is prepared on a modified accrual basis. The City funds operations and capital improvements at the Airport with revenues generated from rentals, fees, and charges; passenger facility charge collections and associated interest earnings (PFC Revenues); rental car customer facility charge revenues (CFC Revenues); federal grants-in-aid; and other revenue sources. The City maintains its financial records in accordance with generally accepted accounting principles as they apply to governmental entities. The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending.

5.2 Trust Agreement

The Series 2011 Bonds are to be issued pursuant to the Master Trust Agreement and the Seventh and Eighth Supplemental Trust Agreements, authorizing and providing for the issuance of such bonds. The Series 2011 Bonds are to be issued as Additional Bonds in accordance with the Master Trust Agreement. The Master Trust Agreement and all Supplemental Trust Agreements are referred to collectively herein as the Trust Agreement.

The Series 2011 Bonds are to be paid from and secured by (1) Net General Airport Revenues (equal to General Airport Revenues less Maintenance and Operation Expenses) and (2) Other Available Funds pursuant to Section 5.03 of the Trust Agreement. The Series 2011 Bonds are to be equally secured, with respect to Net General Airport Revenues and Other Available Funds, with all Outstanding Bonds issued by the City pursuant to the Trust Agreement. The City expects to use (but not pledge) PFC Revenues to pay for a portion of debt service associated with the Series 2001A Bonds, the Series 2004 Bonds, the Series 2007A Bonds, and the Series 2011A-1 Bonds—See Section 5.2.2 below (Available PFC Revenues).

5.2.1 Other Available Funds

Pursuant to Section 5.03(a) of the Trust Agreement, and as reflected on **Exhibit V-1**, the City may for any period elect to designate as Other Available Funds any amounts available to the City not otherwise a part of General Airport Revenues--including CFC Revenues, the Rolling Coverage Amount, any beginning uncommitted balance of the General Revenue Fund on the first day of each Fiscal Year, but not PFC Revenues--by filing with the Trustee a Written Statement of the City designating the amount and source of such Other Available Funds and containing a statement that the

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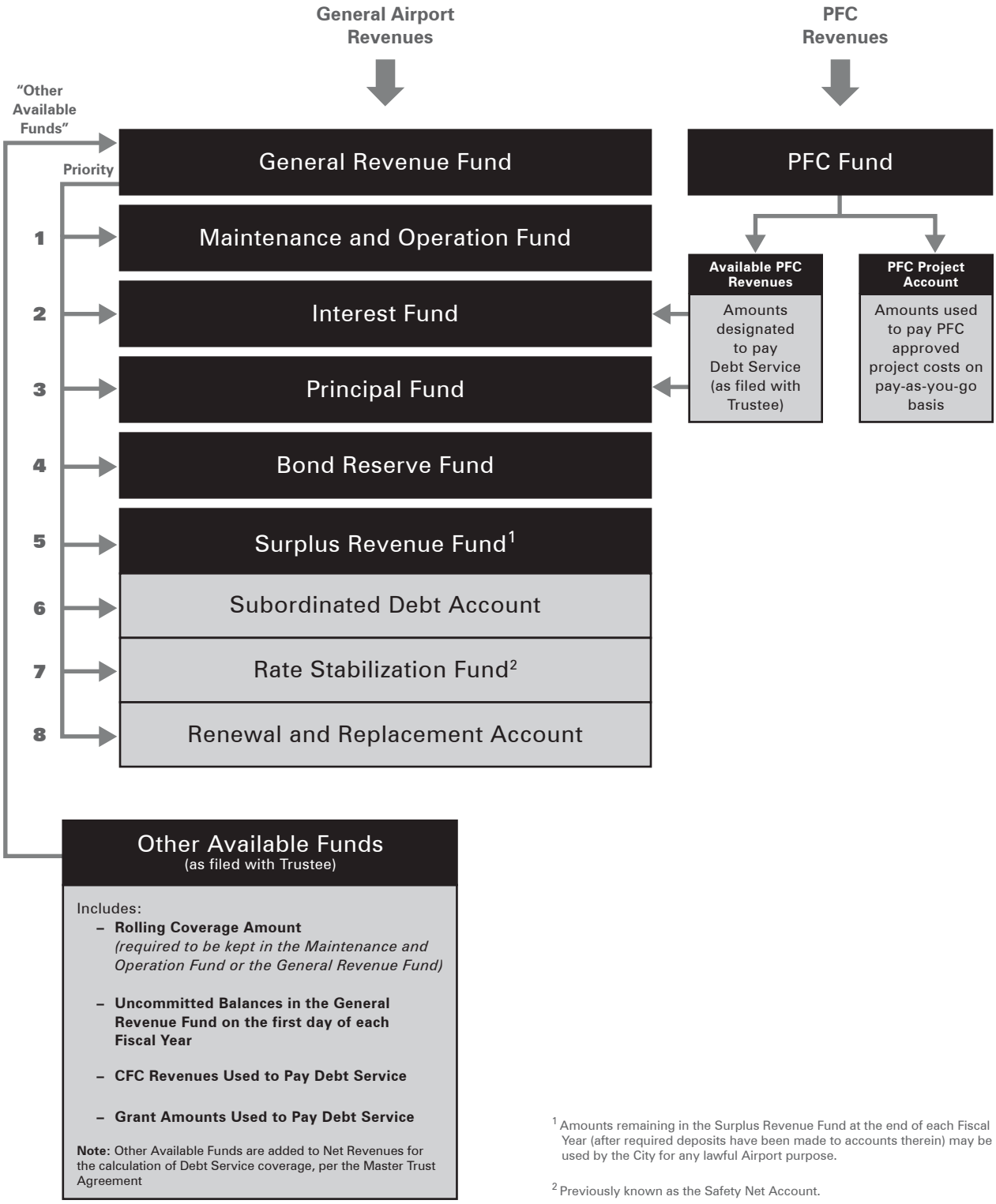

[1] Amounts remaining in the Surplus Revenue Fund at the end of each Fiscal Year (after required deposits have been made to accounts therein) may be used by the City for any lawful Airport purpose.

[2] Previously known as the Safety Net Account.

Source: Master Trust Agreement, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit V-1

Flow of Funds Under the Master Trust Agreement

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Other Available Funds are legally available to be applied as Other Available Funds during such period. After the filing of such Written Statement of the City, the Other Available Funds designated therein shall be deposited in the General Revenue Fund and applied as provided in the Trust Agreement.

Historically, the City has designated the following as Other Available Funds: the Rolling Coverage Amount, uncommitted balances in the General Revenue Fund, and certain Federal Aviation Administration (FAA) Airport Improvement Program (AIP) Letter of Intent grant proceeds received (and used to pay debt service) for airfield projects originally funded with proceeds of the Series 2001A Bonds. The City designated CFC Revenues in FY 2011 (and certain CFC Revenues in FY 2010) as Other Available Funds, and plans to continue to designate CFC Revenues as Other Available Funds while the Series 2011B Bonds are outstanding.

5.2.2 Available PFC Revenues

Pursuant to Section 5.03(b) of the Trust Agreement, the City may, for any period, elect to designate any PFC Revenues to be applied to pay Debt Service as Available PFC Revenues by filing a Written Statement with the Trustee designating the amount of such Available PFC Revenues and stating that the Available PFC Revenues are legally available to be applied to pay Debt Service during such period. After filing the Written Statement with the Trustee, the Available PFC Revenues designated therein shall be deposited in the Interest Fund and the Principal Fund and used to pay Debt Service.

As defined in the Trust Agreement, Annual Debt Service is equal to Debt Service for a given Fiscal Year less the Available PFC Revenues for such Fiscal Year.

Pursuant to approvals previously received from the FAA, the City expects to use (but not pledge) certain approved PFC Revenues as Available PFC Revenues to pay a portion of the Debt Service associated with certain airfield and terminal projects already completed (funded in part with proceeds of the Outstanding Series 2001A Bonds, the Outstanding Series 2004 Bonds, the Outstanding Series 2007A Bonds, and commercial paper to be refunded with proceeds of the Series 2011A-1 Bonds).

5.2.3 Rate Covenant

In Section 7.13 (Amounts of Rates and Charges) of the Trust Agreement, referred to as the Rate Covenant, the City covenants and agrees to, among other things while any of the Bonds remain outstanding, manage its operations and establish, fix, prescribe, and collect rentals, rates, fees, and charges each Fiscal Year for use of the Airport so that:

(a) the sum of Net General Airport Revenues plus any Other Available Funds for such Fiscal Year will be at least sufficient to pay the sum of:

    (1) Annual Debt Service for such Fiscal Year

    (2) All other payments required in such Fiscal Year for compliance with the terms of the Trust Agreement

    (3) All other payments related to Subordinated Obligations of the City in such Fiscal Year; and

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(b) the sum of Net General Airport Revenues plus any Other Available Funds for such Fiscal Year is at least equal to 125% of Annual Debt Service for such Fiscal Year; and

(c) the sum of Net General Airport Revenues plus any Other Available Funds for such Fiscal Year (excluding, however, the Rolling Coverage Amount and any amounts not generated from actual cash receipts during the Fiscal Year unless such amounts are included in the initial or amended budget in that Fiscal Year and in the initial or amended calculation of airline and other rates and charges for such Fiscal Year) is at least equal to 100% of Annual Debt Service for such Fiscal Year.

5.2.4 Application of General Airport Revenues and Other Available Funds

Section 5.02 of the Trust Agreement establishes certain funds and accounts and the priority for the flow of General Airport Revenues and certain other moneys to such funds and accounts, as illustrated on Exhibit 4.1. All General Airport Revenues are deposited to the General Revenue Fund. Revenues or any Other Available Funds transferred to the General Revenue Fund (as described in the Trust Agreement) are then applied as necessary on a monthly basis for various purposes to funds and accounts in the priority listed below.

- **Maintenance and Operation Fund**. Deposit required to pay the following month's Maintenance and Operation (M&O) Expenses.
- **Interest Fund**. Deposit required to pay bond interest due on Outstanding Bonds. This fund shall contain separate accounts with respect to each Series of Outstanding Bonds.
- **Principal Fund**. Deposit required to pay bond principal due on Outstanding Bonds. This fund shall contain separate accounts with respect to each Series of Outstanding Bonds.
- **Bond Reserve Fund**. Deposit required so that the amounts on deposit are equal to the Bond Reserve Fund Requirement. This fund contains a general account and additional accounts supporting specified Series of Outstanding Bonds. Moneys in such accounts shall be used to pay debt service on the related Series of Bonds when insufficient moneys are available in applicable account(s) in the Interest and/or Principal Fund.
- **Surplus Revenue Fund**. Deposit of all remaining moneys in the General Revenue Fund which are available for transfer to the Surplus Revenue Fund after having set aside and transferred deposits as required in funds and accounts above. All moneys in the Surplus Revenue Fund shall be deposited in the following respective special accounts, in the following order of priority:
  - **Subordinated Debt Account**. Deposit required to pay for expenses, indebtedness, and other charges on bonds, notes, or other obligations or evidence of indebtedness required to be paid from the Subordinated Debt Account.
  - **Rate Stabilization Fund**. Deposit necessary, as described in more detail in Section 5.02 of the Trust Agreement, to satisfy the financial requirements of the Airport and to ensure the City's ability to meet its obligations under the Trust Agreement. The Rate Stabilization Fund was previously known as the Safety Net Account.
  - **Renewal and Replacement Account**. Deposit as necessary to pay the renewal and replacement costs for Airport facilities.

