RICONDO & ASSOCIATES

November ___, 2011

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

***RE: Report of the Independent Airport Consultant Dated June 27, 2011***
***City of San José***
***Airport Revenue Bonds, Series 2011B (Taxable)***

Dear Mr. Sherry:

This letter was prepared 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 2011B (Taxable) (the Series 2011B Bonds) to refund certain outstanding commercial paper issued previously by the City to finance and refinance a portion of the costs of the construction of a new consolidated rental car facility (the ConRAC) which opened in June 2010 at Norman Y. Mineta San José International Airport (the Airport), to fund certain reserves, and to pay related costs of issuance. This letter, along with the Report of the Independent Airport Consultant dated June 27, 2011 (the Series 2011 Report), discussed below, is intended for inclusion in the Official Statement for the Series 2011B Bonds as Appendix B: Report of the Independent Airport Consultant.

Except as defined otherwise, the capitalized terms used in this letter are as defined in the Series 2011 Report and the Master Trust Agreement governing the City's Airport Revenue Bonds, as amended and supplemented.

In June 2011, in conjunction with the City's issuance of Airport Revenue Bonds, Series 2011A-1 and Series 2011A-2 (collectively, the Series 2011A Bonds) and the Series 2011B Bonds, R&A prepared the Series 2011 Report included as Appendix B in the Official Statement for the Series 2011A Bonds. R&A prepared the aviation activity, rental car activity, and financial projections reflected in the Series 2011 Report (collectively, the Series 2011 Projections). The Series 2011 Report incorporated estimates of future debt service associated with the Series 2011A Bonds and the Series 2011B Bonds for the fiscal years (FY) ending June 30, 2011 through FY 2017 (the Projection Period).

In July 2011, the City issued the Series 2011A Bonds to (1) refund certain outstanding commercial paper issued previously by the City to finance and refinance a portion of the cost of the construction of certain terminal and security improvements previously completed at the Airport; (2) refund all of the City's outstanding Airport Revenue Bonds, Series 1998A; (3) refund a portion of the City's

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outstanding Airport Revenue Bonds, Series 2001A; (4) fund certain reserves; and (5) pay related costs of issuance. At the time the Series 2011 Report was prepared, the refunding of the outstanding Series 1998A Bonds and the partial refunding of the outstanding Series 2001A Bonds were not assumed, and the debt service savings related to the refunding of the Series 1998A and the 2001A Bonds were not incorporated in the Series 2011 Projections.

This letter serves to confirm that the findings reflected in the Series 2011 Report regarding the City's ability to satisfy the Rate Covenant requirements, as set forth in Section 7.13 of the Master Trust Agreement, and to provide Airport facilities sufficient to satisfy future passenger and user needs with reasonable levels of airline rates and charges for each Fiscal Year of the Projection Period are still valid. This confirmation is based upon our review of socioeconomic, airline traffic activity, rental car activity, and financial information available since the date of the Series 2011 Report, as described in sections below.

**Table 1** summarizes airline traffic activity, rental car activity, and financial information available since the date of the Series 2011 Report. Table 1 also discusses general differences and impacts, if any, to activity and financial projections from those provided in the Series 2011 Report. As reflected in Table 1, information available since the date of the Series 2011 Report has generally been favorable or neutral relative to the activity and financial projections in the Series 2011 Report.

***Economic Base for Air Transportation***

Our review of certain socioeconomic information available since the date of the Series 2011 Report, suggests the findings regarding the economic base for air transportation presented in the Series 2011 Report remain valid (see Chapter I *Economic Base for Air Transportation* of the Series 2011 Report) and the economic base of the Airport's air service area (defined as the six California counties of Alameda, Monterey, San Benito, San Mateo, Santa Clara, and Santa Cruz) is still relatively stable and diversified, and is capable of supporting the air transportation activity projected for the Airport in the Series 2011 Report.

