Comprehensive 2012 Annual Financial Report

Norman Y. Mineta San José International Airport

San José, California
A Department of the
City of San José

Fiscal Year Ended
June 30, 2012

NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Comprehensive 2012 Annual Financial Report

Norman Y. Mineta San José International Airport

San José, California
A Department of the City of San José

Fiscal Year Ended June 30, 2012

Prepared by:
Finance and Administration

Terri A. Gomes, CPA
Deputy Director

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
SILICON VALLEY'S AIRPORT

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2012

William F. Sherry, AAE Director of Aviation	Kimberly B. Aguirre Chief Operating Officer	Terri A. Gomes, CPA Deputy Director of Aviation

Prepared by:
Airport Department
Finance and Administration Division - Accounting Section

Evelyn M. Slotnick Principal Accountant	Laura Luu Senior Accountant	Steven Lam Senior Accountant
Elsa Jacobo Senior Accountant	Mary Soo Senior Accountant	Kristy Tricoli Accountant I
Corrie Konatsu Accounting Technician	Peter Romero Accounting Technician	June Hampton Senior Account Clerk
Kim Lingenfelter Senior Account Clerk	Nancy Rother Senior Account Clerk	Lanie Prestosa Senior Account Clerk

Special Assistance

Katherine Pool, Finance Division	Bonnie Cromartie, Finance Division
Sandra Gates, Finance Division	Dave Maas - Planning & Development Division
Danielle Kenealey – City Attorney's Office	Michael Zimmerman – Planning & Development Division
Steve McChesney, Public Works Department	David Zolezzi, Finance Department

Introductory

NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

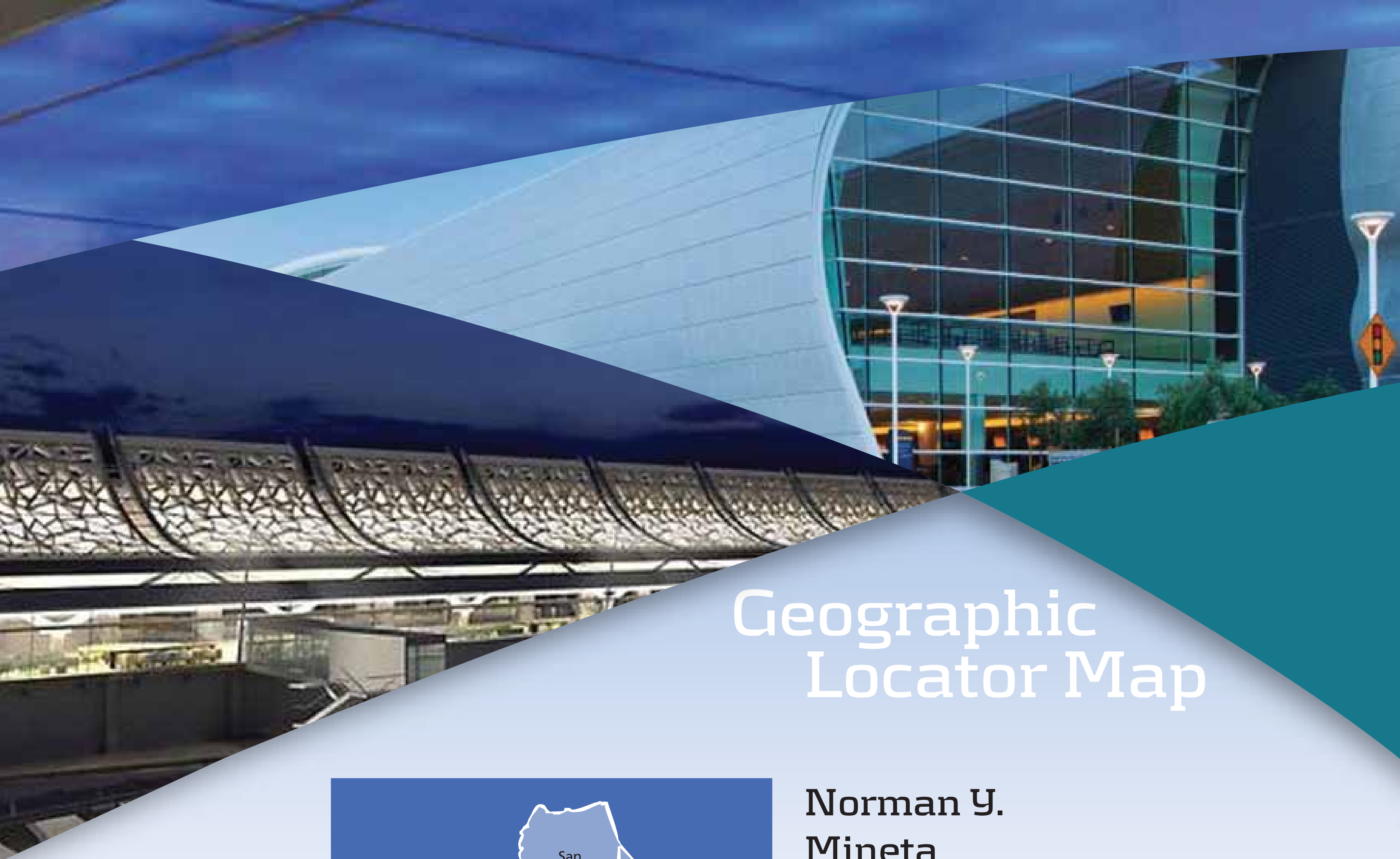
Table of Contents

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

Table of Contents



Geographic Locator Map

Norman Y. Mineta San José International Airport

San José, California

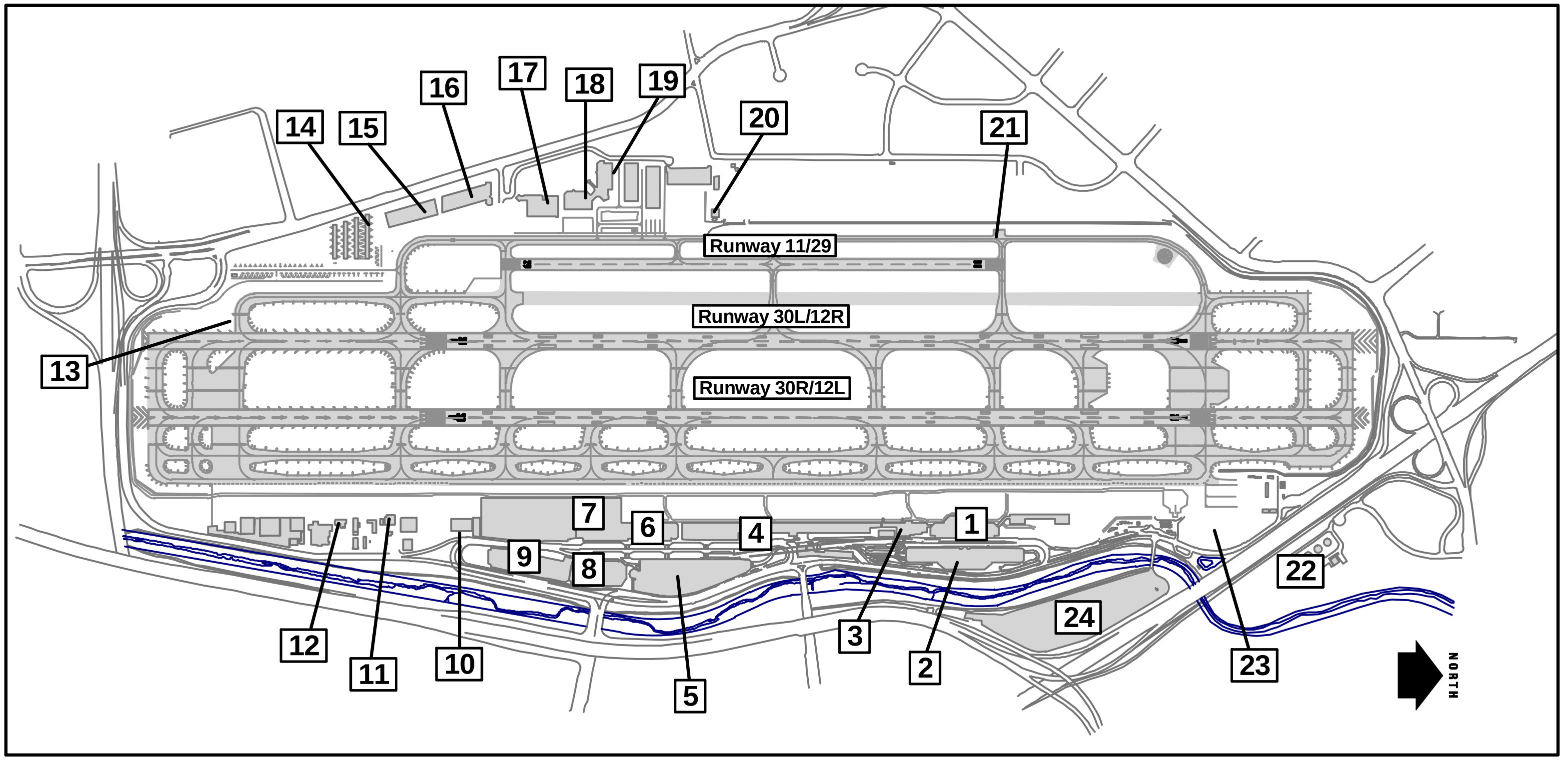
A Department of the City of San José

Fiscal Year Ended June 30, 2012

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
SILICON VALLEY'S AIRPORT

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Norman Y. Mineta San José International Airport



Map Legend

1. Terminal A
2. Terminal A Parking Garage
3. Interim Federal Inspection Services
4. Terminal B
5. Consolidated Rental Car Center
6. Hourly Lot 5
7. Daily Lot 6
8. Hourly Lot 3
9. Daily Lot 4
10. Air Freight
11. Fire Station 20
12. SJPD Airport Division
13. VOR Checkpoint
14. GA West
15. AvBase Aviation
16. ACM
17. HP Aviation (Corporate)
18. FAA-FSDO
19. Atlantic San Jose (Fueling & Transient Services)
20. FAA Air Traffic Control Tower
21. VOR Checkpoint
22. Fuel Farm Location
23. North Air Cargo
24. Economy Lot 1

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

LOCATOR MAP

September 2012

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

November 7, 2012

CITIZENS OF THE CITY OF SAN JOSE
HONORABLE MAYOR AND CITY COUNCIL

The Comprehensive Annual Financial Report (CAFR) of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José (City), for the fiscal year ended June 30, 2012, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport's management. We believe the data, as presented, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and changes in financial position of the Airport, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport's financial affairs have been included. This transmittal letter provides a summary of the Airport's background, economic condition and outlook, and major initiatives.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within 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 of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub domestic airport with some international service. The Department's mission is to meet the air transportation needs of Silicon Valley residents and businesses in a safe, efficient, and cost effective manner.

The primary area served by the Airport consists of Santa Clara County, which is also the San José Primary Metropolitan Statistical Area (MSA) and is commonly referred to as Silicon Valley. Furthermore, the primary service area includes the adjacent counties of Monterey, San Benito, and Santa Cruz and portions of two adjacent counties, Alameda and San Mateo (collectively, the "Air Service Area"). The Air Service Area is part of the larger San Francisco/San José/Oakland Area. The nearby counties of Merced, Stanislaus, and San Joaquin comprise a secondary service area. Three of the six Air Service Area counties belong to the Association of Bay Area Governments (ABAG) regional planning agency and rank within the top five most populated counties of the ABAG Region, with Santa Clara and Alameda Counties ranking first and second, and the County of San Mateo ranking fifth. In addition to the Airport, two other commercial airports serve the San

1701 Airport Boulevard, Suite B-1130 • San José, CA 95110-1206 • Tel 408.392.3600 • Fax 408.441.4591 • www.flysanjose.com

Francisco/San José/Oakland area: San Francisco International Airport and Oakland International Airport. A separate unit of local government operates each of the three facilities independently.

ECONOMIC CONDITION AND OUTLOOK

Aviation demand nationwide and globally is primarily a function of population and economic growth, developments within the airline industry, and airport and airspace capacity. Airline traffic at airports principally serving origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination, medium-hub airport, the Airport is dependent upon the regional economy, national and international economic conditions, airline service, airfare levels, and population for the passengers who produce its revenue base.

Passenger activity at the Airport increased at a compound annual growth rate of 1.3% between fiscal years 2003 and 2006, the most recent recovery period for the Airport. Since 2007, the Airport had seen a 22.5% decline in the number of passengers and a 34.2% reduction in the number of flights, which in turn has reduced Airport revenues and resources. This has been largely caused by high fuel costs in mid-2008 that forced the airlines to shrink their system capacity by cutting flights and seats, reducing their fleet of aircraft, and laying off tens of thousands of employees. Furthermore, due to the prolonged economic downturn, the demand for business and leisure travel has significantly declined, and therefore has put additional pressure on airline profitability.

In 2007, the Airport had 10,654,000 passengers arrive and depart at the Airport. In 2012, this number had fallen nearly 22.5% to 8,256,000, a decrease of 1.6% from the prior year. Daily departures have fallen from approximately 190 in 2007 to 126 as of June 30, 2012, a drop of 33.7%. The last time the Airport had seen this level of activity was in the early 1990s.

In response to the declining activity in recent years, the Airport has taken many steps to reduce its operating costs including the reducing of Airport staffing levels from 348 positions in 2009 to 205 as of June 2012 and restructuring service delivery. By reducing operating costs, the Airport is able to offer services at competitive prices to attract and retain airlines, flights, and passengers. In addition, the Airport has aggressively sought to increase revenues for the past several years. Through its new concessions program, the Airport has increased the number of shops and restaurants in the new terminal, and its contracts with concessionaires require a minimum annual guarantee that results in higher revenues when the new terminal opened. In late fiscal year 2011, the Airport opened five new parking lots adjacent to the terminals. The proximity of these parking lots significantly improved customer convenience and not only resulted in revenue increase but also reduced operating costs and vehicle emissions due to fewer shuttle bus trips.

It is also anticipated that the City Council will approve a tenant or series of tenants for the property on the west side of the Airport in 2013. The Airport will authorize the design, development, construction and operation of aeronautical services facilities on the currently vacant property that will provide much needed long-term revenue to the Airport, as well as additional general aviation resources to San José.

In an effort to increase service and restore lost flights, the Airport and airports across the nation have been developing and enhancing air service incentive programs. Since its original adoption in 2006, the Airport's incentive program has evolved from a basic one-year waiver for any new route to a flexible program that associates the length of a waiver period to the length of a flight. It also includes incentives for underserved markets, as well as unserved markets and short–haul international flights to Canada and Mexico. In addition, on December 1, 2009, the City Council adopted a separate resolution establishing a Focus City Promotional Fee Waiver Incentive Program. This program encourages carriers to increase their overall commitment to the Airport by agreeing to incremental growth in flights for two full consecutive years. A Focus City Airline would agree to add a minimum of four new year-round daily flights to a minimum of at least two unserved cities each year. As a return on investment, these incentive programs will stimulate revenue from parking, concessions, and other Airport services, which will directly offset the short-term loss of revenue from waived airline fees and charges for qualifying new service.

The enhanced incentive programs resulted in additional flights. Past participants included Southwest Airlines with service to Austin, jetBlue Airways with service to Boston, Hawaiian Airlines with service to Kahului (Maui), and Alaska Airlines with service to Austin, Kona and Kahului-Maui. Alaska Airlines, with service to Cabo San Lucas and Lihue (Kauai), is a current participant.

Population and Income

The City is the county seat of Santa Clara County. It is the tenth largest city in the United States and the third largest in California behind Los Angeles and San Diego. According to the California Department of Finance estimates, San José has an estimated population of 971,372 as of January 1, 2012, reflecting a growth of 1.5% over the prior year. San José is located in Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 1.2% from 2011 to 2012, with the population increasing to 1,816,486 as of January 1, 2012. The six counties comprising the primary service area for the Airport grew 0.9% from 2011, in line with the State growth rate of 0.7%. In total, the population of the primary area increased by 49,669 from the prior year and accounts for 12.8% of the State's population.[1]

The per capita income information described below is the information available from the Bureau of Economic Analysis as updated on April 25, 2012. Total personal income and per capita personal income (PCPI) are highly relied upon measures of economic standing. These indicators are a composite measurement of market potential and indicate the general ability to purchase available products or services. As personal income increases, air travel becomes more affordable and can be used more frequently.

[1] *California Department of Finance*

According to the U.S. Bureau of Economic Analysis, in 2010 Santa Clara County had a PCPI of $58,018 and was 136% of the state average of $42,514, and 145% of the national average of $39,937, and it ranked 4th in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

Personal Income and Per Capita Personal Income within the Air Service Area

County Name	Personal Income (Millions of Dollars) 2009	2010	% Change 2009-2010	Per Capita Personal Income (Dollars) 2009	2010	% Change 2009-2010	2010 Rank
Alameda	$69,974	$72,757	4.0%	$46,695	$48,087	3.0%	9
Monterey	16,453	16,969	3.1%	40,104	40,754	1.6%	21
San Benito	1,867	1,968	5.4%	34,299	35,451	3.4%	31
San Mateo	47,280	48,907	3.4%	66,254	67,964	2.6%	3
Santa Cruz	11,977	12,463	4.1%	46,064	47,409	2.9%	10
Santa Clara	96,315	103,636	7.6%	54,565	58,018	6.3%	4
California	$1,526,531	$1,587,404	4.0%	$41,301	$42,514	2.9%	

Per capita income increased by 6.3% from 2009 in Santa Clara County compared to an increase of 2.9% and 2.8% for California and the nation, respectively. In 2010, the San José-Sunnyvale-Santa Clara MSA had a total personal income of $105,604,616 and accounted for 6.7% of the state total.[2]

Employment

Both the California and U.S. unemployment rates remain high in comparison to pre-recession levels. However, in 2011, the unemployment rate in Santa Clara and San Benito counties declined from the previous year for the first time since 2006. Employment growth in this region had declined sharply after growing at a solid pace between 2006 and 2007. California's economic problems originated in the housing and financial sectors, spread into the consumer economy, and subsequently into the rest of the economy. [3]

[2] *U.S. Bureau of Economic Analysis*
[3] *Employment Development Department – State of California*

Santa Clara County's unemployment rate at June 2012 was 8.7%, with 79,700 unemployed, an increase of 4,700 from May 2012.[3] Likewise, as shown below, the unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 8.8 percent in June 2012, up from a revised 8.4 percent in May 2012, and below the year-ago estimate of 10.2 percent. This compares with an unadjusted unemployment rate of 10.7 percent for California and 8.4 percent for the nation during the same period.[3]

San José-Sunnyvale-Santa Clara MSA	May-2012 Revised	Jun-2012 Prelim	Change	Jun-2011	Jun-2012 Prelim	Change
Total, All Industries	914,000	922,100	8,100	888,200	922,100	33,900
Total Farm	4,800	5,000	200	5,000	5,000	-
Total Nonfarm	909,200	917,100	7,900	883,200	917,100	33,900
Mining and Logging	200	200	-	200	200	-
Construction	35,700	36,000	300	31,300	36,000	4,700
Manufacturing	158,800	160,100	1,300	159,300	160,100	800
Trade, Transportation & Utilities	130,600	132,600	2,000	127,800	132,600	4,800
Information	51,700	53,000	1,300	49,500	53,000	3,500
Financial Activities	32,300	32,700	400	31,900	32,700	800
Professional & Business Services	175,100	176,900	1,800	168,500	176,900	8,400
Educational & Health Services	124,400	124,300	(100)	116,300	124,300	8,000
Leisure & Hospitality	80,500	81,300	800	77,900	81,300	3,400
Other Services	24,600	24,900	300	24,800	24,900	100
Government	95,300	95,100	(200)	95,700	95,100	(600)

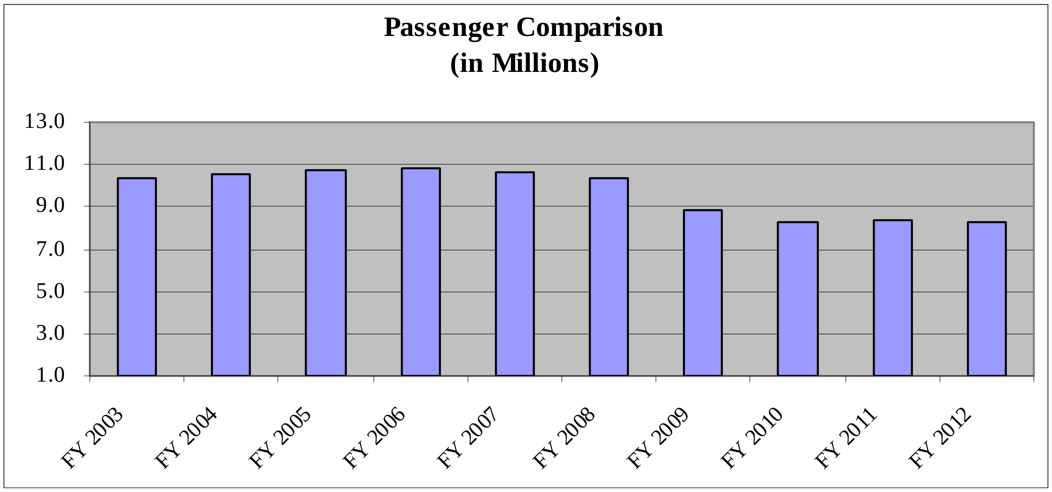
Professional and business services marked its 26th consecutive monthly increase in jobs on a year-over-year basis, increasing by 8,400 jobs, while private educational and health services increased by 8,000 jobs. Other industries with significant year-over-year job additions included: trade, transportation, and utilities increased by 4,800 jobs, construction increased by 4,700 jobs, information increased by 3,500 jobs, and leisure and hospitality increased by 3,400 jobs. In contrast, government decreased by 600 jobs from last June.

<u>Norman Y. Mineta San José International Airport: Passenger and Air Traffic</u>

The Airport is classified as a medium hub airport by the Federal Aviation Administration (FAA) and ranked as the 48th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2011. As of June 30, 2012, 12 carriers provided scheduled passenger service to 29 destinations, including eight mainline carriers, three regional/commuter carriers, and one international carrier. In addition, two all-cargo carriers provided scheduled cargo service at the Airport. At its peak level of traffic in 2001 during the Silicon Valley "dot.com" boom, the Airport had reached a record annual total of 13,908,799 passengers. The combination of the dot.com bust in 2001 and the subsequent Silicon Valley recession, and the impact of the terrorist attacks on September 11, 2001 reduced Airport passenger traffic over the following years. Activity levels showed signs of leveling off until the combination of the national credit crisis, aviation fuel cost spike, and global recession in fiscal year 2009 caused traffic to fall sharply.

For fiscal year 2012, the Airport has enplaned and deplaned 8.3 million passengers, which represents a decrease of 1.6% from the previous fiscal year.

The graph below displays fiscal year-to-date passenger comparison for the last ten fiscal years.



For fiscal year 2012, the Airport experienced an overall decrease of 1.6% in traffic operations due to the losses that resulted from the following categories: passenger carrier (a decrease of 1,422 operations or 1.9%), taxi/commuter airlines (a decrease of 1,366 operations or 8.4%), cargo carrier (a decrease of 368 operations or 18%) and General Aviation (an increase of 1,161 or 3.8%).

Airport Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the "Master Plan"). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (the "ALP") displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo and corporate general aviation demand. The Master Plan includes both the Phase 1 $1.3 billion modernization project and the planned Phase 2 of the Airport Development Program. The Master Plan is collectively comprised of improvements to the Airport's terminal facilities, roadways, parking facilities and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program (TAIP), a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the TAIP and other Airport Development Program revisions. In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) will be gradually converted to new general aviation leasehold facilities.

The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B and security checkpoint, lobby concessions and other improvements; the phased demolition of Terminal C; design and construction of the Consolidated Rental Car Facility (ConRAC); realignment and improvement of existing terminal roadways; parking improvements; and airfield projects, including noise mitigation and the reconstruction of Taxiway Y; and other miscellaneous improvements. Most of the program elements of Phase 1 were completed as of June 30, 2012. Ongoing projects include a common use lounge, Terminal A/A+ space refurbishment, building system upgrades, Terminal A baggage system ceiling protection, and completion of the northeast area (formerly the rental car fueling and wash site). The northeast area will provide for a fuel truck maintenance facility, shuttle bus staging and storage, a taxi staging building, and adjacent employee parking. The Phase 1 projects also include design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers.

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

MAJOR INITIATIVES

The Airport’s mission is to meet the air transportation needs of Silicon Valley residents and businesses in a safe, efficient, and cost-effective manner. In concert with the City’s move towards a more customer-focused service delivery government, the Airport embraced the following Vision Statements:

Norman Y. Mineta San José International Airport will be the region’s gateway and first choice for air transportation services.

It will be a place where travelers want to come, and people want to work. It will be easy to get into, around, and out of the Airport. Because the Airport will be an innovator in its use of technology and delivery of services, it will create an exciting environment to visit and use.

Travelers will feel the anticipation and sense of adventure that air travel should generate.

Business travelers will have a hassle free experience. Families and leisure travelers will feel their vacation has begun when they arrive at the Airport. People will leave the Airport feeling like guests who have been treated well, and will want to come back.

The Airport will be a partner with businesses working to drive the regional economy.

The airlines and other tenants will feel the Airport provides opportunities for their business to succeed.

The Community will be proud to have the Airport in their midst, seeing it as a good neighbor and understanding its benefits to the region.

The Airport will be a landmark representing San José and the Silicon Valley.

The Airport will be a great place to work for all employees.

The Airport organization will be a place where an individual can enjoy building a career. Each employee will feel they have made a meaningful contribution and their efforts are valued. It will be a place where all employees are recognized for their contributions and where a "can-do" attitude prevails. Norman Y. Mineta San José International Airport will be the employer of choice. Employees will be proud to be a part of the Airport organization and proud to tell their friends and neighbors they are part of this vision.