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All moneys remaining in the Surplus Revenue Fund (after required deposits as described above have been made) may be transferred to any other fund or account of the City to be used for any other lawful aviation-related purpose of the City.

Exhibit V-1 also reflects Other Available Funds expected to be designated by the City (including CFC revenues, the Rolling Coverage Amount, any beginning uncommitted balance of the General Revenue Fund on the first day of each Fiscal Year, but not PFC Revenues) to be deposited in the General Revenue Fund.

Exhibit V-1 also reflects the flow of PFC Revenues for the Airport. All PFC Revenues are deposited into the PFC Fund. The City expects to designate certain PFC Revenues to be applied to pay Debt Service (as Available PFC Revenues) by filing a required Written Statement with the Trustee. After filing the Written Statement with the Trustee, the Available PFC Revenues designated therein shall be deposited in the Interest Fund and the Principal Fund and used to pay Debt Service. All other PFC Revenues not designated as Available PFC Revenues are expected to be used on approved projects on a pay-as-you-go basis.

5.3 Airline Agreement

The City entered into an Airline-Airport Lease and Operating Agreement (the Airline Agreement) in 2007 with the various passenger and cargo airlines serving the Airport. Currently, all of the passenger and cargo airlines serving the Airport, with the exception of Volaris (who has executed a non-signatory agreement), have executed the Airline Agreement with the City. The Airline Agreement establishes procedures for annual adjustment of rates, fees, and charges collected from signatory airlines for the use of Airport facilities. The Airline Agreement permits signatory airlines to land at the Airport and governs airline use of certain airport facilities, including (among other areas) terminal, ramp, baggage claim, ticket counters, and gate areas.

Key provisions of the Airline Agreement, as discussed in greater detail below, include:

- Expiration date: June 30, 2012 (unless canceled prior to such date as provided for in the Airline Agreement). The term of the Airline Agreement may be extended for one additional five-year term by the mutual written consent of the City and signatory airlines.
- All gates and ticket counters are to be either common use or preferential use; no gates or ticket counters are to be exclusive use.
- Rate-making methodology (for the entire term of the Airline Agreement):
  - Compensatory terminal rate methodology (with a terminal rentable space divisor)
  - Cost center residual landing fee methodology (Airfield revenues other than landing fees are credited toward the Airfield Revenue Requirement)
  - Revenue sharing (with the airline portion of revenue sharing crediting the Airline Terminal Revenue Requirement in the following Fiscal Year).
- Rolling debt service coverage.
- Provision for Signatory Airline Majority-in-Interest (MII) disapproval of capital expenditures in the Airfield or Terminal cost centers proposed by the City (the City may move forward with any such disapproved projects after a one-year deferral period).

Any passenger airline that (a) signs an agreement with the City substantially similar to the Airline

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Agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of Exclusive Use Premises (such as office space, storage areas, VIP lounge space, and employee break room space) in the terminal deemed sufficient by the Director of Aviation of the City (the "Director") to support its operation, and (d) at the time it executes its agreement with the City, operates at least one (1) scheduled flight, scheduled year round, at least three (3) days per week shall be a "Signatory Airline" under the Airline Agreement.

In addition, any all-cargo airline that (a) signs an agreement with the City substantially similar to the Airline Agreement, (b) leases from the City cargo support space at the Airport for the term of the Airline Agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landing weight per scheduled flight, and (d) at the time it executes its agreement with the City, operates at least five (5) scheduled flights per week shall be considered a "Signatory Airline."

Any passenger or cargo airline that does not meet the minimum requirements to be a Signatory Airline will be given the opportunity to become a Non-Signatory Airline by executing an agreement in similar form. Rates and charges for a Non-Signatory Airline will be charged at a 25% premium over the rates and charges for a Signatory Airline. In addition, Non-Signatory Airlines will not participate in any MII consideration of proposed capital projects. Volaris is currently the only Non-Signatory Airline operating at the Airport.

Effective July 1, 2007, a City ordinance established minimum requirements for the operation at and use of the Airport by any passenger or cargo airline that operates at the Airport without having entered into an agreement with the City. The ordinance requires any such airline to comply with all applicable rules and regulations as established by the Director of Aviation. In addition, the ordinance establishes airfield and terminal rates and charges for any such airline 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.

The financial projections contained in this report for the Projection Period were developed based on the business terms and procedures for annual adjustment of rentals, fees, and charges contained in the Airline Agreement, as described in detail in the remainder of Section 5.3. As mentioned above, the current Airline Agreement expires at the end of FY 2012. For purposes of the financial projections in this report, it was assumed that airlines currently serving the Airport would continue to operate at the Airport throughout the Projection Period. It was also assumed for purposes of preparing financial projections that the business terms of the current Airline Agreement would extend beyond their expiration at the end of FY 2012 through FY 2017. Assuming the extension of current business terms beyond the current expiration date is reasonable and standard practice in preparing airport bond feasibility studies when specific changes to the current Airline Agreement have not been planned (as is the case at the Airport).

5.3.1 Facility Control

Under the Airline Agreement, Airport gates and ticket counters are leased on either a common-use or preferential-use basis. No gates or ticket counters are leased on an exclusive-use basis. Baggage make-up and baggage claim areas are leased on a common-use basis.

5.3.2 Airline Rates and Charges Methodology

As described in more detail under Section 5.9 of this report, the Signatory Airline terminal rate methodology contained in the Airline Agreement is based on a compensatory rate-making approach,

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using terminal rentable space as the divisor. The Signatory Airline landing fee rate methodology contained in the Airline Agreement is based on a cost center residual rate-making approach (where costs in the Airfield cost center are offset by all revenues in the Airfield cost center other than landing fees).

Airlines that have executed a Non-Signatory Airline Agreement pay a 25 percent premium over landing fees and terminal rental rates paid by Signatory Airlines. Airlines that have not executed an agreement with the City and that are not in month-to-month holdover under an existing agreement with the City pay a 30 percent premium over landing fees and terminal rental rates paid by Signatory Airlines. For purposes of the financial projections in this report, it was assumed that all airlines serving the Airport would be Signatory Airlines for the Projection Period.

5.3.3 Revenue Sharing

Pursuant to Section 9.10 of the Airline Agreement, in any Fiscal Year in which there are Net Remaining Revenues (defined below) generated at the Airport, and all requirements of the Trust Agreement (and any subsequent Supplemental Trust Agreements) have been satisfied, including the Rate Covenant, the Net Remaining Revenues shall be divided equally between the City and the passenger airlines operating at the Airport—subject to certain adjustments related to the Rate Stabilization Fund described below.

Net Remaining Revenues are defined in the Airline Agreement as equal to General Airport Revenues plus Other Available Funds less M&O Expenses less Annual Debt Service less the Coverage Amount for the current Fiscal Year less other required fund deposits or payments pursuant to Section 5.02 of the Trust Agreement (including required renewal and replacement expenditures and Subordinated Indebtedness, if any).

If the actual Net Remaining Revenues exceed the projected Net Remaining Revenues in the forecast shown in the Airline Agreement (the "Airport Forecast"), the airlines' share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9 million. Once the Rate Stabilization Fund has been fully funded, or in the event that the actual Net Remaining Revenues do not exceed the projected Net Remaining Revenues, the airlines' share of Net Remaining Revenues shall be applied as a credit to the Airline Terminal Requirement in the subsequent Fiscal Year, thus reducing passenger airline terminal rents for the following year.

5.3.4 Debt Service Coverage in Airline Rates

The Airline Agreement incorporates rolling debt service coverage. A debt service coverage amount equal to 25% of Debt Service less PFC Revenues used to pay such Debt Service is included in both the Terminal and Airfield revenue requirements each Fiscal Year. Debt service coverage amounts collected are set aside by the City and offset the debt service coverage charge in the following Fiscal Year.

5.3.5 Rate Stabilization Fund

Pursuant to Section 9.11 of the Airline Agreement, a Rate Stabilization Fund will be maintained by the City for the purpose of providing for potential future withdrawals from the Rate Stabilization Fund to be used as credits offsetting airline terminal rental payments and landing fees in order to help achieve targeted passenger airline cost per enplaned passenger levels at the Airport. The Rate Stabilization Fund is subject to a maximum balance requirement of $9.0 million.

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Any potential withdrawals for the purpose of meeting targeted passenger airline cost per enplaned passenger levels are subject to the availability of funds in the Rate Stabilization Fund.

As described in Section 9.11 of the Airline Agreement, in any Fiscal Year in which passenger airline cost per enplaned passenger is projected to be lower than originally targeted, the City may increase passenger airline cost per enplaned passenger (i.e., airline rates and charges) to the targeted level in order to replenish the Rate Stabilization Fund (subject to the $9 million maximum fund balance).

5.3.6 Airline Consideration of Capital Projects

Article 12 of the Airline Agreement contains specific provisions regarding including capital costs in the Terminal and Airfield cost centers. The City may undertake projects in cost centers other than the Airfield and Terminal cost centers without airline consideration. For Terminal and/or Airfield projects costing more than $5 million, the City may include capital costs in the respective cost center (once the projects are completed) if a MII of the Signatory Airlines does not disapprove of the project within 15 days after the City's meeting with the Signatory Airlines to discuss the proposed capital projects.

MII for the Airfield Cost and Revenue Center is defined in the Airline Agreement as such group of Signatory Airlines representing at least 50 percent of the Signatory Airlines and who together have paid at least 50 percent of the total Landing Fees paid by Signatory Airlines during the immediately preceding Fiscal Year. MII for the Terminal Cost and Revenue Center shall mean such group of Signatory Airlines representing at least 50 percent of the Signatory Airlines and who together have (a) paid at least 50 percent of the total Signatory Airline Terminal Rents for the immediately preceding Fiscal Year and (b) carried at least 50 percent of the enplaned passengers in the immediately preceding Fiscal Year. Airlines not signatory to the Airline Agreement will not have MII participation rights.

For Airfield or Terminal cost center projects that are disapproved by a MII, the City may proceed with the projects one year after the disapproval (and include the capital costs in the respective cost center following project completion).

Pursuant to Section 12.03 of the Airline Agreement, certain projects may be undertaken by the City at any time (without being subject to consideration by the Signatory Airlines) including, but not limited to:

- Projects funded directly or indirectly by PFCs, CFCs or grants
- Projects required by the FAA, the United States Department of Transportation, the TSA, or similar governmental authority, other than the City, having jurisdiction over the Airport
- Projects to repair certain casualty damage to Airport property
- Expenditures of an emergency nature
- Phase II of the Airport's Development Program, as identified in Exhibit K of the Airline Agreement, so long as specific airline and/or passenger activity triggers (as detailed in Section 12.03 of the Airline Agreement) have been met and specific airline cost per enplaned passenger targets are realized.

