FISCAL YEARS
ENDED JUNE 30,
2016 AND 2015

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

NORMAN Y. MINETA
SAN JOSE INTERNATIONAL
AIRPORT

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

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

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

PREPARED BY:
FINANCE AND ADMINISTRATION
KIM HAWK, CPA
DEPUTY DIRECTOR

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FISCAL YEARS
ENDED JUNE 30,
2016 AND 2015

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, 2016

Kimberly J. Becker
Director of Aviation

John Aitken
Assistant Director of Aviation

Kim Hawk, CPA
Deputy Director of Aviation
Finance & Administration

Prepared by:

Airport Department

Finance & Administration Division - Accounting Section

Mary Soo
Principal Accountant

Laura Luu
Senior Accountant

Elsa Jacobo
Senior Accountant

Cristina Benninghouse
Senior Accountant

Ivan Dela Cruz
Senior Accountant

Kristy Tricoli
Accountant II

Corrie Santo
Accounting Technician

Peter Romero
Accounting Technician

Lanie Prestosa
Accounting Technician

Janet Kuang
Senior Account Clerk

Claudia Molina
Senior Account Clerk

Jackie Kupitz
Senior Account Clerk

Special Assistance

Bonnie Cromartie, Finance & Administration Division

Stephanie Fong, Finance & Administration Division

Danielle Kenealey, City Attorney's Office

Kevin Fisher, City Attorney's Office

Cary Greene, Planning & Development Division

Steve McChesney, Public Works Department

INTRODUCTORY

Super Bowl 50 was held at Levi's® Stadium in Santa Clara, CA, located just 3 miles from the Airport. The Airport hosted the arrival of the Super Bowl 50 participating teams - the AFC Champion Denver Broncos and the NFC Champion Carolina Panthers – and also welcomed their friends, families, and fans.

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, 2016

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, 2016

Table of Contents

GEO LOCATOR MAP

Norman Y. Mineta San José International Airport

San José, California

A Department of the City of San José

Fiscal Years Ended June 30, 2016 and 2015

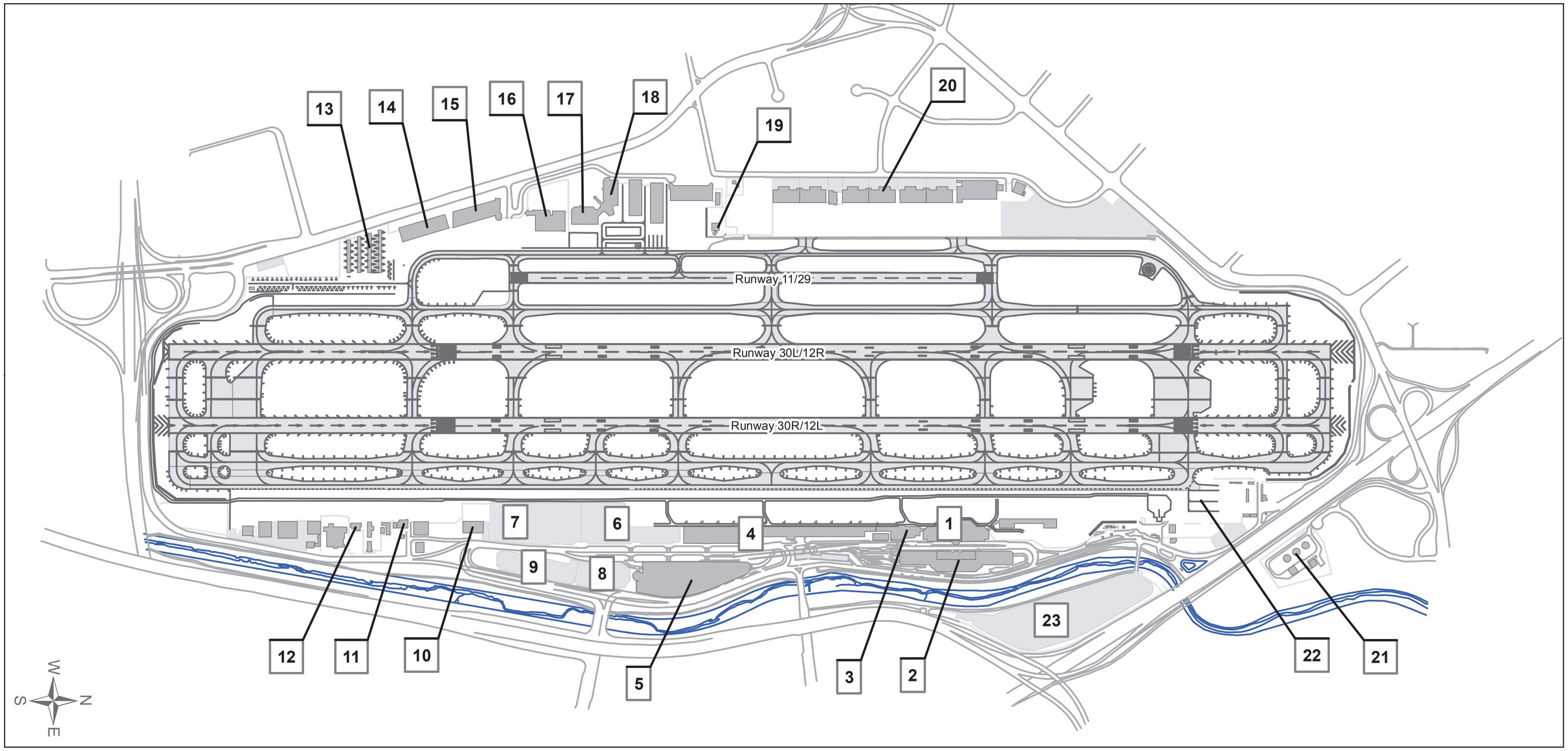
Primary Service Area
Secondary Service Area
Norman Y. Mineta San José International Airport

Reduced View of Service Areas

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. GA West
14. AvBase Aviation
15. ACM
16. HP Aviation
17. FAA-FSDO
18. Atlantic San José (Fueling & Transient Services)
19. FAA Air Traffic Control Tower
20. Signature Flight Support
21. Fuel Farm Location
22. North Air Cargo
23. Economy Lot 1

LOCATOR MAP

September 2016

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

November 17, 2016

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 years ended June 30, 2016 and 2015, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport's management. We believe the data, as presented, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of the Airport, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport's financial affairs have been included.

This transmittal letter provides a non-technical summary of the Airport's background, economic condition and outlook, and major initiatives. Management's Discussion & Analysis (MD&A) is contained in the Financial Section of the CAFR and provides readers with a more detailed discussion of the Airport's financial results.

The annual audit of Airport funds was completed by the independent firm of Grant Thornton LLP, Certified Public Accountants for the fiscal year ended June 30, 2016. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Uniform Guidance for federal awards. The Airport's federal awards programs are included in the City-wide Single Audit Report. The auditor's report on the Airport's financial statements is included in the Financial Section of this report.

This CAFR is organized into four sections:

- The Introductory Section is intended to familiarize the reader with the economic condition of the Airport, the Airport's major accomplishments, and the Airport's plans for the future.

- The Financial Section includes MD&A, Basic Financial Statements, Notes to Basic Financial Statements, and Required Supplementary Information. This section also contains the Independent Auditor's Report on the Basic Financial Statements.

- The Statistical Section presents up to ten years of detailed statistical data on the Airport's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

- The <u>Bond Disclosure Section</u> provides detailed information in accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for specific Airport Revenue Bonds.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.[1] The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub airport, primarily providing domestic origin-destination (O&D) service with increasing levels of international service. The Department's mission is to connect, serve, and inspire.

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

ECONOMIC CONDITION AND OUTLOOK

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

Passenger levels at the Airport are close to the pre-recession levels of fiscal year (FY) 2008. Airport management closely monitors its operating budget costs and continues to look for ways to increase non-airline revenues. In addition, the Airport has an objective of maintaining a competitive cost per enplaned passenger (CPE). The CPE was $9.60 in FY 2015 and $10.48 in FY 2016. The CPE is estimated to be $10.90 for FY 2017 based on a number of assumptions which may or may not materialize.

Since FY 2013, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 10.2 million passengers traveling through the Airport and passenger traffic growth of 6.9% for FY 2016.

The City and the Airport continue to work with the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce to help attract new airlines and routes. In an effort to attract new airlines and routes, the Airport and airports across the nation have been developing and enhancing air service support programs. These support programs are so common among airports that the Federal

[1] The San José City Charter was put into effect in May of 1965.

Aviation Administration (FAA) has published guidelines that airports should follow in order to comply with rules and regulations for use of airport revenue. The Airport continues to offer several air service support programs to promote the development of new passenger air service at the Airport. The current airline support program provides for the waiver of landing fees for airlines providing service to a new airport destination for a specified period of time, with a minimum frequency of three times weekly nonstop service for twelve consecutive months or four consecutive months for international seasonal service. In addition, new carriers are given a waiver of eligible terminal fees for the same duration as the landing fee waiver. The program also provides for marketing funds ranging from $25,000 to $600,000, depending on the type of new service provided. The program is a two year incentive that is implemented over a period of between one and two and a half years (the Incentive Period). The terms and conditions of the airline support program can be modified at any time by the City Council.

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

The current Airline Lease Agreement expires on June 30, 2017. Negotiations for a new agreement with the airlines are currently underway.

Population and Income

The City is the county seat of Santa Clara County. It is the tenth largest city in the United States and the third largest in California behind Los Angeles and San Diego. According to the California Department of Finance estimates, San José has an estimated population of 1,042,094 as of January 1, 2016, reflecting a growth of 1.2% over the prior year. San José is located in the Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 1.3% from 2015 to 2016, with the population increasing to 1,927,888 as of January 1, 2016. The six counties comprising the primary service area for the Airport grew 1.1% from 2015, in line with the State growth rate of 0.9%. In total, the population of the primary service area increased by 54,952 from the prior year and accounts for 13% of the State's population.[2]

The per capita income information described below is the information available from the U.S. Bureau of Economic Analysis as updated on November 19, 2015. 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.

[2] *California Department of Finance*

According to the U.S. Bureau of Economic Analysis, in 2014 Santa Clara County had a PCPI of $74,883 and was 150% of the state average of $49,985, 163% of the national average of $46,049, and 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 (in Thousand Dollars) 2013	2014	% Change 2013-2014	Per Capita Personal Income (Dollars) 2013	2014	% Change 2013-2014	2014 Rank
Santa Clara	$133,654,835	$141,873,705	6.1%	$71,431	$74,883	4.8%	4
Alameda	85,173,987	90,631,392	6.4%	53,798	56,261	4.6%	8
San Mateo	64,281,690	68,013,899	5.8%	85,653	89,659	4.7%	3
Monterey	19,184,636	19,889,054	3.7%	44,707	46,109	3.1%	19
Santa Cruz	13,456,565	14,209,814	5.6%	49,942	52,280	4.7%	12
San Benito	2,279,346	2,417,263	6.1%	39,576	41,486	4.8%	30
California	$1,849,505,496	$1,939,527,656	4.9%	$48,125	$49,985	3.9%	
United States	$14,064,468,000	$14,683,147,000	4.4%	$44,438	$46,049	3.6%	

Per capita income increased by 4.8% from 2013 in Santa Clara County compared to an increase of 3.9% and 3.6% for California and the nation, respectively.[3]

Employment

Employment levels in Santa Clara County have increased steadily since 2007 and as of June 2016 are reported at over 1 million. Likewise, the unemployment rate in Santa Clara County is trending downwards since 2009. Santa Clara County's unemployment rate as of June 2016 was 4.0% with 42,000 unemployed, a decrease of about 0.1%, compared to June 2015.[4] Santa Clara County's unemployment rate of 4.0% was lower than the 5.7% and 5.1% unemployment rates for California and the U.S., respectively.[5]

Norman Y. Mineta San José International Airport: Passenger and Air Traffic

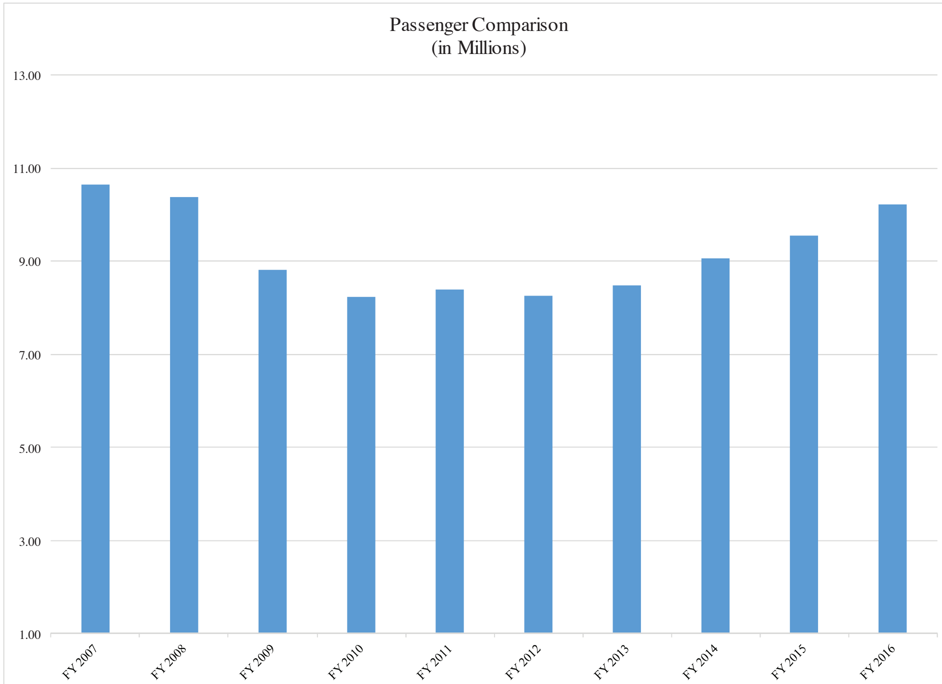
The Airport is classified as a medium-hub airport by the FAA and ranked as the 45th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2015. As of June 30, 2016, 12 carriers provided scheduled passenger service to 35 destinations, including seven mainline carriers and five international carriers. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

For FY 2016, the Airport enplaned and deplaned 10.2 million passengers, which represents an increase of 6.9% from the previous fiscal year.

---

[3] *U.S. Department of Commerce, Bureau of Economic Analysis*
[4] *Employment Development Department – State of California*
[5] *Employment Development Department – State of California*

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



For FY 2016, the Airport experienced an overall increase of 3.3% in traffic operations due to gains in the following categories: passenger carrier (an increase of 4,182 or 4.5%), cargo carrier (an increase of 114 or 7.6%), and military (an increase of 46 or 21.6%).

Airport Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the Master Plan). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (ALP) displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo, and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program, which collectively comprise improvements to the Airport's terminal facilities, roadways, parking facilities, and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program (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) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based facility development is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

Construction of the Phase 1 projects was substantially complete in FY 2011. The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B 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. An additional program element of Phase 1 that was completed in FY 2014 included the final phase of the Taxiway W extension project. The Phase 1 projects also included design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers.

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

MAJOR INITIATIVES

The Airport's mission is to connect, serve, and inspire. The vision of the Airport is to transform how Silicon Valley travels. This vision will be used by the Airport as a guide for making decisions to support the future needs of the traveling public.

Highlights of the Airport's activities and accomplishments for the FY ended June 30, 2016, include the following:

- <u>Air Service Development</u>

  The Airport grew from 31 to 40 announced nonstop destinations. New flights include both international and domestic routes:

  <u>International:</u>
  International enplanements grew 39.1% in FY 2016. With the addition of four new international carriers, the Airport now has seven international carriers and is providing service to the top five destinations requested by the local business community.

British Airways started offering new daily nonstop service between the Airport and London Heathrow International Airport beginning on May 4, 2016. London has been the No. 1 requested international destination at the Airport.

Air Canada began twice daily nonstop service to Vancouver, British Columbia on May 9, 2016.

In October 2015, Lufthansa Airlines announced that it will launch the first nonstop service, five times weekly, between the Airport and its largest hub of Frankfurt, Germany. Service between the two cities began on July 1, 2016.

In June 2016, Air China announced it will start offering nonstop service, three times weekly, to Shanghai, China beginning September 1, 2016.

Volaris added a second seasonal nonstop flight to Guadalajara, Mexico in December 2015.

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

Southwest Airlines added a second daily nonstop flight to Dallas Love Field on November 1, 2015 in response to increased demand from Silicon Valley travelers. In addition, Southwest Airlines will start new daily service to Baltimore and twice daily service to Salt Lake City in November 2016.

Delta Airlines began three times daily nonstop service from the Airport to Las Vegas, Nevada in December 2015. Delta added capacity to Los Angeles and Salt Lake City during FY 2016. In June 2016, Delta added a second daily nonstop flight to Atlanta, with a third flight to Atlanta announced for service beginning in April 2017.

Alaska Airlines began daily nonstop service to Eugene, Oregon on November 5, 2015. Alaska started three times daily nonstop service to San Diego and Orange County in June 2016. Alaska also announced nonstop daily service to Newark and three times daily service to Burbank beginning in March 2017.

In August 2016, United announced nonstop daily service to Newark and twice daily service to Chicago starting in March 2017.

American Airlines added seasonal nonstop service to Charlotte on June 3, 2016 and increased capacity to Dallas Fort Worth and Los Angeles in the first quarter of 2016.

Jet Blue announced service to Long Beach, four times daily, starting in January 2017.

- Airport Perimeter Security Technology Funding

In September 2016, the Airport was awarded over $8.1 million in federal funding to enhance the Airport's security program. The federal grant is administered by the U.S. Department of Transportation and the FAA, and will fund the design, purchase, and installation of surveillance technologies in targeted areas inside the perimeter fence line in FY 2017.

- Funding for Rehabilitation of the Southeast Aircraft Parking Apron

  In September 2016, the Airport was awarded $7.2 million in federal funding for the Airport to rehabilitate 200,000 square feet of an asphalt apron used for parking commercial, charter, and cargo aircraft in the southeast airfield area. The federal grant is administered by the U.S. Department of Transportation and the FAA.

- Customs and Border Protection (CBP) Section 559 Program

  Section 559 of the Consolidated Appropriations Act, 2014 granted CBP the authority to conduct a five-year pilot program under which CBP may enter into agreements with private sector and government entities for certain reimbursable services. The program offers airports, seaports, and land crossing the opportunity to increase customs coverage by adding more CBP staff on an overtime basis, the cost of which is reimbursed by the entry point agency. This is the third year of the program, which selects five applicant airports per year to participate. This year, the Airport was one of the five airports selected. The program is expected to begin at the Airport in the fall of 2016 and will be funded by the international airlines.

- SJC – Silicon Valley's Airport

  The Airport is partnering with the airlines on marketing campaigns for the new domestic and international flights. These campaigns have focused on communicating the businesses and tourist destinations that are within close proximity to the Airport. For example, Levi's Stadium, home of the San Francisco 49ers, opened in July 2014 and is located just three miles from the Airport. Super Bowl 50 was hosted on February 7, 2016 at Levi's Stadium and continued to drive awareness of the fact that the Airport is in the heart of the Silicon Valley. Signature Flight Support, a global leader in fixed base operations completed the 29-acre Signature San José facility at the Airport in time for the event and generates over $3 million in annual revenue for the Airport. The opening of Avaya Stadium in February 2015 across the street from the Airport's west side is home of major league soccer's San José Earthquakes. Avaya Stadium has also helped increase the awareness of the traveling public that the Airport is in Silicon Valley and is within 18 miles of numerous technology companies, including Apple, Google, Cisco, Facebook, LinkedIn, and Hewlett-Packard.

OUTLOOK FOR THE FUTURE

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

The Airport seeks policy direction from the Council Committee for Community and Economic Development to drive economic improvements that benefit the community. In addition, the Airport works in partnership with various City departments, such as the Department of Transportation, Police, Public Works, and seeks policy direction from the Council Committee for Transportation and Environment to improve the transportation systems to benefit the residents of San José. These partnerships allow the Airport to focus coordination efforts on critical business development and to transform how Silicon Valley travels.

Due to the strong passenger growth over the past four years, FY 2016 total enplaned passengers are just below pre-recession levels of FY 2008. While the Airport continues to carefully manage expenditures due to the high debt service costs, additional consideration is directed toward increasing revenue generation prospects and programs, growing and retaining passengers, and developing non-aviation revenue opportunities. The Airport is actively collaborating with the City's Office of Economic Development as well as local business groups like the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce to pursue air service development opportunities and customer service enhancements. The wide variety of strategic efforts to increase revenue sources is critical to enhance the Airport's resiliency and adaptability to the ever changing aviation industry environment. With increasing passenger levels, careful management of expenditures, and efforts to increase non-airline revenues, the Airport has a goal of keeping the airline cost per enplaned passenger CPE at a competitive level with other airports.

The FY 2017 Adopted Budget contains funding for several programs to increase Bay Area market share of passengers and recruit new air service. As the Airport has elevated its global status with the addition of new international carriers and new transcontinental and expanded flights by long-time airline partners, inbound travelers are a primary target audience. Marketing funds are concentrated on educating those traveling from new destinations, such as Asia, Europe, India, and the eastern part of the United States to the Bay Area about the Airport, and its proximity to Silicon Valley and Northern California's most popular tourist destinations. Funding to continue passenger marketing programs started in FY 2014 is included and targets passenger retention and growth through radio, print and digital advertisements, large scale placement of billboards, digital displays, and social media messages. Airport Service Quality program membership is providing survey data about the Airport and performance comparisons to airports worldwide. Results provide insight into key areas to concentrate resources for improving passengers' experiences at the Airport. Additionally, funding for air service development consultants provides data analysis, revenue forecasting, presentation preparation, and general support at networking conferences and headquarter meetings with airlines. Air service development staff works in tandem with the consultants to maximize opportunities in recruiting new airlines and bringing new service to the Airport.