These Vision Statements are used by the Airport as a guide in improving employee morale and making better decisions and sound management practices.

Highlights of the Airport's activities and accomplishments for the fiscal year ended June 30, 2012, include the following:

- Air Service Development

  The announcement by All Nippon Airways (ANA) to begin flying between the Airport and Narita International Airport in Tokyo in early 2013 is the culmination of over 3 years of discussions between the Airport and the airline. The inaugural flight on January 11, 2013 will bring the first Boeing Dreamliner 787 aircraft to the Bay Area. Built mainly from carbon fiber composite material, the Boeing Dreamliner 787 features increased fuel efficiency and passenger comfort. ANA is the ninth largest airline in the world by revenues and the largest in Japan by passenger numbers.

  Hawaiian Airlines added three weekly flights to Maui in January 2012 and added two more weekly in June 2012. Alaska Airlines increased their three and four per week service to Lihue and Kona to daily in March 2012 and entered the Honolulu market with daily flights in April 2012. In June 2012, it also entered the Reno market that Southwest had exited 2 months earlier.

- Best in the State for On-Time Performance

  According to data released by Bureau of Transportation Statistics in August 2012, the Airport is ranked the best airport in California for on-time performance for medium to large airports. The Airport ranked fourth overall for medium to large size airports in the United States.

- Airport Noise Variance Removal

  The County of Santa Clara (County) designated the Airport as a "noise problem airport" in 1972, which triggered a range of successful mitigations by the Airport over the past four decades. Since that County designation, the Airport has applied for and received from the California Department of Transportation (Caltrans) several variances to operate, despite the existence of incompatible land uses in the vicinity of the Airport.

  Over the past 16 years, the Airport's Acoustical Treatment (ACT) Program has treated over 2600 eligible homes in the noise impact area with sound insulating doors and windows, air conditioning systems, and weather stripping and insulation. The ACT program has also treated four schools with local and federal funding. The Airport has contributed a local match of resources, which has been instrumental in securing more than $165 million dollars from FAA grant funds to treat the homes in neighborhoods inside the noise impact area.

  With FAA's approval, the Airport was able to go well beyond the minimum requirements of an ACT Program in the spirit of ensuring that the Airport is a good neighbor in the community. This has allowed the Airport to treat homes located just outside the 65dB contour in order to square off blocks and provide consistent levels of treatment in neighborhoods. Also, with FAA's approval, the Airport tested 1,150 homes outside the 65dB contour.

  In May of 2012 the Airport received notification from the State of California that the County has verified that the Airport achieved a zero noise impact area. With this determination, the Airport now meets the airport noise standard and is no longer required to have a noise variance.

- Significant Cost Reductions in Public Safety Costs

  The Airport went through an extensive review of options related to the outsourcing of airport public safety services. The study led to the recommendation to adjust staffing plans, reduce costs and to continue the use of San José Police Department and Fire Department staff to provide Airport services through 2012-2013. A revised San José Police Department – Airport Division staffing model was successfully introduced in February 2012. The new model reduced full-time police staffing levels from 23 staff to 11 sworn positions and relies on overtime staffing equivalent to 16 sworn positions. The public safety outsourcing review also resulted in costs savings associated with Aircraft Rescue and Fire Fighting (ARFF) services. In order to keep these services staffed by City employees, the City successfully pursued federal SAFER (Staffing for Adequate Fire and Emergency Response) Grant funding.

  The implementation of these measures significantly reduced public safety costs from $14.2 million in fiscal year 2011 to $7.0 million budgeted in fiscal year 2013.

- New Rental Car Customer Facility Charge (CFC)

  In November 2011, the City Council approved a new fee structure for rental car transactions at the Airport to move from a $10 per transaction to a $6 per day charge (up to five days) effective December 1, 2012 and a $7.00 per day charge effective January 1, 2014. As a result of the decline in passenger activity since 2007 when the rental car companies signed their agreements with the Airport, CFC revenues have been significantly lower. Recent changes to state law allow airports to restructure their CFCs from a "per contract" to a "per day" fee if they meet specific requirements. The Airport has complied with these requirements, including an audit by the State Controller's Office. The new CFC will restore a sustainable balance of shared responsibility between the rental car companies, their customers, and the Airport to cover the costs of building the rental car garage.

- Taxiway W Grant

  The Airport received a $7.0 million grant from the FAA to fund the fourth phase of construction of the Taxiway W extension. The long-term plan to complete the new taxiway will help support the future development of the west side of the Airport for general and corporate aviation service.

- City Council Approved the Issuance of Airport Revenue Bonds

  During fiscal year 2012, the City Council authorized the issuance of Airport Revenue Bonds totaling $508.6 million. This allowed the Airport to substantially reduce the size of the commercial paper program at a time when market conditions have made it increasingly difficult and expensive to renew commercial paper letters of credit. Due to continued improvements in the municipal credit market, the bond issuances also allowed the refunding of previously issued bonds that reduced the Airport's annual debt service costs.

- New Concessions at the Airport

  The Airport entered into new agreements to provide additional revenue producing services to the traveling public. A total of 18 massage chairs were installed in the terminals. This was a service that was highly requested in recent customer service surveys. A Best Buy automated premium vending unit was added to the south end of Terminal B to provide technology products in an area where they had been absent. Products purchased at the Best Buy unit are at street pricing and can be returned to Best Buy stores for exchange or refund.

  To improve the user experience, the WiFi sponsorship agreement was amended to provide for automatic skipping of ads. There is no longer a wait for passengers to use to use WiFi at the Airport.

- Airport Included in Google's Indoor Mapping Launch

  Google launched a new product called "Google Maps for Android" that enables users to figure out where they are indoors at airports, shopping malls, and other locations. The Airport is among the first 18 airports included in the launch. In effect, the Airport's "you are here" directory is now available on Android mobile devices to help passengers navigate through the terminals to find their gates, concessions, and other services. Detailed floor plans automatically appear when you are viewing the map, and the "blue dot" icon updates to display which floor you are on.

- 2012 Full Scale Emergency Exercise

  The Airport conducted a successful tri-annual full scale emergency exercise in March 2012. The Airport is required to hold a full scale disaster exercise every three years to test the Airport's response capability to handle a multiple casualty event. This year's full scale exercise simulated an aircraft crash, located on the southeast area ramp. Unlike other full scale exercises that have been conducted in the past, this event also involved the opening of the Friends and Family location, allowing the airlines the ability to activate the new location. The event consisted of over 100 individuals from firefighters and paramedics to personnel acting as victims of the incident. Some of the key players during this event were San José Police and Fire, Airport Operations staff, airline tenants, County Emergency Medical Services Agency, and American National Red Cross.

- Airport Director Named Businessman of the Year

  The San José Silicon Valley Chamber of Commerce has named Bill Sherry 'Businessman of the Year' in recognition of his contributions to the region as both Aviation Director of the Airport and Chief Executive Officer of Team San José.

- Airport Wins National Design-Build Excellence Award

  The Airport's TAIP won the Design-Build Institute of America (DBIA) 2011 Design-Build Excellence Award for Transportation projects. Each year DBIA recognizes the most successful design-build projects in the United States and the most influential people in the advancement of the design and construction industry. The TAIP was selected for its successful transformation of the Airport, including new and renovated terminal buildings, a convenient rental car facility, a simplified roadway system, state-of-the-art security checkpoints and baggage systems and sustainable features, including a 3.3-acre, 1-megawatt solar farm. According to DBIA, "With the concurrent management of nine major project elements valued between $20 and $231 million, design-build allowed all stakeholders to truly collaborate on a daily basis. This led to trust, honesty and open communication, resulting in the program being delivered under budget and ahead of schedule."

- Airport Marketing Campaign Wins Award

  An advertising campaign promoting the Airport food and retail concessions placed third in the print advertising category of the 2012 Excellence in Airport Marketing and Communications Contest, sponsored by Airports Council International-North America (ACI-NA). The marketing campaign featured full color ads displayed on panels in the security checkpoint queue. The president of ACI-NA noted that "Each year, this highly competitive contest provides airports a platform to showcase their best marketing and communications efforts that serve their stakeholders, as well as the traveling public, airlines, and other tenants. It has become increasingly important for airports to convey the message that they are important economic engines within their respective communities."

- Projects Completed

  Some of the major projects completed during fiscal year 2012 included the following:

  - Third Phase of Taxiway W - The third phase of the Taxiway W extension project at the Airport was completed in June 2012. This is the third of five phases that will extend Taxiway W to full length, providing a parallel taxiway west of Runway 30L-12R. Phase 3 was funded with a $7.49 million grant from the FAA, with the Airport's matching requirement of $1.81 million.

  - Terminal A/A+ Fit Out - Vacant and previously unfinished Airport tenant areas in Terminal A, first and third floors as well as first floor areas in Terminal A+ were given new finishes and equipped with upgraded electrical and mechanical systems. Over 16,000 square feet of area had been upgraded and ready for tenant move-in.

  - Delta Airlines Relocation to Terminal A - All of Delta Airlines functions at the Airport were moved in February 2012 from Terminal B to Terminal A. Construction work involved building out approximately 2,100 square feet of new airline administrative office space, baggage service offices, associated ramp operations offices and integrating airline proprietary equipment and telecom/data systems in ticketing/check-in and gate hold room areas.

- Fuel Farm Demolition - The project removed 8 underground fuel tanks and all associated piping, dispensing racks and service facilities from the Airport's portion of the site. This is the second phase of a 3 phase program to demolish and remediate the former fuel farm location. Chevron has completed the demolition of their portion of the fuel farm (Phase 1) This project completes the demolition of the Airport's portion of the site (Phase 2) and now a joint project between Chevron and the Airport (Phase 3) has started which involves the removal and disposal of the contaminated soil.

- Terminal and ConRAC Signage - A variety of large-scale sign projects were completed in 2012 including the following: (1) replacement of overhead roadway sign panels and installation of new roadway informational monument signs as a result of the new parking lot openings and re-naming of the parking lots, (2) replacement of Terminal B Curbside Arrivals signs to improve identification of the curb for easier passenger pick-up, (3) replacement of Hourly Lot 4 signs (Terminal B garage), including the addition of illuminated signs to improve wayfinding through the garage, (4) installation of regulatory signage in restrooms for activated recycled water lines, sign and directory revisions due to relocation of Delta Airlines from Terminal B to Terminal A and the United/Continental merge, (5) installation of new directional signs on local roads for wayfinding to the ConRAC from Airport Parkway, and (6) installation of art informational signs.

OUTLOOK FOR THE FUTURE

San José's economic development strategy identifies the Airport's role in providing an important infrastructure resource to support the economy. Businesses need Airport infrastructure and services in order to successfully market goods and services. Global economic demands mean that it is critical that Airport infrastructure be developed and services continue to meet emerging needs.

The Airport works in partnership with various City departments, such as the Department of Transportation, Police and Public Works Departments, to improve the transportation systems to benefit the residents of San José as well as support successful business development. These partnerships allow the City to focus coordination efforts on critical transportation projects. The synergy from these efforts is promoted by the Transportation and Aviation City Service Area (CSA), where the Airport Operating Budget is organized and reported.

The mission of the CSA is to provide the community with safe, secure, and efficient surface and air transportation systems that support San José's livability and economic vitality. The following are the Transportation and Aviation Services CSA desired outcomes:

- Provide safe and secure transportation systems
- Provide viable transportation choices that promote a strong economy
- Travelers have a positive, reliable and efficient experience
- Preserve and improve transportation assets and facilities
- Provide a transportation system that enhances community livability

In May 2010, the City Council directed the City Manager and Director of Aviation to take steps necessary to ensure the ability of the Airport to successfully compete for air service and continue to keep costs to airlines at a nationally competitive level. This direction led to a comprehensive Airport Competitiveness Strategy, as well as the development of a standing City Council Committee focused on Airport Competitiveness. The Airport Competitiveness Committee's purpose is to ensure the success of the Airport by: 1) facilitating the implementation of the Airport Competitiveness Strategic Plan; 2) retaining air carriers; and 3) attracting new air service to the Airport.

The need to carefully manage expenditures and reduce ongoing operating costs is especially critical due to the higher debt service costs associated with the new facilities and the lack of growth in the number of enplaned passengers. The focus of the direction for the Operating Budget has been on evaluating alternatives for providing Airport services in the most cost-effective manner and implementing those alternative service delivery models that create efficiencies and ongoing savings as well as improve customer service experience.

The 2012-13 Adopted Budget contains several ongoing cost reduction elements. The largest operating savings for 2012-2013 have been accomplished by revisions to the Ground Transportation programs. Reductions include the outsourcing of parking and traffic control staffing that provides curbside security and terminal area traffic control. The movement to contractual staffing to perform these duties will save over $1 million per year. Renegotiation of contracts with the Airport's parking operator and the Santa Clara Valley Transportation Authority will also produce ongoing annual savings of $1 million. Shuttle Bus operations savings totaling $1.4 million annually were made available through a reduction of bus service hours and the sale of fourteen (14) shuttle buses leased by the Airport.

The Airport continues to analyze and identify other potential cost reduction measures. Future competitiveness strategy proposals will focus on new revenue sources and air service development strategies to retain and increase airline passengers. The close out of the TAIP projects and an examination of the use of unspent TAIP bond proceeds to help maintain the Airport's cost competiveness are being reviewed as possible short term options.

Several capital projects currently under development have also been determined to be key elements to the Airport's competiveness strategy. The first is the design and development of a common use airport lounge which began in 2012. With All Nippon Airlines initiating service to Tokyo in early 2013, the Airport has entered into an operating agreement for lounge operator services. The operator will provide food and beverage services, as well as business services to customers of the lounge. In addition to the development of the lounge, the Airport will support the success of the new flight with collaborative marketing funds. It is anticipated that the marketing program will promote the new route and new one-stop international flight options available to passengers flying San José to Tokyo's Narita Airport.

Development of property (approximately 59 acres) on the west side of the Airport was also included as a competitiveness measure. It is anticipated that the City Council will approve a tenant or series of tenants for the property in 2013. The Airport will authorize the design, development, construction and operation of aeronautical services facilities on the currently vacant property that will provide much needed long-term revenue to the Airport, as well as additional general aviation resources to San José.

The long-term key to success in the future is increasing the number of passengers and flights, allowing costs to be distributed over a larger enplanement base thus reducing the CPE. City leadership from the Mayor and Council, with the support from Silicon Valley Leadership Group and the San Jose Silicon Valley Chamber of Commerce, is actively engaged in efforts to help attract new air carriers and routes. Enplanement growth is the key, not only to making the Airport more price competitive to the airlines, but also increased passengers generate non-airline revenues such as parking fees, concession sales and rental car fees.

Conservative budget and fiscal policies have led to a surplus for fiscal year 2012. For the fiscal year ended June 30, 2012, Airport's revenues exceeded its expenses and other reserve requirements by $30.6 million, which was $3.4 million greater than the $27.2 million anticipated and utilized in the preparation of the Adopted 2012-13 Rates and Charges (as computed pursuant to the Airline-Airport Lease and Operating Agreement). The additional $3.4 million surplus will assist in balancing the budget and achieving the targeted CPE of $12 in future years.

The Airport's 2013-2017 Adopted Capital Improvement Program (CIP) totals $345.7 million and reflects a shift in focus from the many projects comprising the TAIP to the maintenance and preservation of Airport infrastructure. Airport staff has been working with the Finance Department, City Attorney's Office, and bond counsel to evaluate legally allowable uses for unspent bond proceeds associated with the 2007A and 2007B bonds. Uses include the completion of projects that were deferred from the original TAIP program due to funding issues during the construction phase of the program. Such projects include a common use lounge, Terminal A/A+ space refurbishment, building system upgrades, Terminal A bag system ceiling protection, and completion of the northeast area (formerly the rental car fueling and wash site). The northeast area will provide for a fuel truck maintenance facility, shuttle bus staging and storage, a taxi staging building, and adjacent employee parking. The remaining funds are anticipated to be used to maintain the CPE at $12 for the next five years. The Airport will continue discussions with bond counsel to maximize the Airport's flexibility on the use of these funds.

Highlights of the Airport's 2013-2017 Adopted CIP are as follows:

Airport Master Plan

The Airport has and will continue to provide a significant benefit to the local economy through implementation of the Airport Master Plan, as amended in June 2010. The Master Plan allows for the expansion of general aviation in the northwest portion of the Airport on approximately 44 acres formerly used for interim long-term and employee parking. Cargo facilities will remain at their existing locations on the Airport and can be expanded to accommodate forecasted demand in those locations. Airport construction work in the current CIP includes improvements programmed for Taxiway W. This project will provide the necessary infrastructure to support future general aviation demand, but is contingent upon actual grants received. The development of areas outside the terminal zone is largely contingent upon third-party funding; however, improvements in the northeast area are underway, including the design and construction of a fuel truck maintenance facility, shuttle bus staging site, taxi staging building, and employee parking lot. The CIP also reflects a shift from major development and implementation initiatives to the operational needs of the new facilities and the preservation of Airport assets.

Airfield Facilities

The Adopted CIP allocates $49.3 million towards projects that will improve airfield infrastructure to accommodate the demands for air carrier and general aviation operations and safety. Airfield improvement projects include the following:

- $41.4 million for the Taxiway W Improvements project. The allocation funds Phase IV construction in 2012-13 which extends Taxiway W from Taxiway G to Taxiway J and includes the reconstruction of Taxiway G from Taxiway V to Taxiway W. Design work is nearly complete and the contract was awarded in August 2012. The award of grant funding in the amount of $7.0 million from the FAA was received in July 2012. Like Phase IV, timing and construction of subsequent efforts programmed within this CIP are contingent upon the availability of future grant and local funding;

- $2.9 million for a new Airfield Preventive Pavement Maintenance program to assess and maintain airfield pavement/concrete at an acceptable level and maximize the serviceable life of the pavement. This program is an FAA requirement to maintain Airport eligibility for AIP grants. Funding provides for preventive maintenance of airfield facilities as identified by the Airport's Pavement Maintenance Management System (PMMS). Future projects will include slab replacement, asphalt overlays, concrete patch repairs, crack sealing, slurry seals, and joint seal replacement; and

- $1.1 million for the Runway 30R Joint Seal Replacement project. The Airport's PMMS has identified the need for preventive maintenance in 2015-2016 to maintain Runway 30R at an acceptable level of service. Runway 30R encompasses an area of approximately 1,650,000 square feet and includes 121,000 linear feet of joint sealant between concrete panels. This project is AIP grant eligible.

Additional funding is programmed for airfield projects, which provide for design and construction of various improvements and repairs pursuant to FAA requirements.

Aviation Support – Environmental

Over the next five years, a total of $3.1 million is budgeted for the following environmental projects:

- $1.9 million for the continued assessment and clean up of the former fuel farm site; and

- $600,000 for Stormwater Compliance – North Trash Yard Canopy; and

- $350,000 for Stormwater Compliance – Southeast Area Improvements to remain in compliance with the Airport's Stormwater Pollution Prevention program and the Industrial Stormwater General Permit.

Additional funding is programmed for the as-needed repair of Airport above-ground and underground fuel storage tanks.

Aviation Support Facilities - General

The Adopted CIP provides $26.4 million to fund various new infrastructure improvements and to renovate, maintain, or upgrade existing facilities. The CIP includes the following projects:

- $14.0 million for ARFF upgrades. This project is contingent upon the receipt of future grant and local funding and would upgrade the current ARFF, known as Fire Station 20, to correct building deficiencies, address diversity in the workforce, and increase vehicle capacity and training capabilities;

- $2.9 million for Pavement Maintenance, which includes the repair, replacement or reconstruction of asphalt and concrete pavement, including striping and markings, at various locations throughout the Airport to meet airfield and roadway safety requirements;

- $2.6 million to fund the Operations' Systems Support/Maintenance project for as-needed capital renewal and replacement to maintain various operations' systems throughout the Airport including access control, security, noise and curfew, shared use and parking revenue systems; and

- $1.7 million for a Vehicle Replacement Program. The Airport currently has an aging fleet of 122 vehicles and rolling stock. The average age of the Airport's 92 street legal vehicles is over 15 years old and the acquisition of new and replacement vehicles is needed to maintain a reliable and cost-effective fleet.

Other projects are programmed to fund replacement of operating equipment, land improvements, technology equipment and software, in addition to Airport signage design and production. The Non-Terminal Area Projects appropriation was decreased by $4.6 million due to reduced project scope.

Passenger Terminal Facilities

A total of $26.2 million is allocated for the following facilities-related projects:

- $20.5 for Terminal Area Improvement, Phase I. The remaining allocation represents funding for final close-out items, and includes significant project savings;

- $2.3 million for Terminal Building Modifications. This project funds modifications and other minor alterations to accommodate expansions or changes at all Airport buildings and terminals;

- $1.5 million is allocated for the refurbishment of Terminal A Baggage Claim Escalators beginning in 2015-2016; and

- $900,000 to fund Terminal A+ Building Automation Controls and HVAC Replacement Units. This project will extend building automation controls to Terminal A+ and replace outdated HVAC units to allow remote access and condition assessment of occupied areas, and improve efficiency and customer satisfaction.

Other projects are programmed to fund elevator upgrades, fire sprinkler piping maintenance, sump pumps, flight information displays and other passenger terminal improvements.

FINANCIAL INFORMATION

The management staff of the Airport is responsible for establishing and maintaining an internal control system designed to safeguard the assets of the Airport from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits, and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of federal funds, the Airport is also responsible for providing assurance that an adequate internal control system is in place to ensure compliance with applicable laws and regulations relating to federal award programs. This internal control system is subject to periodic evaluation by management, the City Auditor, and the City's outside independent certified public accountants.

As part of the City's Single Audit procedures, tests are made to determine compliance with the internal control system in place, including those controls relating to Federal award programs, and whether the Airport has complied with all applicable laws and regulations. The result of the City's Single Audit for the year ended June 30, 2012 indicated that there were no material weaknesses in the City's instituted internal control system.

The Airport was authorized to impose Passenger Facility Charges (PFCs) effective September 1, 1992. Legislation authorizing the collection of PFCs restricts the use of PFC revenue to the acquisition of specified assets or payment of eligible bond debt service and prescribes reporting and control requirements. At least annually, during the period in which the PFC is collected, held, or used, the Airport must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport's internal accounting controls to account for the collection and use of PFCs. The audit can be performed separately for the PFC account or as part of the Single Audit. For FY 2012, the audit of the Airport's PFC accounts was performed as part of the Single Audit. The audit is complete and there were no noted material weaknesses in the Airport's internal accounting controls or instances of noncompliance with applicable PFC regulations.

Budgetary Controls

Each year, the Airport prepares an operating budget and a capital budget. These documents are presented to the City Council and included in the City's annual appropriated budget. The approved budgets serve as an approved plan to facilitate control and operational evaluation.

The Airport and the City maintain budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the San José City Council. The level of budgetary control, at which expenses cannot legally exceed the budgeted amount, is at the appropriation level.

The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of the Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending.

Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget. For budget purposes, expenses are recognized in the year encumbered. For financial statement purposes, expenses are recognized when incurred.

Certain budgetary and fund provisions are stipulated in the Airline–Airport Lease and Operating Agreement and the Master Trust Agreement. Both operating and capital budgets comply with the provisions or restrictions set forth within these agreements.

The Airport continues to meet its responsibility for sound financial management as demonstrated by the statements included in the financial section of this report.

OTHER INFORMATION

Independent Audit

In accordance with Sections 805(a) and 1215 of the City Charter, the annual audit of Airport funds was completed by Macias Gini & O'Connell LLP, Certified Public Accountants for the year ended June 30, 2012. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the related Office of Management and Budget Circular A-133. The Airport's federal awards programs are included in the City-wide Single Audit Report. The auditor's report on the Airport's financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the FY ended June 30, 2011. This was the fifteenth consecutive year that the Airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Airport must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the CAFR was made possible by the dedicated service and efforts of the Airport's Finance and Administration Division. Each member of the division has our sincere appreciation for the contributions made in the preparation of this report.

In addition, staff in all Airport divisions should be recognized for responding quickly and positively to requests for detailed information which accompany each annual audit. The role of Macias Gini & O'Connell LLP should also be acknowledged as a significant contribution to a fine product.