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5.3.7 Municipally-Funded Air Service Incentive Program

Pursuant to Article 11 of the Airline Agreement, a municipally-funded air service incentive program is to be established during the term of the Airline Agreement. Because the operation and management of the Airport are supported by a number of City departments, employees, and resources that are not directly charged to the Airport operating budget, the City allocates a percentage of its total indirect overhead expenses to the Airport operating budget. If in any year during the term of the Airline Agreement the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers nationwide (as measured by data published in the FAA Aviation Forecast or similar report/forecast if the FAA Aviation Forecast is no longer available), then the City shall reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next Fiscal Year by a corresponding percentage. Notwithstanding the foregoing provisions, the Airline Agreement provides that in no event will the City's indirect overhead expenses allocated to the Airport operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the term of the Airline Agreement. The City reserves the right to amend or terminate this incentive program after any increase in the number of gates at the Airport. For purposes of this report, no reductions in the City's indirect overhead expenses allocated to the Airport's operating budget have been assumed during the Projection Period.

5.4 Airport Funding Sources

As discussed in Chapter III of this report, the City intends to undertake future Airport projects only as they become required by airline traffic demand, are economically justified, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by discrete funding sources such as grants, PFCs, Airport funding, or other/third party funding and reasonable Airport user fees.

The Airport's 2012-2016 Capital Improvement Program (CIP) is estimated to cost approximately $59.1 million. Projects that comprise approximately 75 percent of the estimated CIP cost (the Completion of Taxiway W Improvements and the Non-Terminal Area Projects) are contingent upon the receipt of AIP grant funding expected from the FAA and the availability of other funding. As discussed below in Section 5.4.1, the City expects to receive approximately $29.2 million of AIP grant funding for the Completion of Taxiway W Improvements (approximately 49 percent of total CIP funding). The City expects to use approximately $8.2 million of Other Funds for the Non-Terminal Area Projects. If the AIP grant funds and Other Funds expected for these two projects are not available, the City expects to defer these projects until funding is obtained.

The City does not plan to use any of the proceeds of the Series 2011 Bonds for CIP projects and does not plan to issue any Airport Revenue Bonds during the Projection Period for CIP projects.

In addition to the funds described in the following sections, as discussed in Section 5.2.1 and in Chapter IV of this report, the City imposes a rental car customer facility charge on customers renting cars at the Airport and may designate CFC Revenues as Other Available Funds to help pay debt service and certain transportation expenses associated with the new ConRAC. While the Series 2011B Bonds are outstanding, the City plans to designate CFC Revenues as Other Available Funds.

5.4.1 FAA Airport Improvement Program Grants

The City expects to utilize both FAA Airport Improvement Program (AIP) entitlement and discretionary grants to fund certain CIP projects. In connection with costs estimated for the

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Completion of Taxiway W Improvements (equal to approximately 61 percent of total CIP costs), the City expects to receive approximately $29.2 million of AIP entitlement and discretionary grants. The timing of the Completion of Taxiway W Improvements is contingent upon receiving the expected AIP grant funding and the availability of Airport Funds to pay for the required local match.

The City also expects to receive approximately $700,000 of AIP grant funding in connection with other CIP projects. AIP grants are distributed to airport operators on a reimbursement basis.

The City currently receives approximately $1.8 million of AIP passenger entitlement grants per Federal Fiscal Year (FFY) ending September 30. The City previously committed these entitlement grant amounts along with certain AIP discretionary grants the City received in connection with a prior Letter of Intent for Airfield projects at the Airport (not included in Phase 1) that were funded in part with Series 2001 Bond proceeds.

The City received approximately $6.1 million of AIP grants in FY 2010 associated with taxiway and apron improvements at the Airport (not included in the CIP). The City also received approximately $5.2 million of AIP grant funding associated with the American Recovery and Reinvestment Act (ARRA) of 2009 for prior taxiway improvements at the Airport (not included in the CIP), but does not expect to receive any additional ARRA grant funding for projects in the CIP.

5.4.2 Passenger Facility Charges

The City received its first PFC approval from the FAA to impose a PFC in June 1992, and began collecting a $3.00 PFC on September 1, 1992. The City subsequently received FAA approval to increase its PFC level to $4.50 per eligible enplaned passenger and begin collecting at the $4.50 level on April 1, 2001. Pursuant to FAA regulations, the current $4.50 PFC level collected by the City results in a 75 percent reduction in AIP passenger entitlements.

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. The financial projections and the financing plan reflected in this report assume the City's current $4.50 PFC level is in place for the Projection Period. If the current $4.50 maximum PFC level is increased by Congress during the Projection Period, the City plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC Revenues to reduce the level of projected airline payments reflected in this report.

The City is currently authorized by the FAA to impose and use $1.065 billion of PFC Revenues (at the $4.50 PFC level), pursuant to various FAA approvals for specified pay-as-you-go projects and projects funded with bond proceeds (the debt service for which is to be paid with Available PFC Revenues). Through March 31, 2011, the City had collected $349.9 million of its total approved collection authority and had spent approximately $311.6 million on approved projects.

Pursuant to approvals previously received from the FAA, the City expects to use (but not pledge) certain approved PFC Revenues as Available PFC Revenues to pay a portion of the Debt Service associated with certain airfield and terminal projects already completed (funded in part with proceeds of the Outstanding Series 2001A Bonds, the Outstanding Series 2004 Bonds, the Outstanding Series 2007A Bonds, and commercial paper to be refunded with the proceeds of the Series 2011A-1 Bonds).

The City does not expect to use PFC Revenues for costs associated with projects included in the CIP.

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5.4.3 TSA 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 TSA grant funding in connection with CIP projects.

5.4.4 Internal Airport Funds

The City expects to use approximately $14.0 million of Airport Renewal and Replacement Fund amounts and internally-generated Airport Funds for costs associated with projects included in the CIP, including the required local match amounts for projects funded with AIP grants.

5.4.5 Other Funds

The City expects to use approximately $15.1 million of other funds for projects included in the CIP, including approximately $8.2 million for the Non-Terminal Area Projects. Other funds include third party funds and existing bond proceeds.

5.4.6 Commercial Paper

The City estimates that approximately $417.0 million of commercial paper will be outstanding at the time the Series 2011A-1 Bonds are issued (against a current borrowing limit of $481.1 million), and that approximately $129.6 million of that amount will be repaid from the proceeds of the Series 2011A-1 Bonds and $225.0 million will be repaid from the proceeds of the Series 2011B Bonds. The commercial paper is payable from General Airport Revenues on a subordinate basis to the Airport Revenue Bonds (including the Series 2011 Bonds).

For purposes of the projections reflected in this report, it has been assumed that certain commercial paper amounts issued for Phase 1 projects (other than the ConRAC) are not refunded with future Airport Revenue Bonds during the Projection Period—however, interest and certain principal associated with the commercial paper that remains outstanding is assumed to be paid each Fiscal Year of the Projection Period. Repayment of commercial paper that is assumed to remain outstanding during the Projection Period is based on a 30-year amortization period and 3.50 percent to 4.50 percent interest rates for taxable commercial paper, and a 30-year amortization period and 1.75 percent to 3.00 percent interest rates for tax-exempt commercial paper.

5.5 Planned Series 2011 Bonds

Table V-1 presents a listing of estimated sources and uses of funds for the planned Series 2011 Bonds, broken out into the Series 2011A-1 Bonds (AMT) and the Series 2011B Bonds (Taxable). A total of $407.9 million of Series 2011 Bond principal is estimated to be required to refund certain outstanding commercial paper related to previously-completed terminal improvements, to refund outstanding commercial paper associated with the new ConRAC, and to fund debt service reserve funds and to pay other costs of issuance.

The estimated sources and uses of funds and debt service for the planned Series 2011 Bonds were provided by Public Financial Management, co-financial advisor to the City, based on certain information provided by the City. Debt Service estimates for the planned Series 2011 Bonds are based on the following assumptions:

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Table V-1

Estimated Sources and Uses for Series 2011 Bonds

	Series 2011A-1 Bonds (AMT)	Series 2011B Bonds (Taxable)	Total
Sources:			
Par of bonds	$144,315,000	$263,570,000	$407,885,000
Premium	1,122,000	0	1,122,000
Total Sources	$145,437,000	$263,570,000	$409,007,000
Uses:			
Repayment of Outstanding Commerical Paper	$129,578,000	$225,000,000	$354,578,000
Capitalized Interest Fund Deposit	0	6,137,000	6,137,000
Debt Service Reserve Fund deposit	14,432,000	26,357,000	40,789,000
Coverage Fund deposit	0	3,924,000	3,924,000
Other costs of issuance	1,427,000	2,152,000	3,579,000
Total Uses	$145,437,000	$263,570,000	$409,007,000

Source: Public Financial Management, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

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- **Series 2011A-1 Bonds (AMT):**
  - Bond principal: $144.3 million
  - Issued to refund certain outstanding commercial paper related to previously-completed terminal improvements
  - First principal payment date: March 1, 2029
  - Final principal payment date: March 1, 2034
  - True interest cost: 6.87 percent
  - A portion of the proceeds of the Series 2011A-1 Bonds will fund a deposit to the Debt Service Reserve Fund

- **Series 2011B Bonds (Taxable):**
  - Bond principal: $263.6 million
  - Issued to refund outstanding commercial paper used to finance construction of the ConRAC which opened in June 2010
  - First principal payment date: March 1, 2012
  - Final principal payment date: March 1, 2041
  - True interest cost: 7.70 percent
  - A portion of the proceeds of the Series 2011B Bonds will fund a deposit to the Debt Service Reserve Fund
  - A portion of the proceeds of the Series 2011B Bonds will be used to fund approximately $6.1 million of capitalized interest.

5.6 Debt Service

Table V-2 presents actual and estimated Annual Debt Service for outstanding Airport Revenue Bonds and the planned Series 2011 Bonds for FY 2009 through FY 2017. As discussed in earlier sections of this chapter, Annual Debt Service is equal to Debt Service less Available PFC Revenues (as defined in the Trust Agreement). Table V-2 reflects Available PFC Revenues expected to be used by the City for certain Debt Service associated with the Series 2001A Bonds, the Series 2004 Bonds, the Series 2007A Bonds, and the Series 2011A-1 Bonds.

The debt service included in Table V-2 for the Series 2007A and 2007B Bonds reflects the City's intent to use certain unspent proceeds of the Series 2007A Bonds and 2007B Bonds and certain other Airport funds to defease a portion of the Series 2007A Bonds and 2007B Bonds. Specifically, the amounts in Table V-2 assume that unspent Series 2007A Bond proceeds and certain other funds will be applied to defease approximately $52.0 million of the Series 2007A Bonds, which will reduce total debt service on such bonds by approximately $38.4 million during the period from FY 2012 through 2017. The amounts in Table V-2 also assume that unspent Series 2007B Bond proceeds will be applied to reduce total debt service on the Series 2007B Bonds by approximately $29.0 million during the period from FY 2012 through FY 2017 (including the defeasance of approximately $9.6 million of principal on the Series 2007B Bonds).

As shown in Table V-2, Annual Debt Service is estimated to increase from approximately $26.8 million in FY 2010 to approximately $66.5 million in FY 2017.

Table V-2 also presents estimates of payments for debt service associated with Subordinated Obligations (commercial paper). Both Annual Debt Service and Subordinated Obligations payments are broken out by cost center.