The FY 2017 Budget also includes funding increases for cost of living adjustments to existing agreements, gas and electric utility adjustments, consultants to develop the three-year Airport Concessions Disadvantaged Business Enterprise (ACDBE) plan and recommend best practices for the future concessions program as well as salary and benefit changes.

Several capital projects currently under development have also been determined to be key elements to the Airport's vision of transforming how Silicon Valley travels. To accommodate the large increase in international air traffic, the Airport is adding a second baggage carousel for the Federal Inspection Services (FIS) facility. The FIS facility will also be enhanced by enclosing the front of the facility and adding customer friendly amenities for arriving passengers and those waiting to receive the arriving passengers.

Conservative budget and fiscal policies have led to a surplus for FY 2016. Computed pursuant to the Airline Lease Agreement, Airport's revenues exceeded its expenses and other reserve requirements for the FY ended June 30, 2016 by $37.1 million. This was approximately $12.7 million greater than the $24.4 million anticipated and utilized in the preparation of the Adopted FY 2017 Rates and Charges. The additional $12.7 million surplus will assist in balancing the budget and establishing a capital fund for the Phase 2 terminal expansion in future years.

The Airport recently completed a Strategic Plan, which defines a common purpose for the organization, establishes a 10-year vision, and creates goals, objectives, action plans and performance measures to realize the full potential of the Airport, both as a primary economic driver of the Silicon Valley economy and as a community asset representing the best of San José's local culture and lifestyle. The Strategic Goals are as follows:

- Drive Growth
- Innovate
- Fund the Future
- Reinvent the Organization

The Airport's FY 2017-2021 Adopted Capital Improvement Program (CIP) contains projects reflecting all of the Airport's strategic priorities. Recent announcements of direct flights with British Airways, Lufthansa, Air Canada, Air China, and other long-haul domestic flights demonstrate significant achievements. It is important that the Airport continue to support all of the airlines and the success of the flights by improving safety and security, leveraging technology, maintaining infrastructure, and providing a favorable environment for sustained growth.

The FY 2017-2021 Adopted CIP budgets funding of $218.8 million primarily for projects and debt service, of which $78.0 million is allocated to FY 2016-2017. The majority of the $122.4 million five-year total funding is set aside to pay debt service on outstanding bonds. A total of $4.0 million is allocated to general non-construction activities, leaving $92.4 million for capital construction over the next five years.

Program highlights of the Airport's FY 2017-2021 Adopted CIP are as follows:

- $15.0 million for the Airfield Geometric Implementation is the second stage of a multi-year project. The goal of the project is to implement changes to airfield geometry to comply with FAA regulations and new design standards identified in the Airfield Geometric Study project. This project is important to maximize airfield safety through facility design and reconfiguration improvements.

- $8.9 million for the Southeast Ramp Reconstruction provides for the reconstruction of the cargo ramp pavement in the southeast quadrant of the Airport. The southeast area of the Airport is undergoing a full analysis and evaluation of the best use of space. Current actions to prepare and rehabilitate pavement in the area are expected to allow faster implementation of future uses. This project has received FAA grant funding of $7.2 million and represents a significant expenditure illustrated in the Airfield Facilities spending category.

- $10.5 million for Terminal B Gates 29 & 30 provides for the addition of two new jet bridges and gate systems to increase gate capacity, accommodate airline growth, and expanded flight services. This project is important for the growth of the airport and enables airlines to expand their flight services. The Terminal B Gates 29 & 30 project represents a significant expenditure in the Passenger Terminal Facilities expenditure category.

- Airport Rescue and Fire Fighting (ARFF) Facility upgrades provide for renovation of the existing facility to include a larger training area, additional sleeping quarters, and additional vehicle bays. A recent change to comply with federal requirements resulting from up-gauge in aircraft types, and new international flights with wide-body aircraft requires additional staff and activation of a third apparatus. Additionally, replacement of two ARFF vehicles has received FAA grant funding and further supports safety and security.

- $10.1 million for the installation of Perimeter Security Technology upgrades has received FAA grant funding of $8.1 million to install surveillance technologies in targeted areas inside the perimeter fence line. The integrated systems will provide for coordinated responses to incidents and further enhance the Airport's security program.

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 the federal award program for Passenger Facility Charges (PFCs) and the state program for Customer Facility Charges (CFCs), and whether the Airport has complied with all applicable laws and regulations. The City's Single Audit for the year ended June 30, 2016 is still in progress.

The Airport was authorized to impose PFCs effective September 1, 1992. Legislation authorizing the collection of PFCs prescribes reporting and control requirements and restricts the use of PFC revenue to the acquisition of specified assets or payment of PFC eligible debt service.

Pursuant to California Civil Code 1936, the Airport has been authorized to require rental car companies to collect from a renter a CFC since May 2000. CFC revenues may be used to pay the reasonable costs to finance, design, and construct the ConRAC and to finance, design, construct and provide the ConRAC Transportation System.

Budgetary Controls

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

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

The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of the Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending. Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget. For budget purposes, expenses are recognized in the year encumbered. For financial statement purposes, expenses are recognized when incurred.

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

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

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the FY ended June 30, 2015. This was the nineteenth 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 Grant Thornton LLP should also be acknowledged as a significant contributor to a fine product.

Respectfully submitted,

Kimberly J. Becker
Director of Aviation

Kim Hawk
Deputy Director
Finance and Administration Division

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Norman Y. Mineta

San Jose International Airport

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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

ELECTED OFFICIALS:

Sam Liccardo	Mayor
Charles Jones	Council Member, District 1
Ash Kalra	Council Member, District 2
Raul Peralez	Council Member, District 3
Manh Nguyen	Council Member, District 4
Magdalena Carrasco	Council Member, District 5
Pierluigi Oliverio	Council Member, District 6
Tam Nguyen	Council Member, District 7
Rose Herrera	Council Member, District 8
Donald Rocha	Council Member, District 9
Johnny Khamis	Council Member, District 10

AIRPORT COMMISSION:

Julie Riera Matsushima	Member
E. Ronald Blake	Member
AJ Borade	Member
Dan Connolly	Member
Tom Cruz	Member
Raymond Greenlee	Member
Catherine Hendrix	Member
R. William Highlander	Member
Stephen McMinn	Member
Mark Schmidt	Member
Richard Terrill	Member
Raul Peralez	Council Member, Airport Liaison

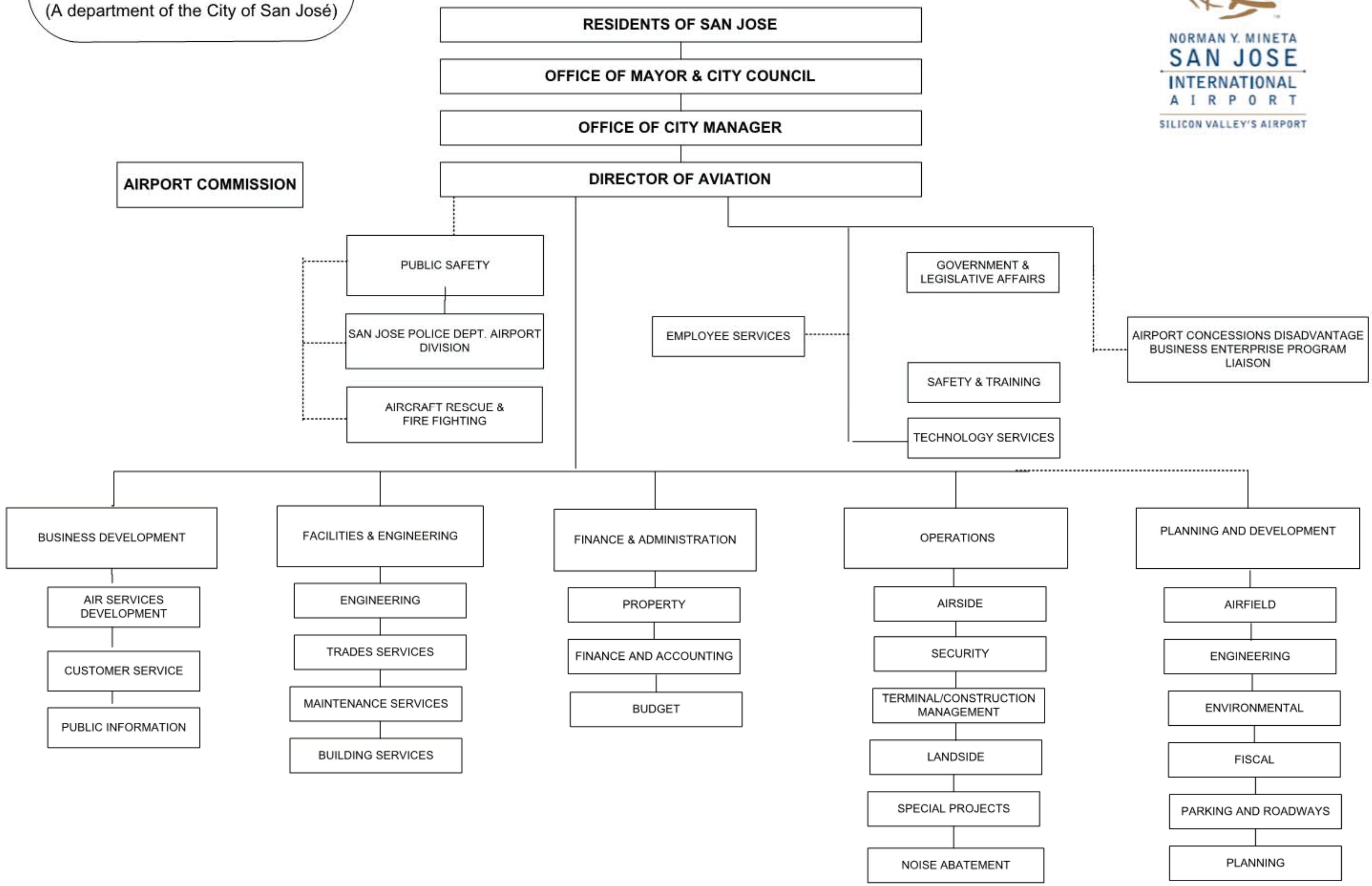
CITY OFFICIAL

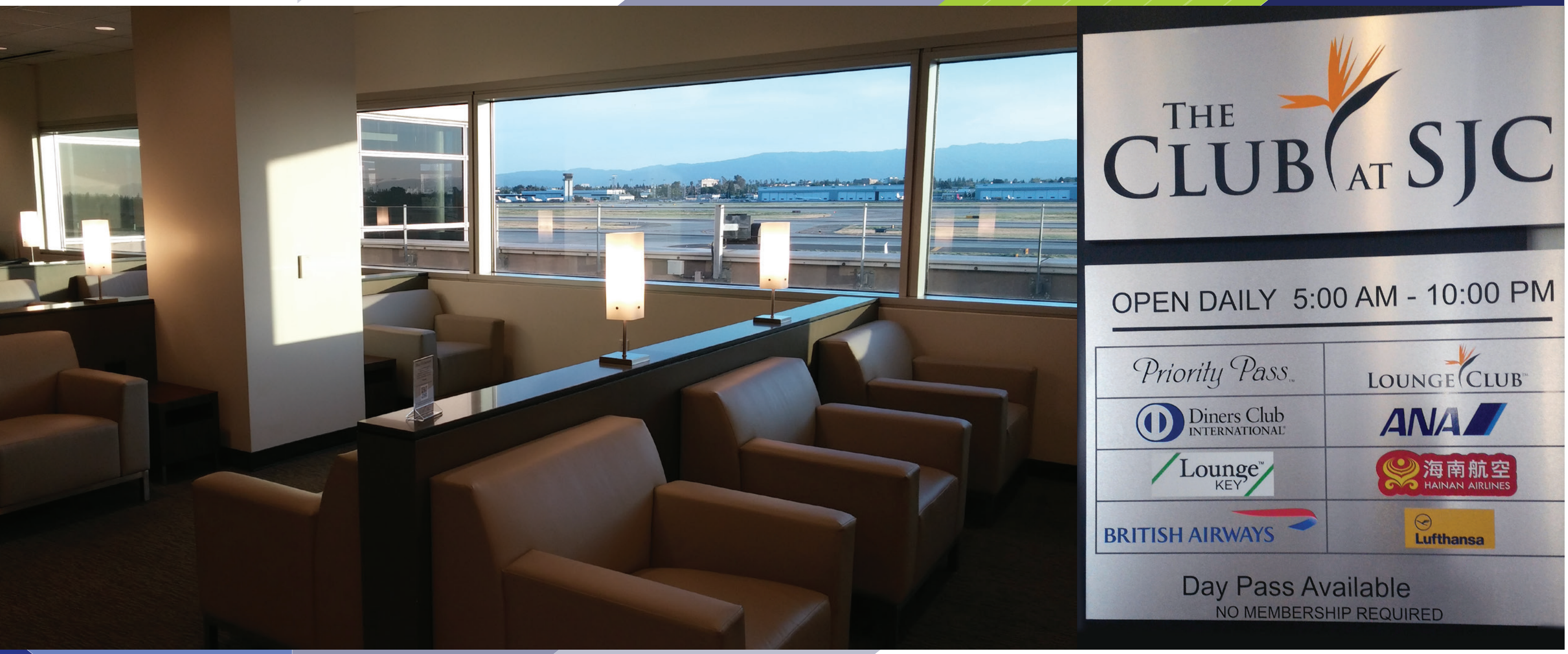
Norberto Dueñas	City Manager

AIRPORT DEPARTMENT:

Kimberly J. Becker	Director of Aviation
John Aitken	Assistant Director of Aviation
Robert Lockhart	Deputy Director, Operations
Kim Hawk, CPA	Deputy Director, Finance & Administration
Patrick R. Tonna	Deputy Director, Facilities & Engineering
Judy Ross	Deputy Director, Planning & Development
Vacant	Deputy Director, Business Development
Lieutenant Alex T. Nguyen	San José Police Dept. – Airport Division

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





FINANCIAL

For the second consecutive year, The Club at SJC received the recognition of "Best Attitude & Service from Lounge Staff" in the Priority Pass Lounge of the Year Awards. The Club welcomes all travelers and is located in Terminal A, across from gate 15, on the 3rd level.

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

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
150 Almaden Blvd., Suite 600
San Jose, CA 95113

T +1 408 275 9000
F +1 408 275 0582
www.GrantThornton.com

Honorable City Council
City of San Jose, California

Report on the financial statements

We have audited the accompanying financial statements of the Norman Y. Mineta San José International Airport (the "Airport"), a department of the City of San José, California (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2016, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a matter

Basis of Presentation

As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position and, where applicable, 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, 2016, the changes in its financial position, or, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

The financial statements of the Norman Y. Mineta San José International Airport as of and for the year ended June 30, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated November 13, 2015.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the schedule of the proportionate share of the net pension liability and schedule of contributions identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

Other information

The introductory, statistical and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 17, 2016, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Grant Thornton LLP

San Jose, California
November 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Airport CAFR presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2016 and 2015.

AIRPORT ACTIVITIES HIGHLIGHTS

A total of approximately 10.2 million passengers traveled through the Airport in FY 2016 compared to approximately 9.6 million in FY 2015, resulting in passenger traffic growth of 6.9%. The Airport experienced an increase in passenger traffic of 5.4% in FY 2015 and of 6.8% in FY 2014.

British Airways started offering daily service to London starting on May 4, 2016, and Air Canada began two nonstop flights daily to Vancouver, Canada on May 9, 2016. Lufthansa Airlines started five times weekly service to Frankfurt beginning July 1, 2016. Air China began three times per week service to Shanghai, China starting on September 1, 2016.

As of June 30, 2016, Airport carriers served 35 nonstop markets with 162 peak daily departures compared to 31 nonstop markets with 146 peak daily departures as of June 30, 2015 and 29 nonstop markets with 143 peak daily departures as of June 30, 2014.

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

	2016	2015	2014
Flight operations	131,561	127,417	122,351
	3.3%	*4.1%*	*1.5%*
Landed weight by passenger (in pounds)	6,113,904	5,628,460	5,536,593
	8.6%	*1.7%*	*6.2%*
Landed weight by cargo carriers (in pounds)	266,344	236,706	235,002
	12.5%	*0.7%*	*(5.3%)*
Total enplaned and deplaned passengers	10,213,261	9,554,866	9,063,012
	6.9%	*5.4%*	*6.8%*
Enplaned passengers	5,087,705	4,765,001	4,517,021
	6.8%	*5.5%*	*6.7%*
Deplaned passengers	5,125,556	4,789,865	4,545,991
	7.0%	*5.4%*	*6.9%*
Domestic passengers	9,728,689	9,205,030	8,734,157
	5.7%	*5.4%*	*5.7%*
International passengers	484,572	349,836	328,855
	38.5%	*6.4%*	*47.4%*
Cargo tonnage (in tons)	58,212	52,003	51,765
	11.9%	*0.5%*	*19.9%*
Parking (vehicles) exits	1,054,534	1,051,971	1,042,142
	0.2%	*0.9%*	*4.6%*

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

FINANCIAL HIGHLIGHTS

The Airport posted a decrease in net position for the 2016 fiscal year.

- Operating revenues increased by 12.7% from $126.0 million in 2015 to $142.0 million in 2016.

- Operating expenses before depreciation and amortization increased by 9.5% from $71.1 million in 2015 to $77.9 million in 2016.

- Operating income before depreciation and amortization increased by 16.8% from $54.8 million in 2015 to $64.0 million in 2016.

- Depreciation and amortization decreased by 2.9% from $53.4 million in 2015 to $51.9 million in 2016.

- The above resulted in an operating income before nonoperating revenues and expenses of $1.4 million in 2015 and $12.2 million in 2016.

- Nonoperating expenses, net of nonoperating revenues, decreased 20.5% from $32.6 million in 2015 to $25.9 million in 2016.

- Capital contributions received in the form of grants from the federal government increased from $0.9 million in 2015 to $5.8 million in 2016.

- Net position shows a decrease of $8.0 million in 2016 compared to a decrease of $98.1 million in 2015. This was primarily attributed to an increase in operating income, decreases in net nonoperating expenses, increases in capital contributions, and changes in accounting principle resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71.

In addition, the Airport shows a decrease in net position for the 2015 fiscal year.

- Operating revenues increased by 0.2% from $125.7 million in 2014 to $126.0 million in 2015.

- Operating expenses before depreciation and amortization decreased by 0.7% from $71.6 million in 2014 to $71.1 million in 2015.

- Operating income before depreciation and amortization increased by 1.4% from $54.1 million in 2014 to $54.8 million in 2015.

- Depreciation and amortization decreased by 1.1% from $54.0 million in 2014 to $53.4 million in 2015.

- The above resulted in an operating income before nonoperating revenues and expenses of $40,000 in 2014 and an operating income before nonoperating revenues and expenses of $1.4 million in 2015.

- Nonoperating expenses, net of nonoperating revenues, decreased from $37.9 million in 2014 to $32.6 million in 2015.

- Capital contributions received in the form of grants from the federal government decreased from $4.8 million in 2014 to $0.9 million in 2015.

- Net position shows a decrease of $98.1 million in 2015 compared to a decrease of $33.0 million in 2014. This was primarily attributed to decreases in net nonoperating expenses, a decrease in capital contributions, and changes in accounting principle resulting from the implementation of GASB Statement Nos. 68 and 71.

HIGHLIGHTS IN CHANGES IN NET POSITION

The following table reflects a condensed summary of the changes in net position (in thousands) for fiscal years ended June 30, 2016, 2015 and 2014 (2014 has not been restated for GASB Statement Nos. 68 and 71, because amounts are not available):

	2016	2015	2014
Operating revenues	$ 141,953	125,981	125,710
Operating expenses before depreciation and amortization	(77,907)	(71,136)	(71,643)
Operating income before depreciation and amortization	64,046	54,845	54,067
Depreciation and amortization	(51,864)	(53,437)	(54,027)
Operating income (loss)	12,182	1,408	40
Nonoperating revenues and expenses, net	(25,911)	(32,594)	(37,873)
Loss before capital contributions	(13,729)	(31,186)	(37,833)
Capital contributions	5,760	937	4,843
Decrease in net position	(7,969)	(30,249)	(32,990)
Net position - beginning, as previously reported	201,791	299,913	332,903
Restatement due to implementation of GASB Statement Nos. 68 and 71	-	(67,873)	-
Net position - beginning, as restated	201,791	232,040	332,903
Net position - ending	$ 193,822	201,791	299,913

NET POSITION SUMMARY

Net position serves over time as a useful indicator of the Airport's financial position. The Airport's assets plus deferred outflows of resources exceed liabilities plus deferred inflows of resources by $193.8 million, $201.8 million, and $299.9 million at June 30, 2016, 2015 and 2014, respectively, an $8.0 million decrease from June 30, 2015 to June 30, 2016 and a $98.1 million decrease from June 2014 to June 30, 2015.