Respectfully submitted,

Kimberly B. Aguirre
Chief Operating Officer

Terri A. Gomes, CPA
Deputy Director
Finance and Administration Division

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Norman Y. Mineta San Jose International Airport, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Listing of Principal Officials
June 30, 2012

ELECTED OFFICIALS:

Chuck Reed	Mayor
Pete Constant	Council Member, District 1
Ash Kalra	Council Member, District 2
Sam Liccardo	Council Member, District 3
Kansen Chu	Council Member, District 4
Xavier Campos	Council Member, District 5
Pierluigi Oliverio	Council Member, District 6
Madison Nguyen	Council Member, District 7
Rose Herrera	Council Member, District 8
Donald Rocha	Council Member, District 9
Nancy Pyle	Council Member, District 10

AIRPORT COMMISSION:

Keith Ian Graham	Chairperson
Andres Quintero	Vice-Chairperson
George Gange	Member
Spence Horowitz	Member
Ian Kluft	Member
John Salah	Member
Frank Sweeney	Member
Kansen Chu	Airport Liaison

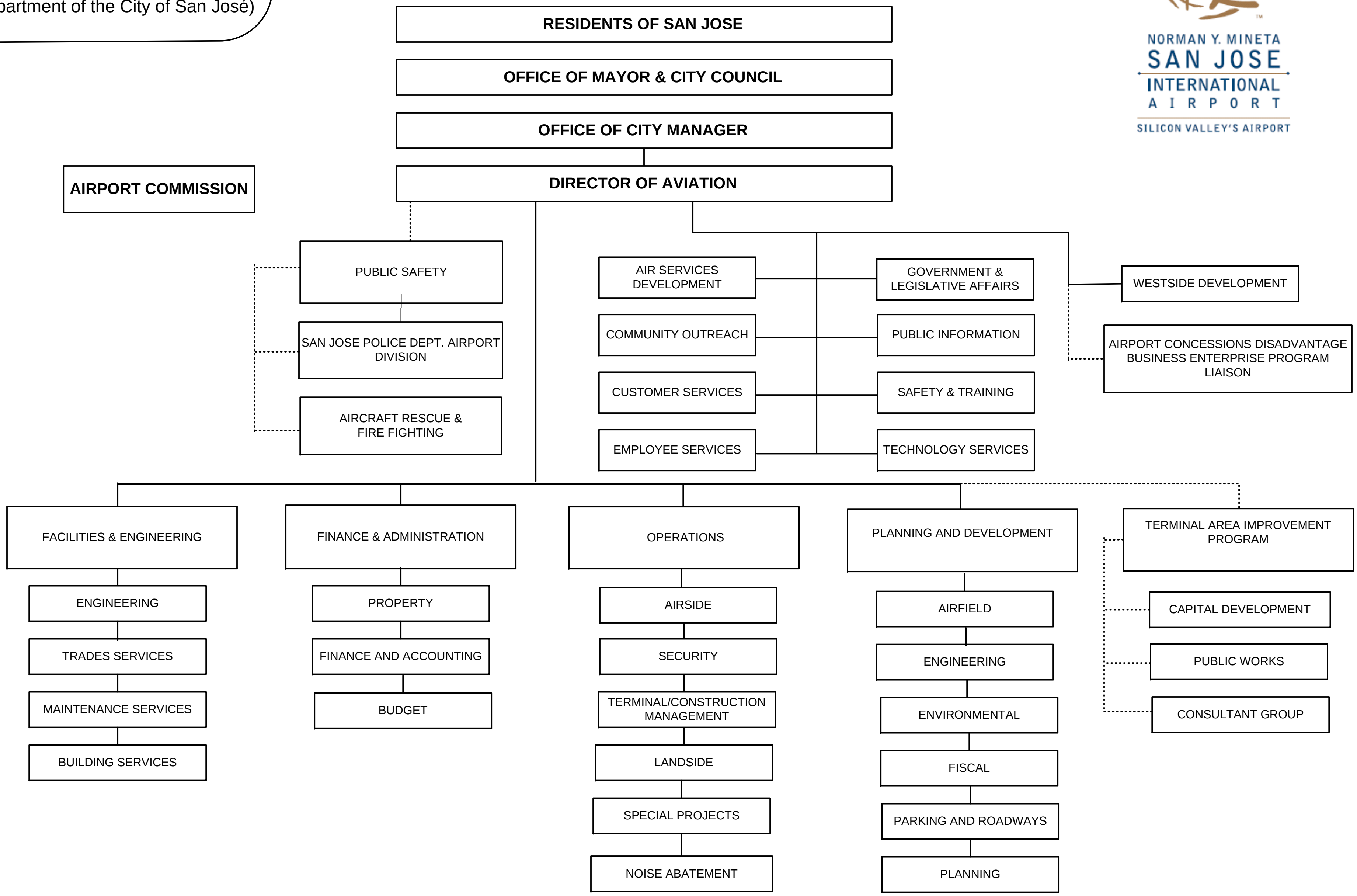
CITY OFFICIAL

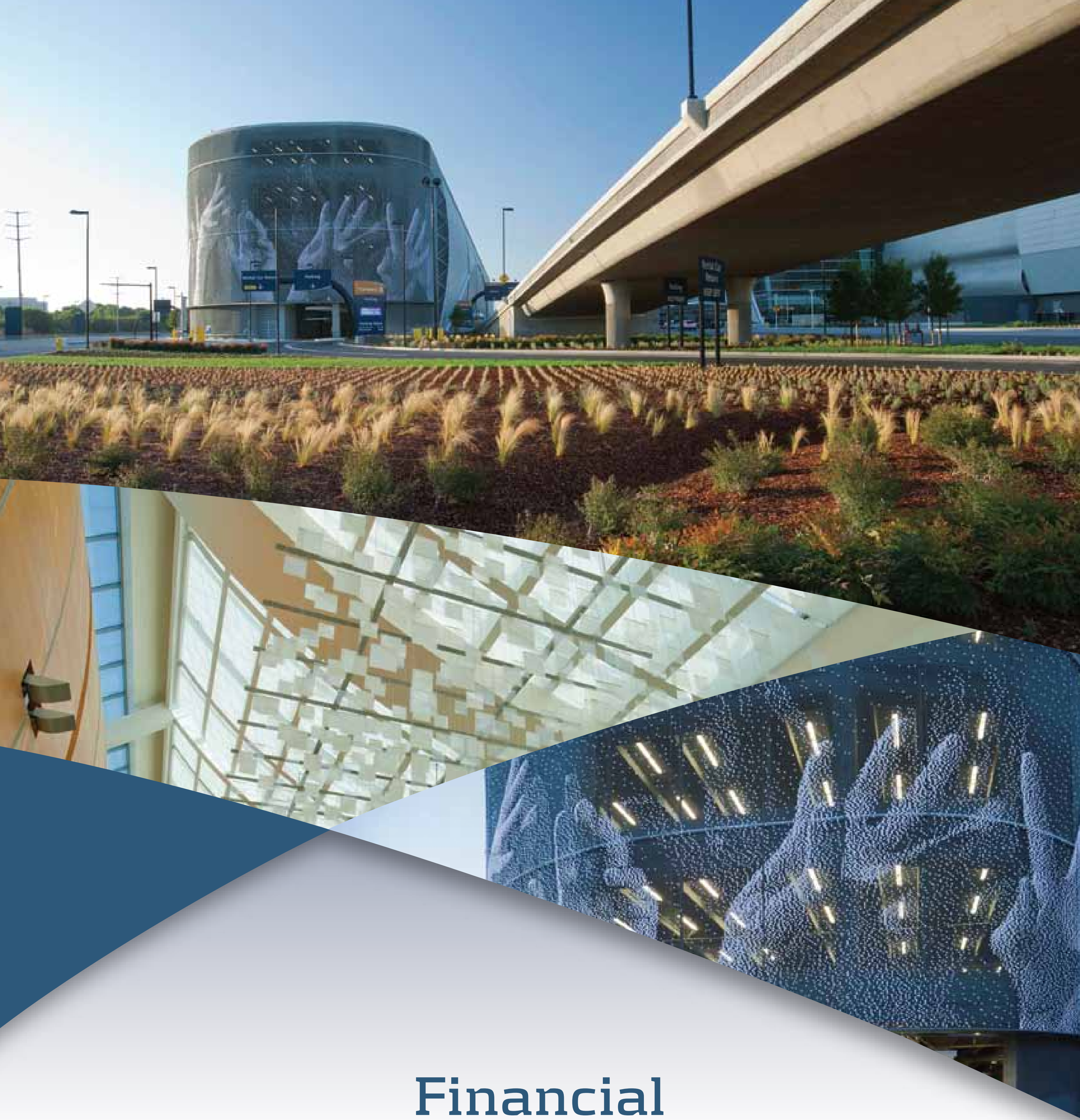
Debra Figone	City Manager

AIRPORT DEPARTMENT:

William F. Sherry, AAE	Director of Aviation
Kimberly B. Aguirre	Chief Operating Officer
Terri A. Gomes, CPA	Deputy Director, Finance and Administration
Patrick R. Tonna	Deputy Director, Facilities & Engineering
David Maas, P.E	Deputy Director, Planning and Development
John Aitken	Deputy Director, Operations
Diane Mack-Williams	Director of Information Technology
Jim Webb	Director of Government Relations
Ed Nelson	Director of Air Service Development
Vicki L. Day	Director of Customer Services
Captain Tim Porter	San José Police Dept. – Airport Division
Rosemary Barnes	Public Information Manager

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





Financial

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Honorable City Council
City of San José, California

Independent Auditor's Report

We have audited the accompanying financial statements of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José, California (City), as of and for the fiscal years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Airport. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position, and cash flows, of only that portion of the business-type activities and major fund of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011 and the changes in its financial position and its cash flows, where applicable, for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Norman Y. Mineta San José International Airport's (Airport) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2012 and 2011.

AIRPORT ACTIVITIES HIGHLIGHTS

The slow recovery from the financial and economic crises had prompted some airlines to merge operations and cut back on their flight operations. As a result, flight operations declined by 1.6% compared to 2011. The Airport faced a decline of 1.6% in 2012 after experiencing a slight increase in passenger traffic of 1.9% in 2011.

As of June 30, 2012, Airport carriers served 29 nonstop markets with 126 daily departures compared to 30 nonstop markets with 128 daily departures as of June 30, 2011 and 30 nonstop markets with 127 daily departures as of June 30, 2010.

The following shows major air traffic activities at the Airport during the last three fiscal years:

	2012	2011	2010
Flight operations	120,105	122,091	131,590
	-1.6%	-7.2%	-17.7%
Landed weight (passenger carriers)	5,125,391	5,221,002	5,410,517
	-1.8%	-3.5%	-11.7%
Landed weight (cargo carriers)	268,748	319,185	322,267
	-15.8%	-1.0%	-23.5%
Total enplaned and deplaned passengers	8,256,223	8,389,050	8,229,442
	-1.6%	1.9%	-6.7%
Enplaned passengers	4,124,885	4,189,223	4,107,394
	-1.5%	2.0%	-6.6%
Deplaned passengers	4,131,338	4,199,827	4,123,589
	-1.6%	1.8%	-6.7%
Domestic passengers	8,092,059	8,232,103	8,100,399
	-1.7%	1.6%	-6.9%
International passengers	164,164	156,947	129,043
	4.6%	21.6%	4.2%
Cargo tonnage (in metric tons)	41,883	47,327	53,183
	-11.5%	-11.0%	-22.8%
Parking (vehicles) exits	956,259	1,073,622	1,002,458
	-10.9%	7.1%	-13.2%

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

(Continued)

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

The Focus City Program is designed to encourage airlines to add new air service at the Airport. Compared to the New Service Program, the Focus City Program offers longer incentive periods to any airline that designates the City as a focus city and commits to two consecutive years of incremental growth at the Airport, adding a minimum number of new qualifying routes and frequencies. Under the Focus City Program, an airline would qualify for a waiver of fees for two years if it adds at least four flights each year, with at least two of those flights to currently unserved or underserved cities. Additional flights to destinations that are already well served would not receive the fee waiver, but those flights would count toward meeting the remaining Focus City Program incentive threshold of four new flights per year.

The Municipally-Funded Cost Incentive Program reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport. 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 agrees to 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

(Continued)

corresponding percentage. The airline agreement also provides that in no event will the City's indirect overhead expenses allocated to the Airport operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the term of the airline agreement.

FINANCIAL HIGHLIGHTS

The Airport continued its practice of conservative budget management and evaluating alternatives for providing services in the most cost-effective manner. During the past several years, the Airport had aggressively reduced its costs, including the elimination of more than 200 positions since 2008. Other significant measures include the outsourcing of custodial services, relocation of Airport offices, and major reductions of police and fire staffing at the Airport. The Airport posted a decrease in net assets for the 2012 fiscal year.

- Operating revenues increased by 7.3% from $127.8 million in 2011 to $137.1 million in 2012.

- Operating expenses before depreciation and amortization decreased by 12.3% from $89.9 million in 2011 to $78.8 million in 2012.

- Operating income before depreciation and amortization increased from $37.9 million in 2011 to $58.3 million in 2012.

- Depreciation and amortization increased from $51.5 million in 2011 to $52.1 million in 2012.

- The above resulted in operating income before nonoperating revenues and expenses of $6.2 million in 2012 and loss before nonoperating revenues and expenses of $13.6 million in 2011.

- Nonoperating expenses, net of nonoperating revenues, increased from $33.4 million 2011 to $49.1 million in 2012.

- Capital contributions received in the form of grants from the federal government decreased from $10.9 million in 2011 to $7.4 million in 2012.

- Net assets decreased by $35.5 in 2012 compared to a decrease of $36.1 million in 2011. This was the result of the increases in depreciation and amortization and nonoperating expenses and decrease in capital contributions, offset by the increase in operating revenues and decrease in operating expenses.

In addition, the Airport posted a decrease in net assets at the end of 2011 fiscal year.

- Operating revenues increased by 13.3% from $112.8 million in 2010 to $127.8 million in 2011.

- Operating expenses before depreciation and amortization decreased by 4.6% from $94.2 million in 2010 to $89.9 million in 2011.

- The above resulted in operating income before depreciation and amortization of $37.9 million in 2011 and $18.6 million in 2010.

(Continued)

- Depreciation and amortization decreased from $55.3 million in 2010 to $51.5 million in 2011.

- Operating loss before nonoperating revenues and expenses decreased from $36.7 million in 2010 to $13.6 million in 2011.

- Nonoperating expenses, net of nonoperating revenues, increased from $3.8 million 2010 to $33.4 million in 2011.

- Capital contributions received in the form of grants from the federal government decreased from $34.7 million in 2010 to $10.9 million in 2011.

- Net assets decreased by $36.1 million in 2011 compared to a decrease of $5.8 million in 2010. This was the result of the increase in nonoperating expenses and decrease in capital contributions, offset by the increase in operating revenues and decreases in operating expenses and depreciation and amortization.

HIGHLIGHTS IN CHANGES IN NET ASSETS

The following table reflects a condensed summary of the changes in net assets (in thousands) for fiscal years ended June 30, 2012, 2011, and 2010:

	2012	2011	2010
Operating revenues	$ 137,112	$ 127,803	$ 112,772
Operating expenses before depreciation and amortization	(78,802)	(89,904)	(94,206)
Operating income before depreciation and amortization	58,310	37,899	18,566
Depreciation and amortization	(52,130)	(51,532)	(55,288)
Operating income (loss)	6,180	(13,633)	(36,722)
Nonoperating revenues and expenses, net	(49,075)	(33,367)	(3,779)
Loss before capital contributions	(42,895)	(47,000)	(40,501)
Capital contributions	7,399	10,862	34,722
Decrease in net assets	(35,496)	(36,138)	(5,779)
Total net assets - beginning	416,626	452,764	458,543
Total net assets - ending	$ 381,130	$ 416,626	$ 452,764

(Continued)

NET ASSETS SUMMARY

Total net assets serve over time as a useful indicator of the Airport's financial position. The Airport's assets exceed liabilities by $381.1 million, $416.6 million, and $452.8 million at June 30, 2012, 2011 and 2010, respectively, a $35.5 million decrease from June 30, 2011 and $71.6 million from June 30, 2010.

A condensed summary of the Airport's net assets (in thousands) at June 30, 2012, 2011and 2010 is shown below:

	2012	2011	2010
Assets:			
Unrestricted assets	$ 94,842	$ 70,452	$ 78,991
Restricted assets	291,882	290,294	370,140
Capital assets	1,483,245	1,517,327	1,501,030
Other assets	22,545	18,012	19,153
Total assets	1,892,514	1,896,085	1,969,314
Liabilities:			
Current liabilities – unrestricted	59,385	422,312	431,388
Current liabilities payable from restricted assets	41,295	36,543	52,423
Noncurrent liabilities	1,410,704	1,020,604	1,032,739
Total liabilities	1,511,384	1,479,459	1,516,550
Net assets:			
Invested in capital assets, net of debt	247,771	272,598	314,664
Restricted	69,350	64,128	61,349
Unrestricted	64,009	79,900	76,751
Total net assets	$ 381,130	$ 416,626	$ 452,764

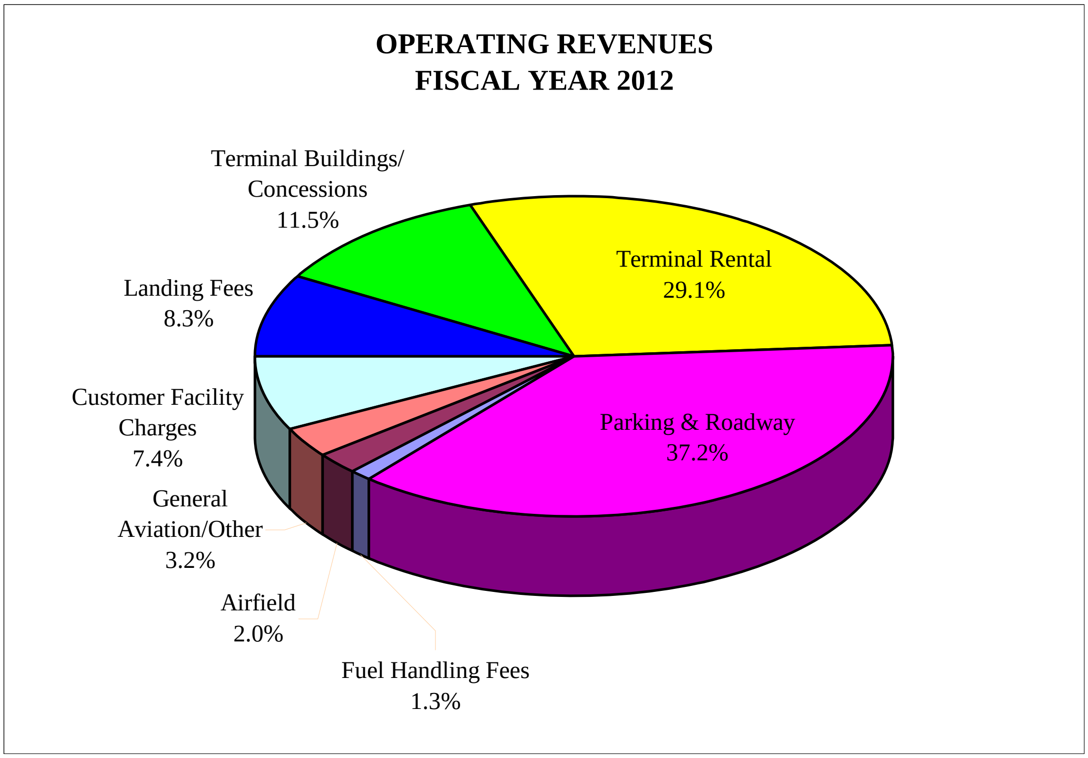
The largest portion, 65.0% and 65.4%, of the Airport's net assets at June 30, 2012 and 2011, respectively, represents its investment in capital assets (e.g. land, buildings, improvements and equipment), less the debt outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending.

A portion of the Airport's net assets represents amounts that are subject to restrictions under the Airline Lease Agreement and the Master Trust Agreement, and passenger facility charges (PFC) and customer facility charges (CFC) that are restricted by Federal regulations and Civil Code §1936, respectively.

(Continued)

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2012:



As illustrated in the above chart, parking and roadway revenue represents 37.2% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the Consolidated Rental Car facility (ConRAC) located at the Airport. Facility rent is equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less revenues from CFCs plus operating costs for any transportation system operated by the Airport to transport passengers between the terminals and the ConRAC facility, 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 agreement. Facility rent will vary each year in relation to changes in any of these amounts.

The next largest category is airline terminal rental which represents 29.1% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 11.5% of total operating revenues, include food and beverage, news and gift shops, advertising, and telephony fees. Orange alert surcharge on enplaned passengers, fees for the use of the Federal Inspection Services (FIS) facility and rental of space, other than airline space, are also included in this category. Landing fees from passenger and cargo carriers represent 8.3% of the total operating revenues.

CFCs (7.4%) are the charges to customers of rental car companies at the Airport in accordance with California Civil Code §1936 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC.

The remaining categories, airfield and fuel handling fees represent 2.0% and 1.3%, of the total operating revenues, respectively. The airfield area category is comprised of air carrier parking fees, fees from the in-flight kitchen services, rental of the air freight building, and fees from ground service providers. Fuel handling fees include sales of diesel, unleaded, propane, and compressed natural gases (CNG), as well as jet flowage fees, a fee charged to operators for engaging in the activity of retail sales of aviation fuel petroleum products. General aviation/other revenues (3.2%) are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, fingerprinting fees, and fees for tenant plan reviews, which are calculated on a cost recovery basis.

A summary of revenues (in thousands) for the fiscal years ended June 30, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Operating revenues:			
Landing fees	$ 11,414	$ 13,370	$ 13,190
Terminal rental	39,864	34,446	33,459
Terminal buildings/concessions	15,770	16,877	11,157
Airfield	2,783	2,925	2,792
Parking and roadway	51,023	47,320	38,934
Fuel handling fees	1,690	1,504	1,310
Customer facility charges	10,137	6,840	6,021
General aviation/other	4,431	4,521	5,909
Total operating revenues	137,112	127,803	112,772
Nonoperating revenues:			
Passenger facility charges	16,787	17,311	17,043
Investment income	2,217	1,614	311
Operating grants	670	701	1,150
Other, net	698	1,438	200
Total nonoperating revenues	20,372	21,064	18,704
Capital contributions	7,399	10,862	34,722
Total revenues	$ 164,883	$ 159,729	$ 166,198

2012 versus 2011

Despite the decline in major airport traffic activities, operating revenues generated in 2012 increased by approximately $9.3 million or 7.3% over that in 2011. Growth trends have been mixed. While revenues have grown in the terminal rental, parking and roadway, CFCs, and fuel handling fees, declines have been experienced in the landing fees, terminal buildings/concessions, airfield, and general aviation/other revenues.

Terminal rental increased from $34.4 million to $39.9 million or an increase of approximately $5.5 million due to higher terminal rental requirement as a result of the increase in debt service, largely offset by the reduced police service cost.

Parking and roadway revenues posted a substantial increase of approximately $3.7 million principally due to a receipt of $3.4 million relating to the purchase/buyout agreement of 14 compressed natural gas (CNG) powered buses. The Airport had an operating lease contract covering the 14 CNG powered buses that was scheduled to expire on July 31, 2015. In May 2012, the contract was amended to allow the early termination of the lease with the Airport's payment of approximately $4.4 million. Simultaneously, the Airport entered into an agreement relinquishing the use of the 14 CNG powered buses to a third party for a total price of $3.4 million to relieve the Airport of its lease commitment. The Airport used the proceeds together with the difference of $1.0 million to make the early termination payment of $4.4 million.

The increase in parking and roadway revenues can also be attributed to increases in public parking and rental car activities and the collection of additional revenues of approximately $354,000 from Fox Rent A Car relating to prior years' concession fee audit adjustments. Ground transportation revenues have also increased due to the change in the fee structure for off-airport parking courtesy van operators eliminating the percentage gross revenue fees and increasing the trip fees from $1.50 per trip ($1.00 per trip for clean fuel vehicles) to $7.00 per trip ($6.00 per trip for clean fuel vehicles). The increases were largely offset by lower facility rents charged to the rental car companies mainly due to the higher CFC revenues collected in 2012.

CFC revenues posted a substantial increase of approximately $3.3 million or 48.2% over that in 2011 primarily due to the approval of the alternative CFC. In November 2011, the City Council modified the CFC from $10 per contract to $6 per day, up to a maximum of five days per rental contract effective December 1, 2011.

Higher compressed natural gas fuel sales in 2012 accounted for the increase in fuel handling fees by 12.4% or approximately $186,000.

Landing fees decreased by $2.0 million or 14.6% due to a variety of factors, including (1) the decrease in rate from $2.47 to $2.14 per thousand pounds of the maximum gross landing weight, (2) the termination of two daily flights to Reno by Southwest Airlines, (3) the reduction in American Airlines' flight schedule after its bankruptcy filing, (4) the reduction in routes by United Airlines when its merger with Continental airlines became official in March 2011, and (5) the termination of operations by Air Transportation International in September 2011.

Terminal buildings/concession revenues declined by $1.1 million or 6.6% due to lower Orange Alert surcharge fees and the reduction of the minimum annual guarantee associated with the closure of the food and retail concessions in Terminal A+.

General aviation/other revenues in 2011 were higher by $90,000 compared to 2012 due to a one-time billing to San Jose Jet Center in 2011 representing a rent adjustment covering the period November 2008 through March 2011.

PFC revenues declined by approximately $524,000 or 3% compared to 2011 reflective of the decline in passenger activity.

(Continued)

Investment income in 2012 increased by approximately $603,000 or 37.4% compared to 2011. Investments posted an increase in fair market value of $1.1 million in 2012 as opposed to a decline in fair market value of $1.0 million in 2011. The increase is largely offset by the $1.6 million decrease in interest earnings as a result of lower interest rates.

The operating grants pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at security checkpoints ($329,500), a canine security grant from TSA ($242,500), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses ($97,600).

Other net nonoperating revenues in 2012 were lower than the prior year revenues by $740,000 or 51.5%. As provided in the operating sublease with City of San José Financing Authority, the Airport received reimbursements in 2011 amounting to $429,000 representing costs incurred in the development of the Airport West property. Also, in 2011 the General Fund transferred back an amount of $214,000 representing retiree healthcare contributions initially funded by the Airport. In 2012, the Airport transferred $115,000 to the General Fund intended for the acquisition of a new payroll system.

Capital contributions received during the fiscal year pertained to reimbursement from the FAA of $7.3 million for the reconstruction of Taxiway W and for use in the South Apron replacement project. The Airport also received $81,000 from FAA's Voluntary Low Emissions program for use in retrofitting the gates at the terminals with preconditioned air and 400 Hz ground power to reduce airline engine use while parked at the gate, thereby reducing emissions.

2011 versus 2010

Total operating revenues increased by 13.3% from $112.8 million in 2010 to $127.8 million in 2011. Except for general aviation and other revenue categories, increases were posted in all revenue categories. The largest contributors to the increase were the terminal buildings/concessions and the parking and roadway categories.

Terminal buildings/concession revenues in 2011 tracked $5.7 million or 51.3% above the 2010 revenues as a result of the new retail and food and beverage concessions that are set on the basis of the minimum annual guaranteed payments.