- The most recently published surveys of leading economists by Blue Chip Economic Indicators (September 2011) indicate consensus for 1.6 percent growth in U.S. gross domestic product (GDP) for CY 2011 and 2.2 percent growth in CY 2012. The forecast panels also project that the unemployment rate in the U.S. will be 9.1 percent at the end of CY 2011 and will decrease to 8.7 percent by the end of CY 2012. Data provided in the Series 2011 Report showed that Blue Chip Economic Indicators (April 2011) forecasted annual GDP growth of 2.9 percent and an unemployment rate of 8.5 percent for the U.S. in CY 2011.

- Data released by the U.S. Bureau of Economic Analysis in September 2011 indicate that the San Jose-Santa Clara-Sunnyvale MSA (San Jose MSA) ranked 17th among MSAs nationwide

**Table 1**

**Summary of Updated Information Since the Series 2011 Report**

| | Updated Information Since 2011 Report | Comment on Projections in Series 2011 Report, Estimated Impact to Overall/Key Financial Results | Relative to Series 2011 Projections | |
|---|---|---|---|---|
| | | | Activity | Financial |
| **Airline Traffic Activity** | Enplaned passengers increased from 4.11 million in FY 2010 to 4.19 million in FY 2011 (a 2.0 percent increase) vs. 4.20 million (a 2.1 percent increase) projected in the Series 2011 Report. | Airline traffic projections reflected in the Series 2011A Report are still valid and have not changed. | Neutral | Neutral |
| | Announcement of new Hawaiian Airlines service to Maui in January 2012; new Horizon Airlines service to Palm Springs in February 2012; increased Alaska Airlines service to Hawaii/Kauai in March 2012; and new Alaska Airlines service to Oahu in April 2012. | Airline traffic projections reflected in the Series 2011A Report are still valid and have not changed. | Favorable | Favorable |
| | Enplaned passengers for the 1st quarter of FY 2012 were 0.8 percent higher than the 1st quarter of FY 2011, and enplaned passengers for the most recent 12-month period (through September 2011) were 2.6 percent higher than 12-months ending Sept. 2010. | Airline traffic projections reflected in the Series 2011A Report are still valid and have not changed. | Neutral | Neutral |
| **Rental Car Activity** | Actual FY 2011 transactions increased 13.5 percent from FY 2010 (vs. 8.4 percent estimated in Series 2011 Report). Actual FY 2011 transactions per O&D enplaned passenger was 0.167 (vs. 0.160 passenger was 0.167 (vs. 0.160 assumed for assumed for Projection Period in Series 2011 Report). Transactions for the 1st quarter of FY 2012 are up 9.0 percent from 1st quarter of FY 2011. The projection of transactions in the Series 2011A Report reflects an increase of 2.1 percent in FY 2012. | Rental car activity projections reflected in the Series 2011 Report are still valid and have not changed, even though actual FY 2011 activity suggests they are conservative. Higher than projected CFC Revenues would result in lower rental car facility rent payments. | Favorable | Neutral |
| | In October 2011, the Dollar Thrifty Automotive Group (DTAG) announced it is no longer for sale. | Whether or not DTAG is sold in the future, it is not expected to have a material impact on rental car demand at the nation's airports (or at the Airport). | Neutral | Neutral |
| **CFC Revenues** | $6.00 Per Day CFC expected to be implemented December 1, 2011 (vs. September 1, 2011, as reflected in the Series 2011 Report). | FY 2012 CFC Revenues are projected to be $1.2 million less than what was reflected in Series 2011 Report. Projections for FY 2013-2017 remain the same. Rental car facility rent for FY 2012 will increase by the amount of reduced CFC Revenues, with no overall impact to financial results. | | Neutral |
| | Actual FY 2011 CFC Revenues were $6.8 million (vs. $6.0 million estimated in the Series 2011 Report). | No changes to projections even though actual FY 2011 results were higher than estimated, and actual FY 2011 rental car activity suggests activity projections are conservative. | Favorable | Neutral |
| **Project Costs/ Funding** | Amount of commercial paper being retired with Series 2011B bond proceeds has not changed since the 2011 Report. | No change from costs/funding reflected in the Series 2011 Report. | | Neutral |
| **Debt Service** | Estimates for Series 2011B Debt Service reflected in the Series 2011 Report have been updated based on current market conditions. | Series 2011B Debt Service is projected to be $3.4 to $4.3 million lower than as projected in the Series 2011 Report for FY 2012 to FY 2017. | | Favorable |
| | Estimated Series 2011A Debt Service now actual. Also, refunding of Outstanding Series 1998A and portion of Series 2001A Bonds with a portion of Series 2011A Bonds was not incorporated in the Series 2011 Report. | Overall Debt Service is $1.7 to $2.2 million lower than as projected in the Series 2011 Report for FY 2012 to FY 2017. | | Favorable |
| **Maintenance and Operation Expenses (M&O Expenses)** | Actual FY 2011 M&O Expenses (unaudited) including LOC fees were $9.0 million less than as estimated in the Series 2011 Report. | M&O Expense projections reflected in the Series 2011 Report have not changed, even though actual FY 2011 results suggest FY 2012 Budget (which is the base for projections) is conservative. | | Favorable |
| **General Airport Revenues** | Actual FY 2011 General Airport Revenues (unaudited) were approximately $0.5 million higher than as estimated in the Series 2011 Report. | General Airport Revenue projections reflected in the Series 2011 Report have not changed, with the exception of projected rental car facility rent based in part on the decrease of Series 2011B Debt Service. | | Neutral |
| **Projected Cost Per Enplaned Passenger** | Calculations based on updated CFC Revenues and Debt Service info in sections above. See Table 2. | Projected Cost Per Enplaned passenger is lower than in Series 2011 Report for FY 2012 to FY 2017. | | Favorable |
| **Projected Debt Service Coverage Ratios** | Calculations based on updated CFC Revenues and Debt Service info in sections above. See Table 2. | Projected Debt Service coverage ratios for Airport Revenue Bonds (and overall debt) are slightly higher than in the Series 2011 Report for FY 2012 to FY 2017. | | Favorable |