A condensed summary of the Airport's net position (in thousands) at June 30, 2016, 2015, and 2014 is as follows (2014 has not been restated for GASB Statement Nos. 68 and 71, because amounts are not available):

	2016	2015	2014
Assets:			
Unrestricted assets	$ 141,687	120,652	102,551
Restricted assets	208,075	219,686	252,068
Capital assets	1,312,671	1,353,462	1,402,239
Other assets	9,445	9,717	11,126
Total assets	**1,671,878**	**1,703,517**	**1,767,984**
Deferred outflows of resources:			
Deferred pension contributions	15,145	7,103	-
Loss on refundings of debt	3,326	3,385	626
Total deferred outflows of resources	**18,471**	**10,488**	**626**
Liabilities:			
Current liabilities – unrestricted	46,379	47,537	48,993
Current liabilities payable from restricted assets	50,432	48,957	49,479
Noncurrent liabilities	1,399,343	1,406,991	1,368,851
Total liabilities	**1,496,154**	**1,503,485**	**1,467,323**
Deferred inflows of resources:			
Deferred differences related to pension assumptions	-	7,933	-
Gain on refundings of debt	373	796	1,374
Total deferred inflows of resources	**373**	**8,729**	**1,374**
Net position:			
Net investment in capital assets	95,800	126,350	169,870
Restricted	61,308	56,752	67,848
Unrestricted	36,714	18,689	62,195
Net position	**$ 193,822**	**201,791**	**299,913**

The increase in noncurrent liabilities as of June 30, 2015, was largely attributable to the recognition of a $64.6 million net pension liability to better comprehensively and comparably measure the pension obligations as required by GASB Statement No. 68. In FY 2016, the net pension liability increased by $16.7 million, but was offset by a $23.7 million decrease in bonds payable due to outstanding principal payments.

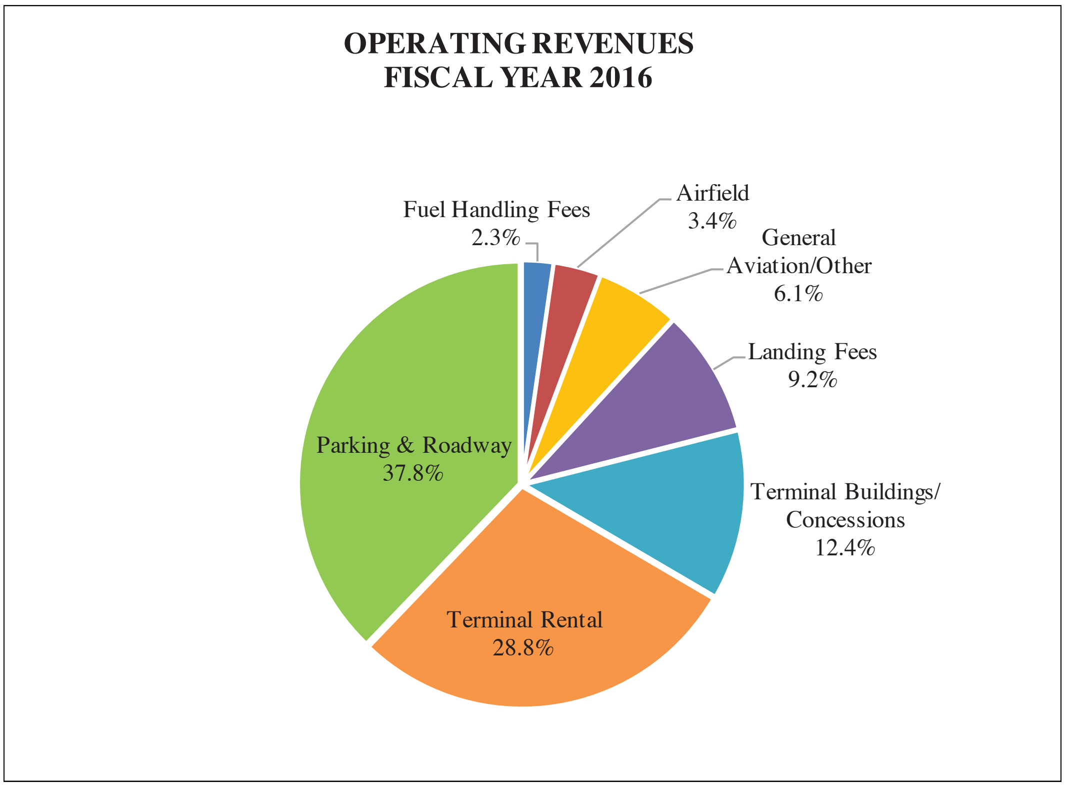
Detailed information about the employees' retirement system can be found in Note 7 to the financial statements.

The largest portion 49.4%, 62.6%, and 56.6% of the Airport's net position at June 30, 2016, 2015, and 2014, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred inflows and outflows associated with that debt. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending.

A portion of the Airport's net position represents amounts that are subject to restrictions under the Airline Lease Agreement, the Master Trust Agreement, the rental car agreement, and PFCs and CFCs that are restricted by Federal regulations and California Civil Code §1936, respectively.

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2016:



As illustrated in the above chart, parking and roadway revenue represents 37.8% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the ConRAC located at the Airport. Facility rent for the ConRAC is calculated under the terms of the rental car agreement. An amount equal to the sum of annual debt service and coverage amounts and reserve fund requirements, less estimated CFC revenues, is allocated to each rental car company based upon that company's percentage occupancy of the ConRAC. In addition, each rental car company's share of operating costs for the transportation system and the cost to demolish the previous temporary common use rental car facility is charged to each of the rental car companies. In the event that CFC revenues exceed the sum of annual debt service plus coverage amounts and reserve fund requirements, each rental car company's share of any such CFC revenues will be deducted from its share of operating costs for the transportation system. In the event that CFC revenues remain after CFC revenues are deducted from each company's share of operating costs for the transportation system, the City may, in its sole discretion, deduct each rental car company's share of any such CFC revenues from its share of demolition costs, as calculated under the terms of the rental car agreement. As of June 30, 2016, no CFC revenues have been applied toward transportation costs or demolition costs. The City had previously determined that it should identify the specific rental car customers who used the transportation system in order to apply the CFC revenues to cover transportation costs. However, upon further consultation with the rental car companies, the City and the rental car companies have agreed that the City may apply the CFC revenues to cover transportation costs, which are a component of CFC eligible ConRAC expenses, without first identifying the specific rental car customers who used the transportation system. Therefore, to the extent available, the City will apply CFC revenues to transportation costs starting in FY 2017. 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 28.7% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 12.4% of total operating revenues, include food and beverage, news and gift shops, advertising, and telephony fees. Fees for the use of the FIS facility and rental of space, other than airline space, are also included in this category.

Landing fees from passenger and cargo carriers represent 9.2% of the total operating revenues. General aviation/other revenues are 6.1% of total operating revenues and are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, fingerprinting fees, and fees for tenant plan reviews, which are calculated on a cost recovery basis. The remaining categories, airfield and fuel handling fees represent 3.4% and 2.3%, of the total operating revenues, respectively. The airfield area category is comprised of air carrier parking fees, fees from the in-flight kitchen services, 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.

A summary of revenues (in thousands) for the fiscal years ended June 30, 2016, 2015, and 2014 is as follows:

	2016	2015	2014
Operating revenues:			
Landing fees	$ 13,095	11,856	11,973
Terminal rental	40,800	34,372	38,130
Terminal buildings/concessions	17,576	16,271	15,423
Airfield	4,891	3,993	3,553
Parking and roadway	53,704	49,049	47,268
Fuel handling fees	3,226	3,257	3,170
General aviation/other	8,661	7,183	6,193
Total operating revenues	**141,953**	**125,981**	**125,710**
Nonoperating revenues:			
Passenger facility charges	20,603	19,291	18,161
Customer facility charges	19,888	18,690	15,493
Investment income (loss)	2,444	1,222	1,571
Operating grants	497	610	605
Other, net	1,902	806	614
Total nonoperating revenues	**45,334**	**40,619**	**36,444**
Capital contributions	5,760	937	4,843
Total revenues	**$ 193,047**	**167,537**	**166,997**

2016 versus 2015

June 2016 marked the 42nd straight month of consecutive passenger growth at the Airport. With the exception of fuel handling fees, all operating revenue categories showed increases over 2015. Total operating revenues increased by 12.7% from $126.0 million in 2015 to $142.0 million in 2016.

Landing fees increased 10.5% or $1.2 million due to the increase in landing fee rate from $2.09 to $2.13 per thousand pounds of the maximum gross landing weight and the increase year-over-year in landing weights from 5.9 million pounds to 6.3 million pounds.

Terminal rental revenues increased 18.7% or $6.4 million mainly due to the rate increase from $147.68 per square foot in 2015 to $162.74 per square foot in 2016. The terminal rental revenues also increased as a result of additional flights.

Terminal buildings/concessions posted an increase of 8.0% or $1.3 million primarily due to the increase in passenger activity. Airfield revenues increased by 22.5% or $0.9 million mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased activity by the airlines in 2016.

Parking and roadway revenues were up by 9.5% or $4.7 million. Substantial increases were experienced in ground transportation, public parking and rental car concessions reflective of the growth in passenger activity. Transportation network companies (TNCs) were authorized to start operating at the Airport in November 2015.

General aviation/other revenues rose by 20.6% or $1.5 million. The main contributor to this increase was the ground rent from Signature Flight Support, which completed the full service fixed base facility on the west side of the Airport. The increase can also be attributed to the land rental rate adjustments based on increases in appraised values and the consumer price index.

PFC revenues grew by 6.8% or $1.3 million reflective of the growth in passenger activity. Investment income in 2016 increased by 100% or $1.2 million to $2.4 million from 2015 mainly due to higher investment rates.

CFCs 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 the terminals and the ConRAC. CFC revenues trended 6.4% or $1.2 million higher than the prior year revenues. The increase was mainly attributed to the increase in passenger traffic.

The FY 2016 operating grants of $0.5 million pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at security checkpoints ($0.3 million) and the canine security grant from the TSA ($0.2 million). The total FY 2016 operating grants decreased $0.1 million from the prior year due to the expiration of the Bay Area Air Quality Management District grant related to compressed natural gas buses.

Other nonoperating revenues increased 136.1% or $1.1 million mainly due to the one time reimbursement from the California Plume Fund for clean-up of the old fuel farm underground storage tanks.

Capital contributions received during FY 2016 pertained to grant reimbursements from the FAA of $5.8 million mainly for the perimeter security fence line upgrades, runway pavement rehabilitation and construction of the taxiway to comply with federal regulations.

2015 versus 2014

June 2015 marked the 30th straight month of consecutive passenger growth at the Airport. With the exception of landing fees and terminal rentals, all operating revenue categories showed increases over 2014. Total operating revenues increased by 0.2% from $125.7 million in 2014 to $126.0 million in 2015.

Despite the overall increase in landed weights generated by the airlines, landing fees decreased from $12.0 million in 2014 to $11.9 million in 2015 primarily due to the decrease in landing fee rate from $2.22 to $2.09 per thousand pounds of the maximum gross landing weight. Terminal rental decreased from $38.1 million in 2014 to $34.4 million in 2015 despite a higher terminal rental requirement mainly as a result of surplus revenues carried over from the prior fiscal year. The incentive credits issued to airlines which participated in the Airport's incentive program also contributed to the decreases in landing fees and terminal rental.

Terminal buildings/concessions posted an increase of 5.5% or $0.8 million primarily due to the increase in rental rate for the non-airline space rents from $251.90 to $258.31 per square foot, increase in utilities cost recovery fees, and increase in passenger activity. Airfield revenues increased by 12.4% or $0.4 million mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased activity by the airlines.

Parking and roadway revenues were up by 3.8% or $1.8 million. Substantial increases were experienced in public parking and rental car concessions reflective of the growth in passenger activity. These increases were partially offset by the lower facility rents from rental car companies transportation costs from $2.8 million in 2014 to $2.5 million in 2015. Lower facility rents were required from the rental car companies as a result of reduced transportation costs.

General aviation/other revenues rose by 16.0% or $1.0 million. The main contributor to this increase was the interim ground rent from Signature Flight Support, which is constructing a full service fixed base facility on the west side of the Airport. The increase can also be attributed to the land rental rate adjustments based on increases in appraised values and the consumer price index.

PFC revenues grew by 6.2% or $1.1 million reflective of the growth in passenger activity. Investment income in 2015 decreased by about $0.3 million from 2014. Interest earnings in 2015 stayed level with the prior year at $1.1 million.

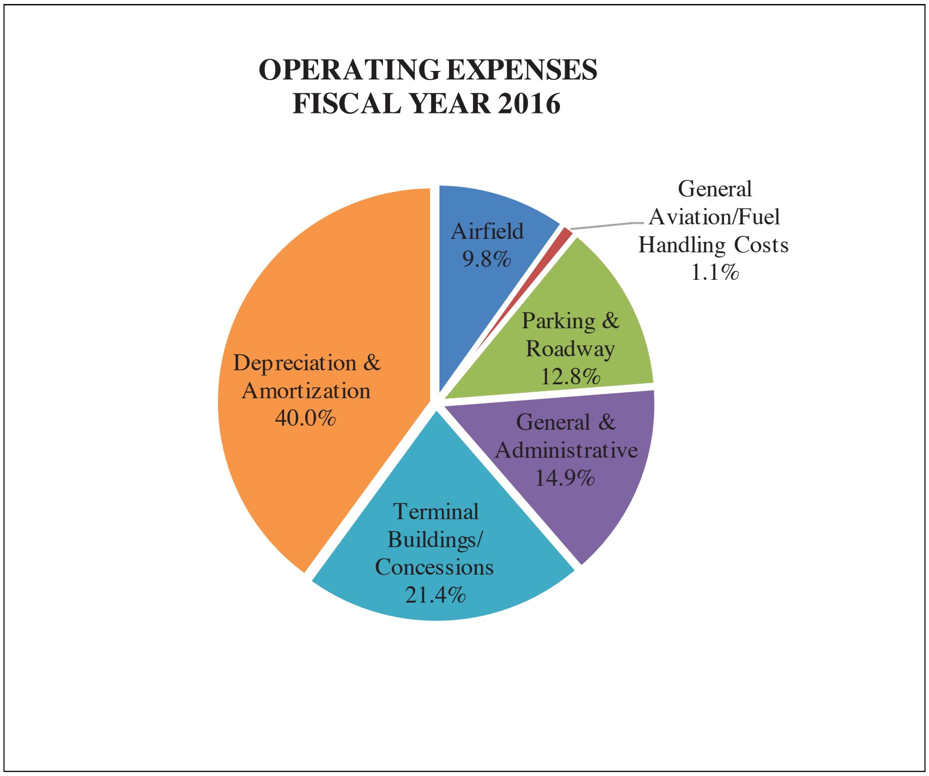
CFC revenues trended 20.6% or $3.2 million higher than the prior year revenues. The increase was mainly attributed to the increase in passenger traffic and the move to a new fee structure from $6 per day (up to a maximum of five days per car rental contract) to a $7.50 per day (up to a maximum of five days per car rental contract), which went into effect January 1, 2014.

The operating grants pertained to grant funds awarded by the TSA for the costs associated with the law enforcement officers at security checkpoints ($0.3 million), canine security grant from the TSA ($0.3 million), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses ($0.1 million).

Capital contributions earned during FY 2015 pertained to reimbursement from the FAA of $1.0 million mainly for the FIS sterile corridor.

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2016:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2016, 2015, and 2014 is as follows:

	2016	2015	2014
Operating expenses:			
Terminal buildings/concessions	$ 27,724	23,833	24,233
Airfield area	12,767	9,891	9,570
Parking and roadway	16,684	17,170	16,343
Fuel handling costs	(565)	28	11
General aviation	1,963	2,006	1,609
General and administrative	19,334	18,208	19,877
Depreciation and amortization	51,864	53,437	54,027
Total operating expenses	**129,771**	**124,573**	**125,670**
Nonoperating expenses:			
Interest expense	71,245	72,237	73,836
Bond issuance costs	-	976	-
Loss on capital assets disposal	-	-	481
Total nonoperating expenses	**71,245**	**73,213**	**74,317**
Total expenses	**$ 201,016**	**197,786**	**199,987**

2016 versus 2015

Operating expenses in 2016 increased 4.2% or $5.2 million from $124.6 million in 2015 to $129.8 million in 2016. Increases were experienced in overhead, fees charged by the City for police and firefighting services, and recognition of additional pension expenses due to the annual actuarial valuation of the Plan's assets. These were offset by the decrease in interest expense and bond issuance costs.

Overhead expense increased by 23.3% or $0.7 million due to the rate change from 17.9% in 2015 to 21.3% in 2016. Fees charged by the City for police and firefighting services went up by 24.8% or $2.3 million due to the expiration of the Staffing for Adequate Fire and Emergency Response (SAFER) grant in FY 2015, increases in salaries and associated benefits, overhead, and the overtime and training costs for Fire Department personnel.

Pension expense was $0.7 million in 2016 compared to ($2.4) million in 2015. The increase of $3.1 million over the prior year was a result of the annual actuarial valuation of the Plan assets. Interest expense in 2016 declined by 1.4% or $1.0 million compared to 2015 due to lower interest rates and a declining balance of the outstanding debt.

2015 versus 2014

Operating expenses in 2015 decreased from $125.7 million in 2014 to $124.6 million in 2015. Increases were experienced in nonpersonnel, overhead, and fees charged by the City for police and firefighting services. These were offset by reclassification of retirement contributions due to the implementation of GASB Statement Nos. 68 and 71 and a decrease in interest expense.

Nonpersonnel expenses posted an increase of 4.6% or $1.5 million over that of the prior fiscal year. The increase can be attributed to a variety of factors including increased electric utility costs and installation of a new ground transportation system. Another contributor to the increase was the $0.5 million increase in the airline incentive payment to the airlines for the reduction of the Airport's share of indirect overhead expenses with enplanement growth at the Airport exceeding that of FAA's national enplanement growth projections in FY 2014 by 5.9%. Overhead expense increased by 18.2% or $0.4 million due to the rate change from 15.6% in 2014 to 17.9% in 2015. Fees charged by the City for police and firefighting services went up by 28% or $2.0 million due to the expiration of the SAFER grant and increases in salary and associated benefit and overhead costs.

Personnel expenses decreased by approximately $2.4 million resulting mainly from the deferral of FY 2015 pension contributions amounting to $7.1 million and the recognition of pension expense in the current fiscal year of $4.7 million. Due to the initial implementation of GASB Statement Nos. 68 and 71, pension expense was recognized in the current fiscal year as the net amortization of the prior period's deferred outflows of resources. No such amount was recognized in the prior periods. In comparison, in FY 2014, pension contributions totaled $6.7 million and were part of personnel expense. In addition, other postemployment benefits (OPEB) costs recorded in FY 2015 based on the latest actuarial study, which included an increase in the discount rate from 5.3% to 6.3%, were $1.4 million less when compared to FY 2014. The decrease in retirement costs was offset by the higher costs for salaries and retirement contribution benefits. Interest expense in 2015 declined by 2.2% or $1.6 million compared to 2014 due to refunding of bonds in October 2014 and declining balance of the outstanding debt.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended $15.0 million on both capitalized and noncapitalizable capital activities in fiscal year 2016 and $8.0 million in 2015. Major capital projects in 2016 included the perimeter fence line upgrades, the runway pavement rehabilitation, and the taxiway modifications to comply with federal regulations. Major projects in 2015 included the FIS sterile corridor and the runway payment rehabilitation.

As of June 30, 2016, the Airport was obligated for purchase commitments relating to capital projects of approximately $15.4 million primarily for the costs of airfield geometric study and layout, airport rescue and fire fighting vehicles, pavement maintenance, the FIS baggage system upgrades and curbside improvements, and the terminal area development. Detailed information about capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

Subordinated Commercial Paper (CP) Notes

The Subordinated CP debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2016 and 2015, the total amount of Subordinated CP Notes outstanding totaled $34.7 million and $37.9 million, respectively. The City paid principal of $3.2 million during each of the fiscal years ended June 30, 2016 and 2015.

As of June 30, 2016, the Subordinated CP Notes were supported by the $41 million letter of credit issued by Barclays Bank PLC (Barclays). Effective September 16, 2015, the City reduced the stated amount of the letter of credit issued by Barclays to support the Subordinated CP Notes from $65 million to $41 million, which covers the principal amount of $37.9 million and interest.

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

Revenue Bonds

As of June 30, 2016 and 2015, the Airport had total outstanding revenue bonds of $1,313.5 million and $1,337.1 million, respectively. In October 2014, the Series 2001A, 2004C, and 2004D Bonds in the amount of $149.7 million were refunded with the issuance of Series 2014A, 2014B, and 2014C Bonds. During the fiscal years ended June 30, 2016 and 2015, the Airport paid principal of $23.7 million and $23.5 million, respectively.

Additional information about the Airport's revenue bonds can be found in Note 5 to the financial statements.

Credit Ratings

The underlying ratings of the outstanding Airport Revenue Bonds are "A-", "A2" and "A-" by Standard & Poor's (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch), respectively. The rating outlook of all three rating agencies with respect to the outstanding Airport Revenue Bonds is stable. 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 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. The Rate Stabilization Fund is fully funded at $9 million. No additional contributions were made to the fund in the fiscal year ended June 30, 2016. 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 airline's 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.

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

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2016 and 2015 were as follows:

	2016	2015
Landing fee (per 1,000 lbs MGLW):	$2.13	$2.09
Terminal average rental rate (per square foot)	$162.74	$147.68
Airline cost per enplanement (budgeted)	$10.90	$10.50

Terminal rental rates and airline landing fees for FY 2017 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for FY 2017, which became effective July 1, 2016, are as follows:

Landing fee (per 1,000 lbs MGLW):	$2.70
Terminal average rental rates (per square foot)	$154.63
Airline cost per enplanement (budgeted)	$10.90

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately $12.7 million greater than what was anticipated in the preparation of the adopted 2016-17 Airline Rates and Charges. The surplus for 2016 will be allocated in accordance with the revenue sharing provisions of the lease agreement.

FORWARD-LOOKING STATEMENTS

When used in this CAFR, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend," and similar expressions identify "forward-looking statements," but are not the exclusive means of identifying forward-looking statements in the CAFR. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this CAFR. The City undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR.

REQUEST FOR INFORMATION

This financial report is designed to provide readers with a general overview of the Airport's finances for all those interested. All summaries of documents contained in this CAFR are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this CAFR to a document is qualified in its entirety by reference to such document, which is on file with the Airport or with the City.

Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Norman Y. Mineta San José International Airport, 1701 Airport Blvd., Suite B1130, San José, CA 95110 or to the Director of Finance, 200 East Santa Clara Street, San José, California 95113.

Exhibit I
(Continued)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	$ 130,090,744	112,428,387
Receivables:		
Accounts, net of allowance for uncollectible accounts of $328,993 in 2016 and 2015	9,084,775	6,493,978
Accrued interest	373,983	257,029
Grants	1,919,964	1,332,992
Prepaid expenses, advances, and deposits	217,070	139,284
Total unrestricted assets	141,686,536	120,651,670
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	99,398,511	111,669,297
Investments held by fiscal agent (Note 2)	104,080,030	104,036,741
Receivables:		
Accounts, net of allowance for uncollectible accounts of $15,000 in 2016 and 2015	4,257,036	3,799,283
Accrued interest	272,464	119,191
Prepaid expenses, advances, and deposits	844	844
Current portion of prepaid bond insurance	66,224	60,218
Total restricted assets	208,075,109	219,685,574
Total current assets	349,761,645	340,337,244
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	96,283,188	90,944,057
Depreciable assets, net of accumulated depreciation	1,216,388,032	1,262,518,549
Total capital assets	1,312,671,220	1,353,462,606
Advances and deposits	2,967,675	3,172,619
Prepaid bond insurance, less current portion	6,477,704	6,543,928
Total noncurrent assets	1,322,116,599	1,363,179,153
Total assets	1,671,878,244	1,703,516,397
Deferred Outflows of Resources		
Deferred outflows of resources:		
Deferred pension contributions (Note 7)	15,145,489	7,103,082
Loss on refundings of debt	3,326,397	3,385,305
Total deferred outflows of resources	$ 18,471,886	10,488,387

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2016 and 2015

		2016	2015
Liabilities			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	$	3,724,075	3,397,624
Accrued salaries, wages and payroll taxes		809,014	588,641
Accrued vacation, sick leave and compensatory time, current (Note 5)		1,538,001	1,613,000
Advances and deposits payable		1,459,412	1,718,144
Unearned revenue		3,607,149	1,412,563
Estimated liability for self-insurance, current (Notes 5 and 9)		563,462	563,462
Pollution remediation liability [Notes 5 and 10 (c)]		-	330,000
Accrued interest payable		5,876	1,314
Commercial paper notes payable (Note 4)		34,672,000	37,912,000
Total payable from unrestricted assets		46,378,989	47,536,748
Payable from restricted assets:			
Accounts payable		2,030,946	948,946
Accrued salaries, wages and payroll taxes		16,051	7,527
Pollution remediation liability [Notes 5 and 10 (c)]		-	384,000
Accrued interest payable		23,673,975	23,930,595
Current portion of bonds payable (Note 5)		24,711,115	23,686,309
Total payable from restricted assets		50,432,087	48,957,377
Total current liabilities		96,811,076	96,494,125
Noncurrent liabilities:			
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)		1,300,867,774	1,325,578,889
Estimated liability for self-insurance, noncurrent (Notes 5 and 9)		2,289,207	2,177,939
Accrued vacation, sick leave and compensatory time, noncurrent (Note 5)		847,436	817,356
Net pension liability (Note 7)		81,312,808	64,649,657
Other postemployment benefits liability (Notes 5 and 7)		14,026,167	13,766,573
Total noncurrent liabilities		1,399,343,392	1,406,990,414
Total liabilities		1,496,154,468	1,503,484,539
Deferred Inflows of Resources			
Deferred inflows of resources:			
Deferred differences related to pension assumptions (Note 7)		-	7,933,265
Gain on refundings of debt		373,305	796,325
Total deferred inflows of resources		373,305	8,729,590
Net Position			
Net investment in capital assets		95,800,250	126,349,691
Restricted:			
Per Airline Lease Agreement for Airline revenue sharing		18,319,031	12,082,379
Per Master Trust Agreement for rolling debt service coverage		18,276,737	18,333,780
Per Rental Car Agreement		1,000,000	1,000,000
California Civil Code Section 1936 for Customer Facility Charges		7,380,731	4,894,469
Future debt service [Note 1 (i)]		16,331,641	20,441,220
Unrestricted		36,713,967	18,689,116
Total net position	$	193,822,357	201,790,655

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 Position
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Airline rates and charges:		
Landing fees	$ 13,095,546	11,855,784
Terminal rental	40,800,293	34,371,913
Total airline rates and charges	53,895,839	46,227,697
Terminal buildings/concessions	17,575,813	16,271,413
Airfield area	4,891,452	3,993,032
Parking and roadway	53,703,763	49,048,496
Fuel handling fees	3,225,613	3,257,257
General aviation/other	8,660,881	7,182,656
Total operating revenues	141,953,361	125,980,551
Operating expenses:		
Terminal buildings/concessions	27,724,459	23,832,863
Airfield area	12,767,355	9,891,025
Parking and roadway	16,683,408	17,169,922
Fuel handling costs	(564,646)	27,967
General aviation	1,963,490	2,006,379
General and administrative	19,334,091	18,208,025
Depreciation and amortization	51,863,642	53,436,817
Total operating expenses	129,771,799	124,572,998
Operating income	12,181,562	1,407,553
Nonoperating revenues (expenses):		
Passenger facility charges	20,602,999	19,291,495
Customer facility charges	19,887,878	18,689,878
Investment income	2,444,018	1,222,361
Interest expense	(71,244,522)	(72,237,180)
Bond issuance costs	-	(976,228)
Operating grants	497,388	609,609
Other, net	1,902,189	806,244
Total nonoperating revenues (expenses), net	(25,910,050)	(32,593,821)
Loss before capital contributions	(13,728,488)	(31,186,268)
Capital contributions	5,760,190	937,166
Change in net position	(7,968,298)	(30,249,102)
Net position - beginning, as previously reported	201,790,655	299,913,443
Restatement due to implementation of GASB Statement Nos. 68 and 71 [Note 1(n)]	-	(67,873,686)
Net position - beginning, as restated	201,790,655	232,039,757
Net position - ending	$ 193,822,357	201,790,655

See accompanying notes to financial statements.

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	$ 141,240,590	124,772,171
Payments to suppliers	(34,983,758)	(32,085,272)
Payments to employees	(25,251,245)	(25,229,616)
Payments for City services	(15,537,185)	(12,778,327)
Claims paid	(365,435)	(403,748)
Other receipts	1,962,406	806,244
Net cash provided by operating activities	67,065,373	55,081,452
Cash flows from noncapital financing activities:		
Operating grants	699,308	428,358
Cash flows from capital and related financing activities:		
Purchases of capital assets	(10,834,053)	(5,226,473)
Principal payments on bonds payable	(23,660,000)	(23,475,000)
Interest paid	(71,978,926)	(73,443,491)
Capital grants	4,971,298	-
Passenger facility charges received	20,140,325	19,324,748
Customer facility charges received	19,892,799	18,559,111
Payment for redemption of bonds	-	(4,873,705)
Bond issuance costs paid	-	(976,228)
Principal payments on commercial paper	(3,240,000)	(3,247,000)
Advances and deposits received	204,944	273,715
Net cash used in capital and related financing activities	(64,503,613)	(73,084,323)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	18,457,885	68,759,997
Purchases of investments	(18,462,552)	(44,890,747)
Investment income received	2,185,737	1,068,140
Net cash provided by investing activities	2,181,070	24,937,390
Net change in cash and cash equivalents	5,442,138	7,362,877
Cash and cash equivalents - beginning	314,159,145	306,796,268
Cash and cash equivalents - ending	$ 319,601,283	314,159,145

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, 2016 and 2015

		2016	2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	12,181,562	1,407,553
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		51,863,642	53,436,817
Other revenues		1,962,406	806,244
Decrease (increase) in:			
Accounts receivable		(2,590,797)	(852,691)
Prepaid expenses, advances, and deposits		14,139	(9,489)
Increase (decrease) in:			
Accounts payable and accrued liabilities		640,226	2,467,795
Advances and deposits payable		(258,732)	99,022
Unearned revenue		2,194,586	(509,915)
Estimated liability for self-insurance		111,268	499,168
Net pension liability, deferred outflows/inflows of resources related to pensions		687,479	(2,393,846)
Other postemployment benefits liabilities		259,594	130,794
Net cash provided by operating activities	$	67,065,373	55,081,452
Noncash noncapital financing activities:			
Change in operating grants receivable	$	201,920	(181,251)
Noncash capital and related financing activities:			
Change in accounts payable related to acquisition of capital assets		(238,203)	443,391
Change in capital grants receivables		(788,892)	(937,166)
Unrealized gain (loss) on investments held by fiscal agent		(11,946)	16,768
Bond refunding		-	144,836,295
Amortization of bond discount/premium/prepaid bond insurance		33,908	(122,745)
Amortization of deferred outflows/inflows of resources related to bond refundings		364,112	499,383
Reconciliation of cash and cash equivalents to the statements of net position			
Equity in pooled cash and investments held in City Treasury			
Unrestricted		130,090,744	112,428,387
Restricted		99,398,511	111,669,297
Investments held by fiscal agent classified as cash equivalents		90,112,028	90,061,461
Total cash and cash equivalents	$	319,601,283	314,159,145

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 assumed responsibility for the operation of San José Municipal Airport, which was renamed San José International Airport in 1984 with the addition of airline service to Canada. In 2001, the San José International Airport was renamed the Norman Y. Mineta San José International Airport.

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

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

(b) Basis of Presentation – Fund Accounting

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

(c) Basis of Accounting and Estimates

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

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

iii. Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program.

(d) Cash and Investments

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

The Airport reports its investments in investment agreements at cost and all other investments are reported at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurred. 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 intangible assets, land, buildings and improvements, and equipment. 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 – 20

(f) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. The Airport did not capitalize interest during fiscal years ended June 30, 2016 and 2015.

(g) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Outflows/Inflows of Resources on Refunding

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Operating Grants and Capital Contributions

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

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

(i) Passenger Facility Charges

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, 2016 and 2015, accumulated PFC funds amounted to $16,331,641 and $20,441,220 , respectively, and are reported as restricted for future debt service in the restricted net position category of the Airport's statements of net position.

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC funds as "Available PFC Revenues" by filing with the trustee (Fiscal Agent) a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. Amounts of $24,828,669 and $25,202,373 from accumulated PFC funds had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2016 and 2015, respectively.

(j) Customer Facility Charges

CFCs are recorded as nonoperating revenues. CFCs 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 terminals and the ConRAC. The Airport did not expend CFC revenues on the transportation costs in fiscal years ended June 30, 2016 and 2015.

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate CFC revenues as "Other Available Funds" by filing with the Fiscal Agent a written statement designating the amount of such "Other Available Funds" and containing a statement that the "Other Available Funds" are legally available to be applied to pay debt service on the Series 2011B bonds during such period. CFC revenues of $19,887,878 and $18,689,878 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2016 and 2015, respectively.

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

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

(l) Pensions

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

(m) Net Position

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

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows associated with the debt, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2016 and 2015, the Airport's statements of net position report restricted net position of $61,308,140 and $56,751,848, respectively, of which $23,712,372 and $25,335,689, respectively, is restricted by enabling legislation.

- Unrestricted Net Position – This category represents the net amount that do not meet the criteria for "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Airport's policy to use restricted resources first, and then use unrestricted resources as needed.

(n) New Pronouncements

During the year ended June 30, 2016, the Airport implemented the following accounting standards:

- In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and acquisition value to certain assets and disclosures related to all fair value measurements.

- In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The application of Statement No. 76 did not have any effect on the Airport's financial statements.

- In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The application of Statement No. 79 did not have any effect on the Airport's financial statements.

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

- In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. Application of Statement No. 73 is effective for the Airport's fiscal year ending June 30, 2017.

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB Statement No. 74 is effective for the Airport's fiscal year ending June 30, 2017.

- In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 is effective for the Airport's fiscal year ending June 30, 2018.

- In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. Application of Statement No. 78 is effective for the Airport's fiscal year ending June 30, 2017.

- In March 2016, the GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statement No.67, No. 68, and No. 73*. This statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. Application of Statement No. 82 is effective for the Airport's fiscal year ending June 30, 2017.

(2) Cash and Investments

The City Council adopted an investment policy (Investment Policy) on April 2, 1985, as amended on June 7, 2016, 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 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, 2016 and 2015, the Airport's share of the City's cash and investment pool totaled $229,489,255 and $224,097,684, 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, 2016 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.

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, 2016 and 2015, restricted investments held by the Fiscal

Agent totaled $104,080,030 and $104,036,741, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

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

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

As of June 30, 2016, the Airport's investments in LAIF held by the Fiscal Agent was $90,077,252. The weighted average maturity of LAIF at June 30, 2016 was 167 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2016 was approximately $22.7 billion. The total amount recorded by all public agencies in PMIA at June 30, 2016 was approximately $75.4 billion and, of that amount, 58.91% was invested in US Treasuries and agencies, 30.41% in depository securities, 9.93% in commercial paper, 0.67% in loans, and .08% in mortgages.

As of June 30, 2015, the Airport's investments in LAIF held by the Fiscal Agent was $89,950,337. The weighted average maturity of LAIF at June 30, 2015 was 239 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2015 was approximately $21.5 billion. The total amount recorded by all public agencies in PMIA at June 30, 2015 was approximately $69.6 billion and of that amount, 60.86% was invested in US Treasuries and agencies, 29.87% in depository securities, 8.51% in commercial paper, 0.63% in loans, and .13% in mortgages.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer periods are subject to more variability in their value as a result of changing interest rates. The City manages its exposure to interest rate risk by capping the average weighted maturity of the investment portfolio at two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed five years.

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2016, and June 30, 2015, was approximately 472 days, and 469 days, respectively.

Credit Quality Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. When investing, the City applies the Prudent Investor Standard and acts with care, prudence and diligence to safeguard the principal, maintain liquidity, and seek reasonable yields. The Investment Policy has strict rating requirements. The City manages credit risk by selecting high quality securities, diversifying the portfolio, and establishing monitoring procedures.

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

The following schedule indicates the interest rate risk and credit risk of the investments held by the Fiscal Agent, by category and maturity, as of June 30, 2016 and 2015. The credit ratings listed are for Moody's and S&P, respectively.

As of June 30, 2016

		Maturities			
Type of investments:	Credit Rating	Under 30 Days	31-180 Days	181-365 Days	Carrying Value
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAAm	$ 34,778	-	-	34,778
Federal Home Loan Bank(1)	Aaa/AA+	13,968,000	-	-	13,968,000
Local agency investment fund	Not rated	-	90,077,252	-	90,077,252
		$14,002,778	90,077,252	-	104,080,030

As of June 30, 2015

		Maturities			
Type of investments:	Credit Rating	Under 30 Days	31-180 Days	181-365 Days	Carrying Value
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAAm	$ 111,124	-	-	111,124
Federal Home Loan Bank(1)	Aaa/AA+	13,975,280	-	-	13,975,280
Local agency investment fund	Not rated	-	-	89,950,337	89,950,337
		$14,086,404	-	89,950,337	104,036,741

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

Fair Value Measurement Categorization. The Airport categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The Airport has the following recurring fair value measurements as of June 30, 2016 and June 30, 2015:

		Fair Value Measurements Using		
Investments by Fair Value Level	**Carrying Value at June 30, 2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments with fiscal agents:				
Investments by fair value level:				
Federated treasury obligations fund	$ 34,778	34,778	-	-
Federal Home Loan Bank	13,968,000	-	13,968,000	-
Total investments by fair value level	14,002,778	34,778	13,968,000	-
Investments by NAV				
California local agency investment fund	90,077,252	-		-
Total investments by NAV	90,077,252	-	-	-
Total investments with fiscal agents	$ 104,080,030	34,778	13,968,000	-

		Fair Value Measurements Using		
Investments by Fair Value Level	**Carrying Value at June 30, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments with fiscal agents:				
Investments by fair value level:				
Federated treasury obligations fund	$ 111,124	111,124	-	-
Federal Home Loan Bank	13,975,280	-	13,975,280	-
Total investments by fair value level	14,086,404	111,124	13,975,280	-
Investments by NAV				
California local agency investment fund	89,950,337	-		-
Total investments by NAV	89,950,337	-	-	-
Total investments with fiscal agents	$ 104,036,741	111,124	13,975,280	-

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Government agency securities classified in Level 2 of the fair value hierarchy are valued using Interactive Data (IDC) institutional bond pricing techniques.

LAIF Withdrawal Policy – LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than $5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal per month.

(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2016 and 2015, were as follows:

	Balance at July 1, 2015	Additions	Retirements	Transfers	Balance at June 30, 2016
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	2,281,245	9,843,390	-	(4,504,259)	7,620,376
Total capital assets, not depreciated	90,944,057	9,843,390	-	(4,504,259)	96,283,188
Capital assets, depreciated:					
Buildings	1,137,993,921	204,703	-	1,157,280	1,139,355,904
Other improvements	595,629,574	275,136	-	3,251,182	599,155,892
Equipment	47,790,253	749,027	(680,636)	95,797	47,954,441
Total capital assets, depreciated	1,781,413,748	1,228,866	(680,636)	4,504,259	1,786,466,237
Less accumulated depreciation:					
Buildings	251,787,590	29,461,985	-	-	281,249,575
Other improvements	236,230,536	17,898,593	-	-	254,129,129
Equipment	30,877,073	4,503,064	(680,636)	-	34,699,501
Total accumulated depreciation	518,895,199	51,863,642	(680,636)	-	570,078,205
Total capital assets, depreciated, net	1,262,518,549	(50,634,776)	-	4,504,259	1,216,388,032
Total capital assets, net	$1,353,462,606	(40,791,386)	-	-	1,312,671,220

	Balance at July 1, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	8,478,962	3,612,053		(9,809,770)	2,281,245
Total capital assets, not depreciated	97,141,774	3,612,053	-	(9,809,770)	90,944,057
Capital assets, depreciated:					
Buildings	1,133,183,206	12,705	-	4,798,010	1,137,993,921
Other improvements	592,689,522	-	(650,599)	3,590,651	595,629,574
Equipment	45,359,008	1,158,324	(148,188)	1,421,109	47,790,253
Total capital assets, depreciated	1,771,231,736	1,171,029	(798,787)	9,809,770	1,781,413,748
Less accumulated depreciation:					
Buildings	222,066,900	29,720,690	-	-	251,787,590
Other improvements	218,755,610	18,125,525	(650,599)	-	236,230,536
Equipment	25,311,914	5,713,347	(148,188)	-	30,877,073
Total accumulated depreciation	466,134,424	53,559,562	(798,787)	-	518,895,199
Total capital assets, depreciated, net	1,305,097,312	(52,388,533)	-	9,809,770	1,262,518,549
Total capital assets, net	$1,402,239,086	(48,776,480)	-	-	1,353,462,606

The Airport's depreciation expense on capital assets was $51,863,642 and $53,559,562 for fiscal years ended June 30, 2016 and 2015, respectively.

(4) Commercial Paper Notes Payable

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

In February 2014, the City entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with Barclays. Pursuant to the Reimbursement Agreement, Barclays issued a $65 million LOC supporting the Subordinated CP Notes, effective on February 11, 2014. On September 16, 2015, the City reduced the stated amount from $65 million to approximately $41 million. The LOC provided by Barclays is stated to expire on February 10, 2017, unless such LOC is extended or terminated earlier pursuant to its terms.

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

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated CP Notes be issued, that the City reimburse Barclays immediately for draws under the LOC and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated CP Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Bonds (other than where the Bonds shall continue to be rated by any two of Moody's, Fitch, or S&P), or downgrades by any of Moody's, Fitch or S&P of its ratings on the Bonds below "Baa2," "BBB" and "BBB," respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Bonds.

In connection with the LOC issued by Barclays, the City entered into a separate fee letter to specify the facility fee rate and other charges payable by the Airport. The facility fee rate under the fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2016 and 2015.

Commercial paper activities for the fiscal years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Beginning balance	$ 37,912,000	41,159,000
Paid	(3,240,000)	(3,247,000)
Ending balance	$ 34,672,000	37,912,000

Balances of Subordinated CP Notes payable as of June 30, 2016 and 2015 were as follows:

As of June 30, 2016	
Series A-2 commercial paper notes maturing on September 15, 2016 were issued with an interest rate of 0.52%	$ 11,992,000
Series B commercial paper notes maturing on September 15, 2016 were issued with an interest rate of 0.54%	13,045,000
Series C commercial paper notes maturing on July 5, 2016 were issued with an interest rate of 0.54%	9,635,000
Total commercial paper notes payable	$ 34,672,000
As of June 30, 2015	
Series A-2 commercial paper notes maturing on September 18, 2015 were issued with an interest rate of 0.13%	$ 11,992,000
Series B commercial paper notes maturing on September 18, 2015 were issued with an interest rate of 0.14%	13,045,000
Series C commercial paper notes maturing on July 2, 2015 were issued with an interest rate of 0.32%	12,875,000
Total commercial paper notes payable	$ 37,912,000

Although the Subordinated CP 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 Subordinated CP 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, 2016 totaled $151,237,842, which is composed of $72,690,568 of net general airport revenues and $78,547,274 of other available funds. Other available funds include surplus carryover of $29,243,041, rolling debt service coverage of $18,333,780, CFC revenues of $19,887,878, and unspent Series 2007B bond proceeds of $11,082,575. The bond debt service paid from the general airport revenues and other available funds amounted to $70,623,116, which is net of $24,828,669 of bond debt service paid from the accumulated PFC funds.