Parking and roadway revenues in 2011 increased by $8.4 million or 21.5% compared to 2010 primarily due to the facility rents paid by the rental car companies and utility charges allocated based upon relative square footages occupied by the rental car companies at the ConRAC facility. The increase can also be attributed to the higher public parking and rental car concession fees reflective of the increase in passenger activity. The ConRAC facility opened on June 30, 2010.

Terminal rentals increased from $33.5 million in 2010 to $34.4 million in 2011. Higher terminal rentals can be attributed to the higher terminal rental requirement from the airlines as a result of the increase in debt service. Capitalized interest set aside from bond proceeds were used to pay for a majority portion of debt service during the construction period of Airport's terminal facilities. Capitalized interest can no longer be used to pay for debt service after completion of the Airport's terminal facilities in 2010.

Despite the termination of operations by Mexicana Airlines and Frontier Airlines and the overall decrease in landing weights from 2010's level, landing fees in 2011 increased slightly by $180,000 or 1.4% due to the increase in rate from $2.32 to $2.47 per thousand pounds of the maximum gross landing weight.

Airfield revenues posted an increase of $133,000 or 4.8% primarily due to the increase in square footage of ramp leased by Federal Express. Fuel handling fees went up by $194,000 or 14.8%, boosted by the increases in compressed natural gas fuel sales and jet flowage fees.

General aviation/other revenues tracked lower by $1.4 million or 23.5% due to the loss of lease revenues from the Airport West property. With the substantial completion of the Terminal Area Development Program, the Airport no longer needed the property and terminated its operating sublease agreement with the City of San José Financing Authority effective June 30, 2010. Additionally, the Airport collected in 2010 a significant amount from the food and beverage and retail concessionaires to cover engineering and inspection fees related to their tenant improvements.

CFC revenues trended $819,000 or 13.6% higher than the prior fiscal year. Passenger growth and most likely the convenience of the ConRAC facility, which opened at the beginning of 2011, were the primary drivers for the increase in CFC revenues.

PFC revenues increased by $268,000 or 1.6% reflective of the increase in passenger activity.

Despite the lower interest rates and the decline in investment balances as a result of construction spending, investment income increased by $1.3 million or 418.6%. Investments posted a much lower decline in fair value as of June 30, 2011 compared to the prior year. Also, majority of the investment income in 2010 was offset against capitalized interest costs related to the construction projects acquired with debt. The majority of the construction projects were completed in 2010 and therefore interest was not capitalized in 2011.

The operating grants pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at the security checkpoints ($400,700), a canine security grant from TSA ($200,500), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses ($100,000).

Other net nonoperating revenues increased from $200,000 in 2010 to $1.4 million in 2011. Administrative fees totaling $2.0 million associated with the commercial paper program were recorded in the capital funds and deducted from other nonoperating revenues in 2010. Since the construction projects were substantially completed, these fees associated with the commercial paper program are now recorded as part of operating expenses in the operating funds. The decrease in nonoperating expense was offset by the loss of $1.5 million revenue from the Airport's capital program for the use of the Airport West property for construction laydown and staging. Also, as provided in the operating sublease with City of San José Financing Authority, the Airport received reimbursements in 2011 amounting to $429,000 representing costs incurred in the development of the Airport West property.

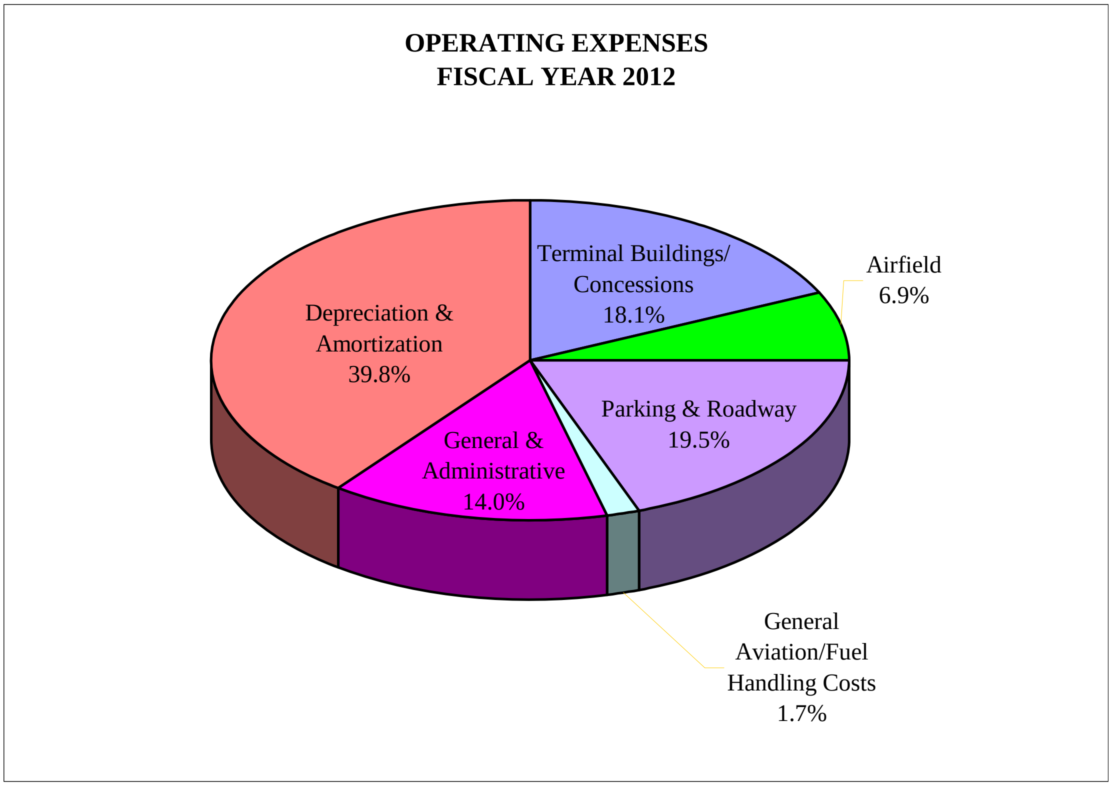
Capital contributions received during 2011 pertained to reimbursement from the FAA of $8.0 million for the reconstruction of Taxiway W and $70,000 for use in the South Apron replacement

(Continued)

project. The Airport also received $1.1 million from FAA's Voluntary Low Emissions program for use in retrofitting the gates at the terminals with preconditioned air and 400 Hz ground power to reduce airline engine use while parked at the gate, thereby reducing emissions. $1.7 million of additional funding was also received from TSA for the baggage screening system for the terminals.

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2012:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Operating expenses:			
Terminal buildings/concessions	$ 23,659	$ 33,019	$ 31,701
Airfield area	9,069	9,749	10,911
Parking and roadway	25,514	25,344	24,032
Fuel handling costs	556	288	885
General aviation	1,676	2,409	3,053
General and administrative	18,328	19,095	23,624
Depreciation and amortization	52,130	51,532	55,288
Total operating expenses	130,932	141,436	149,494
Nonoperating expenses:			
Interest expense	69,438	54,431	10,750
Loss on capital assets disposal	9	-	11,733
Total nonoperating expenses	69,447	54,431	22,483
Total Expenses	$ 200,379	$ 195,867	$ 171,977

2012 versus 2011

Operating expenses declined by $10.5 million from $141.4 million in 2011 to $130.9 million in 2012. Decreases were experienced in personnel and nonpersonnel expenditures, fees charged by the City for police and firefighting services, workers' compensation costs, and expensed capital expenditures. These were partially offset by the increases in other postemployment benefits (OPEB) costs, overhead, and depreciation and amortization.

Personnel expenditures in 2012 decreased by approximately $297,000 due to the wage reductions implemented for all staff and the elimination of seven positions. The decreases were largely offset by higher retirement contributions, which increased from approximately 25.75% of salary in 2011 to approximately 28.34% in 2012. Overhead expenditures increased by $427,000 due to a rate change from 17.26% in 2011 to 21.97% in 2012.

Nonpersonnel expenditures decreased by approximately $239,000 principally due to the termination of leased space for the off-Airport administrative offices. Staffing levels were reduced to a level that made it possible to consolidate all staff on the Airport property. Additionally, lower nonpersonnel expenditures were due to decreases in both parking and shuttle bus operator costs. A one-time reimbursement of parking operator costs was paid in 2011 to cover for the delay in the implementation of the new parking control system resulting in the reduction of the year-to-year costs. Also, the new agreement with the parking operator for parking management and in-lot shuttle services took effect on April 1, 2012. The new contract changed the compensation model from paying a percentage of revenues to management fee plus reimbursement of costs, which provides the Airport better control over costs. Shuttle bus costs declined due to several factors including the closure of the long-term lot resulting in shorter routes and the need for fewer buses. Also, an amendment to the shuttle bus service contract took effect on March 1, 2012, changing the compensation structure from a cost per hour of operation to a fixed monthly rate plus a cost per hour of operation, allowing the Airport to reduce service hours without impacting the costs. The decreases were largely offset by the $4.4 million buyout payment for the early termination of the lease agreement for the 14 CNG shuttle buses.

The fees charged by the City for police services were significantly reduced by $5.3 million as a result of the new staffing model of 11 full-time positions, capping overhead at approximately 25% (versus approximately 45% in the prior year) with the staffing equivalent of 16 police officers funded with overtime which eliminates retirements, fringe, and overhead costs associated with the positions. This revised model was implemented in February 2012. The fees charged by the City for airport rescue and firefighting services (ARFF) were also reduced by $444,000 as a result of the negotiated matching of costs with outsourced service costs for five months of the fiscal year and the capping of overhead at approximately 25% (versus 45% in the prior year).

Operating expenses included certain expenditures for capital projects that did not meet the criteria for capitalization into capital assets (expensed capital items). Expensed capital items decreased from $8.2 million in 2011 to $2.6 million. A major portion of these expensed capital items in 2011 pertained to the Terminal C demolition costs of $6.5 million.

Depreciation and amortization increased by $598,000 due to a full year depreciation recorded on certain assets placed in service towards the end of the prior fiscal year, particularly the five new parking lots that opened in May and June of 2011. Additional costs recorded in 2012 pertaining to certain assets placed in service in 2011, most notably the terminal equity improvements and Terminal B, also contributed to the increase in depreciation and amortization. Amortization of bond issuance costs, discount, premium, and deferred amount on refunding relating to the Series 2011 Bonds also accounted for the increase.

OPEB costs recorded in 2012, based on the latest actuarial study, posted an increase of $644,000. Workers' compensation costs in 2012 posted a decline of $321,000 when compared to the prior fiscal year. Workers compensation costs reflect a combination of the actual claim payments during the fiscal year and the adjustment of liability as of the end of the fiscal year. Actual claim payments amounted to $554,000 and $858,000 while reductions of liability amounted to $674,000 and $657,000 in 2012 and 2011, respectively.

<u>2011 versus 2010</u>

Operating expenses declined by $8.1 million from $149.5 million in 2010 to $141.4 million in 2011. Decreases were experienced in personnel expenditures, overhead, depreciation and amortization, and fees charged by the City for police and firefighting services. These were largely offset by the increases in the nonpersonnel and expensed capital expenditures.

Personnel expenditures decreased by $8.4 million or 26.3% as a result of the reduced staffing levels. The most significant cost reduction resulted from the outsourcing of the custodial services and eliminating 54 building maintenance positions. Administrative and outreach positions were also reduced following the completion of majority of the Terminal Area Improvement Program (TAIP) projects. Additional positions were reduced from parking and traffic control functions as well as the warehouse, engineering and planning sections. The reduced staffing levels, as well as the reduction in overhead rate from 18.86% in 2010 to 17.26% in 2011, accounted for the decrease in overhead by $2.1 million or 40.6%.

Nonpersonnel expenditures increased by $5.2 million or 15.9% due to the costs associated with the outsourcing of custodial services. Additionally, with the opening of Terminal B, new services such as the maintenance of the in-line baggage system and additional elevators also contributed to the increase. Letter of credit fees associated with the commercial paper program also accounted for the significant increase in nonpersonnel expenditures. These fees, which had been recorded as non-operating expenses in the capital funds, were recorded as operating expenses after the completion of Terminal B and ConRAC facilities. The increase was largely offset by the reduced rental expense due to the termination of leased space for the off-Airport administrative office space and the Airport West property.

In October 2011, the Federated actuary presented the Federated Board with its analysis of the Federated Plan's annual required contribution (ARC) funding for fiscal year 2011. The actuarial analysis of the ARC determined that a remaining payment of $8,046,000 was due from the City, or 2.57% of covered payroll, would be required to fund the City's fiscal year 2011 ARC of 25.75% of covered payroll. Since this amount was not paid until fiscal year 2012, the Airport recognized its allocation of the liability in the amount of $571,000 in fiscal year 2011.

Expensed capital items increased from $6.7 million in 2010 to $8.2 million in 2011. A major portion of these expensed capital items in 2011 pertained to the Terminal C demolition costs of $6.5 million.

In 2011, the Airport started depreciating the TAIP projects that were completed at the end of 2010. However, depreciation and amortization in 2011 declined by $3.8 million or 6.8% compared to 2010. The higher depreciation and amortization in 2010 can be attributed to the fact that the Airport terminated its operations at Terminal C on June 29, 2010 and accelerated its depreciation schedule and wrote off its remaining book value of $25.9 million. The demolition of Terminal C was completed in 2011.

Operating expenses included fees charged by the City for police and ARFF services totaling $14.2 million in 2011 and $15.6 million in 2010. These costs were reduced by $1.4 million or 9.0% as a result of the alignment of staffing levels with current passenger levels and the overhead rate reduction.

OPEB costs and workers' compensation claims recorded in 2011 posted slight increases over 2010 of $218,000 and $109,000, respectively.

Majority of the interest expense in 2010 was capitalized as part of the construction projects, which were substantially completed in 2010 while interest expense was not capitalized in 2011. This accounted for the increase in interest expense in 2011 by $43.7 million.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended $20.2 million and $102.7 million on both capitalized and noncapitalizable capital activities in fiscal years 2012 and 2011, respectively. Major capital projects in 2012 included the Taxiway W improvements, public parking improvements, and several TAIP projects, including the parking revenue control system, Terminal A/A+ refurbishment, and terminal equity improvements.

As of June 30, 2012, the Airport was obligated for purchase commitments relating to capital projects of approximately $6.9 million primarily for the costs of the Taxiway W improvements and several TAIP projects.

Detailed information about the Airport's Master Plan projects can be found in Note 10 (d) to the financial statements and information about capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

Commercial Paper Program

The commercial paper debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2012 and 2011, the total amount of commercial paper outstanding totaled $47.9 million and $410.1 million, respectively. The Airport issued Airport Revenue Bonds in fiscal year 2012 to refund commercial paper notes totaling approximately $354.2 million. During the fiscal years ended June 30, 2012 and 2011, the Airport paid principal of $7.9 million and $378.6 million, respectively. The amount paid during the fiscal year ended June 30, 2011 also included the payoff of $279.0 million commercial paper notes for which the credit support expired and was replaced by the same amount of commercial paper notes. These notes were supported by the replacement letters of credit and reimbursement agreements approved by City Council in January 2011.

Additional information about the Airport's commercial paper program can be found in Note 4 to the financial statements.

Revenue Bonds

As of June 30, 2012 and 2011, the Airport had total outstanding revenue bonds of $1,420.4 million and $1,025.9 million, respectively. During fiscal year 2012, the Airport issued a total of $508.6 million revenue bonds (i) to refund certain variable rate commercial paper notes totaling $354.2 million, (ii) to refund existing revenue bonds totaling $92.2 million, (iii) to pay a portion of the cost of issuance of the bonds, and (iv) to make a cash deposit to the General Account of the Bond Reserve Fund. During the fiscal years ended June 30, 2012 and 2011, the Airport paid principal of $21.9 million and $12.1 million, respectively.

Additional information about the Airport's long-term debt can be found in Note 5 to the financial statements.

Credit Ratings

The underlying ratings of the outstanding Airport Revenue Bonds are "A-", "A2" and "BBB+" by Standard & Poor's (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), respectively. S&P's and Fitch's rating outlooks with respect to the outstanding Airport Revenue Bonds is stable. Moody's rating outlook with respect to the outstanding Airport Revenue Bonds is "negative." See Note 5 to the financial statements for a list of outstanding Airport Revenue Bonds.

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

AIRLINE RATES AND CHARGES

The Airport entered into an Airline-Airport Lease and Operating Agreement that took effect on December 1, 2007 with an expiration date of June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. The terminal rate methodology contained in the agreement is based on a compensatory rate-making approach. The average rental rate is calculated annually by dividing the Terminal Revenue Requirement sum by the total amount of rentable terminal space and multiplying the resulting quotient by the total square feet of airline premises at the Airport, yielding the Airline Terminal Revenue Requirement. The airlines' share of any net remaining revenues is credited against the Airline Terminal Revenue Requirement, yielding the Net Airline Terminal Revenue Requirement. The Terminal Revenue Requirement is the sum of expenses allocable to the Terminal for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) any grant amounts used to pay debt service, less (g) the debt service coverage for the immediately preceding fiscal year.

The landing fee rate methodology in the agreement is based on a cost center residual rate-making approach. The landing fee is 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 during the fiscal year. The landing fee is expressed in dollars and cents per one thousand pounds in landed weight. The Airfield Revenue Requirement is the sum of expenses allocable to the Airfield for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) revenues, other than landing fees, that are accrued for the use of the Airfield, including revenue accrued from landing fee premiums paid by non-signatory airlines, and revenues accrued from charges paid for parking aircraft at common use gates, less (g) any grant amounts used to pay debt service, less (h) the debt service coverage for the immediately preceding fiscal year.

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2012 and 2011 were as follows:

	2012	2011
Landing fee (per 1,000 lbs MGLW):	$2.14	$2.47
Terminal average rental rate (per square foot)	$153.20	$130.34
Airline cost per enplanement (projected)	$11.67	$11.09

Terminal rental rates and airline landing fees for fiscal year 2013 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for fiscal year 2013, which became effective July 1, 2012, are as follows:

Landing fees (per 1,000 lbs MGLW):	$2.38
Terminal average rental rates (per square foot)	$154.65
Airline cost per enplanement (projected)	$11.95

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately $3.4 million greater than what was anticipated in the preparation of the adopted 2012-13 Airline Rates and Charges. The surplus for 2012 will be allocated in accordance with the revenue sharing provisions of the lease agreement and to meet a cost per enplaned passenger of under $12 as directed by the City Council.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Norman Y. Mineta San José International Airport, 1701 Airport Blvd., Suite B1130, San José, CA 95110.

Exhibit I
(Continued)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Assets
June 30, 2012 and 2011

		2012	2011
Assets			
Current assets:			
Unrestricted assets:			
Equity in pooled cash and investments held in City Treasury (Note 2)	$	86,109,304	62,755,181
Receivables:			
Accounts, net of allowance for uncollectible accounts of $327,000 in 2012 and $591,641 in 2011		6,120,618	6,025,686
Accrued interest		123,146	55,697
Grants		2,303,439	1,171,726
Prepaid expenses, advances, and deposits		185,509	443,451
Total unrestricted assets		94,842,016	70,451,741
Restricted assets:			
Equity in pooled cash and investments held in City Treasury (Note 2)		63,086,628	57,113,244
Investments held by fiscal agent (Note 2)		224,917,435	229,989,486
Receivables:			
Accounts, net of allowance for uncollectible accounts of $9,000 in 2012 and $30,522 in 2011		3,497,393	2,945,930
Accrued interest		174,439	44,158
Prepaid expenses, advances, and deposits		4,873	4,692
Current portion of bond issuance costs		201,420	196,658
Total restricted assets		291,882,188	290,294,168
Total current assets		386,724,204	360,745,909
Noncurrent assets:			
Capital assets (Note 3):			
Nondepreciable		117,749,117	108,433,273
Depreciable assets, net of accumulated depreciation		1,365,496,169	1,408,893,952
Total capital assets		1,483,245,286	1,517,327,225
Loan receivable		250,000	250,000
Advances and deposits		5,331,286	5,925,636
Bond issuance costs, less current portion		16,963,676	11,836,068
Total noncurrent assets		1,505,790,248	1,535,338,929
Total assets	$	1,892,514,452	1,896,084,838

See accompanying notes to financial statements.

Exhibit I
(Concluded)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Assets
June 30, 2012 and 2011

		2012	2011
Liabilities			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	$	3,570,373	4,110,262
Accrued salaries, wages and payroll taxes		476,599	1,735,301
Accrued vacation, sick leave and compensatory time, current (Note 5)		1,536,000	1,609,000
Advances and deposits payable		1,082,778	1,067,989
Unearned revenue		3,884,992	2,772,521
Estimated liability for self-insurance, current (Note 9)		560,000	560,000
Other current liabilities		330,000	330,000
Accrued interest payable		7,635	48,265
Commercial paper notes payable (Note 4)		47,937,000	410,079,000
Total payable from unrestricted assets		59,385,377	422,312,338
Payable from restricted assets:			
Accounts payable		401,492	3,397,518
Accrued salaries, wages and payroll taxes		13,341	127,401
Unearned revenue		1,585,146	1,785,490
Other current liabilities		384,000	384,000
Accrued interest payable		25,615,357	18,166,951
Current portion of bonds payable (Note 5)		13,295,902	12,681,060
Total payable from restricted assets		41,295,238	36,542,420
Total current liabilities		100,680,615	458,854,758
Noncurrent liabilities:			
Bonds payable, less current portion and net of unamortized discount/premium and deferred amount on refunding (Note 5)		1,399,158,958	1,010,623,242
Estimated liability for self-insurance, noncurrent (Note 9)		1,071,245	1,745,639
Other postemployment benefits liability (Note 7)		9,964,282	7,529,822
Accrued vacation, sick leave and compensatory time, noncurrent (Note 5)		509,695	705,251
Total noncurrent liabilities		1,410,704,180	1,020,603,954
Total liabilities		1,511,384,795	1,479,458,712
Net Assets			
Invested in capital assets, net of related debt		247,770,861	272,597,572
Restricted:			
Per Airline Lease Agreement for:			
Airline revenue sharing		13,602,840	11,380,028
Per Master Trust Agreement for:			
Rolling debt service coverage		16,175,989	9,185,059
California Civil Code Section 1936 for Customer Facility Charges		1,000,000	595,166
Future debt service (Note 1 (i))		38,570,899	42,967,880
Unrestricted		64,009,068	79,900,421
Total net assets	$	381,129,657	416,626,126

See accompanying notes to financial statements.

Exhibit II

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

		2012	2011
Operating revenues:			
Airline rates and charges:			
Landing fees	$	11,413,628	13,370,404
Terminal rental		39,864,277	34,446,216
Total airline rates and charges		51,277,905	47,816,620
Terminal buildings/concessions		15,770,190	16,876,892
Airfield area		2,783,446	2,924,976
Parking and roadway		51,023,465	47,320,098
Fuel handling fees		1,690,326	1,503,834
Customer facility charges		10,137,053	6,839,740
General aviation/other		4,430,460	4,520,960
Total operating revenues		137,112,845	127,803,120
Operating expenses:			
Terminal buildings/concessions		23,659,488	33,019,384
Airfield area		9,068,812	9,748,512
Parking and roadway		25,513,719	25,344,190
Fuel handling costs		556,312	287,530
General aviation		1,676,382	2,409,245
General and administrative		18,327,715	19,095,433
Depreciation and amortization		52,129,635	51,532,165
Total operating expenses		130,932,063	141,436,459
Operating income (loss)		6,180,782	(13,633,339)
Nonoperating revenues (expenses):			
Passenger facility charges		16,786,978	17,310,768
Investment income		2,216,540	1,613,489
Interest expense		(69,438,105)	(54,430,809)
Operating grants		669,566	701,183
Loss on capital assets disposal		(9,452)	-
Other, net		698,166	1,438,228
Total nonoperating revenues (expenses), net		(49,076,307)	(33,367,141)
Loss before capital contributions		(42,895,525)	(47,000,480)
Capital contributions		7,399,056	10,862,464
Change in net assets		(35,496,469)	(36,138,016)
Total net assets - beginning		416,626,126	452,764,142
Total net assets - ending	$	381,129,657	416,626,126

See accompanying notes to financial statements.

Exhibit III
(Continued)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Receipts from customers and users	$	137,111,219	128,460,881
Payments to suppliers		(41,752,735)	(42,373,975)
Payments to employees		(25,912,117)	(26,166,534)
Payments for City services		(12,873,615)	(19,042,476)
Claims paid		(606,059)	(865,530)
Other receipts		1,207,718	386,209
Net cash provided by operating activities		57,174,411	40,398,575
Cash flows from noncapital financing activities:			
Transfers from the City's General Fund		-	671,762
Transfers to the City's General Fund		(115,010)	-
Operating grants		740,443	286,028
Net cash provided by noncapital financing activities		625,433	957,790
Cash flows from capital and related financing activities:			
Purchases of capital assets		(18,717,036)	(88,768,197)
Principal payments on bonds payable		(21,915,000)	(12,120,000)
Interest paid		(61,775,744)	(54,093,240)
Capital grants		6,196,466	17,998,047
Passenger facility charges received		16,735,241	18,049,864
Proceeds from bond issuance		504,400,801	-
Payment for redemption of bonds		(92,165,000)	-
Bond issuance costs paid		(6,775,276)	-
Proceeds from commercial paper		-	371,344,000
Principal payments on commercial paper		(7,892,000)	(378,613,000)
Refunded commercial paper		(354,250,000)	-
Advances and deposits received		594,350	944,981
Net cash used in capital and related financing activities		(35,563,198)	(125,257,545)
Cash flows from investing activities:			
Proceeds from sale and maturities of investments		285,216,790	385,686,112
Purchases of investments		(300,469,581)	(99,065,098)
Investment income received		1,057,481	4,095,266
Net cash (used in) provided by investing activities		(14,195,310)	290,716,280
Net increase in cash and cash equivalents		8,041,336	206,815,100
Cash and cash equivalents - beginning		328,216,098	121,400,998
Cash and cash equivalents - ending	$	336,257,434	328,216,098

See accompanying notes to financial statements.