Sources: City of San Josė; Ricondo & Associates, Inc., November 2011.

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

in GDP for 2010 (GDP of $168.5 billion during this period). In addition, GDP for the San Jose MSA increased 13.4 percent in 2010 from 2009 levels (the second-highest growth rate among all MSAs during this period), compared to a 2.4 percent decrease in 2009.

- As of September 2011 (latest data currently available), the unemployment rate for the Air Service Area was 9.6 percent (non-seasonally adjusted). This is lower than the rate for California (11.4 percent non-seasonally adjusted) and higher than the rate for the U.S. (8.8 percent non-seasonally adjusted). By comparison, average annual unemployment rates for 2010 as provided in the Series 2011 Report were 11.2 percent (non-seasonally adjusted) for the Air Service Area, 12.4 percent (non-seasonally adjusted) for California, and 9.6 percent (non-seasonally adjusted) for U.S.
- According to the most recent PricewaterhouseCoopers/National Venture Capital Association's *MoneyTree Report* (October 2011), venture capital investment in the U.S. increased from 17.7 billion in the first three quarters of CY 2010 to 21.2 billion in the first three quarters of CY 2011, a 19.8 percent increase year-over-year. Venture capital investment for the Silicon Valley region increased from $7.0 billion to 8.4 billion during this same period, a 20.0 percent increase year-over-year. Venture capital investment in the third quarter of CY 2011 was 31.0 percent higher than the third quarter of CY 2010 for the U.S., and was 29.9 percent higher for Silicon Valley. The most recent data reflected in the Series 2011 Report was CY 2010 (venture capital investment in the Silicon Valley and the U.S. grew 15.9 percent and 19.4 percent, respectively, compared to CY 2009).

### *Airline Traffic*

Our review of airline traffic activity data since the date of the Series 2011 Report as summarized below and reflected on Table 1, suggests the projections presented in the Series 2011 Report remain valid (see Chapter II *Air Traffic* of the Series 2011 Report).