In prior years' Notes to the Financial Statements, the Airport reported net revenues available to pay debt service in fiscal year ended June 30, 2015 of $143,562,995, which was composed of $60,377,533 of net general airport revenues and $83,185,462 of other available funds. The net revenues available to pay debt service and net general airport revenues included $2,393,845 of decreases in net pension liability and deferred outflows/inflows of resources related to pensions pertaining to entries required by GASB 68. The restatement of net revenues available to pay debt service for fiscal year ended June 30, 2015 is as follows: The net revenues available to pay debt service in fiscal year ended June 30, 2015 totaled $141,169,148, which is composed of $57,983,686 of net general airport revenues and $83,185,462 of other available funds. Other available funds include surplus carryover of $35,521,794, rolling debt service coverage of $17,891,765, CFC revenues of $18,689,878, and unspent Series 2007B bond proceeds of $11,082,025. The bond debt service paid from the general airport revenues and other available funds amounted to $70,880,317, which is net of $25,202,373 of bond debt service paid from the accumulated PFC funds.

The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year plus 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 for such fiscal year. Total principal and interest remaining on the bonds is $2.5 billion, with the final payment due on March 1, 2047.

As of June 30, 2016, the reserve requirement in the general account of the bond reserve fund is satisfied, in part, by approximately $4.3 million surety bond from Ambac Indemnity Corporation [currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., (Ambac)].

As of June 30, 2015, the reserve requirement in the general account of the bond reserve fund is satisfied, in part, by approximately (a) $4.3 million surety bond from Ambac Indemnity Corporation, and (b) approximately $6.6 million surety bond from National Public Finance Guaranty Corporation (NPFG), as successor to MBIA Insurance Corporation.

The ratings of Ambac and NPFG 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.

The NPFG surety bond expired on March 1, 2016. The Ambac surety bond expires on March 1, 2018. In connection with the issuance of the Airport Revenue Bonds Series 2014A, 2014B, and 2014C in October 2014, the City deposited additional cash in the amount of $6.6 million into the general account held with the trustee to account for the expiration of the NPFG surety bond in March 2016. If no additional bonds are issued and no additional amount is deposited in the general account prior to March 1, 2018, the City would have to make a deposit to the general account from the accumulated Airport surplus funds or provide new qualified reserve facility to replace the amount of the expiring Ambac surety bond. The City will also be obligated to replenish the general account prior to the expiration date of the Ambac surety bond in the event of non-payment or cancellation of the Ambac surety bond including upon the liquidation of Ambac.

Qualified reserve facility means (i) a surety bond or similar instrument issued by a municipal bond insurer, for which obligations insured 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.

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

On October 7, 2014, the City issued Airport Revenue Bonds Series 2014A, 2014B and 2014C in the amount of $57,350,000, $28,010,000, and $40,285,000, respectively. The City issued Airport Revenue Bonds Series 2014A, 2014B, and 2014C to refund Airport Revenue Bonds Series 2004C, 2004D, and 2001A, respectively. This refunding resulted in an accounting loss on the refunding of the prior debt issues in the amount of $2,837,899, which is reported as an increase in the deferred outflows of resources balance.

The Series 2014A Bonds proceeds and a portion of the 2004 Reserve, approximately $8.9 million, were used (i) to refund all of the outstanding Airport Revenue Bonds Series 2004C, (ii) to make a cash deposit to the general account of the bond reserve fund, (iii) to pay a portion of the costs of issuing Series 2014A Bonds. The bonds were issued with the true interest cost of 2.7%, no changes to the final maturity of the bonds, and provided $17.7 million in aggregate debt service savings or $14.1 million on a present value basis.

The Series 2014B Bonds proceeds and a portion of the 2004 Reserve, approximately $4.3 million, were used (i) to refund all of the outstanding Airport Revenue Bonds Series 2004D, (ii) to make a cash deposit to the general account of the bond reserve fund, (iii) and to pay a portion of the costs of issuing Series 2014B Bonds. The 2014B Bonds were issued with the true interest cost of 3.4%, no changes to the final maturity of the bonds, and provided $10.4 million in aggregate debt service savings or $7.1 million on a present value basis.

The Series 2014C Bonds proceeds were used to refund the remaining outstanding Airport Revenue Bonds Series 2001A, and to pay a portion of the costs of issuing Series 2014C Bonds. The 2014C Bonds were issued with the true interest rate cost of 3.7%, no changes to the final maturity of the bonds, and provided $9.7 million in aggregate debt service savings or $6.3 million on a present value basis.

Balances of Bonds payable as of June 30, 2016 and 2015 were as follows:

Notes to the Financial Statements
June 30, 2016 and 2015

	2016	2015
2014C Series Airport Revenue Bonds of $40,285,000 with interest rate of 3.6% to 5.0%; payable in five annual installments ranging from $7,295,000 to $8,860,000 with the first installment in March 2027 and the final installment due in March 2031	$ 40,285,000	40,285,000
2014B Series Airport Revenue Bonds of $28,010,000 at a rate of 3.1% to 5.0%; payable in three annual installments of $7,975,000, $9,665,000 and $10,370,000 in March 2026, March 2027 and March 2028, respectively	28,010,000	28,010,000
2014A Series Airport Revenue Bonds of $57,350,000 at rates of 2.0% to 5.0%; payable in annual installments ranging from $50,000 to $9,175,000 with the final installment due in March 2026	56,185,000	56,325,000
2012A Series Airport Revenue Bonds of $49,140,000 at rate of 1.5%; payable in annual installments ranging from $8,460,000 to $8,585,000 with the final installment due in March 2018	17,045,000	25,385,000
2011B Series Airport Revenue Bonds of $271,820,000 at rates of 4.1% to 6.8%; payable in annual installments ranging from $1,155,000 to $27,330,000 with the final installment due in March 2041	262,790,000	263,590,000
2011A-2 Series Airport Revenue Bonds of $86,380,000 at rates of 4.0% to 5.3%; payable in annual installments ranging from $1,910,000 to $12,220,000 with the final installment due in March 2034	76,430,000	78,460,000
2011A-1 Series Airport Revenue Bonds of $150,405,000 at rates of 5.0% to 6.3%; payable in annual installments ranging from $3,355,000 to $21,115,000 with the final installment due in March 2034	132,970,000	136,505,000
2007B Series Airport Revenue Bonds of $179,260,000 at rates 4.4% to 5.0%; payable in annual installments ranging from $2,545,000 to $28,800,000 with the final installment due in March 2037	172,235,000	174,675,000
2007A Series Airport Revenue Bonds of $545,755,000 at rates of 5.0% to 6.0%; payable in annual installments ranging from $5,690,000 to $73,500,000 with the final installment due in March 2047	527,530,000	533,905,000
Total bonds payable	$ 1,313,480,000	$ 1,337,140,000

Notes to the Financial Statements
June 30, 2016 and 2015

Bonds outstanding and related activities for the fiscal years ended June 30, 2016 and 2015, were as follows:

	Balance at July 1, 2015	Additions	Retirements	Balance at June 30, 2016	Amounts Due Within One Year
2014C Series	$ 40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	56,325,000	-	140,000	56,185,000	95,000
2012A Series	25,385,000	-	8,340,000	17,045,000	8,460,000
2011B Series	263,590,000	-	800,000	262,790,000	1,155,000
2011A-2 Series	78,460,000	-	2,030,000	76,430,000	2,090,000
2011A-1 Series	136,505,000	-	3,535,000	132,970,000	3,665,000
2007B Series	174,675,000	-	2,440,000	172,235,000	2,545,000
2007A Series	533,905,000	-	6,375,000	527,530,000	6,690,000
Total long-term debt	1,337,140,000	-	23,660,000	1,313,480,000	24,700,000
Add unamortized:					
Premium	21,826,662	-	87,240	21,739,422	83,060
Less unamortized:					
Discount	9,701,464	-	60,931	9,640,533	71,945
Total long-term debt, net	$ 1,349,265,198	-	23,686,309	1,325,578,889	24,711,115

	Balance at July 1, 2014	Additions	Retirements	Balance at June 30, 2015	Amounts Due Within One Year
2014C Series	$ -	40,285,000	-	40,285,000	-
2014B Series	-	28,010,000	-	28,010,000	-
2014A Series	-	57,350,000	1,025,000	56,325,000	140,000
2012A Series	33,605,000	-	8,220,000	25,385,000	8,340,000
2011B Series	264,085,000	-	495,000	263,590,000	800,000
2011A-2 Series	80,390,000	-	1,930,000	78,460,000	2,030,000
2011A-1 Series	139,900,000	-	3,395,000	136,505,000	3,535,000
2007B Series	177,015,000	-	2,340,000	174,675,000	2,440,000
2007A Series	539,975,000	-	6,070,000	533,905,000	6,375,000
2004D Series	34,270,000	-	34,270,000	-	-
2004C Series	69,730,000	-	69,730,000	-	-
2001A Series	45,710,000	-	45,710,000	-	-
Total long-term debt	1,384,680,000	125,645,000	173,185,000	1,337,140,000	23,660,000
Add unamortized:					
Premium	2,863,938	19,191,295	228,571	21,826,662	87,240
Less unamortized:					
Discount	11,506,438	-	1,804,974	9,701,464	60,931
Total long-term debt, net	$1,376,037,500	144,836,295	171,608,597	1,349,265,198	23,686,309

Notes to the Financial Statements
June 30, 2016 and 2015

Scheduled maturities of outstanding Bonds are as follows:

Fiscal year ending June 30,	Principal	Interest
2017	$ 24,700,000	71,021,924
2018	25,910,000	70,106,571
2019	24,280,000	69,103,982
2020	25,660,000	67,872,643
2021-2025	156,755,000	317,703,630
2026-2030	219,655,000	271,602,488
2031-2035	429,335,000	193,674,062
2036-2040	322,970,000	67,718,941
2041-2045	65,530,000	14,555,715
2046-2047	18,685,000	1,698,000
Total	$ 1,313,480,000	1,145,057,956

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding Bonds. As of June 30, 2016 and 2015, the Airport believes it is in compliance with all such limitations and restrictions, for which non-compliance would adversely affect its ability to pay debt service.

Other long-term liability activities for the fiscal years ended June 30, 2016 and 2015 were as follows:

	Balance at July 1, 2015	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2016	Amounts Due Within One Year
Self-insurance	$ 2,741,401	521,666	410,398	2,852,669	563,462
Accrued vacation, sick leave and compensatory time	2,430,355	1,146,294	1,191,212	2,385,437	1,538,001
Other postemployement benefits	13,766,573	2,259,794	2,000,200	14,026,167	-
Pollution remediation liability	714,000	-	714,000	-	-
Total	$ 19,652,329	3,927,754	4,315,810	19,264,273	2,101,463

	Balance at July 1, 2014	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2015	Amounts Due Within One Year
Self-insurance	$ 2,242,233	903,666	404,498	2,741,401	563,462
Accrued vacation, sick leave and compensatory time	2,455,423	1,251,881	1,276,949	2,430,355	1,613,000
Other postemployement benefits	13,635,779	1,968,802	1,838,008	13,766,573	-
Pollution remediation liability	714,000	-	-	714,000	714,000
Total	$ 19,047,435	4,124,349	3,519,455	19,652,329	2,890,462

(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 through the extended term. Negotiations for a new agreement with the airlines are currently underway.

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 terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any net remaining revenues after all other obligations are satisfied, the airlines share of the net remaining revenues shall be applied as a credit to the airline terminal rate for the following fiscal year, thus reducing the rates. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year.

For the fiscal years ended June 30, 2016 and 2015, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by $37,114,863 and $24,348,571, respectively. The surplus for fiscal year ended June 30, 2016 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described in the MD&A and/or used in the budget balancing actions for fiscal year 2018. The surplus for the year ended June 30, 2015 was distributed in accordance with the revenue sharing provisions.

In December 2013, the City entered into a ground lease and operating agreement with Signature, which constructed a full-service, fixed based facility on 29-acres of the Airport's west side. The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. Signature paid interim ground rental equal to 50% of the base ground rental until November 2015, when the last certificate of occupancy was received issued. From November 2015, and continuing throughout the term of the agreement, Signature will pay base ground rental of $2.21 per square foot per year based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index increase annually and by appraisal every five years. Rental revenues from the ground lease with Signature were $2,309,840 and $1,356,206 for the fiscal years ended June 30, 2016 and 2015, respectively.

The Airport also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2016, the remaining terms of these operating leases range from one month to 22 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 $85,070,975 and $75,005,966 for the fiscal years ended June 30, 2016 and 2015, respectively.

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

Fiscal year ending June 30,	
2017	$ 99,300,622
2018	38,749,077
2019	37,795,027
2020	37,174,495
2021	10,437,706
2022-2026	51,190,215
2027-2031	47,842,557
2032-2036	49,126,250
2037-2041	35,717,293
2042-2046	29,111,996
2047-2051	33,224,636
2052-2056	37,918,266
2057-2061	43,274,964
2062-2063	23,911,323
Total minimum lease rentals	$ 574,774,427

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

As of June 30, 2016 and 2015, leased assets had total historical costs of $1,026,446,811 and $1,025,338,387 and accumulated depreciation of $203,222,439 and $177,695,737, respectively.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation, often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director of Aviation. The Director of Aviation has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statement of net position. The

Airport maintains on file copies of all security deposits, in the form of letter of credit or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2016 and 2015 totaled \$48,917,874 and \$43,874,590, respectively.

(7) Employees' Retirement System

(a) General Information about the Pension Plan

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (Federated Plan), which is a single employer defined benefit retirement system that covers substantially all benefitted City employees, except for certain unrepresented employees and employees who are members of the City's Police and Fire Department Retirement Plan. The benefits provided by the Federated Plan 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. Unrepresented executive management and professional employees who are hired directly into a position in the City's unrepresented executive management unit (Unit 99) and who are first hired on or after January 20, 2013, have a one-time irrevocable election to either participate in a defined contribution plan or become a Tier 2 member in the Federated Plan; to be eligible, an employee must not have previously been a member of a City of San José retirement system.

A stand-alone report is issued for the 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 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.

(b) Benefits Provided

Benefits are based on average final compensation, years of service, and cost-of-living increases as specified by the City's Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Amendments or changes to contribution requirement and benefits terms are approved by the City Council.

On June 5, 2012, San José voters adopted Measure B which enacted the *Sustainable Retirement Benefits and Compensation Act* (Measure B). Measure B amended the City Charter to, among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (Voluntary Election Plan or VEP) subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost of living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within the Federated Plan; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within the Federated Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Significant portions of Measure B are currently subject to legal challenge by individual employees, bargaining units representing current employees, and retirees. Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B and other lawsuits related to Measure B and changes made to retiree healthcare benefits are pending. The status of the legal challenges to Measure B and the settlement of these challenges is discussed in Section IV.B.8 of the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR.

The Federated Plan has different tiers of benefits: Tier 1, Tier 2A, Tier 2B, and Tier 2C. Tier 1 members are those who entered the Federated Plan prior to September 30, 2012. Tier 2A became effective for employees hired or rehired on or after September 30, 2012, but before September 27, 2013. The Tier 2 plan (including Tiers 2A, 2B and 2C) includes significant pension benefit changes from the existing Tier 1 plan, including a change in the cost sharing between the City and active Tier 2 members to a 50/50 split of all costs. Currently, Tier 1 members split normal costs with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the unfunded liability is generally not shared by Tier 1 employees. The members in Tiers 2A, 2B and 2C receive the same pension benefits.

Tier 2B became effective for employees hired or rehired on or after September 27, 2013. Employees in Tier 2B are excluded from retiree medical and dental benefits. The ordinance of the City Council establishing Tier 2B specifies that the City shall bear and pay an amount equal to the additional costs incurred by the Federated Plan for that portion of the unfunded liability as determined by the actuary of the Federated Plan that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for retiree healthcare defined benefits.

Tier 2C members are City employees who were Tier 1 members that separated from City employment and who later were rehired as Tier 2A or Tier 2B employees, but during the period that these employees were Tier 1 employees, they vested in the dental benefit provided under Tier 1.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2016 and 2015 was $13,162,801 and $12,902,842, respectively. The Airport's total payroll for the fiscal years ended June 30, 2016 and 2015 was $15,888,880 and $15,141,158, respectively.

The Federated Plan's pension benefits in effect at June 30, 2016, are summarized in the table below. For a more detailed information regarding the Federated Plan's benefits, please contact the City of San José Office of Retirement Services.

	Federated Tier 1	Federated Tier 2	Federated Tier 2B	Federated Tier 2C
Pension				
Hire Date	Prior to September 30, 2012	Hired, rehired or reinstated between September 30, 2012 and September 27, 2013	Hired, rehired or reinstated after September 27, 2013*	Hired, rehired, or reinstated after September 27, 2013**
Minimum Service to Leave Contributions in System	5 years	5 years Federated City Service		
Age/Years of Service	55 with 5 years service. 30 years service at any age.	65 years with 5 years Federated Service. May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction.		
Deferred Vested	55 with 5 years service (this applies to members who separate from City service before retirement and leave their contributions in the retirement system.)	May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction.		
Benefit Formula	• 2.5% x Years of Service x Final Compensation (75% max) • Final Compensation is the average monthly (or biweekly) base pay for the highest year of Federated City Service (year of service = 1739 hours worked)	• 2.0% x Years of Federated Service x Final Compensation (65% max) • Final Compensation is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2080 hours worked) • Excludes premium pay or any other forms of additional compensation		
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year		
Final Compensation	Highest one-year average	Highest three-year average		

*Members who have not met the City's eligibility for either retiree healthcare or dental benefits prior to September 27, 2013, will not be eligible for retiree healthcare or dental benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare and dental benefits.

**Members who have not meet the City's eligibility for retiree healthcare prior to September 27, 2013, will not be eligible for retiree health care benefits. Spouses, domestic partners, and dependents will also be ineligible for retiree health care benefits. Employees who have met the eligibility requirement for retiree dental benefits will receive the retiree dental benefits.

(c) Contributions

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution (ADC) sufficient to provide adequate assets to pay benefits when due.

Contribution rates for the Airport and the participating employees for the periods July 1, 2014 through June 20, 2015, June 21, 2015 through June 18, 2016, and June 19, 2016 through June 30, 2016 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2013, June 30, 2014, and June 30, 2015, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

	Airport's Contribution (1)		Employees' Contribution	
Pay Period	**Defined Benefit Pension**	**Postemployment Heathcare Plan**	**Defined Benefit Pension**	**Postemployment Heathcare Plan**
July 1, 2014 through June 20, 2015				
Tier 1	60.25%	9.41%	5.64%	8.76%
Tier 2	5.53%	9.41%	5.53%	8.76%
Tier 2B	5.53%	12.66%	5.53%	0.00%
Tier 2C	5.53%	12.86%	5.33%	0.39%
June 21, 2015 through June 18, 2016				
Tier 1	66.16%	9.41%	6.33%	8.76%
Tier 2	5.70%	9.41%	5.70%	8.76%
Tier 2B	5.70%	12.66%	5.70%	0.00%
Tier 2C	5.70%	12.86%	5.70%	0.39%
June 19, 2016 through June 30, 2016				
Tier 1	78.06%	9.41%	6.47%	8.76%
Tier 2	6.04%	9.41%	6.04%	8.76%
Tier 2B	6.04%	12.66%	6.04%	0.00%
Tier 2C	6.04%	12.86%	6.04%	0.39%

(1) For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2016 differed due to the City funding the ADC amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

For the year ended June 30, 2016, the contributions paid during the measurement period (contributions made during the fiscal year ended June 30, 2015) were as follows (dollars in thousands):

	Annual Pension Contribution	
	Airport	**Participants**
Defined Benefit Pension Plan	$ 7,103	993

In fiscal year ended June 30, 2011, the Federated Plan's Board approved the establishment of a "floor funding method" for payment of ADC for pension benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ADC as the greater of the annual dollar contribution amount established in the valuation, or the ADC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Federated Plan members throughout the fiscal year.

The resolutions adopted by the Federated Plan's Board setting the contribution rates for the fiscal year ended June 30, 2016 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year for Tier 1 members. In September 2014, the Federated Plan's Board approved the City's request to exclude Tier 2 from the floor methodology, so the ADC for Tier 2 employees is the rate determined by the Federated Plan's actuary multiplied by the actual payroll of Tier 2 employees.

In January 2016, the Federated Plan's Board approved a revised funding methodology to calculate the payment of ADC for Tier 1 pension benefits. The revised funding methodology calculates the unfunded actuarial liability portion of the ADC as a dollar amount as recommended by the actuary in the annual valuation report and approved by the Federated Board, and calculates the Normal Cost (including administrative expense) portion of the ADC as the greater of (1) the dollar amount for Normal Cost as recommended by the actuary in the annual valuation report and approved by the Federated Board or (2) the employer Normal Cost contribution rate in the annual actuarial valuation report multiplied by the actual pensionable payroll in the applicable fiscal year. The revised funding methodology, referred to as a "split funding method" applies to the ADC for the payroll periods in fiscal year 2016-2017, commencing on June 19, 2016.

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

As of June 30, 2016, the Airport reported $81,312,808 of net pension liability for its proportionate share of the City's net pension liability. The net pension liability of the Federated Plan was measured as of June 30, 2015, and the total pension liability (TPL) for the Federated Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and rolled forward to June 30, 2015 using standard update procedures. The Airport's portion of the net pension liability was based on the Airport's share of its contributions to the Federated Plan relative to the actual contributions. The Airport's proportionate share of the Federated Plan's net pension liability was 3.6% as of June 30, 2015, the measurement date.

For the year ended June 30, 2016, the Airport recognized pension expenses of $8,060,987. As of June 30, 2016, $15,145,489 was reported as deferred outflows of resources, which includes $7,373,508 related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017, and $7,771,981 related to the net differences between projected and actual earnings on the Federated Plan's investments as of June 30, 2016.

The amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

	Deferred Outflows of Resources
2017	$ 9,038
2018	1,665
2019	1,665
2020	2,777
	$ 15,145

(e) Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute TPL as of June 30, 2016 and June 30, 2015 are from the actuarial valtion reports with valuation dates of June 30, 2014 and June 30, 2013, respectively:

Description	Method/Assumption (TPL as of June 30, 2016)	Method/Assumption (TPL as of June 30, 2015)
Measurement Date	June 30, 2015	June 30, 2014
Valuation Date	June 30, 2014	June 30, 2013
Actuarial Cost Method	Entry age normal cost method	Entry age normal cost method
Actuarial assumptions:		
Inflation rate	2.50%	2.00% for five years and 2.85% thereafter
Discount rate	7.00% per annum	7.25% per annum
Post retirement mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the California Public Employees' Retirement System (CalPERS) ordinary disability table from their 2000-2004 study for miscellaneous employees.	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.
Rates of service retirement, withdrawal, death, disability retirements	Tables based on current experience.	Tables based on experience study performed in 2011.
Salary increases	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit / longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.
Merit increase	For the amortization schedule, payroll is assumed to grow 2.85% per year.	2.0% for five years and 2.85% thereafter. For the amortization schedule, payroll is assumed to grow 2.45% per year.
Cost of Living Adjustment	Tier 1 - 3% per year; Tier 2 - 1.5% per year	Tier 1 - 3% per year; Tier 2 - 1.5% per year

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments of 7.00% was selected by estimating the median nominal rate of return based on long-term capital market assumptions provided by the investment consultants, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns. Best estimates of arithmetic real rates of return for each major asset class included in the Federated Plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	28%	7.8%
Private Equity	9%	9.6%
Global Fixed Income	19%	3.0%
Private Debt	5%	7.0%
Real Assets	23%	6.7%
Absolute Return Strategies	11%	6.5%
Global Tactical Asset Allocation	5%	5.1%
Cash	0%	2.2%
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. It is assumed that members' contributions and Airport's contributions will be made based on the actuarially determined rates based on the Federated Plan Board's funding policies. Based on those assumptions, the Federated Plan's net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities.

The June 30, 2014 valuations included changes in the expected rate of return from 7.25% to 7.00%; and changes in the general inflation rate from 2.00% for the next five years and 2.85% thereafter to 2.50% and also to the payroll wage inflation assumption from 2.00% for the next five years and 2.85% thereafter to 2.85% for all years of service.

Sensitivity of the Net Pension Liability to Changes in Discount Rates - The following presents the Airport's proportionate share of the net pension liability, as well as what the Airport's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 - percentage point lower or 1 - percentage point higher than the measurement date discount rate (dollars in thousands):

Sensitivity Analysis	1% Decrease (6.00%)	Measurement Date Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	$ 116,672	81,313	52,222

The allocation was based on 3.6% of the Airport's proportion of the Federated Plan's assets and liabilities at measurement date, June 30, 2015.

As of June 30, 2015, the actuarial valuation date, the Federated Board is utilizing a discount rate of 7.00%. For more details on the current discount rate, please refer to the stand-alone report issued by the Federated Plan.

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

(f) Payable to the Pension Plan

At June 30, 2016, the Airport had no outstanding contribution payable to the pension plan. Please see, however, Section IV.B.9 of the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR related to the dispute between the Federated Plan and the City regarding the overpayment of pension benefits. The Airport believes that its proportional share of the amount in dispute is immaterial.

(g) Other Postemployment Benefits

During the fiscal year ended June 30, 2016, the Federated Plan's GASB Statement No. 43-compliant OPEB valuation study as of June 30, 2014, was prepared by Cheiron, Inc., the Federated Plan's actuary. In 2009, the City entered into agreements (Retiree Healthcare Agreements) with the bargaining units representing the Federated Plan members to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contribution (ARC) over a five period ending in fiscal year 2013. The Retiree Healthcare Agreements also provide that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. At the end of the phase-in, the City and active members were to pay the ARC for retiree healthcare benefits. Under the Retiree Healthcare agreements, the ratio of contribution remained unchanged with the contribution for retiree medical benefits split evenly between the City and the employee and retiree dental benefits split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution.

The fiscal year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the Retiree Healthcare Agreements, the employees and the City were required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015. At the end of fiscal year 2014-2015, the bargaining units and the City jointly agreed to keep the contribution rates the same as fiscal year 2014-2015 until December 20, 2015, at which point the parties would begin to pay the full ARC. However, in December 2015, the Federated Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the settlement of the Measure B litigation, referred to as the "Alternative Pension Reform Framework Settlement Agreement." The Alternative Pension Reform Framework Settlement Agreement provided that, if it had not been implemented by June 19, 2016, that the City may decide that the City and employees would begin to contribute the full ARC on June 19, 2016. As discussed more fully Section IV.B.8 of the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR, the Alternative Pension Settlement Framework was not implemented on or before June 19, 2016. The City decided that it would not implement the full

ARC on June 19, 2016. The Federated Board approved the extension of the phasein rates in March 2016.

The "floor methodology" described above in Note 7(c) applies to the calculation of the ARC for OPEB for Tier 1, but not Tier 2A, Tier 2B, and Tier 2C employees, for fiscal year 2015-2016.

The June 30, 2014 valuation establishes, for the fiscal year ended June 30, 2016, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 15.19% compared to 9.41% on a phase-in funded basis for Tier 1 and Tier 2A members and 12.66% for Tier 2B members, and 12.86% for Tier 2C members.

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

Fiscal Year	Postemployment Healthcare Plan				
	ARC	AOC	Contributions	% of Contributions	Unfunded Liability
6/30/2014	$ 3,220,885	3,037,439	1,478,129	49%	13,635,779
6/30/2015	2,107,026	1,968,802	1,838,008	93%	13,766,573
6/30/2016	2,446,660	2,259,794	2,000,200	89%	14,026,167

The City has determined a Citywide OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the Federated Plan's actuary. The City allocated to the Airport its proportionate share of the Citywide OPEB cost for Federated Plan employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was $14,026,167 and $13,766,573 at June 30, 2016 and 2015, respectively, which is recorded as the Airport's net OPEB obligation. The Airport has earmarked funds from the unrestricted net position to pay the full amount of the net OPEB obligation.

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

(8) Related Party Transactions

The City provides certain general support services to the Airport and charges a pro rata fee. The fees charged to the Airport for these services for the fiscal years ended June 30, 2016 and 2015, were $3,522,959 and $2,857,133, respectively. The City also charged the Airport fees of $11,507,946 and $9,221,534 for the fiscal years ended June 30, 2016 and 2015, respectively, for airport rescue and firefighting and police services coverage. Additionally, various City departments charge the Airport for services they rendered on its behalf. These fees and service charges, which totaled $1,277,412 and $1,201,775 for the fiscal years ended June 30, 2016 and 2015, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City's annual all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. The policy also provides coverage for loss due to business interruption and flood coverage. The City does not carry earthquake insurance as it is not available at reasonable rates. A summary of these coverages is provided below for the policy period of October 1, 2015 to October 1, 2016.

Coverage	Limit per Occurrence	Deductible per Occurrence
Property, including Business Interruption	$1 billion	$100,000
Flood Zone, Special Flood Hazard Area - as defined by the Federal Emergency Management Agency (FEMA)	$25 million per occurrence and annual aggregate	5% of values at risk ($1 million minimum deductible)
Flood, Other Locations	$100 million per occurrence and annual aggregate	$100,000

The City has airport liability policies covering the Airport for the policy periods of October 1, 2015 to October 1, 2016 and October 1, 2014 to October 1, 2015 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 liability 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 obtained for the Airport Shuttle Bus Fleet and is subject to a $10,000 comprehensive and $25,000 collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

For the policy period of December 18, 2015 to December 18, 2016 and December 18, 2014 to December 18, 2015, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a $5,000,000 per occurrence limit for losses resulting from employee theft, forgery or alteration and inside the premises – theft of money and securities, and provides for a $1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders, and counterfeit money. All claims have a $100,000 deductible per occurrence.

As part of general support services, the City charges the Airport for the cost of general liability, automobile liability, and property insurance coverage including the Airport's pro rata share of broker fees and taxes. The charges are expensed in the year incurred.

(b) Workers' Compensation

The Airport participates in the City's self-insurance program for workers' compensation. Workers' compensation liabilities are accounted for on a separate contribution basis under which workers' compensation liabilities are recorded in the respective funds (enterprise or governmental) to which they relate. Estimated workers' compensation liabilities at year-end are determined using actuarial methods or other estimating techniques. The claims payments and liability include an estimate of allocated loss adjustment expenses and claims that have been incurred but not yet reported.

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

	2016	2015
Accrued liability, beginning of fiscal year	$ 2,741,401	2,242,233
Claims payments and adjustments	(410,397)	(404,498)
Provision for current year claims and changes in prior year estimates	521,665	903,666
Accrued liability, end of fiscal year	$ 2,852,669	2,741,401

(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 position. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible, subject to an aggregate maximum loss exposure within coverage limits to the City of $3.9 million.

The North Concourse Project was completed in the fall of 2008. Chartis is currently in the process of closing out the North Concourse OCIP and is auditing the project payroll and cost factors associated with the premium. The closing out process for OCIP includes an actuarial review, which examines outstanding claims. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term. Since March 2010, Chartis has returned $2,599,500 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, 2016 and 2015 were as follows:

	2016	2015
Beginning balance	$ 919,173	929,517
Interest earned	555	7,368
Reserve returned	(68,313)	(14,468)
Losses paid	-	(3,244)
Ending balance	$ 851,415	919,173

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

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 position. Since August 2013, as part of the annual loss reserve analysis by Chartis, a total amount of $1,628,545 has been returned to the Airport.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Beginning balance	$ 2,253,446	2,516,817
Interest earned	2,331	1,040
Reserve returned	(49,719)	(180,988)
Losses paid	(89,798)	(83,423)
Ending balance	$ 2,116,260	2,253,446

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

(10) Commitments and Contingencies

(a) Lease Commitments

In September 2009, the Airport entered into a restated operating lease and maintenance agreement for ten CNG powered buses. The term of the agreement is from December 2007 to May 2017. Rental and maintenance expenses were $1,322,482 and $1,295,044 for fiscal years ended June 30, 2016 and 2015, respectively.

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

Fiscal Year Ending June 30,	Amount
2017	$ 879,237
Total minimum lease payments	$ 879,237

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2016, the Airport was obligated for purchase commitments of approximately $21 million primarily for terminal area development, airfield geometric study, pavement maintenance, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately $92 million on capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

(c) Fuel Tank Farms

As of June 30, 2016, the remediation work for the closed City Jet Fuel Tank Farms was completed. In May 2016, the Airport made the final payment to Chevron U.S.A., Inc. (Chevron) in an amount of $136,172, bringing the total payments to $2,160,414, which is 50% of the total remediation costs associated with the coordinated corrective action at the closed City Jet Fuel Tank Farms. Chevron has received a reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (Plume Fund) amounting to a total of $3 million. In June 2016, the Airport received $1,490,000 from Chevron, which represents 50% of the reimbursement, less a deductible.

(d) Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport. In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new 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 general aviation. Implementation of the Master Plan has been ongoing, collectively comprising improvements to the Airport's terminal facilities, roadways, parking facilities, and airfield facilities, and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and 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 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. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

In June 2010, the City Council approved the most recent amendment to the Master Plan that updated projected aviation demand and facility requirements. This amendment to the Master Plan modified specific components of the 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) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based operations facility is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

(e) FAA Audit of Use of Airport Revenue

Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of $5.6 million that would be applied equally to the Airport cost allocation plan over a seven year period beginning in fiscal year 2012-2013. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-2015 in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations, which were implemented in fiscal year 2015-2016.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs. The City will continue discussions with the FAA, but cannot predict the final outcome of the audit.

(f) Litigation

Between May 2013 and January 2014, SJJC Aviation Services, LLC filed three lawsuits seeking to block the Signature fixed base operation project at the Airport. SJJC Aviation Services, LLC is an incumbent tenant at the Airport that conducts fixed base operations under the name "Atlantic Aviation," and the Signature fixed base operation, which commenced operations at the Airport in late 2015, is in competition with Atlantic Aviation at the Airport.

The first lawsuit (RFP lawsuit), filed in May 2013 in the Superior Court of the State of California in Santa Clara County, challenged the City's request for proposal (RFP) process and the resulting award of the lease and operating agreement to Signature. The Superior Court entered judgment dismissing the RFP lawsuit with prejudice on May 2, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on May 16, 2014. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act (CEQA). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits. The City successfully defended its CEQA environmental review and received a judgment in its favor on December 23, 2014, and SJJC subsequently filed an appeal to the Sixth District Court of Appeal on February 5, 2015. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The City believes that the SJJC Aviation Services challenges to the RFP process and the environmental review for the Signature project are without merit.

There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

(11) Subsequent Event

Airport revenue bond ratings

On September 2, 2016, Fitch Ratings reaffirmed the ratings for the City's Airport revenue bonds at "A-", with a stable rating outlook. Fitch Ratings also reaffirmed the underlying "BBB+" rating on the bank note associated with subordinated commercial paper notes series A-1 (non-AMT), A-2 (non-AMT/Private Acitivity), B (AMT) and C (Taxable) with a stable rating outlook.

On October 27, 2016, Moody's Investors Service reaffirmed the ratings for the City's Airport revenue bonds at "A2", with a stable rating outlook.

Potential Claim

The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of $2.5 million.

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

Workers' Compensation Program Audit

The City's Workers' Compensation Program is currently undergoing two audits by the State's Department of Industrial Relations ("DIR"): a routine three-tier Profile Audit Review ("PAR") of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing $120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims, which the City has paid.

The City is subject to a re-audit in two years and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed $100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage which the City's management overseeing the Workers' Compensation Program believes will be significantly more expensive than a self-insured program. The Airport would be responsible for its proportional share of the insurance premiums for workers' compensation insurance coverage.

The Airport believes that its proportional share of any penalties or other amounts assessed pursuant to these audits and proceedings related the City's Workers' Compensation Program is immaterial.

For additional information, please see Note IV. B. 11 in the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR.

Required Supplementary Information (Unaudited)
June 30, 2015 and 2014

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

	2016
Proportion of the collective net pension liability	3.6%
Proportionate share of the collective net pension liability	$ 81,313
Proportionate share of the plan fiduciary net position	$ 180,366
Covered - employee payroll	$ 13,163
Proportionate share of the collective net pension liability as percentage of covered-employee payroll	617.7%
Plan fiduciary net position as a percentage of the total pension liability	68.9%

Schedule of Contributions (dollars in thousands)

	2016	2015
Contractually required contribution (actuarially determined)	$ 7,374	7,103
Contributions in relation to the actuarially determined contributions	7,374	7,103
Contribution deficiency (excess)	$ -	-
Covered-employee payroll	$ 13,163	12,903
Contributions as a percentage of covered-employee payroll	56.0%	55.0%

Note to Schedules

The Airport as a cost-sharing department of the City is required to recognize a liability for its proportionate share of the City's net pension liability. The Airport recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

The schedules present information to illustrate changes in the Airport's proportionate share of the net pension liability and contributions over a ten-year period when the information is available.

STATISTICAL

To accommodate passengers' food and beverage cravings, the Airport welcomed the grand opening of Smashburger in Terminal B near gate 22 and the opening of Flames across from gate 27.

Hudson opened a 2,500 square foot news and gift shop in Terminal B between gates 21 and 22.

The supersized store offers just about everything passengers need during their travels.

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, 2016

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

Contents **Schedule**

<u>Financial Trends</u>

This schedule presents trend information to help the reader understand the Airport's financial performance and condition.

<u>Revenue Capacity</u>

These schedules contain information regarding the Airport's cost per enplaned passenger, gross concession revenue, and airline rates and charges.

<u>Debt Capacity</u>

These schedules present information regarding the Airport's current levels of outstanding debt.

<u>Demographic and Economic Information</u>

These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the Airport's financial activities.

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

Statistical Section
June 30, 2016

Contents **Schedule**

<u>Operating Information</u>

These schedules contain service and infrastructure data related to services the Airport provides and the activities it performs.

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

	2007	2008	2009	2010	2011[1]
Operating revenues					
Airline rates and charges:					
Landing fees	$13,504	$13,084	$14,504	$13,190	$13,370
Terminal rental	11,308	26,539	29,716	33,459	34,446
Total airline rates and charges	24,812	39,623	44,220	46,649	47,816
Terminal buildings/concessions	9,201	11,470	11,947	11,157	16,877
Airfield area	2,519	2,833	3,171	2,791	2,925
Parking and roadway	48,226	48,369	44,227	38,934	47,320
Fuel handling fees	1,592	1,806	1,474	1,310	1,504
Customer facility charges [1]	4,451	6,351	6,713	6,021	-
General aviation/other	4,528	4,789	5,826	5,909	4,521
Total operating revenues	95,329	115,241	117,578	112,771	120,963
Operating expenses:					
Terminal buildings/concessions	26,929	31,790	28,813	31,701	33,019
Airfield area	19,860	22,692	16,170	10,911	9,749
Parking and roadway	28,559	27,936	26,853	24,032	25,344
Fuel handling costs	171	311	557	885	288
General aviation	3,679	3,428	4,072	3,052	2,409
General and administrative	28,787	32,879	28,268	23,624	19,095
Depreciation and amortization	19,323	22,834	20,647	55,288	51,532
Total operating expenses	127,308	141,870	125,380	149,493	141,436
Operating income (loss)	(31,979)	(26,629)	(7,802)	(36,722)	(20,473)
Nonoperating revenues (expenses):					
Passenger facility charges	22,169	21,224	17,416	17,043	17,311
Customer facility charges [1]	-	-	-	-	6,840
Investment income	9,294	15,446	8,138	311	1,613
Interest expense	(11,995)	(11,737)	(11,404)	(10,750)	(54,430)
Bond issuance costs	-	-	-	-	-
Operating grants	8,284	8,444	4,625	1,150	701
Loss on disposal of capital assets	-	-	(3,537)	(11,733)	-
Other, net	2,541	2,767	4,227	200	1,438
Total nonoperating revenues (expenses), net	30,293	36,144	19,465	(3,779)	(26,527)
Income (loss) before capital contributions	(1,686)	9,515	11,663	(40,501)	(47,000)
Capital contributions	9,694	4,970	12,868	34,722	10,862
Change in Net Position	$8,008	$14,485	$24,531	($5,779)	($36,138)
Net Position at Year-End					
Net investment in capital assets	$239,960	$267,321	$316,935	$314,664	$272,598
Restricted	118,334	84,491	45,260	61,349	64,128
Unrestricted	61,233	82,200	96,348	76,751	79,900
Net Position at Year-End [2]	$419,527	$434,012	$458,543	$452,764	$416,626

[1] CFCs are used to pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers. CFCs were reclassified from operating to nonoperating revenue beginning in fiscal year 2011 when the Airport started using CFCs for the debt service associated with the ConRAC.

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

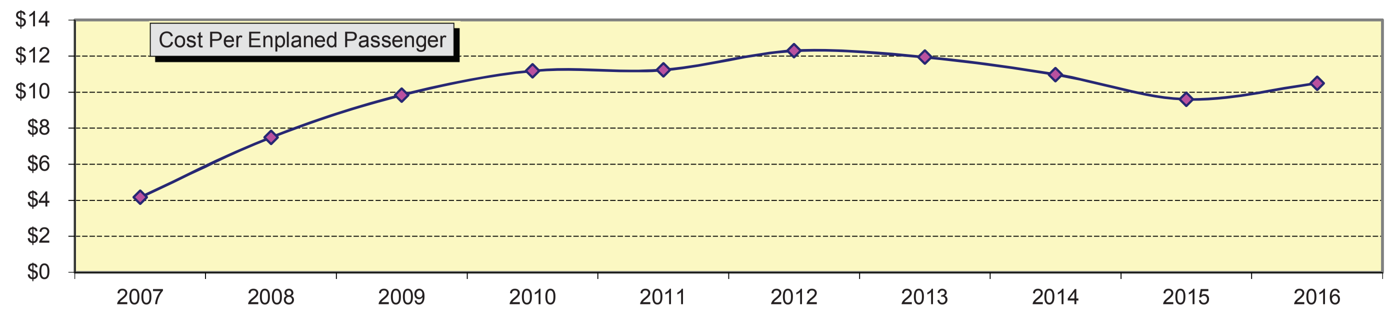
NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET POSITION, AND NET POSITION
LAST TEN FISCAL YEARS
(in $ 000's)

	2012	2013	2014	2015[2]	2016
Operating revenues					
Airline rates and charges:					
Landing fees	$11,414	$12,888	$11,973	$11,856	$13,095
Terminal rental	39,864	38,256	38,130	34,372	40,800
Total airline rates and charges	51,278	51,144	50,103	46,228	53,895
Terminal buildings/concessions	15,770	15,102	15,423	16,271	17,576
Airfield area	2,783	3,038	3,553	3,993	4,891
Parking and roadway	51,023	46,700	47,268	49,049	53,704
Fuel handling fees	1,690	2,361	3,170	3,257	3,226
Customer facility charges	-	-	-	-	-
General aviation/other	4,431	4,770	6,193	7,183	8,661
Total operating revenues	126,975	123,115	125,710	125,981	141,953
Operating expenses:					
Terminal buildings/concessions	23,659	23,303	24,233	23,833	27,724
Airfield area	9,069	8,707	9,570	9,891	12,767
Parking and roadway	25,514	16,631	16,343	17,170	16,684
Fuel handling costs	556	1,065	11	28	(565)
General aviation	1,676	1,605	1,609	2,006	1,963
General and administrative	18,328	18,763	19,877	18,208	19,334
Depreciation and amortization	51,520	54,353	54,027	53,437	51,864
Total operating expenses	130,322	124,427	125,670	124,573	129,771
Operating income (loss)	(3,347)	(1,312)	40	1,408	12,182
Nonoperating revenues (expenses):					
Passenger facility charges	16,787	17,294	18,161	19,291	20,603
Customer facility charges	10,137	13,385	15,493	18,690	19,888
Investment income	2,217	(257)	1,571	1,222	2,444
Interest expense	(70,009)	(75,058)	(73,836)	(72,237)	(71,245)
Bond issuance costs	(4,141)	(196)	-	(976)	-
Operating grants	670	565	605	610	497
Loss on disposal of capital assets	(9)	-	(481)	-	-
Other, net	698	451	614	806	1,902
Total nonoperating revenues (expenses), net	(43,650)	(43,816)	(37,873)	(32,594)	(25,911)
Income (loss) before capital contributions	(46,997)	(45,127)	(37,833)	(31,186)	(13,729)
Capital contributions	7,399	6,954	4,843	937	5,760
Change in Net Position	($39,598)	($38,173)	($32,990)	($30,249)	($7,969)
Net Position at Year-End					
Net investment in capital assets	$242,916	$209,381	$169,870	$126,350	$95,800
Restricted	69,350	65,408	67,848	56,752	61,308
Unrestricted	58,811	58,114	62,195	18,689	36,714
Net Position at Year-End [2]	$371,077	$332,903	$299,913	$201,791	$193,822

[2] As of July 1, 2014, the Airport restated the beginning net position in the amount of $67,874 due to the implementation of GASB Statement Nos. 68 and 71. The Airport did not restate beginning net position for fiscal years prior to FY 14-15, because amounts were not available.