Exhibit III
(Concluded)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 6,180,782	(13,633,339)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	52,129,635	51,532,165
Other revenues	813,176	795,036
Other expenses	-	(14,285)
Decrease (increase) in:		
Accounts receivable	(594,658)	(1,078,042)
Prepaid expenses, advances, and deposits	3,176	(288,517)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,610,222)	2,433,175
Advances and deposits payable	14,789	116,584
Unearned revenue	912,127	1,192,707
Estimated liability for self-insurance	(674,394)	(656,909)
Net cash provided by operating activities	$ 57,174,411	40,398,575
Noncash noncapital financing activities:		
Decrease (increase) in operating grants receivable	$ 70,877	(486,003)
Noncash capital and related financing activities:		
Acquisition of capital assets on accounts payable	$ 1,409,148	2,541,698
Unrealized gain/(loss) on investments held by fiscal agent	961,329	(1,370,557)
Loss on capital assets disposal	(9,452)	-
Amortization of bond discount/premium, issuance costs, and deferred amount on refunding	472,662	345,393
Reconciliation of cash and cash equivalents to the statements of net assets		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	$ 86,109,304	62,755,181
Restricted	63,086,628	57,113,244
Investments held by fiscal agent classified as cash equivalents	187,061,502	208,347,673
Total cash and cash equivalents	$ 336,257,434	328,216,098

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

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

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

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

(b) Basis of Presentation – Fund Accounting

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

(c) Basis of Accounting and Estimates

i. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airport applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Airport has elected not to follow subsequent private-sector guidance.

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

iii. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

iv. Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Airport's policy to first apply restricted cost-reimbursement grant resources to such programs.

(d) Cash and Investments

Cash balances of the Airport, as well as other related entities, are pooled and invested by the City. The Airport's portion of this pool is displayed on the statement of net assets as "equity in pooled cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis by the City Treasury to the Airport based on the average weekly cash balances.

The Airport reports its investments in investment agreements at cost and all other investments are reported at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurred. The Airport has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

Pooled cash and investments in the City Treasury are considered to be cash and cash equivalents for purposes of the accompanying statements of cash flows. Pooled cash and investments represent deposits and investments held in the City's cash management pool. This cash management pool possesses the characteristics of a demand deposit account, therefore, investments in this pool are considered to be cash equivalents. The Airport also considers all highly liquid restricted investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Capital Assets

Capital assets include land, buildings and improvements, equipment, and intangible assets. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are carried at cost. Certain property acquisition costs incurred in accordance with the California Noise Reduction Act have been capitalized in the land account in prior years. The purchase of land included movable structures that had to be removed for the land to be usable for the Airport's purposes.

Intangible assets, which are identifiable, are recorded as capital assets. The Airport has identified certain habitational rights and aviation/relocation easements acquired in connection with the California Noise Reduction Act as intangible assets with indefinite useful lives. Intangible assets not having indefinite useful lives will be amortized over the estimated service capacity of the asset.

Maintenance, repairs, and minor replacements are expended as incurred. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service.

Depreciation of capital assets is computed using the straight-line method at various rates considered adequate to allocate costs over the estimated useful lives of such assets. The estimated lives by general classification are as follows:

	Years
Buildings and improvements	5 – 40
Equipment	4 – 10

(f) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements, intangible assets, and equipment acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. The Airport did not capitalize interest during fiscal years ended June 30, 2012 and 2011.

(g) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Amount on Refunding

Bond issuance costs are capitalized and amortized in a manner that approximates the effective interest method. Original issue bond discount or premium and deferred amount on refunding are offset against the related debt and are also amortized in a manner that approximates the effective interest method.

(h) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, are significantly funded through the Airport Improvement Program (AIP) of the FAA and Transportation Security Administration (TSA), with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by TSA to finance Airport safety and security are reported in the statement of revenues, expenses and changes in net assets as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(i) Passenger Facility Charges

Passenger facility charges (PFCs) are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At June 30, 2012 and 2011, accumulated PFC revenues amounted to $38,570,899 and $42,967,880, respectively, and are reported as Restricted for Future Debt Service in the Restricted Net Assets category of the Airport's Statement of Net Assets.

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC revenues as "Available PFC Revenues" by filing with the Fiscal Agent a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. Amounts of $21,336,421 and $21,388,340 from accumulated PFC revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2012 and 2011, respectively.

(j) Accrued Vacation, Sick Leave, and Compensatory Time

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

(k) Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2012 and 2011, the Airport's statement of net assets reports restricted net assets of $69,349,728 and $64,128,133, respectively, of which $39,570,899 and $43,563,046, respectively, is restricted by enabling legislation.

- Unrestricted Net Assets – This category represents net assets of the Airport that do not meet the criteria for "restricted" or "invested in capital assets, net of related debt."

(l) New Pronouncements

The Airport is analyzing its accounting practices and is evaluating the potential impacts on the financial statements of the following GASB Statements.

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this Statement is effective for the Airport's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the Airport's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis— for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for the Airport's fiscal year ending June 30, 2013.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for the Airport's fiscal year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The requirements of this statement are effective for the Airport's fiscal year ending June 30, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of this statement are effective for the Airport's fiscal year ending June 30, 2015.

(2) Cash and Investments

The City Council adopted an investment policy (the "Investment Policy") on April 2, 1985, as amended on August 30, 2011, related to the City's cash and investment pool, which is subject to annual review. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.

The Airport invests funds subject to the Investment Policy and provisions of the Airport's Master Trust Agreement for its various bond issues. According to the City's Investment Policy and the Airport's Master Trust Agreement, the Airport is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Airport maintains a portion of its investments in the City's cash and investment pool. As of June 30, 2012 and 2011, the Airport's share of the City's cash and investment pool totaled $149,195,932 and $119,868,425, respectively. It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments belonging to the Airport itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2012 Comprehensive Annual Financial Report (CAFR). A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at http://www.csjfinance.org/.

The Master Trust Agreement authorizes long-term debt (discussed in Note 5) and requires certain amounts of investments to be held in trust by the Airport's trustee (Fiscal Agent) for the bondholders and to be used for repayment of principal and interest on outstanding debt, or to be spent only on authorized capital projects. As of June 30, 2012 and 2011, restricted investments held by the fiscal agent totaled $224,917,435 and $229,989,486, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

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

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

As of June 30, 2012, the Airport's investments in LAIF held by the Fiscal Agent was $77,955,313. The weighted average maturity of LAIF at June 30, 2012 was 268 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2012 was approximately $29.1 billion. Of that amount, 96.53% was invested in non-derivative financial products and 3.47% in structured notes and asset backed securities.

As of June 30, 2011, the Airport's investments in LAIF held by the Fiscal Agent was $45,715,601. The weighted average maturity of LAIF at June 30, 2011 was 237 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2011 was approximately $24.0 billion. Of that amount, 94.99% was invested in non-derivative financial products and 5.01% in structured notes and asset backed securities.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the City's pooled cash and investments as of June 30, 2012, was approximately 387 days. The Investment Policy does not prohibit the sale of securities prior to maturity. However, any portfolio restructuring requires prior conceptual approval in writing from the Director of Finance. Section 17.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

Credit Quality Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The City's Investment Policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio, and by establishing monitoring procedures.

Concentration of Credit Risk – It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments in the City's cash and investment pool belonging to the Airport itself. The City's investment policy sets forth the policies regarding concentration of credit risk.

The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Per the Investment Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.

(Continued)

The following schedule indicates the interest rate risk and credit risk of the investments held by the Fiscal Agent, by category and maturity, as of June 30, 2012 and 2011. The credit ratings listed are for Moody's Investors Service (Moody's) and Standard and Poor's (S&P), respectively. Certain investments, such as obligations which are backed by the full faith and credit of the United States government, are not subject to credit ratings.

As of June 30, 2012

		Maturities				
	Credit	Under 30	31-180	181-365	1-5	Carrying
Type of investments:	Rating	Days	Days	Days	Years	Value
Investments held by the Fiscal Agent						
Federated treasury obligations fund	Aaa-mf /AAAm	$ 109,106,189	-	-	-	$ 109,106,189
Federal Farm Credit Bank(1)	Aaa/AA+	-	-	-	37,855,933	37,855,933
Local agency investment fund	Not rated	-	-	77,955,313	-	77,955,313
		$ 109,106,189	-	77,955,313	37,855,933	$ 224,917,435

As of June 30, 2011

		Maturities				
	Credit	Under 30	31-180	181-365	1-5	Carrying
Type of investments:	Rating	Days	Days	Days	Years	Value
Investments held by the Fiscal Agent						
Federated treasury obligations fund	Aaa-mf /AAAm	$ 161,676,801	-	-	-	$ 161,676,801
Federal Home Loan Bank(1)	Aaa	-	22,597,084	-	-	22,597,084
Local agency investment fund	Not rated	-	-	45,715,601	-	45,715,601
		$ 161,676,801	22,597,084	45,715,601	-	$ 229,989,486

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

(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2012 and 2011, were as follows:

	Balance at June 30, 2011	Additions	Retirements	Transfers	Balance at June 30, 2012
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	19,770,461	16,590,236	-	(7,274,392)	29,086,305
Total capital assets, not depreciated	108,433,273	16,590,236	-	(7,274,392)	117,749,117
Capital assets, depreciated:					
Buildings	1,143,670,119	889,728	-	3,947,928	1,148,507,775
Other improvements	547,143,193	-	-	3,326,464	550,469,657
Equipment	45,514,525	104,521	(1,039,912)		44,579,134
Total capital assets, depreciated	1,736,327,837	994,249	(1,039,912)	7,274,392	1,743,556,566
Less accumulated depreciation					
Buildings	133,675,422	30,084,281	-	-	163,759,703
Other improvements	164,687,631	17,577,879	-	-	182,265,510
Equipment	29,070,832	3,994,812	(1,030,460)	-	32,035,184
Total accumulated depreciation	327,433,885	51,656,972	(1,030,460)	-	378,060,397
Total capital assets, depreciated, net	1,408,893,952	(50,662,723)	(9,452)	7,274,392	1,365,496,169
Total capital assets, net	$ 1,517,327,225	(34,072,487)	(9,452)	-	1,483,245,286

(Continued)

	Balance at July 1, 2010	Additions	Transfers	Balance at June 30, 2011
Capital assets not depreciated:				
Land	$ 75,781,265	-	-	75,781,265
Intangible assets	12,881,547	-	-	12,881,547
Construction in progress	161,613,921	55,090,250	(196,933,710)	19,770,461
Total capital assets, not depreciated	250,276,733	55,090,250	(196,933,710)	108,433,273
Capital assets, depreciated:				
Buildings	1,110,672,053	11,997,874	21,000,192	1,143,670,119
Other improvements	386,112,770	303,205	160,727,218	547,143,193
Equipment	30,215,660	92,565	15,206,300	45,514,525
Total capital assets, depreciated	1,527,000,483	12,393,644	196,933,710	1,736,327,837
Less accumulated depreciation:				
Buildings	101,952,930	31,722,492	-	133,675,422
Other improvements	147,096,807	17,590,824	-	164,687,631
Equipment	27,197,378	1,873,454	-	29,070,832
Total accumulated depreciation	276,247,115	51,186,770	-	327,433,885
Total capital assets, depreciated, net	1,250,753,368	(38,793,126)	196,933,710	1,408,893,952
Total capital assets, net	$ 1,501,030,101	16,297,124	-	1,517,327,225

In June 2006 the San José City Council approved amendments to the Airport Master Plan that incorporated a comprehensive plan for replacing and upgrading the Airport's terminal facilities to realize the community's long-term vision in the Airport Master Plan originally adopted in 1997 (See Note 10 (d)). The program was planned in two phases. Phase 1 was the $1.3 billion modernization and most of its program elements were completed in fiscal year 2011. Phase 2, which will include the addition of twelve more aircraft gates, will begin when the Airport reaches specific levels of passenger activity or flights in the future.

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

The Airport's depreciation expense on capital assets was $51,656,972 and $51,186,770 for fiscal years ended June 30, 2012 and 2011, respectively.

(4) Commercial Paper Notes Payable

In November 1999, the City Council authorized the issuance of the City of San José, Norman Y. Mineta San José International Airport subordinated commercial paper. In March 2008, the City Council further authorized the subordinated commercial paper notes to be issued in an aggregate principal amount of up to $600 million outstanding at any one time.

Under the commercial paper program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The outstanding commercial paper notes are secured by a subordinate pledge of the Airport's revenues and additionally secured by letters of credit.

As of June 30, 2012, the commercial paper notes program is secured by letters of credit (LOC) summarized below with each provider securing designated series of outstanding commercial paper notes:

Credit Facility Description

Provider	LOC Description[1]	Expiration Date
Bank of America, N.A. (BANA)	$ 50,000,000	01/11/13
JPMorgan Chase Bank, N.A.	50,000,000	01/11/13
Wells Fargo, N.A.	75,000,000	01/13/14
Total	$ 175,000,000	

[1] Reflects principal component of the Letter of Credit commitment.

The terms of each bank's credit facility are specified in the respective LOC and Reimbursement Agreement (the "Reimbursement Agreement"). In general, each bank agrees to advance funds to the issuing and paying agent in an amount sufficient to pay the principal and interest due on maturing commercial paper notes in an amount not to exceed the stated amount of the related LOC. In the event that the commercial paper dealer is unable to find investors to purchase commercial paper notes to repay the advance from the bank, the City must pay interest to the bank based on a formula specified in the applicable Reimbursement Agreement and repay principal in accordance with the schedule and terms set forth in the applicable Reimbursement Agreement and Term Loan. Additionally, each bank has a separate fee letter to specify the commitment fee payable by the City and the other fees and charges imposed by the bank related to the issuance of its LOC. The initial facility rates were established based on the underlying credit rating on the Airport's bonds. As of June 30, 2012, the facility fee rates are 1.65% for BANA, 1.60% for JPMorgan, and 1.40% for Wells Fargo. These facility fee rates can increase at any time when a rating is withdrawn, suspended or otherwise unavailable and upon occurrence of an event of default or rating downgrade. In July 2012, Fitch Ratings (Fitch) downgraded its rating with respect to the outstanding Airport Revenue Bonds from "A-" with negative outlook to "BBB+" with stable outlook. As a result, the facility rate charged by Wells Fargo increased to 1.65% effective July 20, 2012.

The fee letters also provide that the LOC may be terminated, without payment of the termination fee, in the event that the bank's unsecured short-term rating falls below "A-1", "P-1", or "F1" as assigned by S&P, Moody's and Fitch, respectively. On June 21, 2012, BANA's short-term rating was lowered from "P-1 to P-2 by Moody's. The City terminated the LOC, the reimbursement agreement, and the fee letter with BANA effective August 1, 2012.

In July 2011, the Airport issued general airport revenue bonds to refund $129,578,000 subordinated commercial paper notes that were originally issued to refund the Series 2004A and Series 2004B Airport Revenue Bonds (see note 5). In December 2011, the Airport issued general airport revenue bonds to refund $224,672,000 subordinated commercial paper notes that were originally issued to fund the costs of the ConRAC (see note 5).

Commercial paper activities for the fiscal years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Beginning balance	$ 410,079,000	417,348,000
Additional issuance	-	371,344,000
Refunded	(354,250,000)	-
Paid	(7,892,000)	(378,613,000)
Ending balance	$ 47,937,000	410,079,000

Balances of commercial paper notes payable as of June 30, 2012 and 2011 were as follows:

As of June 30, 2012		
Series A-2 commercial paper notes maturing on September 11, 2012 were issued with an interest rate of 0.19%	$	12,683,000
Series B commercial paper notes maturing on September 11, 2012 were issued with an interest rate of 0.19%		13,937,000
Series C commercial paper notes maturing on September 12, 2012 were issued with an interest rate of 0.47%		21,317,000
Total commercial paper notes payable	$	47,937,000
As of June 30, 2011		
Series A-2 commercial paper notes maturing on July 14, 2011 were issued with an interest rate of 0.25%	$	15,205,000
Series B commercial paper notes with $64,789,000 maturing on July 14, 2011 were issued with an interest rate of 0.25%; $15,769,000 maturing on August 3, 2011 were issued with an interest rate of 0.20%; $64,789,000 maturing on August 5, 2011 were issued with an interest rate of 0.22%		145,347,000
Series C commercial paper notes with $84,166,000 and $25,000,000 maturing on August 2, 2011 and August 3, 2011, respectively, were issued with an interest rate of 0.22%; $16,021,000 maturing on August 3, 2011 were issued with an interest rate of 0.21%; $4,600,000 maturing on August 5, 2011 were issued with an interest rate of 0.24%		129,787,000
Series F commercial paper notes maturing on August 2, 2011 were issued with an interest rate of 0.20%		119,740,000
Total commercial paper notes payable	$	410,079,000

Although the commercial paper notes have short-term maturities, the Airport's intent is to pay the remaining balance on a long-term basis based on the assumption that the outstanding commercial paper notes will be paid on a 30-year amortization period with the first principal payments paid in fiscal year 2011.

(5) Long-Term Obligations

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Airport. Pursuant to the Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal of and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and moneys derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in fiscal year ended June 30, 2012 totaled $120,565,994, which is composed of

$61,649,128 of net general airport revenues and $58,916,866 of other available funds. Transfers in fiscal year 2012 from the general airport revenues to the Fiscal Agent for debt service amounted to $59,389,209, which is net of $21,336,421 of bond debt service paid from the accumulated PFC revenues. The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year plus any other available funds (as defined in the Master Trust Agreement) will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, "debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Under the Master Trust Agreement, annual debt service excludes Available PFC Revenues, as defined in the Master Trust Agreement, for such fiscal year. Total principal and interest remaining on the bonds is $2.9 billion, with the final payment due on March 1, 2047.

The reserve requirement in the general account is currently satisfied, in part, by approximately $4.25 million surety bond from Ambac Indemnity Corporation (“Ambac”) that expires on March 1, 2018, and approximately $6.56 million surety bond from National Public Finance Guaranty Corporation (“NPFG”), as successor to MBIA Insurance Corporation, that expires on March 1, 2016. The ratings of Ambac and NFPG were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the general account. The Master Trust Agreement does not require that the rating of any surety bond held in the general account be maintained after the date of deposit.

Until March 1, 2016, when the NPFG surety bond expires, no additional deposits to the general account of the bond reserve fund are expected to be required to satisfy the general account required reserve (unless the general account is drawn upon to pay principal of or interest on bonds or is made available to any additional bonds in the future). If no additional bonds are issued and no additional amounts were to be deposited in or paid from the general account of the bond reserve fund prior to March 1, 2016, the City expects that, upon expiration of the NPFG surety bond, amounts on deposit in the general account would not be sufficient to satisfy the general account required reserve at that time. Therefore, the City expects that it will be required to deposit approximately $6.56 million to the general account from accumulated airport surplus funds or a qualified reserve facility in the same amount. If no additional bonds are issued and no additional amounts were to be deposited in or paid from the general account of the bond reserve fund prior to the expiration of the surety bond provided by Ambac on March 1, 2018, the City expects that it will be required to deposit approximately $4.25 million (in addition to the approximate $6.56 million deposit following the expiration of the NPFG surety bond described above) to the general account from accumulated Airport surplus funds or provide a qualified reserve facility in the same amount.

Qualified reserve facility means (i) a surety bond or similar instrument issued by a municipal bond insurer, obligations insured by which have a rating of “AAA” (or the equivalent) by at least two rating agencies (one of which must be Moody’s) on the date the qualified reserve facility is issued, or (ii) a LOC issued by a qualified bank which has a rating of “AA” (or the equivalent) by at least two rating agencies (one of which must be Moody’s) on the date the qualified reserve facility is issued.

The City may also be required to make a deposit of cash or another qualified reserve facility in order to maintain the required reserve in the general account in the case of non-payment under, or cancellation of, either surety bond, including as a result of the liquidation of Ambac or NPFG.

In July 2011, the City issued Airport Revenue Bonds Series 2011A-1 and Series 2011A-2 in the amount of $150,405,000 and $86,380,000, respectively. The Series 2011A-1 Bonds were issued (i) to refund certain variable rate subordinated commercial paper notes originally issued to refund the Airport Revenue Bond Series 2004A and Series 2004B, (ii) to refund all of the outstanding Airport Revenue Refunding Bonds, Series 1998A, (iii) to make a cash deposit to the General Account of the Bond Reserve Fund, and (iv) to pay a portion of the costs of issuing Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 6.25% and will mature in March 2034.

A portion of the Series 2011A-1 proceeds and the remaining balances in the 1998A principal and interest accounts totaling approximately $6.7 million were used to pay the redemption price of the refunded Series 1998A Bonds. The refunding achieved approximately $362,742 in aggregate debt service savings or $302,861 on a present value basis.

The Series 2011A-2 Bonds were issued (i) to refund $85,625,000 aggregate principal amount of the outstanding Series 2001A, and (ii) to pay a portion of the costs of issuing the Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 5.25% and will mature in March 2034. The refunding achieved approximately $7,861,163 in aggregate debt service savings or $5,425,018 on a present value basis.

On December 2, 2011, the City issued Airport Revenue Bonds Series 2011B in the amount of $271,820,000. The Series 2011B Bonds were issued (i) to refund certain subordinated commercial paper note payable that were originally issued to finance and/or refinance the costs of designing and constructing certain improvements to the Airport (ii) to pay a portion of interest to accrue on the Series 2011B Bonds through March 1, 2014, (iii) to make a cash deposit to the 2011B account of the bond reserve fund, (iv) to fund an increase of the rolling coverage amount, and to pay the costs of issuing the Series 2011B Bonds. The bonds were issued with interest rates ranging from 1.00% to 6.75% and will mature in March 2041.

Balances of bonds payable as of June 30, 2012 and 2011 were as follows:

	2012	2011
2011B Series Airport Revenue Bonds of $271,820,000 at rates of 3.32% to 6.75%; payable in annual installments ranging from $495,000 to $27,330,000 with the next installment due in March 2015 and the final installment due in March 2041	$ 264,085,000	-
2011A-2 Series Airport Revenue Bonds of $86,380,000 at rates of 2.5% to 5.25%, payable in annual installments ranging from $1,820,000 to $12,220,000 with the final installment due in March 2034	84,075,000	-
2011A-1 Series Airport Revenue Bonds of $150,405,000 at rates of 3% to 6.25%; payable in annual installments ranging from $3,190,000 to $4,730,000 with the final installment due in March 2034	146,370,000	-
2007B Series Airport Revenue Bonds of $179,260,000 at rates 4.25% to 5%; payable in annual installments ranging from $2,245,000 to $28,800,000 with the first installment due in March 2014 and the final installment due in March 2037	179,260,000	179,260,000
2007A Series Airport Revenue Bonds of $545,755,000 at rates of 5% to 6%; payable in annual installments ranging from $5,690,000 to $73,500,000 with the first installment due in March 2014 and the final installment due in March 2047	545,755,000	545,755,000
2004D Series Airport Revenue Bonds of $34,270,000 at a rate of 5%; payable in three annual installments of $9,955,000, $11,755,000 and $12,560,000 in March 2026, March 2027 and March 2028, respectively	34,270,000	34,270,000
2004C Series Airport Revenue Bonds of $75,730,000 at rates of 4.625% to 5.25%, payable in annual installments ranging from $1,000,000 to $10,590,000 with the final installment due in March 2026	71,730,000	72,730,000
2002B Series Airport Revenue Bonds of $37,945,000 was fully paid in March 2012	-	2,380,000

(Continued)

		2012	2011
2002A Series Airport Revenue Bonds of $53,600,000 at rates of 4% to 5.375%; payable in annual installments ranging from $7,170,000 to $9,285,000 with the first installment due in March 2012 and the final installment in March 2018		49,140,000	53,600,000
2001A Series Airport Revenue Bonds of $158,455,000 was partially refunded in July 2012; the remaining balance of $45,710,000 with interest rate of 5% are payable in annual installments ranging from $8,275,000 to $10,055,000 with the first installment due in March 2031		45,710,000	131,335,000
1998A Series Airport Revenue Bonds of $14,015,000; the remaining balance of $6,540,000 was refunded in July 2012		-	6,540,000
Total bonds payable	$	1,420,395,000	1,025,870,000

Bonds outstanding and related activities for the years ended June 30, 2012 and 2011, were as follows:

	Balance at July 1, 2011	Additions	Retirements	Balance at June 30, 2012	Amounts Due Within One Year
2011B Series	$ -	271,820,000	7,735,000	264,085,000	-
2011A-2 Series	-	86,380,000	2,305,000	84,075,000	1,820,000
2011A-1 Series	-	150,405,000	4,035,000	146,370,000	3,190,000
2007B Series	179,260,000	-	-	179,260,000	-
2007A Series	545,755,000	-	-	545,755,000	-
2004D Series	34,270,000	-	-	34,270,000	-
2004C Series	72,730,000	-	1,000,000	71,730,000	1,000,000
2002B Series	2,380,000	-	2,380,000	-	-
2002A Series	53,600,000	-	4,460,000	49,140,000	7,170,000
2001A Series	131,335,000	-	85,625,000	45,710,000	-
1998A Series	6,540,000	-	6,540,000	-	-
Total long-term debt	1,025,870,000	508,605,000	114,080,000	1,420,395,000	13,180,000
Add unamortized:					
Premium	4,728,564	2,594,430	592,402	6,730,592	641,990
Less unamortized:					
Discount	5,709,168	6,798,627	933,907	11,573,888	15,906
Deferred amount on refunding	1,585,094	2,205,450	693,700	3,096,844	510,182
Total long-term debt, net	$ 1,023,304,302	502,195,353	113,044,795	1,412,454,860	13,295,902

	Balance at July 1, 2010	Additions	Retirements	Balance at June 30, 2011	Amounts Due Within One Year
2007B Series	$ 179,260,000	-	-	179,260,000	-
2007A Series	545,755,000	-	-	545,755,000	-
2004D Series	34,270,000	-	-	34,270,000	-
2004C Series	73,730,000	-	1,000,000	72,730,000	1,000,000
2002B Series	8,925,000	-	6,545,000	2,380,000	2,380,000
2002A Series	53,600,000	-	-	53,600,000	4,460,000
2001A Series	135,160,000	-	3,825,000	131,335,000	3,985,000
1998A Series	7,290,000	-	750,000	6,540,000	795,000
Total long-term debt	1,037,990,000	-	12,120,000	1,025,870,000	12,620,000
Add unamortized:					
Premium	5,091,393	-	362,829	4,728,564	504,794
Less unamortized:					
Discount	5,752,127	-	42,959	5,709,168	44,689
Deferred amount on refunding	2,063,728	-	478,634	1,585,094	399,045
Total long-term debt, net	$ 1,035,265,538	-	11,961,236	1,023,304,302	12,681,060

Scheduled maturities of outstanding bonds are as follows:

Fiscal year ending June 30,		Principal	Interest
2013	$	13,180,000	76,846,069
2014		21,720,000	76,269,482
2015		23,180,000	75,258,507
2016		24,550,000	74,137,910
2017		25,960,000	72,996,063
2018-2022		138,595,000	344,706,446
2023-2027		185,290,000	304,795,170
2028-2032		269,435,000	247,288,348
2033-2037		547,430,000	143,989,373
2038-2042		128,130,000	35,472,105
2043-2047		42,925,000	8,026,500
Total	$	1,420,395,000	1,459,785,973

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding revenue bonds. The Airport believes it is in compliance with all such limitations and restrictions as of June 30, 2012 and 2011.