- Actual FY 2011 enplaned passengers were 4,189,223 (a 2.0 percent increase from FY 2010) compared to 4,195,000 enplaned passengers projected for FY 2011 (a 2.1 percent increase from FY 2010) in the Series 2011 Report.
- Enplaned passengers for the first quarter of FY 2012 (July 2011 to September 2011) were 0.8 percent higher than the first quarter of FY 2011, and enplaned passengers for the most recent 12-month period (ending September 2011) were 2.6 higher than the 12-month period ending September 2010.
- The announcement of new service to Hawaii (Maui) by Hawaiian Airlines starting in January 2012; new service to Palm Springs by Horizon Airlines starting in February 2012; increased service by Alaska Airlines to Hawaii (Kauai and Hawaii) starting in March 2012; and new service to Hawaii (Oahu) by Alaska Airlines starting in April 2012.

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***Rental Car Activity and Customer Facility Charge Revenue***

Our review of rental car activity and customer facility charge (CFC) information available since the date of the Series 2011 Report as summarized below and reflected on Table 1, suggests the rental car activity and CFC Revenue projections presented in the Series 2011 Report remain valid (see Chapter IV *Rental Car Activity and Customer Facility Charge Revenue* of the Series 2011 Report).

- Actual FY 2011 rental car transactions at the Airport increased 13.5 percent from FY 2010, compared to an 8.4 percent increase for FY 2011 projected in the Series 2011 Report.
- Rental car transactions per origin-destination (O&D) enplaned passenger at the Airport for FY 2011 was 0.167, compared to 0.160 estimated for FY 2011 and assumed for FY 2012 to FY 2017 in the Series 2011 Projections.
- Rental car transactions at the Airport for the first quarter of FY 2012 increased 9.0 percent compared to the first quarter of FY 2011.
- The City expects to begin charging a $6.00 per day CFC on December 1, 2011 (a change from the $10.00 per rental car contract currently charged by the City). The Series 2011 Projections assumed the $6.00 per day CFC would start on September 1, 2011. Projected FY 2012 CFC Revenues based on the December 1, 2011 implementation date are approximately $1.2 million lower than as reflected in the Series 2011 Report. Based on the City's agreement with the rental car companies operating at the Airport, the rental car company Facility Rent payments for FY 2012 are expected to increase by the same amount, with no overall impact to FY 2012 financial results.

***Financial Analysis***

Our review of financial information available since the date of the Series 2011 Report as summarized below and reflected on Table 1, suggests the financial projections presented in the Series 2011 Report remain valid (see Chapter V *Financial Analysis* of the Series 2011 Report).

- Current estimates of debt service for the Series 2011B Bonds are approximately $3.4 million to $4.3 million lower, annually, relative to estimates reflected in the Series 2011 Report for the Projection Period.
- In addition, as a result of (1) actual Series 2011A debt service being lower than as estimated in the Series 2011 Report and (2) the refunding of all of the outstanding Series 1998A Bonds and a portion of the outstanding Series 2001A Bonds, debt service is now $1.7 million to $2.2 million lower than debt service reflected in the Series 2011 Report for those series during the Projection Period.

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- Unaudited actual FY 2011 Maintenance and Operation Expenses (M&O Expenses) including letter of credit fees were approximately $9.0 million less than M&O Expenses estimated for FY 2011 in the Series 2011 Report, suggesting that M&O Expenses reflected in the FY 2012 Budget (which was the base for the financial projections in the Series 2011 Report) may be conservative.
- Unaudited actual FY 2011 General Airport Revenues were approximately $0.5 million higher than General Airport Revenues estimated for FY 2011 in the Series 2011 Report.
- In conjunction with the planned issuance of the Series 2011B Bonds, the City is considering the issuance of Airport Refunding Revenue Bonds, Series 2011C Bonds (Non-AMT) to refund all or a portion of the outstanding Series 2001A Bonds. This potential refunding, and any associated debt service savings, was not incorporated in the Series 2011 Report. If the City decides to issue such refunding bonds, the City expects that, relative to what was reflected in the Series 2011 Report, debt service would be lower, but there would not be a material impact to debt service coverage ratios or passenger airline payments per enplaned passenger.