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Table V-2

Annual Debt Service - Net of Capitalized Interest (Fiscal Years Ending June 30)

		Actual		Estimated	Projected					
		2009	2010	2011	2012	2013	2014	2015	2016	2017
Outstanding Series										
Series 1998A [1/]		$1,089,729	$1,097,241	$1,096,000	$1,106,000	$1,112,000	$1,116,000	$1,123,000	$1,128,000	$1,132,000
Series 2001A [1/]		10,560,440	9,832,518	10,553,000	10,557,000	10,555,000	10,553,000	10,556,000	10,554,000	10,556,000
Series 2002A		2,854,275	2,854,275	2,854,000	7,314,000	9,811,000	9,806,000	9,800,000	9,793,000	9,788,000
Series 2002B		6,973,250	6,965,750	6,979,000	2,499,000	0	0	0	0	0
Series 2004		1,036,723	2,791,161	5,722,000	6,429,000	6,379,000	6,329,000	6,279,000	6,233,000	6,180,000
Series 2007A [2/]		522,218	7,169,929	22,575,000	25,785,000	25,785,000	26,885,000	26,830,000	25,875,000	25,665,000
Series 2007B [2/]		0	656,196	4,933,000	4,337,000	0	6,337,000	6,242,000	7,543,000	8,539,000
Total Outstanding Series	[A]	$ 23,036,635	$31,367,070	$54,712,000	$58,027,000	$53,642,000	$61,026,000	$60,830,000	$61,126,000	$61,860,000
Planned Series 2011										
Series 2011A-1 (AMT)		$0	$0	$0	$5,884,000	$9,944,000	$9,944,000	$9,944,000	$9,944,000	$9,944,000
Series 2011B (Taxable) [3/]		0	0	0	14,763,000	16,169,000	17,589,000	19,206,000	19,788,000	20,230,000
Total Planned Series 2011	[B]	$0	$0	$0	$20,647,000	$26,113,000	$27,533,000	$29,150,000	$29,732,000	$30,174,000
Total Debt Service	[C = A + B]	$23,036,635	$31,367,070	$54,712,000	$78,674,000	$79,755,000	$88,559,000	$89,980,000	$90,858,000	$92,034,000
Less: Available PFC Revenues used to pay Debt Service										
Series 2001A		$0	$0	($8,370,000)	($10,057,000)	($10,555,000)	($10,553,000)	($10,556,000)	($10,554,000)	($10,556,000)
Series 2004		0	(2,244,000)	(3,359,000)	(1,783,000)	(2,108,000)	(1,884,000)	(2,252,000)	(2,441,000)	(2,407,000)
Series 2007A		0	(2,344,000)	(9,658,000)	(7,214,000)	(14,214,000)	(9,168,000)	(8,968,000)	(8,819,000)	(8,768,000)
Series 2011A-1			0	0	(2,676,000)	(3,191,000)	(2,877,000)	(3,470,000)	(3,792,000)	(3,774,000)
Total Available PFC Revenues	[D]	$0	($4,588,000)	($21,387,000)	($21,730,000)	($30,068,000)	($24,482,000)	($25,246,000)	($25,606,000)	($25,505,000)
Equals: Annual Debt Service	[E = C + D]	$23,036,635	$26,779,070	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Subordinated Commercial Paper [4/]										
Taxable for ConRAC		$0	$0	$9,297,000	$388,000	$0	$0	$0	$0	$0
Other		0	354,469	5,298,000	3,885,000	4,141,000	4,870,000	4,870,000	5,091,000	5,091,000
Total Subordinated Commercial Paper	[F]	$0	$354,469	$14,595,000	$4,273,000	$4,141,000	$4,870,000	$4,870,000	$5,091,000	$5,091,000
Annual Debt Service plus Subordinated Commercial Paper	[G = E + F]	$23,036,635	$27,133,539	$47,920,000	$61,217,000	$53,828,000	$68,947,000	$69,604,000	$70,343,000	$71,620,000
Annual Debt Service allocation										
Airfield		$10,560,440	$9,832,518	$3,600,000	$1,684,000	$1,142,000	$1,215,000	$1,210,000	$1,217,000	$1,222,000
Terminal		3,462,575	7,066,901	14,460,000	29,056,000	26,783,000	33,190,000	32,324,000	30,980,000	30,837,000
Parking & Roadway		8,970,798	9,407,887	13,833,000	25,705,000	21,565,000	29,018,000	30,553,000	32,319,000	33,666,000
Other cost centers		42,822	471,764	1,432,000	499,000	197,000	654,000	647,000	736,000	804,000
Total Annual Debt Service	[E]	$23,036,635	$26,779,070	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Subordinated Commercial Paper allocation										
Airfield		$0	$0	$280,000	$292,000	$312,000	$332,000	$332,000	$336,000	$336,000
Terminal		0	354,469	3,341,000	1,291,000	1,376,000	1,462,000	1,462,000	1,282,000	1,282,000
Parking & Roadway		0	0	10,397,000	2,079,000	1,805,000	1,919,000	1,919,000	2,281,000	2,281,000
Other cost centers		0	0	577,000	611,000	648,000	1,157,000	1,157,000	1,192,000	1,192,000
Total	[F]	$0	$354,469	$14,595,000	$4,273,000	$4,141,000	$4,870,000	$4,870,000	$5,091,000	$5,091,000

Notes:

1/ Does not incorporate potential Debt Service savings associated with possible refunding being contemplated by the City.

2/ Reflects the City's expected use of unspent Series 2007A and Series 2007B bond proceeds to pay debt service on each respective series.

3/ CFC Revenues and rental car Facility Rent are expected to be sufficient to pay this Debt Service (associated with Bonds expected to repay commercial paper issued to fund the ConRAC).
CFC Revenues are included as Other Available Funds (see Table V-8) and rental car Facility Rent is included as nonairline revenues as part of General Airport Revenues (see Table V-4).

4/ FY 2012 to FY 2017 payments reflect the repayment of certain outstanding Subordinated Commercial Paper with the proposed Series 2011 Bonds. Letter of credit fees are included in M&O Expenses on Table V-3.

Source: City of San José (Outstanding debt service information and PFCs applied to debt service); Public Financial Management (Series 2007 Bonds and Series 2011 Bonds), May 2011.

Prepared by: Ricondo & Associates, Inc. May 2011.

5.7 Maintenance and Operation Expenses

Table V-3 presents M&O Expenses for the Airport for actual FY 2009 and FY 2010, estimated FY 2011, proposed budget FY 2012, and projected FY 2013 through FY 2017, based on the definition of M&O Expenses in the Trust Agreement. Projections of M&O Expenses were based on the proposed FY 2012 budget. Projections were based on a review of historical trends, the proposed FY 2012 budget, assumed inflation (discussed below), and the City's ongoing efforts to reduce M&O Expenses.

M&O Expenses are categorized by direct cost centers (including Terminal, Airfield, Parking & Roadway, and General & Non-Aviation) and indirect cost centers (including General & Administration, Aircraft Rescue & Firefighting, and Police). Expenses reflected for each cost center include amounts for Personal Services, Contractual Services, Utilities, Materials, Supplies, and Other expenses.

Letter of credit (LOC) fees associated with the Airport's commercial paper program are also reflected on Table V-3. Based on LOC reimbursement agreements, LOC fees are subordinated obligations and are not to be incorporated for the purposes of calculating debt service coverage for Airport Revenue Bonds. LOC fees are reflected on Table V-3 and later on Table V-8 (Summary of Airport Revenues, Expenses, and Other Costs) as an expense for accounting purposes, but are reflected as a subordinated obligation in the calculation of overall debt service coverage in Table V-9 (Annual Debt Service Coverage). The discussion of expenses in the paragraphs below is based on M&O Expenses excluding LOC fees.

For rate-setting purposes, all M&O Expenses are allocated to direct Airport cost centers.

In response to substantial decreases in airline activity at the Airport beginning in FY 2008 (as discussed in detail in Chapter II of this report), the City has reduced M&O Expenses substantially relative to both budgeted amounts and to prior year actual M&O Expenses. Reductions in M&O Expenses have included substantial reductions in Airport staffing levels and associated overhead, building rent, other post-employment benefits (OPEB) costs, and other expenses. Actual FY 2010 M&O Expenses were 8.8 percent lower than actual FY 2009 M&O Expenses and approximately 12.7 percent lower than budgeted FY 2010 M&O Expenses. Between FY 2008 and FY 2010, the City reduced M&O Expenses at an average annual rate of 4.8 percent.

As shown on Table V-3, M&O Expenses decreased to $87.3 million in FY 2010 and are estimated to decrease to $84.6 million in FY 2011, a 3.1 percent decrease. M&O Expenses reflected for the proposed FY 2012 budget, at $76.9 million, are approximately $7.7 million (or 9.1 percent) lower than M&O Expenses estimated for FY 2011.

M&O Expenses reflected for the proposed FY 2012 budget incorporate certain proposed actions by the City including the reduction of certain custodial staff and the outsourcing Police and Aircraft Rescue and Firefighting (ARFF) services at the Airport assumed to begin February 2012. The City is reviewing alternatives to the full outsourcing of law enforcement services at the Airport as incorporated in the proposed FY 2012 budget. The City has 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 proposed budget amount (based on outsourcing beginning February 2012) and the estimated cost of Fire Department

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Table V-3

Maintenance and Operation Expenses (Fiscal Years Ending June 30) [1/]

	Actual		Estimated	Proposed Budget	Projected				
	2009	2010 [2/]	2011 [3/]	2012 [4/]	2013 [5/]	2014	2015	2016	2017
Maintenance and Operation (M&O) Expenses									
Terminal (Direct)	$20,033,920	$19,915,548	$21,054,000	$22,112,000	$22,554,000	$23,005,000	$23,465,000	$23,934,000	$24,413,000
Airfield (Direct)	5,874,463	5,186,033	5,760,000	5,915,000	6,033,000	6,154,000	6,277,000	6,403,000	6,531,000
Parking & Roadway (Direct)	25,049,350	21,423,167	21,678,000	21,141,000	21,563,000	21,995,000	22,435,000	22,884,000	23,342,000
General & Non Aviation (Direct)	1,543,247	1,269,567	1,067,000	1,012,000	1,032,000	1,053,000	1,074,000	1,095,000	1,117,000
General & Administration	26,312,231	23,203,363	20,533,000	18,649,000	18,602,000	18,762,000	18,929,000	19,104,000	19,487,000
Aircraft Rescue and Firefighting (ARFF)	4,881,652	4,070,275	3,496,000	3,089,000	1,684,000	1,696,000	1,736,000	1,779,000	1,813,000
Police	12,063,732	11,527,994	11,012,000	5,004,000	4,446,000	4,533,000	4,622,000	4,712,000	4,804,000
Airport West Land Lease	(62,511)	681,543	0	0	0	0	0	0	0
M&O Expenses Excluding Letter of Credit (LOC) Fees	**$95,696,084**	**$87,277,490**	**$84,600,000**	**$76,922,000**	**$75,914,000**	**$77,198,000**	**$78,538,000**	**$79,911,000**	**$81,507,000**
Annual % change	-0.7%	-8.8%	-3.1%	-9.1%	-1.3%	1.7%	1.7%	1.7%	2.0%
CAGR FY 2012 - FY 2017									1.2%
LOC Fees [6/]	240,629	0	5,714,000	2,100,000	$2,142,000	$2,185,000	$2,229,000	$2,274,000	$2,319,000
M&O Expenses Including LOC Fees	$95,936,713	$87,277,490	$90,314,000	$79,022,000	$78,056,000	$79,383,000	$80,767,000	$82,185,000	$83,826,000
Allocation to Direct Cost Centers									
Airfield	$16,148,210	$14,130,551	$14,158,000	$12,917,000	$11,857,000	$12,030,000	$12,228,000	$12,434,000	$12,681,000
Terminal	39,263,932	37,488,057	38,004,000	34,401,000	34,328,000	34,906,000	35,500,000	36,108,000	36,829,000
Parking & Roadways	36,068,290	30,980,717	34,481,000	28,975,000	29,312,000	29,847,000	30,394,000	30,952,000	31,571,000
Other	4,456,281	4,678,164	3,671,000	2,729,000	2,559,000	2,600,000	2,645,000	2,691,000	2,745,000
	$95,936,713	$87,277,490	$90,314,000	$79,022,000	$78,056,000	$79,383,000	$80,767,000	$82,185,000	$83,826,000

Notes:

1/ M&O Expenses Including LOC Fees reflected on this table for FY 2009 and FY 2010 are approximately $5.2 million and $4.7 million higher, respectively, than Adjusted Maintenance and Operation Expenses reflected in Table 14 of Appendix A in the Official Statements for the Series 2011 Bonds because transportation expenses associated with the ConRAC are reflected in this table (under Parking & Roadway) but are deducted in Table 14 of Appendix A under the row "Maintenance and operation expenses paid from sources other than General Airport Revenues."