Other long-term liability activities for the years ended June 30, 2012 and 2011 were as follows:

		Balance at July 1, 2011	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2012	Amounts Due Within One Year
Self-insurance	$	2,305,639	(119,932)	554,462	1,631,245	560,000
Accrued vacation, sick leave and compensatory time		2,314,251	1,237,999	1,506,555	2,045,695	1,536,000
Other postemployment benefits		7,529,822	4,412,508	1,978,048	9,964,282	-
Pollution remediation liability		714,000	108,686	108,686	714,000	714,000
Total	$	12,863,712	5,639,261	4,147,751	14,355,222	2,810,000

		Balance at July 1, 2010	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2011	Amounts Due Within One Year
Self-insurance	$	2,962,548	201,479	858,388	2,305,639	560,000
Accrued vacation, sick leave and compensatory time		3,520,296	1,069,631	2,275,676	2,314,251	1,609,000
Other postemployment benefits		5,739,584	3,227,182	1,436,944	7,529,822	-
Pollution remediation liability		714,000	210,466	210,466	714,000	714,000
Total	$	12,936,428	4,708,758	4,781,474	12,863,712	2,883,000

(6) Leases and Agreements

The City has entered into an Airline-Airport Lease and Operating Agreement with the various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, was originally set to expire on June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, remained unchanged.

The airline lease agreement provides that any passenger airline that (a) signs an agreement substantially similar to the airline lease agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of exclusive use premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled year-round, at least three days per week shall be a Signatory Airline. The airline lease agreement also provides that any air cargo carrier will also be a Signatory Airline if the air cargo carrier (a) signs an agreement with the City substantially similar to the airline lease agreement (other than in connection with terminal facilities), (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the airline lease agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landed weight per scheduled flight and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week.

Any passenger or air cargo carrier that does not meet the minimum requirements to be a Signatory Airline is given the opportunity to become a "Non-Signatory Airline" by executing a non-signatory agreement in a form similar to that of the airline lease agreement. Non-Signatory Airlines are charged a premium of 25% over the rates and charges applicable to Signatory Airlines and do not participate in the review by a "Majority of Interest" of capital projects proposed for the Airport.

Any passenger or air cargo carrier operating at the Airport that is neither a Signatory Airline nor a Non-Signatory Airline will be subject to the Airline Rates and Charges Ordinance, which requires such air carriers to comply with all applicable rules and regulations as established by the Director of Aviation regarding the proper use and occupancy of the Airport or any portion thereof. In addition, the Airline Rates and Charges Ordinance establishes all rates and charges applicable to such airline's operations at and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9 million. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first $1 million of City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of City's share shall be applied to the capital costs of the Airport's Master Plan Program.

For the fiscal years ended June 30, 2012 and 2011, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by $30,642,898 and $33,987,539, respectively. The surplus for fiscal year ended June 30, 2012 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2014. Of the surplus for the year ended June 30, 2011, $11,227,485 was used to balance the fiscal year 2013 budget and the remainder was distributed in accordance with the revenue sharing provisions.

The Airport also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. The remaining terms of these operating leases range from one month to 26 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

Rental revenues from the aforementioned operating leases were $78,227,057 and $76,043,925 for the fiscal years ended June 30, 2012 and 2011, respectively.

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

Fiscal year ending June 30,		
2013	$	88,457,571
2014		90,844,404
2015		87,893,202
2016		88,684,201
2017		89,604,908
2018-2022		135,012,572
2023-2027		113,770,191
2028-2032		112,338,410
2033-2037		111,296,750
2038-2041		71,016,277
Total minimum lease rentals	$	988,918,486

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

As of June 30, 2012 and 2011, leased assets had total historical costs of $1,031,260,042 and accumulated depreciation of $101,478,416 and $75,461,141, respectively.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation (Director), often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director. The Director has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statement of net assets. The Airport maintains on file copies of all security deposits, in the form other than cashier's checks, which are not recorded in the financial statements. The amount on file as of June 30, 2012 and 2011 totaled $23,788,567 and $23,024,541, respectively.

(7) Employees' Retirement System

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (Federated Plan), which is a single employer defined benefit retirement system that covers substantially all City employees, except for employees who are members of the City's Police and Fire Department Retirement Plan, by providing retirement and certain other postemployment benefits. These benefits include pension, death, and disability, which are under the Defined Benefit Pension Plan, as well as medical and dental benefits, which are under the Postemployment Healthcare Plan. A stand-alone report is issued for the Federated Plan and is available from the City of San José Office of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112. As a department of the City, the Airport shares in the risks, rewards and costs including benefit costs with the City. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2012 and 2011 was $13,530,731 and $16,755,472, respectively. The Airport's total payroll for the fiscal years ended June 30, 2012 and 2011 was $15,948,673 and $20,670,123, respectively. The Defined Benefit Pension Plan provides general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases. The contribution and benefit provisions and all other requirements are established by the City Charter and City ordinances.

Contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. As discussed below, contributions to the Postemployment Healthcare Plan are not currently sufficient to provide adequate assets to pay benefits when due.

The City entered into a Memorandum of Agreement (MOA) with five bargaining units during fiscal year 2011 to make ongoing and one-time additional retirement contributions. They were applied to reduce the contributions that the City would otherwise be required to make for the pension unfunded liability from June 27, 2010 through June 25, 2011. The City calculated and implemented the additional contribution rate during fiscal year 2011. The contribution rates provided below do not reflect the additional retirement contributions.

Contribution rates for the Airport and the participating employees for the periods June 27, 2010 through June 25, 2011, June 26, 2011 through June 23, 2012 and June 24, 2012 through June 30, 2012 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2009, June 30, 2010, and June 30, 2011, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

Pay Period	Airport's Contribution [1] Defined Benefit Pension	Airport's Contribution [1] Post-employment Heathcare Plan	Employees' Contribution Defined Benefit Pension	Employees' Contribution Post-employment Heathcare Plan
06/27/10 through 06/25/11[2] [3]	25.75%	6.41%	4.54%	5.76%
06/26/11 through 06/23/2012	28.34%	7.16%	4.68%	6.52%
06/24/12 through 06/30/2012	44.45%	7.91%	5.74%	7.26%

(1) Airport's contribution rates do not reflect contribution prefunding described below.

(2) In fiscal 2011, the actual contribution rates paid by the Airport differed due to the additional contributions paid by employees.

(3) In fiscal year 2011, the Airport initially funded a contribution rate of 23.18% and later funded an additional 2.57% to provide for the actuarial required contribution

The required contributions rates determined by the Federated Plan's actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since fiscal year 2008-09 to "prefund" all or part of its total Annual Required Contribution (ARC) to the Federated Plan at the beginning of each fiscal year and the Federated Plan's actuary applies an interest discount to the required contributions to account for the fact that contributions are made at the beginning of the year instead of throughout the year. The "prefunded" annual contributions are made on the basis of estimated bi-weekly pay for the fiscal year and are trued up at the end of the fiscal year based on actual bi-weekly payroll.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Effective June 28, 2009, the bargaining units representing the Federated Plan members entered into Memorandums of Agreement (MOAs) with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding the GASB Statement No. 43 annual required contribution over the next 5 years; fiscal year 2012 was the third year of the phase-in. The funding specified in these agreements is also being applied to unrepresented employees. The Memorandums of Agreement between the City and the bargaining units representing the members of the Federated Plan provided that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the Federated Plan members or the City. Notwithstanding these limitations on incremental increases, the agreements with members of the Federated Plan further provide that by the end of the five year phase-in, the City and the members "shall be contributing the full ARC in the ratio currently provided" in the relevant sections of the San Jose Municipal Code. The contributions are not currently sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43.

(Continued)

Actuarially required contributions were equal to the contributions made for the Defined Benefit Pension Plan. The following is the three-year trend information for the Airport's ARC, Annual OPEB Cost (AOC), and contributions made:

Fiscal Year	Defined Benefit Pension				Postemployment Healthcare Plan				
	ARC	Contributions	% of Contributions	Unfunded Liability	ARC	AOC	Contributions	% of Contributions	Unfunded Liability
6/30/2010	$ 4,153,888	$ 4,153,888	100%	-	$ 3,404,451	$ 3,476,282	$ 1,903,773	55%	$ 5,739,584
6/30/2011	4,455,031	4,455,031	100%	-	3,164,961	3,227,182	1,436,944	45%	7,529,822
6/30/2012	3,834,609	3,834,609	100%	-	4,385,496	4,412,508	1,978,048	45%	9,964,282

The City has determined a Citywide ARC and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the City's actuaries. The City allocated to the Airport its proportionate share of the Citywide ARC and OPEB cost based upon its percentage of retirement benefit costs for Federated employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was $9,964,282 and $7,529,822 at June 30, 2012 and 2011, respectively, which is recorded as the Airport's net OPEB obligation. The Airport has earmarked funds from the unrestricted net assets to pay the full amount of the net OPEB obligation.

The City issues a publicly available CAFR that includes the complete note disclosures and required supplementary information related to the City's other postemployment benefit obligations. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at http://www.csjfinance.org/.

(8) Related Party Transactions

The City provides certain general support services to the Airport and charges a pro rata fee. The fees charged to the Airport for these services for the fiscal years ended June 30, 2012 and 2011, were $3,499,460 and $3,072,753, respectively. The City also charged the Airport fees of $8,446,291 and $14,188,328 for the fiscal years ended June 30, 2012 and 2011, respectively, for airport rescue and fire fighting and police services coverage. Additionally, various City departments charge the Airport for services they rendered on its behalf. These fees and service charges, which totaled $936,980 and $1,029,784 for the fiscal years ended June 30, 2012 and 2011, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City's annual all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. The policy also provides coverage for loss due to business interruption and flood. The City does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided below for the policy period of October 1, 2011 to October 1, 2012.

Coverage	Limit per Occurrence	Deductible per Occurrence
Property, including Business Interruption	$1 billion	$100,000
Flood Zone, Special Flood Hazard Area	$15 million per occurrence and annual aggregate	5% of values at risk ($1 million minimum deductible)
Flood Zone B	$25 million per occurrence and annual aggregate	2% of values at risk ($100,000 minimum deductible)
Flood, Other Locations	$100 million per occurrence and annual aggregate	$100,000

The City has airport liability policies covering the Airport for the policy period of October 1, 2011 to October 1, 2012 including operation of vehicles on premises, which provide a $200 million combined single limit for bodily injury and property damage subject to a deductible of $0 each occurrence and annual aggregate, with a sublimit of $50 million each occurrence and in the annual aggregate for personal injury, and a sublimit of $100 million each occurrence and in the annual aggregate for war liability. During the past three years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

A separate automobile policy provides coverage for the off-premises operation of Airport vehicles including shuttle bus fleets with a limit of $1 million per occurrence combined single limit for bodily injury and property damage and no deductible. Physical damage coverage is available for the Airport Shuttle Bus Fleet and is subject to a $25,000 comprehensive and collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. As part of general support services, the City charges the Airport for the cost of general liability coverage. The charges are expensed in the year incurred.

(b) Workers' Compensation

The Airport participates in the City's self-insurance program for workers' compensation. Workers' compensation liabilities are accounted for on a separate contribution basis under which workers' compensation liabilities are recorded in the respective funds (enterprise or governmental) to which they relate.

Estimated workers' compensation liabilities at year-end are determined using actuarial methods or other estimating techniques. The claims payments and liability include an estimate of allocated loss adjustment expenses and claims that have been incurred but not yet reported.

(Continued)

The Airport recorded the following with respect to its self-insured workers' compensation liability:

		2012	2011
Accrued liability, beginning of fiscal year	$	2,305,639	2,962,548
Claims payments and adjustments		(554,462)	(858,388)
Provision for current year claims and changes in prior year estimates		(119,932)	201,479
Accrued liability, end of fiscal year	$	1,631,245	2,305,639

The Airport has established a reserve for self-insurance, in addition to the reserve established by the City. The reserve for self-insurance, included in the unrestricted net assets was $803,000 and $981,000 as of June 30, 2012 and 2011, respectively.

(c) Airport Owner Controlled Insurance Program

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

Coverage	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$2 million per accident	$250,000
Excess Liability	$150,000,000	None

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

The North Concourse Project was completed in the fall of 2008. Chartis is currently in the process of closing out the North Concourse OCIP and is auditing the project payroll and cost

(Continued)

factors associated with the premium. The closing out process for OCIP includes an actuarial review, which examines outstanding claims. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term and in March 2010, the amount of $2,516,719 was returned to the Airport. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2012 and 2011 were as follows:

		2012	2011
Beginning balance	$	1,065,664	989,663
Additional deposits		-	161,835
Losses paid		(37,492)	(85,834)
Ending balance	$	1,028,172	1,065,664

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

Coverage	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$200,000,000	None

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

(Continued)

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2012 and 2011 were as follows:

		2012	2011
Beginning balance	$	4,859,972	5,880,954
Interest earned		3,830	5,163
Losses paid		(560,688)	(1,026,145)
Ending balance	$	4,303,114	4,859,972

The City was obligated to maintain the TAIP OCIP through final acceptance of the Terminal Area Improvement Program, pursuant to the terms of its design-build contract with Hensel Phelps (HP). The term of the TAIP OCIP expired on June 30, 2011. To date, all work covered under the contract with HP has been completed and accepted. The contract has been extended to the end of October 2012 to allow for the completion of final audits, and to allow HP to complete a required modification to the rental car garage fuel monitoring system. This work includes the required insurance coverage pursuant to the terms of the contract.

(10) Commitments and Contingencies

(a) Lease Commitments

In June 1998, the Airport entered into an operating lease for the rental of off-Airport administrative office space. The lease, which commenced on December 1, 1998, was for a period of seven years, with an option to extend for one additional period of three years. In November 2000, the operating lease agreement was amended to include additional office space. The amendment to the lease commenced on November 15, 2000 with the same terms as the original lease. It also decreased the rate for the current space and increased the leased space effective December 1, 2003. In June 2003, the operating agreement was again amended to extend the term through December 2009. In February 2009, the operating lease agreement was again amended to extend the term through December 31, 2014. The City decided to terminate the operating lease agreement effective November 30, 2010. In accordance with the provisions of the agreement, a termination payment of $904,636 equal to six months rent was paid to the landlord in July 2010. Total rental expenses for the office space were $753,863 for fiscal year ended June 30, 2011.

In December 2007, the Airport entered into an operating lease and maintenance agreement of 14 compressed natural gas (CNG) powered buses. The lease and maintenance term of the agreement is from August 1, 2008 to July 31, 2015. In September 2009, the agreement was restated to add 10 CNG powered buses for the period June 30, 2010 to May 31, 2017. In May 2012, the restated lease was amended to allow the early termination of the lease term pertaining to the first 14 CNG powered buses with Airport's payment of $4,407,508. Simultaneously, the Airport entered into an agreement relinquishing the use of the 14 CNG powered buses to a third party for a total price of $3,400,000 to relieve the Airport of its lease commitment. The Airport used the proceeds together with the difference of $1,007,508 to make the early termination payment of $4,407,508. Rental and maintenance expenses were $1,719,522 and $1,848,083 for fiscal years ended June 30, 2012 and 2011, respectively.

The future minimum lease and maintenance payments required under the existing agreement for the 10 remaining CNG powered buses are as follows:

Fiscal Year Ending June 30,	Amount
2013	$ 947,121
2014	949,590
2015	952,110
2016	954,684
2017	877,332
Total minimum lease payments	$ 4,680,837

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2012, the Airport was obligated for purchase commitments of approximately $9.6 million primarily for several Terminal Area Improvement Program projects, Taxiway W Improvements, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber $105.1 million on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

(c) Fuel Tank Farms

Until December 22, 1998, the City and Chevron U.S.A., Inc. ("Chevron"), operated adjacent fuel storage facilities at the Airport. The City's facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Since the discovery in fiscal year 1985-86 that petroleum products had been released into the soil and groundwater from either or both the City and Chevron fuel storage facilities, the City and Chevron have operated a groundwater extraction system to control migration (spread) of the contamination and to remediate (clean up) contaminated groundwater. This interim remediation system consists of an extraction and treatment system to remove floating jet fuel product from groundwater and to prevent its offsite migration. Chevron operates and maintains the system. Through June 1998, the City and Chevron shared in the cost of operating this system. The agreement expired but Chevron continued the work.

A new joint agreement was entered into by the City and Chevron in November 2009. Chevron was designated as the lead in the remediation efforts. The agreement provides for a 50%-50% cost sharing responsibility for actual future costs until successful closure of the site. During fiscal years ended June 30, 2012 and 2011, the Airport has paid its 50% of the remediation costs totaling $108,686 and $210,466, respectively. The agreement also required the City to pay its 50% share of the past costs that Chevron has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the fiscal year ended June 30, 2010, the Airport paid its share of the past costs amounting to $660,434.

Chevron is responsible for administering the new agreement, including retaining a corrective action contractor. The agreement is also structured to facilitate potential reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the “Fund”). Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The Chevron fuel farm was subsequently closed upon commencement of the operation of the new fuel farm.

Chevron demolished its fuel farm during fiscal year 2010 and removed its USTs. The City removed its USTs in September 2011. Chevron is currently starting the site’s interim remedial action, which was approved by the County of Santa Clara in February 2012. The approved plan is a fixed area remedial excavation to remove the secondary source materials beneath and adjacent to the former USTs.

With the adoption of GASB 49, the Airport accrued $714,000 as of June 30, 2012 and 2011 to cover for the estimated remaining costs of its portion of the interim remediation system. Latest estimates of costs to further investigate and cleanup this site is between $1.4-2 million, depending upon method of accomplishment and actual remediation requirements.

(d) Master Plan

The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the future, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the TAIP. Most of the program elements of Phase 1 were completed as of June 30, 2012. Ongoing projects include a common use lounge, Terminal A/A+ space refurbishment, building system upgrades, Terminal A baggage system ceiling protection, and completion of the northeast area (formerly the rental car fueling and wash site). The northeast area will provide for a fuel truck maintenance facility, shuttle bus staging and storage, a taxi staging building, and adjacent employee parking. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) will be gradually converted to new general aviation leasehold facilities. A request for proposals for a second full service fixed based operator was issued and is anticipated that a lease will be approved by the City in fiscal year 2013. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

(e) Litigation

The City is potentially liable to private citizens for property damage and personal injuries caused by noise from the Airport's operations or for other damages if a property owner can prove that the City's operations of the Airport has deprived them of the benefits of property ownership. There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

Statistical

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
SILICON VALLEY'S AIRPORT

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

Statistical Section
June 30, 2012

This part of the comprehensive annual financial report for Norman Y. Mineta San José International Airport (Airport) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Airport's overall financial health.

Contents **Schedule**

Schedule A

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET ASSETS AND NET ASSETS
LAST TEN FISCAL YEARS
(in $ 000's)

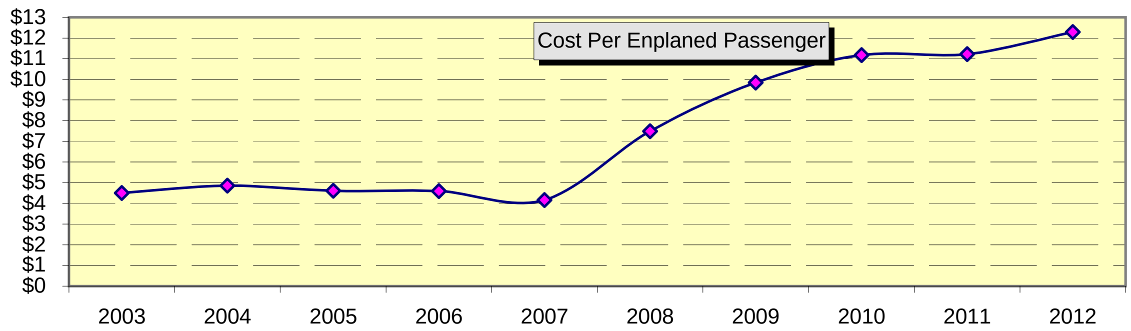
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating revenues										
Airline rates and charges:										
Landing fees	$11,630	$11,122	$9,751	$10,768	$13,504	$13,084	$14,504	$13,190	$13,370	$11,414
Terminal rental	13,725	16,408	16,979	16,575	11,308	26,539	29,716	33,459	34,446	39,864
Total airline rates and charges	25,355	27,530	26,730	27,343	24,812	39,623	44,220	46,649	47,816	51,278
Terminal buildings/concessions	7,071	6,912	8,005	8,672	9,201	11,470	11,947	11,157	16,877	15,770
Airfield area	3,188	3,071	2,976	3,074	2,519	2,833	3,171	2,791	2,925	2,783
Parking and roadway	44,213	43,913	43,858	46,484	48,226	48,369	44,227	38,934	47,320	51,023
Fuel handling fees	1,395	1,333	1,375	1,492	1,592	1,806	1,474	1,310	1,504	1,690
Customer facility and transportation fees	4,192	4,183	4,297	4,491	4,451	6,351	6,713	6,021	6,840	10,137
General aviation/Other	3,043	2,883	3,028	3,858	4,528	4,789	5,826	5,909	4,521	4,431
Total operating revenues	88,457	89,825	90,269	95,414	95,329	115,241	117,578	112,771	127,803	137,112
Operating expenses:										
Terminal buildings/concessions	22,368	21,630	24,130	24,685	26,929	31,790	28,813	31,701	33,019	23,659
Airfield area	18,175	22,660	20,980	21,765	19,860	22,692	16,170	10,911	9,749	9,069
Parking and roadway	24,462	24,382	26,486	28,518	28,559	27,936	26,853	24,032	25,344	25,514
Fuel handling costs	84	51	96	325	171	311	557	885	288	556
General aviation	3,436	2,826	2,838	3,152	3,679	3,428	4,072	3,052	2,409	1,676
General and administrative	21,129	21,963	21,741	24,665	28,787	32,879	28,268	23,624	19,095	18,328
Depreciation and amortization	16,238	17,696	19,118	19,153	19,323	22,834	20,647	55,288	51,532	52,130
Total operating expenses	105,892	111,208	115,389	122,263	127,308	141,870	125,380	149,493	141,436	130,932
Operating income (loss)	(17,435)	(21,383)	(25,120)	(26,849)	(31,979)	(26,629)	(7,802)	(36,722)	(13,633)	6,180
Nonoperating revenues (expenses):										
Passenger facility charges	21,167	21,842	21,768	22,271	22,169	21,224	17,416	17,043	17,311	16,787
Investment income	5,157	1,060	4,584	5,376	9,294	15,446	8,138	311	1,613	2,217
Interest expense	(6,502)	(5,594)	(7,173)	(3,184)	(11,995)	(11,737)	(11,404)	(10,750)	(54,430)	(69,438)
Operating grants	5,685	5,724	5,570	8,398	8,284	8,444	4,625	1,150	701	670
Loss on disposal of capital assets	-	-	-	(3)	-	-	(3,537)	(11,733)	-	(9)
Other, net	3,423	2,091	747	2,332	2,541	2,767	4,227	200	1,438	698
Total nonoperating revenues (expenses), net	28,930	25,123	25,496	35,190	30,293	36,144	19,465	(3,779)	(33,367)	(49,075)
Income before capital contributions	11,495	3,740	376	8,341	(1,686)	9,515	11,663	(40,501)	(47,000)	(42,895)
Capital contributions	12,687	11,725	13,791	10,508	9,694	4,970	12,868	34,722	10,862	7,399
Change in Net Assets	$24,182	$15,465	$14,167	$18,849	$8,008	$14,485	$24,531	($5,779)	($36,138)	($35,496)
Net Assets at Year-End										
Invested in capital assets, net of related debt	$199,312	$250,955	$251,370	$219,510	$239,960	$267,321	$316,935	$314,664	$272,598	$247,770
Restricted	123,202	121,548	133,413	113,182	118,334	84,491	45,260	61,349	64,128	$69,351
Unrestricted	40,524	6,000	7,887	78,827	61,233	82,200	96,348	76,751	79,900	64,009
Total Net Assets	$363,038	$378,503	$392,670	$411,519	$419,527	$434,012	$458,543	$452,764	$416,626	$381,130

(1) Net Assets have been restated retroactively to reflect the fact that intangible assets have indefinite useful lives and are not to be amortized pursuant to GASB Statement No. 51.