**Table 2** presents passenger airline payments per enplaned passenger and debt service coverage ratios (1) as reflected in the Series 2011 Report for FY 2011 through FY 2017, (2) based on unaudited actual information for FY 2011, and (3) calculated using updated debt service and FY 2012 CFC Revenues information for FY 2012 through FY 2017 (see "Debt Service" and "CFC Revenues" sections in Table 1). As reflected in Table 2, FY 2011 debt service coverage ratios based on unaudited information are higher than the estimates provided in the Series 2011 Report. Also, based on incorporating updated debt service and FY 2012 CFC Revenues, in each fiscal year between FY 2012 and FY 2017, calculations of airline payments per enplaned passenger are lower than provided in the Series 2011 Report and debt service coverage ratios are higher than provided in the Series 2011 Report.

The Official Statement for the Series 2011B Bonds presents certain information and data that is more current than the information and data reflected in the Series 2011 Report. R&A has not updated the Series 2011 Report and has no obligation to update this letter or the Series 2011 Report.

The Series 2011 Report should be read in its entirety for an understanding of the projections and underlying assumptions contained therein. Any projection is subject to uncertainties, some assumptions will not be realized, unanticipated events and circumstances may occur, and there are likely to be differences between projections and actual results, and those differences 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

**Table 2**

**Projected Airline Payments Per Enplaned Passenger and Debt Service Coverage:**
**As Reflected in Series 2011 Report and As Calculated Using Updated Debt Service and FY 2012 CFC Revenues Information**[1/]

Fiscal Years Ending June 30, 2011

| | Estimated | Projected | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| **Passenger airline payments per enplaned passenger** | | | | | | | |
| Reflected in Series 2011 Report [2/] | $11.11 | $10.82 | $11.43 | $11.96 | $11.98 | $11.96 | $11.95 |
| Based on unaudited actual FY 2011 information [3/] | $11.23 | | | | | | |
| As calculated using updated debt service and FY12 CFC Revenues information since the Series 2011 Report | | $10.63 | $11.07 | $11.79 | $11.96 | $11.70 | $11.37 |
| **Difference** | **$0.12** | **($0.19)** | **($0.36)** | **($0.17)** | **($0.02)** | **($0.26)** | **($0.58)** |
| **Debt Service Coverage -- Airport Revenue Bonds** | | | | | | | |
| Reflected in Series 2011 Report | 2.75 | 1.72 | 1.83 | 1.58 | 1.55 | 1.58 | 1.62 |
| Based on unaudited actual FY 2011 information [3/] | 3.05 | | | | | | |
| As calculated using updated debt service and FY12 CFC Revenues information since the Series 2011 Report | | 1.79 | 1.93 | 1.64 | 1.63 | 1.66 | 1.69 |
| **Difference** | **0.30** | **0.07** | **0.10** | **0.06** | **0.08** | **0.08** | **0.07** |
| **Debt Service Coverage -- Overall** | | | | | | | |
| Reflected in Series 2011 Report | 1.71 | 1.55 | 1.63 | 1.42 | 1.40 | 1.42 | 1.46 |
| Based on unaudited actual FY 2011 information [3/] | 1.94 | | | | | | |
| As calculated using updated debt service and FY12 CFC Revenues information since the Series 2011 Report | | 1.58 | 1.69 | 1.46 | 1.45 | 1.48 | 1.50 |
| **Difference** | **0.23** | **0.03** | **0.06** | **0.04** | **0.05** | **0.06** | **0.04** |

Note:

1/ See Table 1 regarding updated debt service and FY 2012 CFC Revenues information.

2/ The City's FY 2012 Budget reflects passenger airline payments per enplaned passenger of $11.67. The amount reflected for FY 2012 in the Series 2011 Report is lower because debt service for Airport Revenue Bonds has been adjusted downward since the time the City's FY 2012 Budget was prepared.

3/ Reflects unaudited actual FY 2011 information for activity, debt service, expenses, and revenues. The Series 2011 Report reflected estimates for FY 2011.

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

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

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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,

**DRAFT**

RICONDO & ASSOCIATES, INC.