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

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



		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Airline Revenues:											
Terminal Rental	$	10,748 [1]	26,539	29,716	33,459	34,446	39,864	38,256	38,130	34,372	40,800
Landing Fees (Passenger Carriers)		11,390	12,252	13,560	12,443	12,582	10,838	12,298	11,451	11,361	12,528
Total		22,138	38,791	43,276	45,902	47,028	50,702	50,554	49,581	45,733	53,328
Enplaned Passengers		5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Airline Cost Per Enplaned Passenger (not in 000's)	$	4.16	7.49 [2]	9.84 [2]	11.18 [2]	11.23 [2]	12.29 [2]	11.94 [3]	10.98 [3]	9.60 [3]	10.48

[1] Terminal Rental for fiscal year 2007 does not agree with Schedule B, 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 B.

[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.

[3] Decreases in airline cost per enplaned passenger during fiscal years 2013 through 2015 were principally due to the increases in enplaned passengers and decreases in revenues.

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

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)

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross Concession Revenue: [1]											
Parking [2]	$	29,702	28,625	23,632	21,260	22,081	22,943	24,814	26,759	27,845	29,392
Rental Cars		142,115	156,227	127,661	114,614	125,730	126,333	129,643	142,439	149,384	157,857
Food and Beverage		20,156	20,041	16,753	16,493	21,141	22,280	24,216	27,350	30,078	32,870
Advertising		3,451	1,892	1,923	1,736	1,903	1,873	2,355	2,506	2,245	2,368
Gift Shop & Retail		8,007	7,957	7,380	8,868	11,290	11,983	12,668	13,475	14,130	15,742
In-Flight Kitchen		7,277	5,819	6,173	8,580	9,823	8,920	10,680	13,114	15,904	22,893
Total Gross Concession Revenue	$	210,708	220,561	183,522	171,551	191,968	194,332	204,376	225,643	239,586	261,122
Enplaned Passengers:		5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	$	39.61	42.59	41.71	41.77	45.83	47.11	48.26	49.95	50.28	51.32

[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

Schedule D
(Continued)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
FISCAL YEAR 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

	2007 [1]	2008 [2]
Landing Fees (per 1,000 lbs. Maximum Gross Landing Weight)	$ 1.80	$ 1.44
Terminal Rental Rates (per square foot)		
Terminal A :		
Ticket Counter	133	
Operations	100	
Holdroom	120	
Baggage Claim	67	
Baggage Makeup/Storage	47	
Terminal C :		
Ticket Counter	110	
Operations	83	
Holdroom	99	
Baggage Claim [3]	55	
Baggage Makeup/Storage	39	
Blended:		
Ticket Counter		351
Operations		316
Holdroom		263
Baggage Claim [3]		175
Baggage Makeup/Storage		123

[1] 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.

[2] These rates and charges were only for the period July 1 to November 30, 2007. A new Airline-Airport 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.

[3] The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirement applicable to the baggage claim areas are 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 [4]
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Unit
Landing Fees:	$ 2.00	$ 2.24	$ 2.32	$ 2.47	$ 2.14	$ 2.38	$ 2.22	$ 2.09	$ 2.13	per 1,000 lbs. MGLW [7]
Terminal Rental Rates:										
Group A:										
Ticket Counter and Queuing, Skycap/Curbside Check-in										
- Preferential	73,729	81,192	145,136	241,041	319,205	296,954	293,680	235,177	287,230	per counter
- Common	35	63	57	73	97	90	98	94	88	per hour
Airline Ticket Office, Club/VIP	166.07	237.81	204.57	157.18	184.19	186.55	192.73	178.08	195.75	per sq. ft.
Holdroom (Gate)										
- Preferential	418,598	481,687	726,212	742,245	872,527	886,424	915,350	775,820	883,722	per gate
- Common	228	330	497	496	598	607	591	470	552	per turn
Group B:										
Baggage Claim [5] /Other Office	132.86	190.25	163.66	125.74	147.35	149.24	154.19	142.47	156.60	per sq. ft.
Group C:										
Baggage Make-up [6] /Operations Space	83.04	118.91	102.29	78.59	92.09	93.28	96.37	89.04	97.87	per sq. ft.

[4] These rates and charges were for the period December 1, 2007 to June 30, 2016 and were calculated based on the provisions of the current Airline-Airport Lease and Operating Agreement which took effect on December 1, 2007.

[5] The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage claim areas are 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 the airlines based on the number of deplaned passengers.

[6] 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.

[7] MGLW - Maximum Gross Landing Weight

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
RATIOS OF OUTSTANDING DEBT AND DEBT SERVICE
LAST TEN FISCAL YEARS
($ and Passengers in 000's)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outstanding Debt per Enplaned Passenger										
Outstanding Debt by Type:										
Revenue Bonds	$ 484,347	1,057,386	1,046,606	1,035,266	1,023,304	1,415,552	1,398,332	1,376,038	1,349,265	$ 1,325,579
Commercial Paper Notes	41,424	186,190	323,561	417,348	410,079	47,937	45,380	41,159	37,912	34,672
Total Outstanding Debt	525,771	1,243,576	1,370,167	1,452,614	1,433,383	1,463,489	1,443,712	1,417,197	1,387,177	1,360,251
Enplaned Passengers	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Total Outstanding Debt per Enplaned Passenger (not in 000's)	$ 99	240	311	354	342	355	341	314	291	$ 267
Debt Service										
Revenue Bonds (2) (3)	$ 20,837	21,567	23,037	31,367	53,890	80,725	86,325	95,068	96,083	$ 95,452
Commercial Paper Notes (4) (5)	3,391	710	292	734	16,605	6,818	4,043	2,859	2,213	2,116
Total Debt Service	24,228	22,277	23,329	32,101	70,495	87,543	90,368	97,927	98,296	97,568
Less: Funds Available for Debt Service										
Passenger Facility Charges	-	-	-	4,588	21,388	21,336	22,100	25,747	25,202	24,829
Customer Facility Charges (6)	-	-	-	-	6,840	10,137	13,385	15,494	18,690	19,888
Unspent Bond Proceeds (6)	-	-	-	-	-	1,713	5,802	11,082	11,082	11,083
Net Debt Service	$ 24,228	22,277	23,329	27,513	42,267	54,357	49,081	45,604	43,322	$ 41,768
Net Debt Service per Enplaned Passenger (not in 000's)	$ 4.55	4.30	5.30	6.70	10.09	13.18	11.59	10.10	9.09	$ 8.21

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

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

(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 2007 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 Letter of Credit and Reimburement Agreements in effect for fiscal years 2008 through 2010, the calculation of debt service did not include the CP, which funded capitalizable projects during those fiscal years.

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

(6) Fiscal years 2010 through 2012 were revised to reflect "Other Available Funds for Debt Service." Under the MTA, the Airport may for any period elect to designate Customer Facility Charges and Unspent Bond Proceeds as "Other Available Funds" eligible for payment of debt service.

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

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

Year	Adjusted General Airport Revenues [1]	Operating Expenses [2] & [3]	Net Revenues	Other Available Funds	Net Revenues Available for Debt Service	Total Bond Debt Service [4]	Available Passenger Facility Charges [4]	Net Bond Debt Service Payable from Revenues	**Coverage Ratio - Bonds**	Estimated Commercial Paper (CP) Debt Service [6] [7]	**Coverage Ratio - Bonds & CP**
2007	$ 99,111	$ 86,404	$ 12,707	$ 44,250	$ 56,957	$ 20,837 [5]		$ 20,837	**2.73**	$ 3,391	**2.35**
2008	119,651	95,615	24,036	44,175	68,211	21,567 [5]		21,567	**3.16**	710	**3.06**
2009	120,041	91,051	28,990	49,053	78,043	23,037		23,037	**3.39**	292	**3.35**
2010	110,226	82,711	27,515	51,610	79,125	31,367	$ 4,588	26,779	**2.95**	734	**2.88**
2011	123,538	76,850	46,688	52,447	99,135	53,890	21,388	32,502	**3.05**	16,605	**2.02**
2012	129,573	67,875	61,698	58,917	120,615	80,725	21,336	59,389	**2.03**	6,818	**1.82**
2013	124,851	64,974	59,877	66,006	125,883	86,325	22,100	64,225	**1.96**	4,043	**1.84**
2014	127,717	66,319	61,398	75,157	136,555	95,068	25,747	69,321	**1.97**	2,859	**1.89**
2015	128,038	70,054 [8]	57,984	83,186	141,170	96,083	25,202	70,881	**1.99**	2,213	**1.93**
2016	145,809	73,118	72,691	78,547	151,238	95,452	24,829	70,623	**2.14**	2,116	**2.08**

(1) Does not include Customer Facility Charges (CFCs), 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 Position as nonoperating revenues. Beginning in fiscal year 2011, CFC revenues were reclassified from operating to nonoperating revenue (see Note 1 in Schedule B).

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

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

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

(5) 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 2007 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

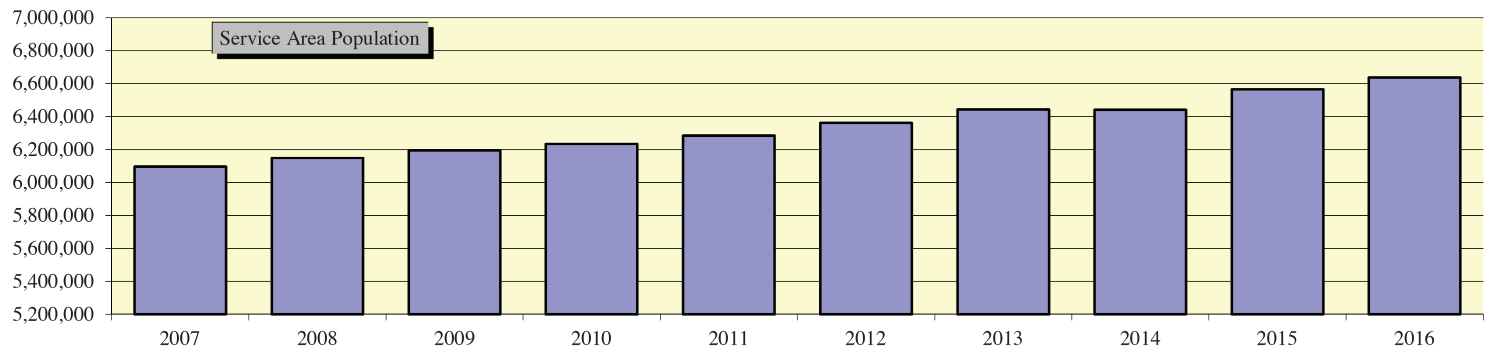
(6) As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective 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 Letter of Credit and Reimbursement Agreements in effect for fiscal years 2008 through 2010, the calculation of debt service did not include the CP, which funded capitalizable projects during those fiscal years.

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

(8) FY2015 Operating Expenses were revised to exclude expenses related to GASB Statement No. 68.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA POPULATION IN THE AIR TRADE AREA
LAST TEN CALENDAR YEARS AS OF JANUARY 1

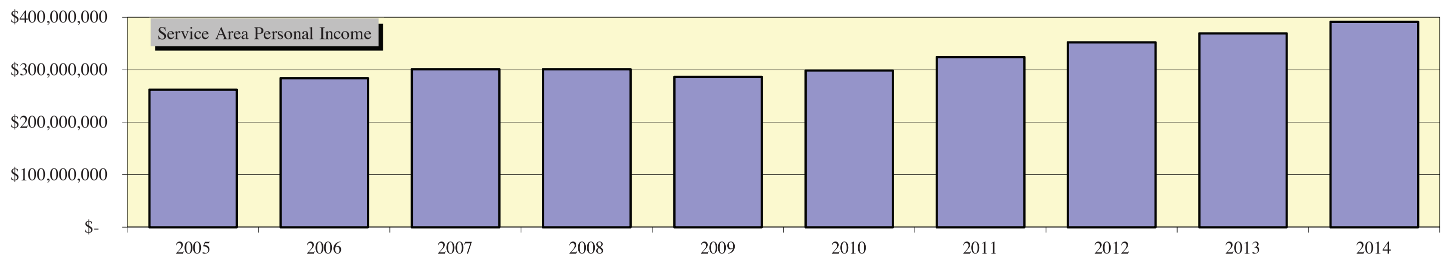


	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
2007	1,484,085	409,387	55,022	707,820	1,747,912	258,737	250,734	672,492	509,389	6,095,578
2008	1,497,799	412,233	55,068	713,818	1,767,204	260,892	253,026	677,833	511,226	6,149,099
2009	1,509,240	415,108	55,272	718,614	1,781,427	262,552	255,399	684,057	514,003	6,195,672
2010	1,517,756	416,968	55,474	722,372	1,794,337	263,954	257,098	689,160	516,244	6,233,363
2011	1,530,206	419,586	56,137	727,793	1,813,702	265,348	260,039	693,013	519,350	6,285,174
2012	1,550,119	422,754	57,079	736,647	1,840,895	268,189	262,390	701,745	523,038	6,362,856
2013	1,573,254	425,756	57,517	745,193	1,868,558	271,595	264,922	710,731	526,042	6,443,568
2014	1,574,497	424,774	57,909	745,635	1,868,038	269,322	264,567	708,678	528,157	6,441,577
2015 [1]	1,610,765	432,637	56,445	759,155	1,903,974	273,594	269,280	723,761	534,902	6,564,513
2016	1,627,865	437,178	56,648	766,041	1,927,888	275,902	271,579	733,383	540,214	6,636,698

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

Source: California Department of Finance, Demographic Research Unit

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



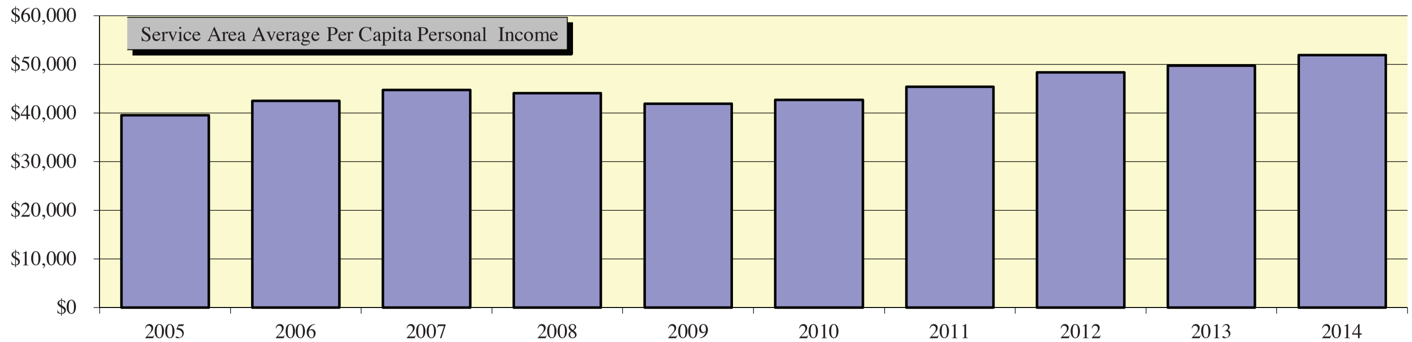
	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
2005	$64,547,920	$15,363,221	$1,776,831	$43,264,212	$87,276,312	$11,127,128	$5,935,128	$18,578,286	$14,426,308	$262,295,346
2006	69,413,342	16,593,766	1,888,615	47,439,966	95,739,260	12,093,124	6,153,715	19,676,512	15,050,420	284,048,720
2007	72,269,758	17,079,370	1,996,555	50,186,023	102,922,133	12,881,411	6,918,424	20,817,871	15,801,138	300,872,683
2008	73,944,674	16,931,392	1,967,929	49,148,183	102,433,735	12,940,365	6,826,882	21,029,219	15,857,505	301,079,884
2009	70,463,233	16,732,911	1,904,402	46,631,310	95,588,054	12,112,253	6,771,237	20,747,584	15,697,151	286,648,135
2010	72,870,527	16,958,117	1,920,847	47,787,433	102,432,990	12,361,716	7,117,031	21,214,529	16,232,916	298,896,106
2011	78,550,471	17,668,188	2,037,248	51,931,876	113,461,610	13,284,573	7,797,651	22,369,055	17,095,084	324,195,756
2012	84,503,175	18,496,346	2,153,480	58,665,994	124,801,907	14,251,103	8,038,978	23,682,855	17,957,396	352,551,234
2013 [(2)]	85,173,987	19,184,636	2,279,346	64,281,690	133,654,835	13,456,565	8,635,380	24,470,917	18,399,577	369,536,933
2014	90,631,392	19,889,054	2,417,263	68,013,899	141,873,705	14,209,814	9,020,129	25,859,136	19,341,120	391,255,512

[(1)] Information for calendar years 2015 and 2016 is not available.
[(2)] Some data reported previously were revised to reflect the most recent information.

Source: U.S. Department of Commerce, 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
2005	$44,777	$37,921	$32,515	$62,695	$52,096	$44,265	$24,469	$28,278	$28,851	$39,541
2006	48,054	41,295	34,894	68,736	56,612	48,062	25,083	29,686	29,823	42,472
2007	49,646	42,446	36,924	72,330	60,117	50,854	27,836	31,161	31,115	44,714
2008	50,057	41,701	36,264	69,830	58,837	50,446	27,249	31,308	31,152	44,094
2009	47,021	40,786	34,984	65,345	54,153	46,584	26,838	30,613	30,686	41,890
2010	48,144	40,732	34,558	66,362	57,336	46,925	27,706	30,857	31,500	42,680
2011	51,286	41,906	36,273	71,232	62,623	50,138	29,995	32,157	33,005	45,402
2012	54,379	43,411	37,867	79,420	67,974	53,473	30,726	33,777	34,437	48,385
2013 [2]	53,798	44,707	39,576	85,653	71,431	49,942	32,774	34,709	34,961	49,728
2014	56,261	46,109	41,486	89,659	74,883	52,280	33,865	36,136	36,356	51,893

[1] Information for calendar years 2015 and 2016 is not available.

[2] Some data reported previously were revised to reflect the most recent information.