2/ FY 2010 reflects the expansion of Terminal A and the initial gates of the North Concourse coming online.

3/ FY 2011 reflects the remaining gates of the North Concourse/Terminal B coming online.

4/ FY 2012 reflects reduced General & Administration expenses for Airport offices, and 5 months of contracted Police and ARFF services.

5/ FY 2013 reflects first full year of contracted Police and ARFF services.

6/ LOC Fees associated with the Airport's Commerical Paper (CP) Program, net of capitalized fees. Based on LOC reimbursement agreements, LOC Fees are subordinated obligations and are not to be incorporated for the purposes of calculating debt service coverage for Airport Revenue Bonds. LOC Fees are reflected on this table and on Table V-8 as an expense for accounting purposes, but are reflected on Table V-9 as a subordinated obligation in the calculation of overall debt service coverage. FY 2011 LOC Fees include approximately $3.6 million of fees associated with CP used to fund the ConRAC.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

staff through June 30, 2013. Any portion of expenses for ARFF services that would be paid for by the SAFER grant would not be defined as M&O Expenses and are not included on Table V-3. The Police Department and Fire Department will continue to provide public safety services at the Airport until any service transitions take place.

Projections of M&O Expenses for FY 2013 through FY 2017 were based on the following:

- M&O Expenses associated with the outsourcing of Police services at the Airport are estimated by the City to decrease approximately $560,000 in FY 2013 (based on a full Fiscal Year of such outsourcing) and then increase annually with inflation.
- M&O Expenses associated with the ARFF services at the Airport are estimated by the City to decrease approximately $1.4 million in FY 2013 (based on a full Fiscal Year of ARFF expenses being paid in part with the SAFER grant) and then in FY 2014 through FY 2017 it is assumed that ARFF services would be outsourced and associated expenses would increase annually with inflation.
- 2.0 percent annual general expense inflation.
- The City does not expect any of the projects included in the CIP to have a material impact on future M&O Expenses, and no M&O Expenses have been incorporated for future projects during the Projection Period.

M&O Expenses are projected to increase from $76.9 million reflected in the proposed FY 2012 budget to approximately $81.5 million in FY 2017, representing a CAGR of 1.2 percent.

M&O Expenses Including LOC Fees reflected in Table V-3 for FY 2009 and FY 2010 are approximately $5.2 million and $4.7 million higher, respectively, than Adjusted Maintenance and Operation Expenses reflected in Table 14 of Appendix A in the Official Statements for the Series 2011 Bonds because operating costs associated with transporting passengers between the terminals and the ConRAC are reflected in Table V-3 (under Parking and Roadway) but are not included in Table 14 of Appendix A.

5.8 Nonairline Revenues

Table V-4 presents nonairline revenues at the Airport by category for actual FY 2009, actual FY 2010, estimated FY 2011, proposed budget FY 2012, and projected FY 2013 through FY 2017.

Between FY 2004 and FY 2006, nonairline revenues at the Airport increased at a CAGR of 5.1 percent. Between FY 2007 and FY 2010, as passenger activity at the Airport decreased significantly, nonairline revenues at the Airport decreased at an average annual rate of 6.0 percent. In FY 2010, total nonairline revenues accounted for 56.8 percent of General Airport Revenues. Projections of nonairline revenues were based on the proposed FY 2012 budget. In general, projections of future nonairline revenues were based on a review of historical trends; proposed FY 2012 budget amounts; the anticipated impacts of inflation; expected rate increases; minimum annual guarantees (MAGs) and other business terms of relevant agreements; and projected growth in passenger activity. Specific points concerning these projections are discussed in the following sections.

5.8.1 Terminal Nonairline Revenues

Terminal nonairline revenues include food & beverage revenues, retail merchandise revenues, advertising revenues, and other revenues (which include telephone/antenna lease revenues, space

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Table V-4

Nonairline Revenues (Fiscal Years Ending June 30)

	Actual		Estimated	Proposed Budget	Projected				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Terminal									
Food & beverage [1/]	$2,034,355	$2,163,738	$4,885,000	$4,885,000	$4,885,000	$4,885,000	$4,885,000	$4,885,000	$4,885,000
Retail merchandise [1/]	1,291,479	1,604,766	3,620,000	3,620,000	3,620,000	3,620,000	3,620,000	3,620,000	3,620,000
Advertising [1/]	4,575,000	3,776,183	4,222,000	4,222,000	4,222,000	4,222,000	4,222,000	4,222,000	4,222,000
Other [2/]	4,046,327	3,612,259	4,065,000	3,205,000	3,317,000	3,433,000	3,554,000	3,678,000	3,805,000
Total Terminal	$11,947,161	$11,156,946	$16,792,000	$15,932,000	$16,044,000	$16,160,000	$16,281,000	$16,405,000	$16,532,000
Ground Transportation									
Automobile parking	$24,372,171	$21,894,313	$22,846,000	$24,390,000	$25,333,000	$26,338,000	$27,431,000	$28,561,000	$29,785,000
Rental car concession fees	14,763,847	11,770,400	12,463,000	12,171,000	12,608,000	13,074,000	13,582,000	14,105,000	14,672,000
Rental car Facility Rent [3/]	1,651,109	1,563,739	10,295,000	7,385,000	7,504,000	7,445,000	7,297,000	7,325,000	7,403,000
Rental car rentals and utilities	1,410,775	1,386,576	1,303,000	1,467,000	1,518,000	1,571,000	1,626,000	1,683,000	1,742,000
Other ground transportation [4/]	2,049,284	2,319,325	2,429,000	2,408,000	2,482,000	2,561,000	2,648,000	2,736,000	2,832,000
Total Ground Transportation	$44,247,186	$38,934,353	$49,336,000	$47,821,000	$49,445,000	$50,989,000	$52,584,000	$54,410,000	$56,434,000
Airfield									
Airfield area revenues [5/]	$2,099,705	$1,887,699	$1,925,000	$1,956,000	$2,024,000	$2,095,000	$2,168,000	$2,244,000	$2,323,000
Air carrier parking	290,281	231,364	248,000	253,000	262,000	271,000	280,000	290,000	300,000
In-flight kitchen revenues	780,574	672,428	781,000	775,000	775,000	775,000	775,000	775,000	775,000
Total Airfield	$3,170,560	$2,791,491	$2,954,000	$2,984,000	$3,061,000	$3,141,000	$3,223,000	$3,309,000	$3,398,000
Other									
Land rentals [6/]	$3,773,253	$3,919,406	$3,509,000	$3,492,000	$3,614,000	$3,740,000	$3,871,000	$5,806,000	$6,009,000
Petroleum Program revenues	1,473,647	1,309,532	1,453,000	1,482,000	1,534,000	1,588,000	1,644,000	1,702,000	1,762,000
Interest income	1,609,381	814,623	358,000	204,000	211,000	218,000	226,000	234,000	242,000
Other [7/]	5,960,810	2,447,551	2,584,000	3,101,000	3,210,000	3,323,000	3,440,000	3,560,000	3,684,000
Total Other	$12,817,091	$8,491,112	$7,904,000	$8,279,000	$8,569,000	$8,869,000	$9,181,000	$11,302,000	$11,697,000
Total Nonairline Revenues [8/]	$72,181,998	$61,373,902	$76,986,000	$75,016,000	$77,119,000	$79,159,000	$81,269,000	$85,426,000	$88,061,000
Annual % change	-3.6%	-15.0%	25.4%	-2.6%	2.8%	2.6%	2.7%	5.1%	3.1%
CAGR FY 2012 - FY 2017									3.3%

Notes:

1/ Reflects minimum annual guarantee for FY 2011 through FY 2017 (constant).
2/ Includes Phone, space rent, and International Arrival Facility
3/ Amount required to be paid by rental car companies in connection with rental car portion of ConRAC. This amount decreases in FY 2012 as a result of increased CFC revenues.
4/ Includes taxi and other ground transportation revenues.
5/ Includes ground support concessions, ground support storage fees, pavement fees, and utility fees.
6/ Assumes a $1.8 million dollar increase in Land Rentals in FY 2016.
7/ Includes general aviation hangars, belly freight space rents, rented buildings, and other General Aviation and Non-Aviation revenues.
8/ Nonairline revenues reflected in Table V-4 for FY 2009 and FY 2010 are different than Other Operating Revenues reflected in Table 12 of Appendix A in the Official Statements for the Series 2011 Bonds because (1) certain revenue items reflected in Table 12 of Appendix A (including CFC Revenues) are not defined as General Airport Revenues under the Trust Agreement and are not incorporated in Table V-4 and (2) certain revenue items reflected on Table V-4 (including Facility Rent and interest income) that are defined as General Airport Revenues under the Trust Agreement are not incorporated in Table 12 of Appendix A because they are reflected as non-operating revenues in Appendix A.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
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rents, utility fees, Federal Inspection Services fees, and security fees). In FY 2010, terminal nonairline revenues of $11.2 million accounted for 10.3 percent of General Airport Revenues.

Between FY 2003 and FY 2010, terminal nonairline revenues increased at a CAGR of 6.1 percent. Total terminal nonairline revenues are projected to increase at a CAGR of 0.7 percent between FY 2012 and FY 2017 based primarily on the assumption that food & beverage, retail merchandise, and advertising revenues will remain constant at the proposed FY 2012 budget amounts (equal to the MAGs) as discussed below:

- Food and Beverage and Retail Merchandise. Food and beverage and retail services at the Airport are provided by three concessionaires (Areas, Host, and Hudson) under four separate agreements, each of which expires in June 2020. Each food and beverage and retail 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. The financial projections assume that revenues paid to the City for food and beverage and retail will remain at the MAG throughout the Projection Period.
- Advertising. The City has an Airport Advertising Concession Agreement with Clear Channel Outdoor, Inc., ("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. Clear Channel pays the City the greater of a MAG or a percentage of advertising revenues. The financial projections assume advertising revenue paid to the City will remain at the MAG throughout the Projection Period.
- Other Terminal Revenues. The City issues licenses for the operation of news racks 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. The financial projections assume other terminal revenues to increase 3.5 percent annually based on traffic growth and inflation.