(2) Totals may not add due to rounding.

Schedule B

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE COST PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
($ and Passengers in 000's)



		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Airline revenues:											
Terminal rental	$	13,441	16,294	16,390	[1] 15,886	[1] 10,748	[1] 26,539	29,716	33,459	34,446	39,864
Landing fees (Passenger Carriers)		10,020	9,384	8,262	9,036	11,390	12,252	13,560	12,443	12,582	10,838
Total		23,461	25,678	24,652	24,922	22,138	38,791	43,276	45,902	47,028	50,702
Enplaned passengers		5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125
Airline cost per enplaned passenger (not in 000's)	$	4.51	4.85	4.61	4.60	4.16	7.49 [2]	9.84 [2]	11.18 [2]	11.23 [2]	12.29 [2]

[1] Terminal Rental for fiscal years 2005 through 2007 do not agree with Schedule A where revenue categories have been presented in accordance with the provisions of the current Airline-Airport Lease and Operating Agreement. Secondary and shared holdroom revenues, previously included in the Terminal Buildings/Concessions category, were reclassified to Terminal Rental in Schedule A.

[2] Increases in airline cost per enplaned passenger during fiscal years 2008 through 2012 were principally due to the decreases in enplaned passengers and the increases in debt service.

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

Schedule C

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
GROSS CONCESSION REVENUE PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
($ and passengers in $ 000's)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Gross Concession Revenue:[1]											
Parking [2]	$	29,135	29,693	29,225	29,744	29,702	28,625	23,632	21,260	22,081	22,943
Rental Cars		111,173	110,385	110,111	125,371	142,115	156,227	127,661	114,614	125,730	128,210
Food and Beverage		15,887	16,763	17,841	18,251	20,156	20,041	16,753	16,493	21,141	22,280
Advertising		3,418	2,878	3,705	4,627	3,451	1,892	1,923	1,736	1,903	1,873
Gift Shop & Retail		7,821	8,325	8,325	8,534	8,007	7,957	7,380	8,868	11,290	11,983
In-Flight Kitchen		14,008	12,697	9,883	7,731	7,277	5,819	6,173	8,580	9,823	8,920
Total Gross Concession Revenue	$	181,442	180,741	179,090	194,258	210,708	220,561	183,522	171,551	191,968	196,209
Enplaned Passengers:		5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	$	34.86	34.15	33.50	35.87	39.61	42.59	41.71	41.77	45.83	47.57

[1] Gross revenues of major concessionaires only.
[2] Gross public parking revenues only.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT **Schedule D**

(A Department of the City of San José)

SCHEDULED AIRLINE RATES AND CHARGES

FISCAL YEARS 2003 THROUGH 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

	2003	2004	2005	2006	2007 (2)	2008 (3)
Landing Fees (per 1,000 lbs. MGLW) (1)	$ 1.34	$ 1.34	$ 1.28	$ 1.43	$ 1.80	$ 1.44
Terminal Rental Rates (per square foot)						
Terminal A :						
Ticket counter	192	232	240	224	133	
Operations	144	174	180	168	100	
Holdroom	173	208	216	202	120	
Baggage claim	96	116	120	112	67	
Baggage makeup/storage	67	81	84	79	47	
Terminal C :						
Ticket counter	88	100	103	111	110	
Operations	66	75	77	84	83	
Holdroom	80	90	93	100	99	
Baggage Claim (4)	44	50	52	56	55	
Baggage makeup/storage	31	35	36	39	39	
Blended:						
Ticket counter						351
Operations						316
Holdroom						263
Baggage Claim (4)						175
Baggage makeup/storage						123

(1) MGLW - Maximum Gross Landing Weight

(2) The Airport was able to reduce the terminal rental rates in fiscal year 2006-07 by utilizing $4.0 million of the Safety Net Reserve Account. The account was established in 1993 to reserve funds for unusual or exceptional circumstances such as a significant imbalance of rates and charges for various facilities, projected extraordinary vacancy rates, and unusual discrepancies in activity levels.

(3) These rates and charges were only for the period July 1 to November 30, 2007. A new Airline-Aiport Lease and Operating Agreement took effect on December 1, 2007. The rates for the period December 1, 2007 to June 30, 2008 (shown on the next page) were calculated in accordance with the provisions of the current agreement. Blended rental rates for Terminals A and C were calculated with the concurrence of the airlines.

(4) The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirement applicable to the baggage claim areas is calculated by multiplying the square footage of all baggage claim areas by the square foot rate for those areas. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% is distributed among all airlines based on the number of enplaned passengers.

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES [1]
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2012

Schedule D
(Concluded)

	2008	2009	2010	2011	2012	Unit
Landing Fees	$ 2.00	$ 2.24	$ 2.32	$ 2.47	$ 2.14	per 1,000 lbs. MGLW [4]
Terminal Rental Rates						
Group A:						
Ticket counter and queuing, Skycap/Curbside Check-in						
- Preferential	73,729	81,192	145,136	241,041	319,205	per counter
- Common	35	63	57	73	97	per hour
Airline ticket office, Club/VIP	166.07	237.81	204.57	157.18	184.19	per sq. ft.
Holdroom (Gate)						
- Preferential	418,598	481,687	726,212	742,245	872,527	per gate
- Common	228	330	497	496	598	per turn
Group B:						
Baggage Claim [2]	132.86	190.25	163.66	125.74	147.35	per sq. ft.
Other Office	132.86	190.25	163.66	125.74	147.35	per sq. ft.
Group C:						
Baggage Make-up [3]	83.04	118.91	102.29	78.59	92.09	per sq. ft.
Operations Space	83.04	118.91	102.29	78.59	92.09	per sq. ft.

(1) These rates and charges were for the period December 1, 2007 to June 30, 2012 and were calculated based on the provisions of the current Airline-Aiport Lease and Operating Agreement which took effect on December 1, 2007.

(2) The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage claim areas is calculated by multiplying the square footage of all baggage claim areas by the per-square foot rate for those areas. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% of the revenue requirement is distributed among all airlines based on the number of deplaned passengers.

(3) The baggage make-up requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage make-up areas is calculated by multiplying the square footage of all baggage make-up areas by the per-square foot rate for those areas. 20% of the revenue requirement is divided equally among the airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of enplaned passengers.

(4) MGLW - Maximum Gross Landing Weight

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

Schedule E

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

(A Department of the City of San José)

RATIOS OF OUTSTANDING DEBT AND DEBT SERVICE

LAST TEN FISCAL YEARS

(in $ 000's)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Outstanding Debt per Enplaned Passenger										
Outstanding debt by type:										
Revenue bonds	$ 268,770	512,500	503,885	494,910	485,545	1,060,815	1,049,635	1,037,990	1,025,870	1,420,395
Commercial paper notes	6,658	5,786	7,755	8,089	41,424	186,190	323,561	417,348	410,079	47,937
Total outstanding debt	$ 275,428	518,286	511,640	502,999	526,969	1,247,005	1,373,196	1,455,338	1,435,949	1,468,332
Enplaned Passengers	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125
Total outstanding debt per enplaned passenger (not in 000's)	$ 53	98	96	93	99	241	312	354	343	356
Debt Service										
Revenue bonds (2) (3)	$ 17,646	17,454	17,932	21,423	20,837	21,567	23,037	26,779	32,502	59,389
Commercial paper notes (4) (5)	653	561	679	737	3,391	710	292	734	16,605	6,818
Total debt service	$ 18,299	18,015	18,611	22,160	24,228	22,277	23,329	27,513	49,107	66,207
Net debt service per enplaned passenger (not in 000's)	$ 3.52	3.40	3.48	4.09	4.55	4.30	5.30	6.70	11.72	16.05

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

(2) Under the Master Trust Agreement dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Debt Service.

(3) Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2005 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

(4) As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective project to which such obligations relate or the date of issuance if the CP proceeds were not used for a project. As also required, the interest rate on the CP is assumed to be equal to an interest rate calculated by mutiplying the average interest rate during the 90-day period prior to the end of the fiscal year by 1.15, as certified by a certificate of a financial advisor. As permitted by the Letter of Credit and Reimbursement Agreements, the outstanding CP as of June 30, 2011 was adjusted to reflect the repayment of certain CP from the proceeds of the Airport Revenue Bond Series 2011A. Under the previous Letter of Credit and Reimbursement Agreements, the calculation of debt service did not include the CP which funded capitalizable projects during the fiscal years 2008 through 2010.

(5) Includes letter of credit fees associated with subordinated commercial paper.

(6) Some data reported previously were revised to reflect the more recent information.

Schedule F

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(in $ 000's) [1]

Year	Adjusted General Airport Revenues [2]	Operating Expenses [3] & [4]	Net Revenues	Other Available Funds	Net Revenues Available for Debt Service	Total Bond Debt Service [5]	Available Passenger Facility Charges [5]	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service [7] [8]	Coverage Ratio- Bonds & CP
2003	$ 97,183	$ 72,960	$ 24,223	$ 30,633	$ 54,856	$ 17,646		$ 17,646	3.11	$ 653	3.00
2004	88,214	71,020	17,194	37,565	54,759	17,454		17,454	3.14	561	3.04
2005	89,806	73,422	16,384	37,666	54,050	17,932 [6]		17,932	3.01	679	2.90
2006	100,531	78,156	22,375	37,022	59,397	21,423 [6]		21,423	2.77	737	2.68
2007	96,661	86,120	10,541	44,250	54,791	20,837 [6]		20,837	2.63	3,391	2.26
2008	115,184	95,615	19,569	44,175	63,744	21,567 [6]		21,567	2.96	710	2.86
2009	115,115	90,783	24,332	49,053	73,385	23,037		23,037	3.19	292	3.15
2010	106,503	82,606	23,897	51,610	75,507	31,367	$ 4,588	26,779	2.82	734	2.74
2011	123,447	76,850	46,597	52,447	99,044	53,890	21,388	32,502	3.05	16,605	2.02
2012	129,524	67,875	61,649	58,917	120,566	80,725	21,336	59,389	2.03	6,818	1.82

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

(2) Does not include Passenger Facility Charges (PFCs) or AIP grant proceeds. PFC revenues and AIP grant proceeds are included in the Statements of Revenues, Expenses, and Changes in Net Assets as nonoperating revenues.

(3) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.

(4) Excludes letter of credit fees associated with subordinated commercial paper. Letter of credit fees, net of capitalized fees, are reflected as part of operating expenses for accounting purposes. However, fees imposed pursuant to the reimbursement agreements relating to such letters of credit are Subordinate Obligations and are not incorporated in operating expenses for purposes of calculating debt service coverage.

(5) Under the Master Trust Agreement dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service” means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Debt Service.

(6) Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2005 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

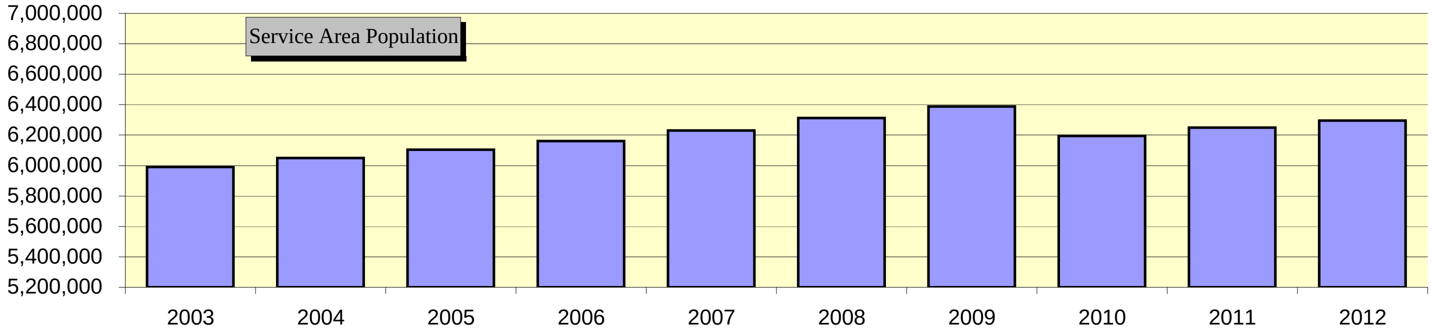
(7) As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective project to which such obligations relate or the date of issuance if the CP proceeds were not used for a project. As also required, the interest rate on the CP is assumed to be equal to an interest rate calculated by mutiplying the average interest rate during the 90-day period prior to the end of the fiscal year by 1.15, as certified by a certificate of a financial advisor. As permitted by the Letter of Credit and Reimbursement Agreements, the outstanding CP as of June 30, 2011 was adjusted to reflect the repayment of certain CP from the proceeds of the Airport Revenue Bond Series 2011A. Under the previous Letter of Credit and Reimbursement Agreements, the calculation of debt service did not include the CP which funded capitalizable projects during the fiscal years 2008 through 2010.

(8) Includes letter of credit fees associated with subordinated commercial paper.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

Schedule G

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA POPULATION IN THE AIR TRADE AREA
LAST TEN CALENDAR YEARS

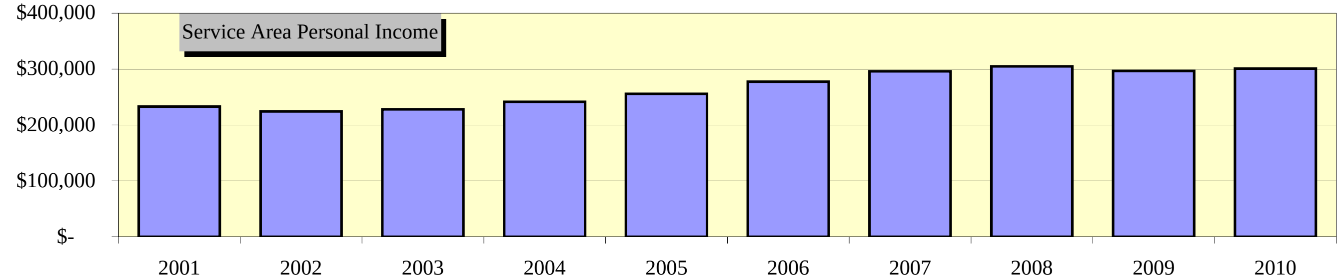


	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
2003	1,490,072	417,152	56,323	715,898	1,726,183	258,463	227,010	616,737	483,824	5,991,662
2004	1,494,675	420,612	56,736	717,653	1,738,654	259,020	233,404	635,252	493,646	6,049,652
2005	1,498,967	421,235	56,946	720,042	1,753,041	259,960	239,659	652,248	503,157	6,105,255
2006	1,506,176	420,967	57,014	722,994	1,771,610	261,183	245,436	664,889	511,617	6,161,886
2007	1,519,326	422,586	57,162	728,314	1,798,242	263,105	250,022	674,331	517,837	6,230,925
2008	1,537,719	426,670	57,517	736,951	1,829,480	265,782	253,471	682,316	522,313	6,312,219
2009	1,557,749	431,041	57,920	745,654	1,857,516	268,795	255,591	687,854	525,090	6,387,210
2010	1,509,240	415,108	55,272	718,614	1,781,427	262,552	255,399	684,057	514,003	6,195,672
2011	1,521,157	419,038	55,619	724,702	1,797,375	264,430	257,984	690,899	517,685	6,248,889
2012	1,532,137	420,668	55,815	729,443	1,816,486	265,981	258,736	695,750	519,940	6,294,956

Source: California Department of Finance

Schedule H

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA PERSONAL INCOME IN THE AIR TRADE AREA
LAST TEN AVAILABLE CALENDAR YEARS (1)
(in $ 000"s)



	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
2001	$56,121,667	$12,540,815	$1,579,602	$39,395,344	$83,838,707	$9,714,123	$4,433,382	$14,281,186	$10,916,779	$232,821,605
2002	55,316,772	12,676,027	1,575,049	36,736,603	77,548,912	9,495,857	4,644,678	14,788,895	11,460,836	224,243,629
2003	56,424,129	13,380,948	1,623,818	36,466,977	78,152,243	9,498,586	4,989,214	15,576,802	11,959,040	228,071,757
2004	59,339,211	14,096,150	1,681,863	39,408,618	81,920,659	10,194,797	5,359,381	16,555,526	12,868,305	241,424,510
2005	62,015,782	14,653,598	1,704,973	42,846,390	87,909,716	10,462,655	5,409,165	17,189,529	13,472,415	255,664,223
2006	66,998,496	15,774,227	1,809,212	46,881,900	96,443,117	11,464,854	5,613,205	18,292,157	14,076,261	277,353,429
2007	70,761,435	16,694,108	1,897,021	50,347,246	104,102,421	12,116,023	6,108,301	19,194,503	14,755,527	295,976,585
2008	73,819,703	17,243,092	1,954,831	51,062,495	103,697,458	12,962,445	6,842,821	21,121,955	16,072,573	304,777,373
2009	71,596,468	17,126,664	1,945,249	50,014,142	99,549,995	12,591,938	6,750,415	20,968,710	15,948,738	296,492,319
2010	72,757,457	16,968,639	1,968,266	48,907,268	103,636,350	12,462,841	7,016,934	21,133,128	16,079,357	300,930,240

(1) Information for calendar years 2011 and 2012 is not available.

Source: Bureau of Economic Analysis

Schedule I

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

(A Department of the City of San José)

SERVICE AREA PER CAPITA PERSONAL INCOME IN THE AIR TRADE AREA

LAST TEN AVAILABLE CALENDAR YEARS [1]

	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Average PCPI
2001	$38,187	$30,786	$28,856	$55,707	$49,561	$37,982	$20,387	$24,154	$23,531	$34,350
2002	37,839	30,931	28,531	52,480	46,292	37,397	20,801	24,290	24,000	33,618
2003	38,835	32,527	29,327	52,405	46,769	37,708	21,810	24,883	24,551	34,313
2004	41,083	34,362	30,534	56,788	48,958	40,632	22,955	25,785	26,132	36,359
2005	43,074	36,014	31,041	61,678	52,081	41,917	22,724	26,209	26,954	37,966
2006	47,781	40,908	34,139	68,843	56,521	48,206	25,205	29,513	29,654	42,308
2007	49,915	42,322	36,173	74,343	60,098	51,669	27,981	31,018	30,816	44,926
2008	50,206	42,506	35,674	72,112	59,058	51,249	28,003	31,584	31,673	44,674
2009	48,004	41,735	35,331	69,562	55,781	49,145	27,517	31,071	31,248	43,266
2010	48,087	40,754	35,451	67,964	58,018	47,409	27,329	30,732	31,197	42,993

[1] Information for calendar years 2011 and 2012 is not available.

Source: Bureau of Economic Analysis

Schedule J

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PRINCIPAL EMPLOYERS IN THE CITY OF SAN JOSE
CURRENT YEAR AND SIX YEARS AGO

	2012			2006		
Company or Organization	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	14,950	1	1.66%	14,860	2	1.70%
Cisco Systems	13,600	2	1.51%	16,500	1	1.89%
City of San Jose*	5,400	3	0.60%	6,670	3	0.76%
San Jose State University	4,780	4	0.53%	3,100	5	0.35%
eBay Inc.	4,700	5	0.52%	2,200	8	0.25%
IBM	4,100	6	0.45%	5,800	4	0.66%
U.S. Postal Service	3,921	7	0.43%	na (**)	na (**)	na (**)
San Jose Unified School District	2,690	8	0.30%	1,820	13	0.21%
Hitatchi	2,150	9	0.24%	2,800	6	0.33%
Adobe Systems, Inc.	2,020	10	0.22%	2,000	10	0.23%
Kaiser Permanente	1,940	11	0.21%	na (**)	na (**)	na (**)
Good Samaritan Hospital	1,924	12	0.21%	1,850	12	0.21%
Cadence Design Systems	1,810	13	0.20%	1,750	14	0.20%
Sanmina-SCI	1,780	14	0.20%	2,100	9	0.24%
KLA-Tencor	1,770	15	0.20%	1,850	11	0.21%

Note: Data pertaining to principal employers for nine years ago is not readily available. As such, we used 2006 information which was the earliest available.

(*) Full-time employees

(**) Companies or organizations not included in top 15 principal employers in 2006

Source: California Employment Development Department, Labor Market Information Division

Schedule K

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT EMPLOYEES
LAST TEN FISCAL YEARS

	Budgeted Full-time-Equivalent [1] Employees as of Fiscal Year-End									
Functional Area	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Acoustical Treatment Program (ACT)	11.75	16.25	10.00	9.00	7.00	7.00	4.00	0.00	0.00	0.00
Administration	39.35	39.35	35.55	34.55	37.75	39.75	34.65	31.00	26.70	27.00
Air Service Development	3.25	3.00	3.25	4.50	4.60	4.60	2.00	2.00	1.00	1.00
Airport Technology Services	7.00	8.00	8.00	17.00	21.00	21.00	19.00	16.00	13.00	13.00
Airside Operations	61.20	58.00	49.20	46.00	46.50	46.55	47.25	38.45	35.15	39.53
Customer Service and Outreach	9.75	9.00	8.75	7.60	11.40	10.40	8.00	6.00	5.00	6.00
Capital and Airport Development	30.10	45.75	52.05	46.05	38.05	28.25	27.25	25.50	18.00	14.00
Environmental	7.95	4.25	3.20	4.20	3.20	3.00	3.50	3.00	1.00	1.00
Facilities (Building Services, Trades and Maintenance)	162.00	161.00	148.00	143.00	143.00	155.00	134.50	127.50	64.00	66.00
Landside Operations and Services	60.75	64.50	66.30	64.50	61.50	62.45	55.75	46.55	34.15	29.47
Property Management	10.40	10.40	12.20	12.10	12.00	13.00	12.10	9.00	8.00	8.00
	403.50	419.50	396.50	388.50	386.00	391.00	348.00	305.00	206.00	205.00

[1] A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave).
Full-time-equivalent employment is calculated by dividing total labor hours by 2,088.

Source: Norman Y. Mineta San José International Airport, Budget & Adminstration Section

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
JUNE 30, 2012

Location:	Two miles north of downtown San José, Capital of Silicon Valley			
Area:	1,050 acres			
Elevation:	56 ft.			
Airport Code:	SJC			
Runways:	11/29	North/South	4,599 × 100	ft.
	12R/30L	North/South	11,000 × 150	ft. ILS/ VOR / GPS
	12L/30R	North/South	11,000 × 150	ft. GPS (VOR 30R only)
Terminal:	Airlines		249,245	sq. ft.
	Concessions and Other Rentables		56,942	sq. ft.
	Public/common		187,492	sq. ft.
	Airport		299,447	sq. ft.
	Vacant		44,640	sq. ft.
	Other		105,991	sq. ft.
	Total		943,757	sq. ft.
	Number of passenger gates - Terminal A and FIS		16	
	Number of passenger gates - Terminal B		12	
	Number of loading bridges		28	
	Number of concessionaires in terminal		44	
	Number of rental car agencies		10	
Apron:	Commercial Airlines		1,130,408	sq. ft.
	Cargo Airlines		596,436	sq. ft.
	FBO		426,071	sq. ft.
	General Aviation West		436,659	sq. ft.
Parking:	Spaces assigned:	Hourly - Termina A Garage	1,300	
		Hourly - Terminal B Garage & Surface	1,200	
		Daily lots	1,360	
		Economy lots	1,670	
		Rental cars	3,000	
		Employees	800	
		Total	9,330	
Cargo:	Air Freight Building		19,200	sq. ft.
International:	Customs / Federal Inspection Service Facility			
Tower:	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7			
FBOs:	Atlantic San Jose			
	AvBase			

FBO = fixed base operator.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT **Schedule M**

(A Department of the City of San José)

ENPLANED COMMERCIAL PASSENGERS BY AIRLINE [1]

LAST TEN FISCAL YEARS

(Ranked by Fiscal Year 2012 Results)

	2003		2004		2005		2006		2007	
Airline	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	1,935,988	37.2%	2,003,802	37.9%	2,140,938	40.1%	2,198,806	40.6%	2,266,766	42.6%
Alaska Airlines	472,620	9.1%	490,392	9.3%	492,357	9.2%	489,022	9.0%	467,324	8.8%
American Airlines	1,382,143	26.6%	1,316,502	24.9%	1,221,431	22.8%	1,029,154	19.0%	923,052	17.4%
US Airways	251,412	4.8%	281,303	5.3%	309,692	5.8%	308,204	5.7%	308,522	5.8%
Delta Airlines [2]	191,787	3.7%	181,008	3.4%	183,957	3.4%	215,062	4.0%	182,524	3.4%
Skywest [3]	108,171	2.1%	116,235	2.2%	133,875	2.5%	124,565	2.3%	139,956	2.6%
Continental Airlines [4]	132,270	2.5%	138,500	2.6%	147,045	2.8%	155,324	2.9%	169,220	3.2%
United Airlines [4][5]	390,932	7.5%	398,245	7.5%	386,361	7.2%	392,199	7.2%	380,109	7.1%
Hawaiian Airlines							62,261	1.1%	82,561	1.6%
JetBlue Airways			2,934	0.1%	64,003	1.2%	136,666	2.5%	109,351	2.1%
Concesionaria Vuela Compania de Aviacion S.A. DE CV [6]										
All Other Airlines [7]	339,664	6.5%	362,928	6.9%	265,974	5.0%	303,568	5.6%	289,474	5.4%
Total [8]	5,204,987	100%	5,291,849	100%	5,345,633	100%	5,414,831	100%	5,318,859	100%

[1] Except as noted, mainline carriers and their regional/commuter affiliates are grouped to show relative market share by carrier.