Source: U.S. Department of Commerce, 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 NINE YEARS AGO

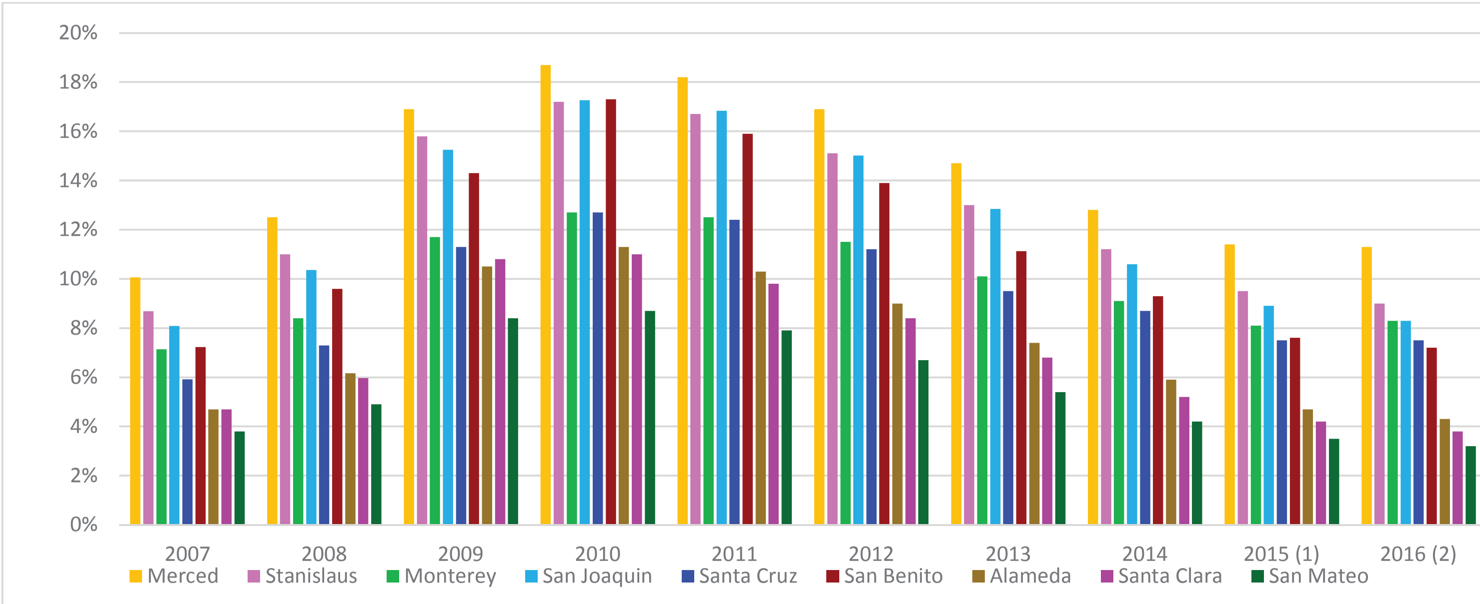
	2016			2007		
Company or Organization	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	17,800	1	1.8%	15,360	2	1.7%
Cisco Systems	14,000	2	1.4%	17,200	1	1.9%
City of San José*	5,945	3	0.6%	6,034	3	0.7%
San José State University	4,300	4	0.4%	3,030	5	0.3%
Western Digital/HGST	3,000	5	0.3%	2,800	7	0.3%
eBay	2,800	6	0.3%	3,010	6	0.3%
Paypal, Inc.	2,800	7	0.3%	n/a (**)	n/a (**)	n/a (**)
IBM Corporation	2,800	8	0.3%	6,650	4	0.7%
Adobe Systems, Inc.	2,100	9	0.2%	2,000	11	0.2%
Kaiser Permanente	2,100	10	0.2%	2,120	10	0.2%
Good Samaritan Hospital	2,000	11	0.2%	1,850	12	0.2%
Target Corporation	1,900	12	0.2%	n/a (**)	na (**)	na (**)
Brocade Communication	1,700	13	0.2%	n/a (**)	na (**)	na (**)
Cadence Design Systems	1,600	14	0.2%	1,800	14	0.2%
Maxim Integrated Products	1,600	15	0.2%	n/a (**)	na (**)	na (**)

(*) Full-time employees

(**) Companies or organizations not included in top 15 principal employers in 2007

Source: California Employment Development Department, Labor Market Information Division

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



	2007	2008	2009	2010	2011	2012	2013	2014	2015 [1]	2016 [2]
Merced	10.1%	12.5%	16.9%	18.7%	18.2%	16.9%	14.7%	12.8%	11.4%	11.3%
Stanislaus	8.7%	11.0%	15.8%	17.2%	16.7%	15.1%	13.0%	11.2%	9.5%	9.0%
Monterey	7.1%	8.4%	11.7%	12.7%	12.5%	11.5%	10.1%	9.1%	8.1%	8.3%
San Joaquin	8.1%	10.4%	15.3%	17.3%	16.8%	15.0%	12.8%	10.6%	8.9%	8.3%
Santa Cruz	5.9%	7.3%	11.3%	12.7%	12.4%	11.2%	9.5%	8.7%	7.5%	7.5%
San Benito	7.2%	9.6%	14.3%	17.3%	15.9%	13.9%	11.1%	9.3%	7.6%	7.2%
Alameda	4.7%	6.2%	10.5%	11.3%	10.3%	9.0%	7.4%	5.9%	4.7%	4.3%
Santa Clara	4.7%	6.0%	10.8%	11.0%	9.8%	8.4%	6.8%	5.2%	4.2%	3.8%
San Mateo	3.8%	4.9%	8.4%	8.7%	7.9%	6.7%	5.4%	4.2%	3.5%	3.2%

[1] Some data reported previously were revised to reflect the most recent information.

[2] Information for 2016 is the average of January to July 2016.

Source: California Employment Development Department, Labor Market Information Division

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

	Budgeted Full-time-Equivalent [1] Employees as of Fiscal Year-End									
Functional Area	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Acoustical Treatment Program (ACT)	7	7	4	0	0	0	0	0	0	0
Administration	38	40	35	31	27	27	27	27	28	28
Air Service Development	5	5	2	2	1	1	1	1	1	1
Airport Technology Services	21	21	19	16	13	13	13	13	13	11
Airside Operations	47	47	47	38	35	40	42	43	43	43
Customer Service and Outreach	11	10	8	6	5	6	7	7	6	8
Capital and Airport Development	38	28	27	26	18	14	15	15	15	18
Environmental	3	3	4	3	1	1	1	1	1	1
Facilities (Building Services, Trades and Maintenance)	143	155	135	128	64	66	64	64	64	61
Landside Operations and Services	62	62	56	47	34	29	9	8	8	8
Property Management	12	13	12	9	8	8	8	8	8	8
	386	391	348	305	206	205	187	187	187	187

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

Source: 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, 2016

Location:	Two miles north of downtown San José, "Capital of Silicon Valley"			
Area:	1,050 acres			
Elevation:	62.2 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		252,815	sq. ft.
	Concessions and Other Rentables		65,674	sq. ft.
	Public/Common		193,963	sq. ft.
	Airport		311,646	sq. ft.
	Vacant		43,688	sq. ft.
	Other		117,402	sq. ft.
	Total		985,188	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		47	
		30 Food & Beverage Concessions		
		17 Retail Concessions		
	Number of rental car brands		11	
Apron:	Commercial Airlines		1,130,894	sq. ft.
	Cargo Airlines		596,482	sq. ft.
	Fixed Base Operator (FBO)		1,362,771	sq. ft.
	General Aviation West		436,659	sq. ft.
	Total		3,526,806	sq. ft.
Public Parking Spaces:	Hourly - Terminal A Garage		1,160	
	Hourly - Terminal B Garage & Surface		1,209	
	Daily Lots		1,358	
	Economy Lot		1,673	
	Total		5,400	
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 José			
	AvBase			
	Signature Flight Support			

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2007 THROUGH 2011
(Ranked by Fiscal Year 2016 Results)

	2007		2008		2009		2010		2011	
Airline	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%	2,187,033	52.2%
Alaska Airlines (1)	467,324	8.8%	445,689	8.6%	345,419	7.9%	393,982	9.6%	561,400	13.4%
American Airlines (2)	1,245,294	23.4%	1,086,169	21.0%	887,112	20.2%	692,293	16.9%	620,195	14.8%
Delta Air Lines (3)	217,018	4.1%	197,465	3.8%	157,739	3.6%	175,775	4.3%	216,757	5.2%
United Airlines (4)	654,791	12.3%	595,209	11.5%	420,317	9.6%	376,879	9.2%	357,283	8.5%
Hawaiian Airlines	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%	85,571	2.0%
JetBlue Airways	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%	80,797	1.9%
Volaris							8,072	0.2%	48,325	1.2%
All Other Airlines (5)	275,754	5.2%	319,604	6.2%	276,664	6.3%	169,551	4.1%	31,862	0.8%
Total (6)	5,318,859	100%	5,178,603	100%	4,399,562	100%	4,105,853	100%	4,189,223	100%

(1) Includes enplaned passengers on flights operated by Horizon.

(2) In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. Passengers previously reported under US Airways are now grouped with American Airlines. The enplanements include flights operated by Skywest, Mesa Airlines, and Compass Airlines.

(3) Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

(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. The enplanements include flights operated by Skywest.

(5) Consists of airlines no longer serving the Airport and charter airlines.

(6) Percentage totals may not add due to rounding.

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

NORMAN Y. MINETA SAN JOSÉ INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2012 THROUGH 2016
(Ranked by Fiscal Year 2016 Results)

	2012		2013		2014		2015		2016	
Airline	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,192,234	53.1%	2,169,956	51.2%	2,280,346	50.5%	2,420,333	50.8%	2,507,648	49.3%
Alaska Airlines [1]	609,315	14.8%	727,616	17.2%	704,944	15.6%	750,673	15.8%	795,136	15.6%
American Airlines [2]	571,167	13.8%	587,829	13.9%	601,104	13.3%	604,952	12.7%	642,626	12.6%
Delta Air Lines [3]	218,447	5.3%	228,824	5.4%	332,544	7.4%	463,746	9.7%	551,084	10.8%
United Airlines [4]	298,808	7.2%	253,837	6.0%	231,287	5.1%	186,656	3.9%	184,570	3.6%
Hawaiian Airlines	103,483	2.5%	116,928	2.8%	113,381	2.5%	161,707	3.4%	164,088	3.2%
JetBlue Airways	76,063	1.8%	71,506	1.7%	70,860	1.6%	71,577	1.5%	73,950	1.5%
Volaris	49,709	1.2%	49,700	1.2%	51,056	1.1%	51,185	1.1%	58,385	1.1%
All Nippon Airways			3,273	0.1%	42,999	1.0%	47,560	1.0%	49,717	1.0%
Hainan Airlines							1,849	0.0%	34,939	0.7%
British Airways									9,872	0.2%
Air Canada									6,882	0.1%
All Other Airlines [5]	5,659	0.1%	24,774	0.6%	88,500	2.0%	4,763	0.1%	8,808	0.2%
Total [6]	4,124,885	100%	4,234,753	100%	4,517,021	100%	4,765,001	100%	5,087,705	100%

(1) Includes enplaned passengers on flights operated by Horizon and Skywest.

(2) In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. Passengers previously reported under US Airways are now grouped with American Airlines. The enplanements include flights operated by Skywest, Mesa Airlines, and Compass Airlines.

(3) Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

(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. The enplanements include flights operated by Skywest.

(5) Consists of airlines no longer serving the Airport, including Virgin America, and charter airlines. Virgin America operated at the Airport from May 2013 to May 2014.

(6) Percentage totals may not add due to rounding.

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

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

Airline [1]	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Air Canada										8,103
Alaska Airlines	571,040	557,090	449,070	507,257	693,168	680,586	806,403	790,691	825,699	864,768
All Nippon Airways							9,880	138,114	138,700	140,925
American Airlines	1,517,067	1,288,451	1,056,475	760,177	692,995	643,199	664,570	669,391	653,971	726,312
British Airways										24,650
Volaris				8,320	54,663	59,451	52,014	51,472	55,653	59,565
Delta Airlines	270,186	240,802	190,950	196,914	230,537	233,473	252,297	386,609	537,959	677,209
Frontier Airlines	143,487	153,166	158,644	78,484	672		672	499	269	
Hainan Airlines									4,180	80,559
Hawaiian Airlines	128,960	115,545	109,970	94,075	110,895	133,520	161,560	154,290	230,520	230,052
JetBlue Airways	124,565	147,688	188,439	115,710	91,292	82,903	79,348	77,215	75,508	82,039
Mexicana Airlines	113,125	100,668	86,527	76,916	10,890					
Northwest Airlines	100,756	101,591	101,284	51,691						
Southwest Airlines	3,197,472	3,366,428	3,236,828	3,033,408	2,877,878	2,917,030	2,838,160	2,819,208	2,884,182	2,976,117
United Airlines	799,499	756,971	522,979	452,916	413,524	355,121	293,930	269,572	206,682	214,585
All Other Airlines	23,376	83,726	28,902	34,649	44,488	20,108	54,361	179,532	15,137	29,020
Subtotal	6,989,533	6,912,126	6,130,069	5,410,517	5,221,002	5,125,391	5,213,194	5,536,593	5,628,460	6,113,904
Cargo Carriers										
Air Transport Int'l.	57,941	59,379	56,042	57,159	71,055	12,015	250			
Airborne Express	70,176	57,392	1,088							
Fedex	252,539	241,953	231,594	168,403	164,642	163,213	158,845	152,417	150,160	164,527
United Parcel Service	129,090	133,653	132,055	96,505	83,136	93,250	88,940	82,584	86,546	101,377
All Other Cargo Airlines	2,017	247	309	200	352	270	33			440
Subtotal	511,763	492,624	421,088	322,267	319,185	268,748	248,067	235,002	236,706	266,344
Total	7,501,296	7,404,750	6,551,157	5,732,784	5,540,187	5,394,139	5,461,261	5,771,595	5,865,167	6,380,248

[1] See Notes on Schedule N.

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

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

Airline [1]	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Air Canada										214
Alaska Airlines	10,350	10,362	8,604	9,928	13,370	12,948	15,172	13,960	13,936	14,314
All Nippon Airways							52	726	730	732
American Airlines	34,310	30,534	25,310	16,308	13,448	12,452	12,672	12,374	12,172	12,356
British Airways										116
Volaris				124	812	886	770	752	774	820
Delta Airlines	4,348	7,012	4,008	4,344	4,656	4,784	4,810	8,596	12,702	14,300
Frontier Airlines	2,190	2,360	2,426	1,202	10		10	8	4	
Hainan Airlines									22	424
Hawaiian Airlines	806	732	732	620	732	882	1,036	1,014	1,462	1,462
JetBlue Airways	1,752	2,102	2,986	1,876	1,284	1,166	1,116	1,086	1,062	1,146
Mexicana Airlines	1,600	1,430	1,250	1,126	160					
Northwest Airlines	1,434	1,446	1,410	746						
Southwest Airlines	52,872	54,974	52,414	48,942	46,584	47,002	45,486	44,942	45,654	46,918
United Airlines	16,324	14,960	10,654	9,986	7,432	6,072	5,600	5,052	3,714	3,444
All Other Airlines	416	452	704	598	778	286	784	2,546	226	394
Subtotal	126,402	126,364	110,498	95,800	89,266	86,478	87,508	91,056	92,458	96,640
Cargo Carriers										
Air Transport Int'l.	442	452	426	434	538	88	2			
Airborne Express	516	422	8							
FedEx	1,326	1,324	1,264	958	926	928	918	918	920	936
United Parcel Service	926	916	854	672	566	652	610	550	580	670
All Other Cargo Airlines	178	26	6	12	16	10	6			8
Subtotal	3,388	3,140	2,558	2,076	2,046	1,678	1,536	1,468	1,500	1,614
Total	129,790	129,504	113,056	97,876	91,312	88,156	89,044	92,524	93,958	98,254

[1] See notes on Schedule N.

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

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

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

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

CARRIER	NONSTOP SERVICE
Southwest Airlines (continued)	Las Vegas (LAS)
	Los Angeles (LAX)
	Ontario (ONT)
	Orange County (SNA)
	Phoenix (PHX)
	Portland (PDX)
	San Diego (SAN)
	Seattle (SEA)
United Airlines	Denver (DEN)
	Houston (IAH)
SCHEDULED FOREIGN AIRLINE SERVICE	
Alaska Airlines	Cabo San Lucas (SJD)
	Guadalajara (GDL)
Air Canada	Vancouver (YVR)
All Nippon Airways	Tokyo-Narita (NRT)
British Airways	London (LHR)
Hainan Airlines	Beijing (PEK)
Volaris	Guadalajara (GDL)
ALL-CARGO AIRLINES	
Federal Express Corporation	
United Parcel Service	

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PASSENGERS, MAIL, FREIGHT, AND CARGO STATISTICS
LAST TEN FISCAL YEARS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Passengers (1,000's):										
Enplanements	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Deplanements	5,335	5,202	4,422	4,125	4,200	4,131	4,254	4,546	4,790	5,125
Total Passengers	10,654	10,381	8,822	8,232	8,389	8,256	8,489	9,063	9,555	10,213
Mail/Freight/Cargo (1,000 lbs):										
Mail	4,342	3,044	1,987	3,357	2,264	1,160	1,431	1,135	1,546	1,786
Freight/Express	12,228	7,101	5,995	5,432	5,060	5,303	6,172	16,156	18,257	22,344
Cargo	171,754	166,509	129,809	97,578	87,329	77,303	78,766	86,239	84,203	92,294
Total mail/freight/cargo	188,324	176,654	137,791	106,367	94,653	83,766	86,369	103,530	104,006	116,424

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]	Cargo Operations	Total Commercial Operations	Percent Commercial Operations	General Aviation Operations	Military Operations	Total Operations
2007	126,402	3,388	129,790	70.2%	55,021	103	184,914
2008	126,364	3,140	129,504	70.1%	55,146	64	184,714
2009	110,498	2,558	113,056	70.7%	46,674	242	159,972
2010	95,800	2,076	97,876	74.4%	33,439	275	131,590
2011	89,266	2,046	91,312	74.8%	30,503	276	122,091
2012	86,478	1,678	88,156	73.4%	31,664	285	120,105
2013	87,508	1,536	89,044	73.8%	31,321	210	120,575
2014	91,056	1,468	92,524	75.6%	29,619	208	122,351
2015	92,458	1,500	93,958	73.7%	33,246	213	127,417
2016	96,640	1,614	98,254	74.7%	33,048	259	131,561
Annual Compound Growth Rate							
FY 2007 through FY 2016	(2.6%)	(7.1%)	(2.7%)		(5.0%)	9.7%	(3.3%)

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

[2] Includes domestic, including regional commuter operations, and international airlines.

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

BOND DISCLOSURE

Airport passengers have access to the ultimate luxury shopping experience from a world-class airport. Located between gates 14 and 15, an approximately 1,200square-foot Dufry store offers tax-and duty-free shopping to international passengers. Domestic passengers can purchase all merchandise, except alcohol and tobacco products, with all duty and taxes payable.

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, 2016

In accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for the City of San José Airport Revenue Bonds Series 2007A, 2007B, 2011A-1, 2011A-2, 2011B, and Airport Revenue Refunding Bonds Series 2012A, 2014A, 2014B, and 2014C, 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 1-63 of this report.

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

  Since there are no changes to the debt service requirements as of June 30, 2016, update of this table is not required.

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

  Refer to Table 1, page B-4 of the Bond Disclosure Section of this report.

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

  Refer to Table 2, page B-5 of the Bond Disclosure Section of this report.

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

Refer to Schedule S, page S-25 of the Statistical Section of this report.

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

  Refer to Table 3, page B-6 of the Bond Disclosure Section of this report.
- A list showing, for the Airport's most recently completed fiscal year, air carriers serving the Airport.

  Refer to Schedule Q, pages S-22 and S-23 of the Statistical Section of this report.

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

  Refer to Schedule N, page S-18 and S-19 of the Statistical Section of this report.

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

  Refer to Financial Section, Exhibit II, page 20 of this report.

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

  Refer to Schedule F, page S-10 of the Statistical Section of this report.

REPORTING OF SIGNIFICANT EVENTS

<u>Airport revenue bond ratings</u>

On September 2, 2016, Fitch Ratings reaffirmed the ratings for the City's Airport revenue bonds at "A-", with a stable rating outlook. Fitch Ratings also reaffirmed the underlying "BBB+" rating on the bank note associated with subordinated commercial paper notes series A-1 (non-AMT), A-2 (non-AMT/Private Acitivity), B (AMT) and C (Taxable) with a stable rating outlook.

On October 27, 2016, Moody's Investors Service reaffirmed the ratings for the City's Airport revenue bonds at "A2", with a stable rating outlook.

<u>Potential Claim</u>

The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of $2.5 million.

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

Workers' Compensation Program Audit

The City's Workers' Compensation Program is currently undergoing two audits by the State's Department of Industrial Relations ("DIR"): a routine three-tier Profile Audit Review ("PAR") of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing $120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims, which the City has paid.

The City is subject to a re-audit in two years and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed $100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage which the City's management overseeing the Workers' Compensation Program believes will be significantly more expensive than a self-insured program. The Airport would be responsible for its proportional share of the insurance premiums for workers' compensation insurance coverage.

The Airport believes that its proportional share of any penalties or other amounts assessed pursuant to these audits and proceedings related the City's Workers' Compensation Program is immaterial.

For additional information, please see Note IV. B. 11 in the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR.

Table 1

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 [1]	Air Carrier International Enplanements	Total Enplanements	Total Percent Change
2007	5,216,491	102,368	5,318,859	(1.8%)
2008	5,111,144	67,459	5,178,603	(2.6%)
2009	4,339,181	60,381	4,399,562	(15.0%)
2010	4,043,416	62,437	4,105,853	(6.7%)
2011	4,111,260	77,963	4,189,223	2.0%
2012	4,041,624	83,261	4,124,885	(1.5%)
2013	4,124,464	110,289	4,234,753	2.7%
2014	4,353,383	163,638	4,517,021	6.7%
2015	4,592,047	172,954	4,765,001	5.5%
2016	4,847,098	240,607	5,087,705	6.8%
Annual Compound Growth Rate				
FY 2007 through FY 2016	(0.7%)	8.9%	(0.4%)	

[1] Includes commuter enplanements previously reported separately.

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

Table 2

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 Origin and Destination Enplanements	Total Connecting Enplanements	Connecting Enplanements as a Percentage of Total Enplanements
2007	5,318,859	5,145,726	173,133	3.3%
2008	5,178,603	5,044,473	134,130	2.6%
2009	4,399,562	4,281,747	117,815	2.7%
2010	4,105,853	3,996,223	109,630	2.7%
2011	4,189,223	4,083,459	105,764	2.5%
2012	4,124,885	4,013,758	111,127	2.7%
2013	4,234,753	4,146,393	88,360	2.1%
2014	4,517,021	4,426,965	90,056	2.0%
2015	4,765,001	4,665,281	99,720	2.1%
2016	5,087,705	5,001,106	86,599	1.7%
Annual Compound Growth Rate				
FY 2007 through FY 2016	(0.4%)	(0.3%)	(6.7%)	

Table 3

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]	Cargo [2]	Total [3]
2007	6,989,533	511,763	7,501,296
2008	6,912,126	492,624	7,404,750
2009	6,130,069	421,088	6,551,157
2010	5,410,517	322,267	5,732,784
2011	5,221,002	319,185	5,540,187
2012	5,125,391	268,748	5,394,139
2013	5,213,194	248,067	5,461,261
2014	5,536,594	235,002	5,771,595
2015	5,628,460	236,706	5,865,167
2016	6,113,903	266,344	6,380,248
Annual Compound Growth Rate			
FY 2007 through FY 2016	(1.3%)	(6.3%)	(1.6%)

[1] Includes domestic, international air carriers. Also includes commuter carriers which were previously reported separately.
[2] Includes all-cargo airlines.
[3] Totals may not add due to rounding.

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