Effective July 12, 2011, the City plans to temporarily deactivate six gates in the Terminal A+ extension and shift airline operations associated with those gates to gates in Terminal A and the International Arrivals Facility. This shift is expected to concentrate passenger activity in areas with a wider variety of concession choices and increase sales at concession locations in Terminal A. In conjunction with the temporary deactivation of gates in the Terminal A+ extension, the City is amending the contract with Host to allow for the deactivation of certain concessions facilities in the Terminal A+ extension, and to decrease associated MAGs. The City estimates that Terminal concession revenues will decrease by approximately $350,000 (relative to the proposed FY 2012 budget) in connection with the temporary deactivation and the contract amendments. The estimated $350,000 reduction has not been incorporated in the financial projections in this report and is not expected to have a material impact on financial results. Should the Terminal A+ gate deactivation last more than four years, the associated MAGs would be permanently reduced and the City would be required to compensate Host for remaining unamortized capital investment in an amount estimated by the City to be approximately $900,000. It has been assumed for purposes of the

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financial projections that any required compensation related to unamortized capital investment would be made from internally-generated Airport Funds.

5.8.2 Automobile Parking Revenues

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 current contract has been extended through October 31, 2011, and provides that AMPCO will be paid a management fee equal to 15.9% of net parking receipts. The City has issued a request for proposals for a new parking management agreement (with submissions due in June 2011).

In FY 2010, parking revenues of $21.9 million represented approximately 20.3 percent of General Airport Revenues.

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 charge of $30.00 for the first 24 hours followed by $30.00 per day flat rates per 24 hour period or portions thereof. A $22.00 per day flat rate is charged in the daily parking lots, and a $15.00 per day flat rate is charged in the economy lot to reflect new parking lot configurations of hourly, daily, and economy parking.

Parking revenues are estimated to increase approximately 4.3 percent in FY 2011, and proposed FY 2012 budget parking revenues are estimated to increase 6.8 percent from FY 2011. As shown on Table V-4, parking revenues are projected to increase from $24.4 million in FY 2012 to $29.8 million in FY 2017, at a CAGR of 4.1 percent, based on projected growth in O&D enplaned passengers and 1.0 percent to 2.0 percent annual increases in parking revenues per O&D passenger based on expectations of higher revenues related to the new parking fee structure. No parking rate changes or increases subsequent to the June 2011 changes have been assumed for the Projection Period. Based on the projections, parking revenues will reach the actual FY 2008 parking revenue amount of approximately $29.4 million again in FY 2017.

5.8.3 Rental Car Revenues

The City opened the ConRAC in June 2010. Each of the five rental car companies that currently operate from the ConRAC (the Airport Rental Car Companies) executed a Rental Car Operations Agreement and Lease (the Rental Car Agreement) with the City in February 2008 for operations at the ConRAC. The Rental Car Agreements expire in May 2020, subject to two additional ten-year terms upon the mutual agreement of the parties.

The Rental Car Agreement requires the Airport Rental Car Companies to conduct all of their operations serving Airport customers at the ConRAC. The Rental Car Agreement also requires the Airport Rental Car Companies to pay certain concession fees, Facility Rent, and ground rent/utility amounts to the City which are included in General Airport Revenues. Rental car concession fees, Facility Rent, and ground rent/utility amounts are included in General Airport Revenues under the Trust Agreement and are reflected on Table V-4. In FY 2010, rental car concession revenues, Facility Rent, and ground rent/utility amounts (totaling $14.7 million) represented approximately 13.6 percent of General Airport Revenues.

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Pursuant to the Rental Car Agreement, for a given Fiscal Year, the Airport Rental Car Companies pay the City a concession fee equal to the greater of a MAG or 10 percent of gross revenues. In addition, the Airport Rental Car Companies must pay Facility Rent equal to the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the Rental Car Agreement.

In addition, the Rental Car Agreement requires the Airport Rental Car Companies to collect and remit a CFC as described in detail in Chapter IV of this report. The Airport Rental Car Companies must itemize the CFC as a separate charge on its customers' rental agreements or invoices. CFC Revenues are not included in General Airport Revenues under the Trust Agreement, but can be designated by the City as Other Available Funds (as reflected on Table V-8). See Chapter IV of this report for more information regarding CFC Revenues.

Between FY 2003 and FY 2008, rental car concession fees increased at a CAGR of 5.9 percent. Rental car concession fees decreased substantially in FY 2009 and FY 2010 as a result of reduced passenger activity at the Airport. During this time, various terminal area roadway and terminal construction at the Airport may have also had a negative impact on rental car revenues. Rental car concession fees are estimated to increase 5.9 percent in FY 2011, and are expected to decrease slightly for the proposed FY 2012 budget.

Specific assumptions incorporated in the projections of rental car revenues paid to the City include:

- Rental Car concession fees per O&D deplaned passenger are budgeted at $2.92 in FY 2012 (a slight decrease), and are projected to increase 1.5 percent annually to $3.15 in FY 2017. Rental car concession fees per O&D deplaned passenger grew more than 9.2 percent each Fiscal Year between FY 2006 and FY 2009, decreased by 14.6 percent in FY 2010, and are estimated to increase 3.7 percent in FY 2011.
- Facility Rent is calculated as the sum of annual debt service associated with the ConRAC, plus any coverage and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating expenses associated with transportation of passengers between the terminals and the ConRAC. For purposes of the financial projections, amortization related to the City's cost to demolish the previous temporary common use rental car facilities at the Airport has not been included in the calculation of Facility Rent.
- Rental car ground rent and utilities are assumed to increase 3.5 percent annually based on projected passenger growth and inflation.

As shown on Table V-4, rental car concession fees are projected to increase from $12.2 million in FY 2012 to $14.7 million in FY 2017, at a CAGR of 3.8 percent. Based on the projection, rental car concession revenues will almost reach the actual FY 2009 concession revenues of approximately $14.8 million in FY 2017.

Facility Rent is projected to remain relatively flat at approximately $7.4 million from FY 2012 to FY 2017. Rental car ground rent and utilities are projected to increase from $1.5 million in FY 2012 to $1.7 million in FY 2017.

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When combined, rental car concession fees, Facility Rent, and ground rent/utility amounts are projected to increase from $21.0 million in FY 2012 to $23.8 million in FY 2017, at a CAGR of 2.5 percent.

5.8.4 Other Ground Transportation Revenues

Other Ground Transportation Revenues include taxi revenues and miscellaneous transportation fees paid to the City (including courtesy shuttle fees). In FY 2010, other ground transportation revenues represented approximately 2.1 percent of General Airport Revenues. Other Ground Transportation Revenues are projected to increase from $2.4 million in FY 2012 to $ 2.8 million in FY 2017, at a CAGR of 3.3 percent, assuming a 1.0 percent annual increase in Other Ground Transportation Revenues per O&D enplaned passenger.

5.8.5 Airfield Nonairline Revenues

Airfield nonairline revenues include inflight kitchen revenues, air carrier parking revenues, ground support concession revenues, ground support storage fees, pavement fees, and utility fees. In FY 2010, airfield nonairline revenues represented approximately 2.6 percent of General Airport Revenues. Airfield nonairline revenues are projected to increase from $3.0 million in FY 2012 to $3.4 million in FY 2017 representing a CAGR of 2.6 percent.

5.8.6 Other Nonairline Revenues

Other nonairline revenues include land rentals, petroleum program revenues (associated with aircraft fueling), interest income, general aviation hangar rentals, belly freight space rentals, rented buildings, and other general aviation and non-aviation revenues. In FY 2010 other nonairline revenues represented approximately 7.9 percent of General Airport Revenues.

Other nonairline revenues are projected to increase from $8.3 million in FY 2012 to $11.7 million in FY 2017, representing a CAGR of 12.3 percent. Excluding the assumed increase in Land Rental revenues in FY 2016, other nonairline revenues are projected to increase at a CAGR of 3.6 percent.

Total nonairline revenues reflected on Table V-4 are projected to increase from approximately $75.0 million in FY 2012 to approximately $88.1 million in FY 2017, at a CAGR of 3.3 percent.

Nonairline revenues reflected in Table V-4 for FY 2009 and FY 2010 are different than Other Operating Revenues reflected in Table 12 of Appendix A in the Official Statements for the Series 2011 Bonds because (1) certain revenue items reflected in Table 12 of Appendix A (including CFC Revenues) are not defined as General Airport Revenues under the Trust Agreement and are not incorporated in Table V-4 and (2) certain revenue items reflected on Table V-4 (including Facility Rent and interest income) that are defined as General Airport Revenues under the Trust Agreement are not incorporated in Table 12 of Appendix A because they are reflected as non-operating revenues in Appendix A.

5.9 Airline Revenues

Airline revenues generated by the Airport include terminal rentals and landing fees (payable by the airlines). The rate-setting formulas for these revenues are summarized below. For purposes of the financial projections in this report, it was assumed that all current Signatory Airlines serving the Airport would be Signatory Airlines under the Airline Agreement through the Projection Period.

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5.9.1 Terminal Rental Rate

Table V-5 presents the calculation of Signatory Airline terminal rental rates for FY 2012 through FY 2017, under the terminal rate methodology contained in the Airline Agreement. The terminal rate methodology contained in the Airline Agreement is based on a compensatory rate-making approach, using terminal rentable space as the divisor (as described in detail below).

Pursuant to Section 9.03 of the Airline Agreement, the Terminal Revenue Requirement is calculated by computing the sum of the following budgetary items for each Fiscal Year:

(a) Debt service allocable to Terminal capital projects funded from Bonds or Subordinated Indebtedness net of any PFC Revenues used to pay such debt service (note that Debt Service is defined in the Airline Agreement as net of such PFC Revenues, and is defined in the Trust Agreement before netting out such PFC Revenues); plus

(b) the Coverage Amount applicable to the debt service amount calculated pursuant to subsection (a) above (i.e., Coverage Amount calculated on debt service net of applicable PFC Revenues); plus

(c) the annual Operating Expenses allocable to the Terminal; plus

(d) an amount equal to (i) the total deposits needed to replenish the Bond Reserve Fund to required levels times (ii) a fraction, the numerator of which is the total amount of Net Bond Proceeds allocable to the Terminal and the denominator of which is the total amount of Net Bond Proceeds; plus

(e) the share of annual costs for renewal and replacement allocable to the Terminal; less

(f) any grant amounts used to pay debt service; less

(g) the Coverage Amount calculated pursuant to subsection (b) above for the immediately preceding Fiscal Year.