[2] Excludes enplaned passengers on flights operated by Skywest as Delta Connection.

[3] Operates as United Express and Delta Connection.

[4] Continental and United merged in October 2010. The combined airlines (named United Airlines) received FAA approval to operate under a single certificate in December 2011 but continued to operate as separate airlines until June 30, 2012.

[5] Excludes enplaned passengers on flights operated by Skywest as United Express.

[6] Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.

[7] Consists of airlines no longer serving the Airport and charter airlines.

[8] Percentage totals may not add due to rounding.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE [1]
LAST TEN FISCAL YEARS
(Ranked by Fiscal Year 2012 Results)

Schedule M
(Concluded)

Airline	2008 Enplanements	2008 % of Total	2009 Enplanements	2009 % of Total	2010 Enplanements	2010 % of Total	2011 Enplanements	2011 % of Total	2012 Enplanements	2012 % of Total
Southwest Airlines	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%	2,187,033	52.2%	2,192,234	53.1%
Alaska Airlines	445,689	8.6%	345,419	7.9%	393,982	9.6%	561,400	13.4%	609,315	14.8%
American Airlines	771,429	14.9%	632,723	14.4%	480,402	11.7%	435,815	10.4%	386,997	9.4%
US Airways	298,193	5.8%	250,458	5.7%	208,809	5.1%	184,380	4.4%	183,955	4.5%
Delta Airlines [2]	156,339	3.0%	94,241	2.1%	100,539	2.4%	155,885	3.7%	146,661	3.6%
Skywest [3]	115,184	2.2%	139,478	3.2%	180,337	4.4%	149,912	3.6%	131,412	3.2%
Continental Airlines [4]	171,189	3.3%	136,153	3.1%	132,942	3.2%	134,449	3.2%	121,933	3.0%
United Airlines [4][5]	349,962	6.8%	208,184	4.7%	138,836	3.4%	133,794	3.2%	117,292	2.8%
Hawaiian Airlines	84,259	1.6%	81,397	1.9%	72,266	1.8%	85,571	2.0%	103,483	2.5%
JetBlue Airways	116,776	2.3%	148,643	3.4%	95,118	2.3%	80,797	1.9%	76,063	1.8%
Concesionaria Vuela Compania de Aviacion S.A. DE CV [6]					8,072	0.2%	48,325	1.2%	49,709	1.2%
All Other Airlines [7]	336,151	6.5%	280,595	6.4%	174,174	4.2%	31,862	0.8%	5,831	0.1%
Total [8]	5,178,603	100%	4,399,562	100%	4,107,394	100%	4,189,223	100%	4,124,885	100%

[1] Except as noted, mainline carriers and their regional/commuter affiliates are grouped to show relative market share by carrier.
[2] Excludes enplaned passengers on flights operated by Skywest as Delta Connection.
[3] Operates as United Express and Delta Connection.
[4] Continental and United merged in October 2010. The combined airlines (named United Airlines) received FAA approval to operate under a single certificate in December 2011 but continued to operate as separate airlines until June 30, 2012.
[5] Excludes enplaned passengers on flights operated by Skywest as United Express.
[6] Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.
[7] Consists of airlines no longer serving the Airport and charter airlines.
[8] Percentage totals may not add due to rounding.

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

Schedule N

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE LANDED WEIGHTS (1,000's lb)
LAST TEN FISCAL YEARS

Airline [1]	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Air Canada					1,612	2,207	1,469	284	3,159	2,654
Air Wisconsin	21,197									
Alaska Airlines	630,248	600,898	508,275	490,114	472,515	441,300	337,540	363,017	503,725	505,340
Atlantic Southeast Airlines			8,643	17,554	5,025					
American Airlines	2,157,755	1,563,878	1,279,122	850,139	733,523	572,925	480,870	366,797	359,335	305,694
American Eagle	145,119	380,940	351,441	391,471	346,514	305,779	254,983	131,181	87,935	86,967
ATA	100,188	105,132	396	224	550	566				
Concesionaria Vuela compania De Aviacion S.A DE CV (aka Volaris)								8,320	54,663	59,451
Continental Airlines	165,682	159,142	164,344	164,858	178,500	181,657	142,465	133,055	135,858	128,219
Delta Airlines	302,804	244,109	226,950	259,322	233,734	194,892	119,454	116,624	165,760	155,622
Expressjet Airlines Inc. dba Delta Airlines					44	58,816	8,047	41		
Frontier Airlines	70,909	92,045	97,781	128,282	143,487	153,166	158,644	78,484	672	
Hawaiian Airlines				87,360	128,960	115,545	109,970	94,075	110,895	133,520
Horizon Air	86,362	114,176	130,792	104,759	98,525	115,790	111,530	144,240	189,443	175,246
Independence Airlines			8,405	9,231						
JetBlue Airways	142	2,986	68,682	155,706	124,565	147,688	188,439	115,710	91,292	82,903
Mesa Airlines	24,581	26,273	5,338	12,640	21,664	22,399	4,168		168	167
Mexicana Airlines	75,024	83,270	78,780	116,903	113,125	100,668	86,527	76,916	10,890	
Northwest Airlines	192,684	172,244	118,242	107,918	100,756	101,591	101,284	51,691		
Skywest	147,918	155,754	164,480	151,419	166,716	146,500	174,983	217,883	163,478	143,527
Southwest Airlines	2,896,347	2,867,763	3,009,958	3,065,960	3,197,472	3,366,428	3,236,828	3,033,408	2,877,878	2,917,030
United Airlines	550,644	535,528	499,892	515,943	490,735	474,724	277,027	182,268	178,965	161,273
US Airways	320,763	351,611	401,640	377,223	415,366	387,348	316,454	262,199	245,557	250,324
All Other Airlines	13,555	16,985	6,046	13,670	16,145	22,137	19,387	34,324	41,329	17,454
Subtotal	7,901,922	7,472,734	7,129,207	7,020,696	6,989,533	6,912,126	6,130,069	5,410,517	5,221,002	5,125,391
Cargo Carriers										
Air Transport Int'l.	51,606	55,798	61,414	55,733	57,941	59,379	56,042	57,159	71,055	12,015
Airborne Express	70,652	71,094	70,720	68,816	70,176	57,392	1,088			
Emery Worldwide Express	54,020									
Fedex	287,143	289,284	268,055	223,154	252,539	241,953	231,594	168,403	164,642	163,213
Kitty Hawk	35,005	638			155					
United Parcel Service	127,819	127,399	128,470	126,660	129,090	133,653	132,055	96,505	83,136	93,250
All Other Cargo Airlines	22,160	2,844	3,184	4,013	1,862	247	309	200	352	270
Subtotal	648,405	547,057	531,843	478,376	511,763	492,624	421,088	322,267	319,185	268,748
Total	8,550,327	8,019,791	7,661,050	7,499,072	7,501,296	7,404,750	6,551,157	5,732,784	5,540,187	5,394,139

[1] See Notes on Schedule M.

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

Schedule O

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE FLIGHT OPERATIONS BY AIRLINE AND CARGO CARRIER
LAST TEN FISCAL YEARS

Airline [1]	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Air Canada	4	18			2	4	22		46	38
Air Wisconsin	902									
Alaska Airlines	9,862	9,464	7,926	7,592	7,264	6,760	5,176	5,444	7,308	7,272
Atlantic Southeast Airlines			258	524	150					
American Airlines	27,294	19,136	16,214	11,678	10,734	9,012	7,704	5,800	5,552	4,728
American Eagle	7,042	18,554	17,094	19,018	16,816	14,838	12,370	6,364	4,266	4,098
ATA	1,012	1,160	4	2	4	6	378			
Concessionaria Vuela Compania De Aviacion S.A DE CV								124	812	886
Continental Airlines	2,672	2,342	2,404	2,490	2,730	2,770	2,060	1,898	1,862	1,750
Delta Airlines	3,904	3,326	3,122	3,524	2,852	2,526	1,504	1,570	2,264	2,094
ExpressJet Airlines Inc dba Delta Airlines						2,738		2		
Frontier Airlines	988	1,388	1,476	1,942	2,190	2,360	2,426	1,202	10	
Hawaiian Airlines				546	806	732	732	620	732	882
Horizon Air	2,578	3,424	3,960	3,200	3,086	3,602	3,428	4,484	6,062	5,676
Independence Airlines			122	134						
JetBlue Airways	2	42	966	2,190	1,752	2,102	2,986	1,876	1,284	1,166
Mesa Airlines	1,046	1,118	226	434	592	614	126	14	6	6
Mexicana Airlines	978	1,090	1,044	1,588	1,600	1,430	1,250	1,126	160	
Northwest Airlines	2,988	2,474	1,670	1,540	1,434	1,446	1,410	746		
Skywest	7,464	7,742	8,134	7,580	8,158	7,518	7,526	8,636	5,838	5,026
Southwest Airlines	50,290	49,254	50,402	50,936	52,872	54,974	52,414	48,942	46,584	47,002
United Airlines	8,442	8,222	7,386	7,076	6,932	6,420	3,572	2,224	2,124	1,988
US Airways	5,328	5,342	6,076	5,748	6,168	6,070	5,110	4,130	3,624	3,618
All Other Airlines	208	268	80	212	260	442	304	598	732	248
Subtotal	133,004	134,364	128,564	127,954	126,402	126,364	110,498	95,800	89,266	86,478
Cargo Carriers										
Air Transport Int'l.	464	422	468	424	442	452	426	434	538	88
Airborne Express	522	524	520	506	516	422	8			
Emery Worldwide Express	360									
FedEx	1,420	1,430	1,400	1,270	1,326	1,324	1,264	958	926	928
Kitty Hawk	440	8			2					
United Parcel Service	914	910	924	908	926	916	854	672	566	652
All Other Cargo Airlines	516	292	282	356	176	26	6	12	16	10
Subtotal	4,636	3,586	3,594	3,464	3,388	3,140	2,558	2,076	2,046	1,678
Total	137,640	137,950	132,158	131,418	129,790	129,504	113,056	97,876	91,312	88,156

[1] See notes on Schedule M.

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

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

CARRIER	NONSTOP SERVICE
SCHEDULED DOMESTIC AIRLINE SERVICE	
Alaska Airlines	Kahului, Maui (OGG)
	Kona, Hawaii (KOA)
	Lihue, Kauai (LIH)
	Honolulu, Oahu (HNL)
	Portland (PDX)
	Seattle (SEA)
American Airlines	Chicago/O'Hare (ORD)
	Dallas/Ft. Worth (DFW)
Delta Airlines	Atlanta (ATL)
	Minneapolis/St. Paul (MSP)
	Salt Lake City (SLC)
Hawaiian Airlines	Kahului, Maui (OGG)
	Honolulu, Oahu (HNL)
JetBlue Airlines	Boston (BOS)
	New York (JFK)
Southwest Airlines	Austin (AUS)
	Burbank (BUR)
	Chicago/Midway (MDW)
	Denver (DEN)
	Las Vegas (LAS)
	Los Angeles (LAX)
	Ontario (ONT)
	Orange County (SNA)
	Phoenix (PHX)
	Portland (PDX)
	Reno (RNO)
	San Diego (SAN)
	Seattle (SEA)
United Airlines	Denver (DEN)
	Houston (IAH)
US Airways	Phoenix (PHX)

CARRIER	NONSTOP SERVICE
COMMUTER AIRLINE SERVICE	
American Eagle (regional carrier for American Airlines)	Los Angeles (LAX)
Horizon Air (regional carrier for Alaska Airlines)	Boise (BOI) Los Angeles (LAX) Palm Springs (PSP) Portland (PDX) Reno (RNO)
Skywest (on behalf on Delta and United)	Denver (DEN) Los Angeles (LAX) Salt Lake City (SLC)
SCHEDULED FOREIGN FLAG AIRLINE SERVICE	
Alaska Airlines	Cabo San Lucas (SJD) Guadalajara (GDL)
Volaris	Guadalajara (GDL)
ALL-CARGO AIRLINES	
Federal Express Corporation	
United Parcel Service	

Schedule Q

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

(A Department of the City of San José)

PASSENGERS, MAIL, FREIGHT, AND CARGO STATISTICS

LAST TEN FISCAL YEARS

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passengers (1,000's):										
Enplanements	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125
Deplanements	5,200	5,276	5,382	5,437	5,335	5,202	4,422	4,125	4,200	4,131
Total Passengers	10,405	10,568	10,728	10,852	10,654	10,381	8,822	8,232	8,389	8,256
Mail/Freight/Cargo (1,000 lbs):										
Mail	8,939	8,988	9,213	7,593	4,342	3,044	1,987	3,357	2,264	1,160
Freight/Express	29,843	26,462	25,449	22,577	12,228	7,101	5,995	5,432	5,060	5,303
Cargo	234,328	203,444	190,871	179,612	171,754	166,509	129,809	97,578	87,329	77,303
Total mail/freight/cargo	273,110	238,894	225,533	209,782	188,324	176,654	137,791	106,367	94,653	83,766

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL AIRCRAFT OPERATIONS [1]
LAST TEN FISCAL YEARS

Fiscal Year	Air Carrier Operations [2]	Commuter Operations	Cargo Operations	Total Commercial Operations [3]	Percent Commercial Operations	General Aviation Operations	Military Operations	Total Operations
2002-03	113,972	19,032	4,636	137,640	68.7%	62,510	125	200,275
2003-04	103,526	30,838	3,586	137,950	69.8%	59,521	113	197,584
2004-05	98,892	29,672	3,594	132,158	67.4%	63,708	99	195,965
2005-06	97,198	30,756	3,464	131,418	67.9%	61,907	83	193,408
2006-07	97,596	28,806	3,388	129,790	70.2%	55,021	103	184,914
2007-08	96,860	29,504	3,140	129,504	70.1%	55,146	64	184,714
2008-09	86,668	23,830	2,558	113,056	70.7%	46,674	242	159,972
2009-10	76,024	19,776	2,076	97,876	74.4%	33,439	275	131,590
2010-11	73,094	16,172	2,046	91,312	74.8%	30,503	276	122,091
2011-12	71,672	14,806	1,678	88,156	73.4%	31,664	285	120,105
Annual Compound Growth Rate								
FY 2002-03 through FY 2011-2012	-4.5%	-2.5%	-9.7%	-4.4%	0.7%	-6.6%	8.6%	-5.0%

[1] An aircraft operation is defined as the takeoff or landing of an aircraft.

[2] Includes domestic and international airlines.

[3] Represents the sum of Mainline Air Carrier Operations, Regional Commuter Operations and All-Cargo Operations.

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

Bond Disclosure

NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

Bond Disclosure Report

June 30, 2012

In accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for the City of San José Airport Revenue Bonds Series 2001A, 2004C, 2004D, 2007A, 2007B, 2011A, 2011B, and Airport Revenue Refunding Bonds Series 2002A and 2002B, the Airport is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule).

Section 4 of the Disclosure Agreements requires the City to provide an Annual Report, which is consistent with the requirements of Section 4 of the Disclosure Agreements, no later than six months after the end of the City's fiscal year. The Annual Report may be submitted to the Municipal Securities Rulemaking Board's EMMA system as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of the Disclosure Agreements. The Bond Disclosure Report included in this CAFR meets the requirements of Section 4 of the Disclosure Agreements.

Annual Report

The following items are required by the Disclosure Agreements to be included in the Annual Report:

- Audited financial statements of the Airport, updated to incorporate information for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and further modified according to applicable State law.

  Refer to the Financial Section, pages 1-58 of this report.

- A schedule showing the debt service requirements (required only to the extent there are changes).

  Refer to Table 1, page 83 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, historical passenger enplanements.

  Refer to Table 2, page 84 of this report.

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

  Refer to Table 3, page 85 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, historical aircraft operations.

  Refer to Statistical Section, Schedule R, page 80 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, historical landing weight.

  Refer to Table 4, page 86 of this report.

- A list showing, for the Airport's most recently completed fiscal year, air carriers serving the Airport.

  Refer to Statistical Section, Schedule P, pages 77-78 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, airline activity shares of enplaned commercial passengers.

  Refer to Statistical Section, Schedule M, pages 73-74 of this report.

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

  Refer to Financial Section, Exhibit II, page 22 of this report.

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

  Refer to Statistical Section, Schedule F, page 66 of this report.

- A list showing, for the Airport's most recently completed fiscal year, ten largest sources of revenue.

  Refer to Table 5, page 87 of this report.

REPORTING OF SIGNIFICANT EVENTS

On November 21, 2011, the City filed a significant event notice relating to the Standard & Poor's Rating Services downgrade of the Airport's financial strength rating from "A" to "A-." On December 5, 2011, the City filed a material event notice related to a bond insurer downgrade and the corresponding impact on the City's Airport Revenue Bonds, Series 2002AB. On July 26, 2012, the City filed a material event notice relating to the Standard & Poor's Rating Services downgrade of the Airport's financial strength rating from "A-" to "BBB+."

Table 1

SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
BOND DEBT SERVICE REQUIREMENTS

Year Ended June 30	Total Debt Service Requirements on Outstanding Bonds [1]	Principal Requirements on Series 2011A-1 Bonds	Interest Requirements on Series 2011 A-1 Bonds	Principal Requirements on Series 2011A-2 Bonds	Interest Requirements on Series 2011A-2 Bonds	Principal Requirements on Series 2011B Bonds	Interest Requirements on Series 2011B Bonds	Total Debt Service Requirements on Series 2011 Bonds	Total Debt Service Requirements on All Bonds
2013	$55,994,725	$3,190,000	$7,980,900	$1,820,000	$4,123,363	-	$16,917,082	$34,031,345	$90,026,069
2014	63,964,338	3,280,000	7,885,200	1,865,000	4,077,863	-	16,917,082	34,025,145	97,989,482
2015	63,909,113	3,395,000	7,770,400	1,930,000	4,021,913	$495,000	16,917,082	34,529,395	98,438,507
2016	63,857,600	3,535,000	7,600,650	2,030,000	3,964,013	800,000	16,900,648	34,830,311	98,687,910
2017	63,797,763	3,665,000	7,494,600	2,090,000	3,882,813	1,155,000	16,870,888	35,158,301	98,956,063
2018	63,747,431	3,850,000	7,311,350	2,200,000	3,778,313	1,540,000	16,823,648	35,503,311	99,250,742
2019	60,795,613	3,355,000	7,118,850	1,910,000	3,668,313	1,945,000	16,758,660	34,755,823	95,551,435
2020	60,588,938	3,525,000	6,951,100	2,005,000	3,572,813	2,390,000	16,667,245	35,111,158	95,700,095
2021	60,869,750	3,710,000	6,766,038	2,110,000	3,472,563	2,865,000	16,553,720	35,477,321	96,347,070
2022	60,600,444	3,895,000	6,571,263	2,225,000	3,367,063	3,380,000	16,413,335	35,851,661	96,452,104
2023	60,923,806	4,085,000	6,366,775	2,325,000	3,278,063	3,930,000	16,240,955	36,225,793	97,149,598
2024	60,951,294	4,295,000	6,152,313	2,450,000	3,161,813	4,540,000	16,024,010	36,623,136	97,574,429
2025	60,748,544	4,510,000	5,937,563	2,565,000	3,042,725	5,200,000	15,765,935	37,021,223	97,769,766
2026	61,039,056	4,730,000	5,712,063	2,700,000	2,914,475	5,910,000	15,466,335	37,432,873	98,471,929
2027	69,074,725	-	5,463,738	-	2,779,475	6,675,000	15,126,510	30,044,723	99,119,448
2028	69,288,575	-	5,463,738	-	2,779,475	7,535,000	14,694,938	30,473,151	99,761,725
2029	56,102,600	10,415,000	5,463,738	5,940,000	2,779,475	8,470,000	14,207,768	47,275,981	103,378,580
2030	56,101,350	11,140,000	4,890,913	6,385,000	2,482,475	9,470,000	13,660,140	48,028,528	104,129,878
2031	56,103,425	11,650,000	4,278,213	6,735,000	2,163,225	10,550,000	13,047,863	48,424,301	104,527,725
2032	45,544,875	18,925,000	3,608,338	10,945,000	1,826,475	11,710,000	12,365,753	59,380,566	104,925,440
2033	78,599,750	20,105,000	2,473,000	11,625,000	1,251,863	12,960,000	11,608,650	60,023,513	138,623,263
2034	78,372,000	21,115,000	1,266,813	12,220,000	641,550	14,320,000	10,751,513	60,314,876	138,686,875
2035	111,915,750					15,785,000	9,804,435	25,589,435	137,505,185
2036	111,911,250					17,360,000	8,760,465	26,120,465	138,031,715
2037	111,915,000					19,045,000	7,612,335	26,657,335	138,572,335
2038	10,190,000					20,885,000	6,352,763	27,237,763	37,427,763
2039	10,188,600					22,775,000	4,971,495	27,746,495	37,935,095
2040	10,191,800					25,065,000	3,465,233	28,530,233	38,722,032
2041	10,188,100					27,330,000	1,807,515	29,137,515	39,325,615
2042	10,191,600								10,191,600
2043	10,190,500								10,190,500
2044	10,188,600								10,188,600
2045	10,189,400								10,189,400
2046	10,191,100								10,191,100
2047	10,191,900								10,191,900
Totals[2]	$1,808,619,313	$146,370,000	$130,527,556	$84,075,000	$67,030,119	$264,085,000	$379,474,001	$1,071,561,676	$2,880,180,973

[1] These amounts pertain to total debt service requirements on outstanding Airport Revenue Bonds Series 2001A, 2004C, 2004D, 2007A, 2007B, and Airport Refunding Bonds Series 2002A and 2002 B.
[2] Totals may not add due to rounding.

Source: City of San José.

Table 2

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL PASSENGER ENPLANEMENTS
LAST TEN FISCAL YEARS

Fiscal Year	Air Carrier Domestic Enplanements	Air Carrier International Enplanements	Total Air Carrier Enplanements	Commuter Enplanements	Total Enplanements	Total Percent Change %
2002-03	4,772,654	122,110	4,894,764	310,223	5,204,987	
2003-04	4,651,137	134,176	4,785,313	506,536	5,291,849	1.67%
2004-05	4,660,730	138,142	4,798,872	546,761	5,345,633	1.02%
2005-06	4,706,038	137,054	4,843,092	571,739	5,414,831	1.29%
2006-07	4,686,496	102,368	4,788,864	529,995	5,318,859	-1.77%
2007-08	4,584,448	67,459	4,651,907	526,696	5,178,603	-2.64%
2008-09	3,907,376	60,381	3,967,757	431,805	4,399,562	-15.04%
2009-10	3,636,146	62,437	3,698,583	408,811	4,107,394	-6.64%
2010-11	3,728,493	77,963	3,806,456	382,767	4,189,223	1.99%
2011-12	3,672,704	83,261	3,755,965	368,920	4,124,885	-1.54%
Annual Compound Growth Rate						
FY 2002-03 through FY 2011-12	-2.9%	-4.2%	-2.9%	1.9%	-2.6%	

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
A Department of the City of San José)
HISTORICAL CONNECTING/ENPLANED PASSENGER TRAFFIC
LAST TEN FISCAL YEARS

Fiscal Year	Total Enplanements	Total O&D Enplanements	Total Connecting Enplanements	Connecting Enplanements as a Percentage of Total Enplanements
2002-03	5,204,987	4,946,819	258,168	5.0%
2003-04	5,291,849	5,018,790	273,059	5.2%
2004-05	5,345,633	5,075,122	270,511	5.1%
2005-06	5,414,831	5,192,594	222,237	4.1%
2006-07	5,318,859	5,145,726	173,133	3.3%
2007-08	5,178,603	5,044,473	134,130	2.6%
2008-09	4,399,562	4,281,747	117,815	2.7%
2009-10	4,107,394	3,997,764	109,630	2.7%
2010-11	4,189,223	4,083,459	105,764	2.5%
2011-12	4,124,885	4,013,758	111,127	2.7%
Annual Compound Growth Rate				
FY 2002-03 through FY 2011-12	-2.6%	-2.3%	-8.9%	

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

Table 4

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL MAXIMUM GROSS LANDING WEIGHT
LAST TEN FISCAL YEARS
(In thousand pounds)

Fiscal Year	Air Carrier [1]	Commuter [2]	Cargo [3]	Total
2002-03	7,476,745	425,177	648,405	8,550,327
2003-04	6,795,591	677,143	547,057	8,019,791
2004-05	6,468,513	660,694	531,843	7,661,050
2005-06	6,342,853	677,843	478,376	7,499,072
2006-07	6,351,084	638,449	511,763	7,501,296
2007-08	6,255,828	656,298	492,624	7,404,750
2008-09	5,576,343	553,726	421,088	6,551,157
2009-10	4,903,780	506,737	322,267	5,732,784
2010-11	4,779,979	441,023	319,185	5,540,187
2011-12	4,719,483	405,907	268,748	5,394,139
Annual Compound Growth Rate				
FY 2002-03 through FY 2011-12	-5.0%	-0.5%	-9.3%	-5.0%

(1) Includes domestic and international air carriers.

(2) After the September 11, 2001 attacks, more airlines switched to commuter planes to lower their costs and to continue to serve decreased level of passengers without having to drop destinations.

(3) Includes all-cargo airlines.

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

Table 5

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
TEN LARGEST SOURCES OF REVENUES
Fiscal Year Ended June 30, 2012

Category		Amount
Airline Terminal Rentals	$	39,864,277
Public Parking Fees		22,942,881
Rental Cars		13,612,380
Landing Fees (Passenger and Cargo)		11,413,628
Food and Beverage		4,694,475
Advertising		4,222,324
Land and Building Rentals		4,086,979
Gift Shop & Retail		3,464,362
Ground Transportation		2,896,898
Fuel Handling Fees		1,690,326

Source: Norman Y. Mineta San José International Airport management records.