The Terminal Revenue Requirement is then divided by the total amount of Rentable Terminal Space. The resulting rate is then multiplied by the total square feet of Airline Premises at the Airport, yielding the Airline Terminal Revenue Requirement. In accordance with Section 9.10 of the Airline Agreement regarding revenue sharing (as discussed in detail in Section 5.3.3 of this report), the City shall credit the airline share of any Net Remaining Revenues (defined earlier in Section 5.3.3) against the Airline Terminal Revenue Requirement (subject to certain adjustments), yielding the Net Airline Terminal Revenue Requirement.

The Net Airline Terminal Revenue Requirement is projected to increase from $34.9 million in FY 2012 to $45.6 million in FY 2017. The average airline terminal rental rate is projected to increase from $140.13 in FY 2012 to $183.02 in FY 2017. The average airline terminal rental rate reflected for FY 2012 is lower than the City's proposed FY 2012 budget rate of $153.20 because debt service for Airport Revenue Bonds was adjusted downward since the time the City's FY 2012 Budget was prepared.

5.9.2 Landing Fee Rate

Table V-6 presents the calculation of landing fee rates budgeted for FY 2012 and projected for FY 2013 through FY 2017, under the landing fee rate methodology contained in the Airline Agreement.

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Table V-5

Average Terminal Rental Rate Calculation (Fiscal Years Ending June 30)

		Projected					
		2012	2013	2014	2015	2016	2017
Terminal Revenue Requirement							
Maintenance and Operation Expenses		$34,401,000	$34,328,000	$34,906,000	$35,500,000	$36,108,000	$36,829,000
Annual Debt Service [1/]		29,056,000	26,783,000	33,190,000	32,324,000	30,980,000	30,837,000
Annual Debt Service Coverage Amount (25%)		7,264,000	6,696,000	8,298,000	8,081,000	7,745,000	7,709,000
Less: Annual Debt Service Coverage Amount (from Prior Fiscal Year)		(3,615,000)	(7,264,000)	(6,696,000)	(8,298,000)	(8,081,000)	(7,745,000)
Subordinated Commercial Paper		1,291,000	1,376,000	1,462,000	1,462,000	1,282,000	1,282,000
Subordinated Commercial Paper Coverage Amount (20%)		258,000	275,000	292,000	292,000	256,000	256,000
Less: Subordinated Commercial Paper Coverage Amount (from Prior Fiscal Year)		(668,000)	(258,000)	(275,000)	(292,000)	(292,000)	(256,000)
Less: Unspent 2004 Bond Proceeds		(4,452,000)	(717,000)	0	0	0	0
Renewal and Replacement Expenditures		1,645,000	1,645,000	1,645,000	1,645,000	1,645,000	1,645,000
Terminal Revenue Requirement	[A]	$65,180,000	$62,864,000	$72,822,000	$70,714,000	$69,643,000	$70,557,000
Total Rentable Space (sq.ft.)	[B]	350,827	350,827	350,827	350,827	350,827	350,827
Average cost per sq. ft.	[C = A / B]	$185.79	$179.19	$207.57	$201.56	$198.51	$201.12
Airline rented space	[D]	249,245	249,245	249,245	249,245	249,245	249,245
Airline Terminal Revenue Requirement	[E = C * D]	$46,307,000	$44,662,000	$51,736,000	$50,239,000	$49,478,000	$50,127,000
Less: Adjustment to Airline Requirement	[F]	0	0	(700,000)	(2,300,000)	(1,400,000)	0
Less: True-up Credit for FY 2010	[G]	(5,286,000)	0	0	0	0	0
Less: Airlines' share of Net Remaining Revenues from prior Fiscal Year [2/]	[H]	(6,095,000)	(5,172,000)	(8,885,000)	(4,556,000)	(3,650,000)	(4,510,000)
Net Airline Terminal Revenue Requirement	[I = E + F + G + H]	$34,926,000	$39,490,000	$42,151,000	$43,383,000	$44,428,000	$45,617,000
Airline rented space	=[D]	249,245	249,245	249,245	249,245	249,245	249,245
Average terminal rental rate [3/]	[J = I / D]	$140.13	$158.44	$169.11	$174.06	$178.25	$183.02

Notes:
1/ Amounts shown are net of Available PFC Revenues used to pay Debt Service. See Table V-2.
2/ See Table V-8.
3/ The City's FY 2012 Budget reflects an average terminal rental rate of $153.20. The rate calculated in this table is lower because debt service for Airport Revenue Bonds has been adjusted downward since the time the City's FY 2012 Budget was prepared.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
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Table V-6

Calculation of Required Landing Fees (Fiscal Years Ending June 30)

		Proposed Budget	Projected				
		2012	2013	2014	2015	2016	2017
Airfield Cost							
Maintenance and Operation Expenses		$12,917,000	$11,857,000	$12,030,000	$12,228,000	$12,434,000	$12,681,000
Annual Debt Service [1/]		1,684,000	1,142,000	1,215,000	1,210,000	1,217,000	1,222,000
Annual Debt Service Coverage Amount (25%)		421,000	286,000	304,000	303,000	304,000	306,000
Subordinated Commercial Paper		292,000	312,000	332,000	332,000	336,000	336,000
Subordinated Commercial Paper Coverage Amount (20%)		58,000	62,000	66,000	66,000	67,000	67,000
Replenish/(Deposit From) Rate Stabilization Fund		100,000	(100,000)	0	0	0	0
Renewal and Replacement Expenditures		1,953,000	1,953,000	1,953,000	1,953,000	1,953,000	1,953,000
Total Airfield costs	[A]	$17,425,000	$15,512,000	$15,900,000	$16,092,000	$16,311,000	$16,565,000
Airfield Credits:							
Other Airfield Revenue		$2,984,000	$3,061,000	$3,141,000	$3,223,000	$3,309,000	$3,398,000
Less: Unspent 2004 Bond Proceeds		962,000	431,000	0	0	0	0
Transfer from Grant Fund		500,000	0	0	0	0	0
Debt Service Coverage Amount (from prior Fiscal Year)		900,000	421,000	286,000	304,000	303,000	304,000
Subordinated Commercial Paper Coverage Amount (from prior Fiscal Year)		56,000	58,000	62,000	66,000	66,000	67,000
Total Airfield credits	[B]	$5,402,000	$3,971,000	$3,489,000	$3,593,000	$3,678,000	$3,769,000
Airfield Revenue Requirement	[C = A - B]	$12,023,000	$11,541,000	$12,411,000	$12,499,000	$12,633,000	$12,796,000
		Budgeted					
Total landed weight	[D]	5,654,396	5,753,817	5,838,355	5,923,126	6,008,132	6,103,716
Landing Fee Rate per 1,000 lbs MGLW [2/]	[E = C / D]	$2.14	$2.01	$2.13	$2.11	$2.10	$2.10
Estimated Landing Fees	[C = D * E]	$12,074,000	$11,541,000	$12,411,000	$12,499,000	$12,633,000	$12,796,000

Notes:
1/ Amounts shown are net of Available PFC Revenues used to pay Debt Service. See Table V-2.
2/ The City's budgeted FY 2012 Landing Fee Rate of $2.14 is reflected for FY 2012. The calculated rate for FY 2012 based on requirements reflected on this page would be approximtaely $0.09 (nine cents) lower than the budgeted rate as a result of adjustments to Airfield credits since the time the budget was prepared.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

The landing fee rate methodology contained in the Airline Agreement is based on a cost center residual rate-making approach (as described in detail below).

Pursuant to Section 9.02 of the Airline Agreement, the Airfield Revenue Requirement is calculated by computing the sum of the following budgetary items for each Fiscal Year:

(a) Debt service allocable to Airfield capital projects funded from Bonds or Subordinated Indebtedness net of any PFC Revenues used to pay such Debt Service (note that Debt Service is defined in the Airline Agreement as net of such PFC Revenues, and is defined in the Trust Agreement before netting out such PFC Revenues); *plus*

(b) the Coverage Amount applicable to the debt service amount calculated pursuant to subsection (a) above (i.e., Coverage Amount calculated on debt service net of applicable PFC Revenues); *plus*

(c) the annual Operating Expenses allocable to the Airfield; *plus*

(d) an amount equal to (i) the total deposits needed to replenish the Bond Reserve Fund to required levels times (ii) a fraction, the numerator of which is the total amount of Net Bond Proceeds allocable to the Airfield and the denominator of which is the total amount of Net Bond Proceeds; *plus*

(e) the share of annual costs for renewal and replacement allocable to the Airfield; *less*

(f) Revenues (other than Landing Fees charged to Air Transportation Companies) that are accrued by City for the use of the Airfield, including Revenue accrued from Landing Fee premiums paid by Non-Signatory Airlines, and Revenue accrued from charges paid for parking aircraft at Common Use Gates; *less*

(g) any grant amounts used to pay Debt Service; less

(h) the Coverage Amount calculated pursuant to subsection (b) above for the immediately preceding Fiscal Year.

The Landing Fee will be calculated by dividing the Airfield Revenue Requirement by the projected Aggregate Maximum Gross Landed Weight for all aircraft carrying passengers or cargo in commercial service at the Airport that Fiscal Year. The Landing Fee will be expressed in dollars and cents per one thousand pounds in landed weight.

Landing Fee revenues are projected to decrease from $12.1 million in FY 2012 to $11.5 million in FY 2013, and then increase to $12.8 million in FY 2017. The Landing Fee Rate is projected to decrease from $2.14 in FY 2012 to $2.10 in FY 2017.

5.9.3 Nonsignatory Airline Rates

Air carriers that have executed a Non-Signatory Agreement will pay a 25 percent premium over landing fees and terminal rental rates paid by Signatory Carriers. Airlines that have not executed an agreement with the City and that are not in month-to-month holdover under an existing agreement with the City will pay a 30 percent premium over landing fees and terminal rental rates paid by Signatory Airlines. For purposes of the financial projections in this report, it was assumed that all airlines serving the Airport would be Signatory Airlines for the Projection Period.

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5.9.4 Passenger Airline Cost Per Enplaned Passenger

Table V-7 presents passenger airline cost per enplaned passenger for actual FY 2010, estimated FY 2011, and projected FY 2012 through FY 2017. Passenger airline cost per enplaned passenger was $11.18 in FY 2010 and is estimated to decrease slightly to $11.11 in FY 2011.

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplaned passenger (in future dollars) is estimated to increase from $10.82 in FY 2012 to $11.95 in FY 2017. The passenger airline cost per enplaned passenger reflected for FY 2012 is lower than the City's proposed FY 2012 Budget amount of $11.67 because debt service for Airport Revenue Bonds was adjusted downward since the time the City's FY 2012 Budget was prepared.

5.10 Application of General Airport Revenues and Other Available Funds

Incorporating General Airport Revenues, Maintenance and Operation Expenses, Annual Debt Service estimates, and required fund deposits developed and presented earlier in this report, **Table V-8** presents the application of General Airport Revenues and Other Available Funds for FY 2011 (estimated), and FY 2012 through FY 2017 (projected).

5.11 Annual Debt Service Coverage

Estimated Annual Debt Service coverage ratios are presented in **Table V-9**. As stated in the Rate Covenant, Net General Airport Revenues plus Other Available Funds are required to be at least 125 percent of Annual Debt Service with respect to all Outstanding Bonds for such Fiscal Year. As shown, Annual Debt Service coverage exceeds the requirement in each year of the Projection Period.

The calculation of overall debt service coverage ratios (including Airport Revenue Bonds and Subordinated Commercial Paper) is also included on Table V-9.

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Table V-7

Passenger Airline Cost per Enplaned Passenger (Fiscal Years Ending June 30)

		Actual	Estimated	Projected					
		2010	2011	2012	2013	2014	2015	2016	2017
Airline payments									
Terminal rentals		$33,458,906	$34,510,000	$34,926,000	$39,490,000	$42,151,000	$43,383,000	$44,428,000	$45,617,000
Landing Fees		13,190,345	12,869,000	12,074,000	11,541,000	12,411,000	12,499,000	12,633,000	12,796,000
Airline Payments		$46,649,251	$47,379,000	$47,000,000	$51,031,000	$54,562,000	$55,882,000	$57,061,000	$58,413,000
Less cargo landing fees		(747,801)	(766,000)	(656,000)	(1,044,000)	(1,117,000)	(1,120,000)	(1,127,000)	(1,135,000)
Passenger airline payments	[A]	$45,901,450	$46,613,000	$46,344,000	$49,987,000	$53,445,000	$54,762,000	$55,934,000	$57,278,000
Enplaned passengers	[B]	4,107,394	4,195,000	4,284,200	4,373,500	4,468,000	4,572,700	4,678,500	4,794,700
Annual % change		-6.6%	2.1%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
Passenger airline payments per enplaned passenger [1/]	[C = A / B]	$11.18	$11.11	$10.82	$11.43	$11.96	$11.98	$11.96	$11.95
In 2011 dollars (assuming 3.0% inflation)			$11.11	$10.50	$10.77	$10.95	$10.64	$10.31	$10.00

Note:

1/ The City's FY 2012 Budget reflects passenger airline payments per enplaned passenger of $11.67. The amount reflected for FY 2012 on this table is lower because debt service for Airport Revenue Bonds has been adjusted downward since the time the City's FY 2012 Budget was prepared.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.

Prepared by: Ricondo & Associates, Inc., May 2011.

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Table V-8
Summary of Airport Revenues, Expenses, Other Costs (Fiscal Years Ending June 30)

		Estimated	Projected					
		2011	2012	2013	2014	2015	2016	2017
GENERAL AIRPORT REVENUES AND OTHER AVAILABLE FUNDS								
General Airport Revenues								
Airline Revenues	[A]	$47,379,000	$47,000,000	$51,031,000	$54,562,000	$55,882,000	$57,061,000	$58,413,000
Nonairline Revenues	[B]	76,986,000	75,016,000	77,119,000	79,159,000	81,269,000	85,426,000	88,061,000
General Airport Revenues	[C = A + B]	$124,365,000	$122,016,000	$128,150,000	$133,721,000	$137,151,000	$142,487,000	$146,474,000
Other Available Funds								
Contribution from Airport Funds		$7,255,000	$6,094,500	$5,171,000	$8,884,000	$4,556,000	$3,650,000	$4,510,000
Airline revenue sharing from prior Fiscal Year [1/]		7,255,000	6,094,500	5,172,000	8,885,000	4,556,000	3,650,000	4,510,000
True-up credit from prior Fiscal Year		10,571,000	10,571,000	0	0	0	0	0
Reserve for Future Deficit		10,406,000	0	0	0	0	0	0
Unspent 2004 Bond Proceeds [2/]		0	5,499,000	1,148,000	0	0	0	0
Transfer from Grant Fund [3/]		2,183,000	500,000	0	0	0	0	0
Rolling Debt Service Coverage Amount from prior Fiscal Year [4/]		6,695,000	8,331,000	14,469,000	12,422,000	16,019,000	16,184,000	16,313,000
Transfer from General Fund		213,000	0	0	0	0	0	0
Rolling Coverage Deposit for Series 2011B (from bond proceeds)		0	3,924,000	0	0	0	0	0
Rolling Subordinated CP Coverage Amount from prior Fiscal Year		71,000	1,060,000	777,000	828,000	974,000	974,000	1,018,000
Commercial Paper Used for Airport West Property Lease Payment		0	0	0	0	0	0	0
CFC Revenues used to pay Debt Service and ConRAC Transportation Expenses		6,009,000	10,838,000	11,916,000	13,695,000	15,573,000	15,934,000	16,330,000
Transfer from Rate Stabilization Fund [5/]		1,200,000	0	100,000	0	0	0	0
Other Available Funds	[D]	$51,858,000	$52,912,000	$38,753,000	$44,714,000	$41,678,000	$40,392,000	$42,681,000
General Airport Revenues and Other Available Funds	[E = C + D]	$176,223,000	$174,928,000	$166,903,000	$178,435,000	$178,829,000	$182,879,000	$189,155,000
M&O EXPENSES, DEBT SERVICE, AND OTHER PAYMENTS								
Maintenance and Operation Expenses Including LOC Fees	[F]	$90,314,000	$79,022,000	$78,056,000	$79,383,000	$80,767,000	$82,185,000	$83,826,000
Annual Debt Service and Coverage								
Annual Debt Service [6/]		$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Annual Debt Service coverage amount, current Fiscal Year (excluding Series 2011B)		8,331,000	10,545,000	8,380,000	11,622,000	11,382,000	11,366,000	11,575,000
Annual Debt Service coverage amount related to ConRAC (Series 2011B)		0	3,924,000	4,042,000	4,397,000	4,802,000	4,947,000	5,058,000
Annual Debt Service and Coverage	[G]	$41,656,000	$71,413,000	$62,109,000	$80,096,000	$80,918,000	$81,565,000	$83,162,000
Other Payments								
Subordinated Commercial Paper -- RAC Garage		$9,297,000	$388,000	$0	$0	$0	$0	$0
Subordinated Commercial Paper -- Other		5,298,000	3,885,000	4,141,000	4,870,000	4,870,000	5,091,000	5,091,000
Annual coverage amount for Other CP (excludes RAC CP), current Fiscal Year		1,060,000	777,000	828,000	974,000	974,000	1,018,000	1,018,000
Deposit to Rate Stabilization Fund [7/]		0	100,000	0	0	0	0	0
Transfer to Capital Fund		0	0	0	0	0	0	0
Renewal and Replacement Expenditures		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Contingency reserve		839,000	4,000,000	0	0	0	0	0
Reserve for Discretionary Expenditures		1,000,000	1,000,000	0	0	0	0	0
True-up credit from prior fiscal year		10,571,000	0	0	0	0		
Other Payments	[H]	$32,065,000	$14,150,000	$8,969,000	$9,844,000	$9,844,000	$10,109,000	$10,109,000
Total M&O Expenses, Debt Service, and Other Payments	[I = F + G + H]	$164,034,000	$164,585,000	$149,134,000	$169,323,000	$171,529,000	$173,859,000	$177,097,000
NET REMAINING REVENUES	[J = E - I]	$12,189,000	$10,343,000	$17,769,000	$9,112,000	$7,300,000	$9,020,000	$12,058,000
Airline share	[= J x 50%]	$6,094,500	$5,172,000	$8,885,000	$4,556,000	$3,650,000	$4,510,000	$6,029,000
City share	[= J x 50%]	6,094,500	5,171,000	8,884,000	4,556,000	3,650,000	4,510,000	6,029,000
	[J]	$12,189,000	$10,343,000	$17,769,000	$9,112,000	$7,300,000	$9,020,000	$12,058,000

Notes:
1/ Pursuant to the Airline Agreement, 50% of Net Remaining Revenues are to be credited to the Airline Terminal Requirement--subject to certain adjustments.
2/ Assumed to be used to pay operating expenses related to projects funded with Series 2004 Bond proceeds and to pay certain Series 2004 debt service.
3/ Grant amounts used to pay Series 2001 Debt Service.
4/ Debt Service Coverage from prior Fiscal Year.
5/ Transfer from the Rate Stabilization Fund to the General Airport Revenue Fund, subject to availability, to help achieve targeted airline cost per enplaned passenger levels--pursuant to Section 9.11 of the Airline Agreement.
6/ See Table V-2. Annual Debt Service is net of Available PFC Revenues.
7/ Deposit to Rate Stabilization fund pursuant Section 9.11 of the Airline Agreement.

Sources: City of San José, Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

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Table V-9
Annual Debt Service Coverage (Fiscal Years Ending June 30)

	Reference		Estimated 2011	Projected 2012	2013	2014	2015	2016	2017
Debt Service Coverage -- Airport Revenue Bonds									
Net General Airport Revenues									
General Airport Revenues	Table V-8	[A]	$124,365,000	$122,016,000	$128,150,000	$133,721,000	$137,151,000	$142,487,000	$146,474,000
Less: Maintenance & Operation Expenses Excluding LOC Fees	Table V-3	[B]	(84,600,000)	(76,922,000)	(75,914,000)	(77,198,000)	(78,538,000)	(79,911,000)	(81,507,000)
Net General Airport Revenues		[C = A + B]	$39,765,000	$45,094,000	$52,236,000	$56,523,000	$58,613,000	$62,576,000	$64,967,000
Other Available Funds	Table V-8	[D]	51,858,000	52,912,000	38,753,000	44,714,000	41,678,000	40,392,000	42,681,000
Net General Airport Revenues plus Other Available Funds		[E = C + D]	$91,623,000	$98,006,000	$90,989,000	$101,237,000	$100,291,000	$102,968,000	$107,648,000
Annual Debt Service -- Airport Revenue Bonds									
Debt Service -- Airport Revenue Bonds	Table V-2		$54,712,000	$78,674,000	$79,755,000	$88,559,000	$89,980,000	$90,858,000	$92,034,000
Less: Available PFC Revenues	Table V-2		(21,387,000)	(21,730,000)	(30,068,000)	(24,482,000)	(25,246,000)	(25,606,000)	(25,505,000)
Equals: Annual Debt Service -- Airport Revenue Bonds	Table V-2	[F]	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Annual Debt Service Coverage -- Airport Revenue Bonds		**[G = E / F]**	**2.75**	**1.72**	**1.83**	**1.58**	**1.55**	**1.58**	**1.62**
Required coverage			1.25	1.25	1.25	1.25	1.25	1.25	1.25
Debt Service Coverage -- Overall									
Net General Airport Revenues									
Net General Airport Revenues plus Other Available Funds	Table V-8	=[E] above	$91,623,000	$98,006,000	$90,989,000	$101,237,000	$100,291,000	$102,968,000	$107,648,000
Annual Debt Service and Subordinated Commercial Paper									
Annual Debt Service -- Airport Revenue Bonds	Table V-2	= [F]	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Plus: Subordinated Commercial Paper	Table V-2	[H]	14,595,000	4,273,000	4,141,000	4,870,000	4,870,000	5,091,000	5,091,000
Plus: LOC Fees	Table V-3	[I]	5,714,000	2,100,000	2,142,000	2,185,000	2,229,000	2,274,000	2,319,000
Annual Debt Service, Subordinated Commercial Paper, and LOC Fees	Table V-2	[J = F+H+I]	$53,634,000	$63,317,000	$55,970,000	$71,132,000	$71,833,000	$72,617,000	$73,939,000
Coverage for Annual Debt Service and Subordinated Commercial Paper		[K = E / J]	1.71	1.55	1.63	1.42	1.40	1.42	1.46

Sources: City of San José, Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.