

**PRELIMINARY OFFICIAL STATEMENT DATED [MARCH \_\_], 2021****NEW ISSUE—BOOK-ENTRY ONLY****RATINGS**  
(See “RATINGS” herein)

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any Series 2021A Bond for any period that such Series 2021A Bond is held by a “substantial user” of the facilities refinanced by the Series 2021A Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986. Bond Counsel observes, however, that interest on the Series 2021A Bonds is a specific preference item for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Series 2021B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2021 Bonds is exempt from State of California personal income taxes. Bond Counsel further observes that interest on the Taxable Bonds is not excluded from gross income for federal income taxes purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2021 Bonds. See “TAX MATTERS” herein.*

**\$431,790,000\***

**CITY OF SAN JOSE, CALIFORNIA**  
**AIRPORT REVENUE REFUNDING BONDS**



**\$87,435,000\***  
 Series 2021A  
 (AMT)

**\$49,025,000\***  
 Series 2021B  
 (Non-AMT)

**\$295,330,000\***  
 Series 2021C  
 (Taxable)

**Dated: Date of Delivery****Due: March 1, as shown on the inside cover**

The City of San José Airport Revenue Refunding Bonds, Series 2021A (AMT) (the “Series 2021A Bonds”), the City of San José Airport Revenue Refunding Bonds, Series 2021B (Non-AMT) (the “Series 2021B Bonds” and, together with the Series 2021A Bonds, the “Tax-Exempt Bonds”), and the City of San José Airport Revenue Refunding Bonds, Series 2021C (Taxable) (the “Series 2021C Bonds” or the “Taxable Bonds”), are being issued by the City of San José, California (the “City”). The Series 2021A Bonds are being issued (i) to refund all or a portion of the outstanding City of San José Airport Revenue Bonds, Series 2011A-1 (AMT), and (ii) to pay costs of issuing the Series 2021A Bonds. The Series 2021B Bonds are being issued (i) to refund all or a portion of the outstanding City of San José Airport Revenue Bonds, Series 2011A-2 (Non-AMT), and (ii) to pay costs of issuing the Series 2021B Bonds. The Series 2021C Bonds are being issued (i) to refund all or a portion of the outstanding City of San José Airport Revenue Bonds, Series 2011B (Taxable), a portion of the outstanding City of San José Airport Revenue Refunding Bonds, Series 2014A, a portion of the outstanding City of San José Airport Revenue Refunding Bonds, Series 2017A, and a portion of the outstanding City of San José Airport Revenue Refunding Bonds, Series 2017B, (ii) to fund a deposit into the 2021C Account of the Bond Reserve Fund, and (iii) to pay costs of issuing the Series 2021C Bonds. The Tax-Exempt Bonds and the Taxable Bonds are herein referred to collectively as the “Series 2021 Bonds.”

The Series 2021 Bonds are being issued pursuant to the City Charter and pursuant to a Master Trust Agreement between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Series 2021 Bonds are limited obligations of the City payable solely from, and secured by a pledge of, General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operation Costs are paid. The pledge is on a parity with the pledge of General Airport Revenues made to secure Outstanding Bonds and any additional Bonds issued under the Master Trust Agreement. The City has covenanted in the Master Trust Agreement not to issue any obligations secured by a pledge of General Airport Revenues senior to the claim of the Series 2021 Bonds.

Interest on the Series 2021 Bonds will be payable on March 1 and September 1, commencing September 1, 2021. The Series 2021 Bonds are issuable as fully registered bonds and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases and sales of the Series 2021 Bonds may be made in book-entry form only, in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive certificates from the City or the Trustee representing their interest in the Series 2021 Bonds purchased. So long as the Series 2021 Bonds are held by DTC, the principal of, premium, if any, and interest on the Series 2021 Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2021 Bonds, as more fully described herein.

The Series 2021 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as more fully described herein.

**The principal of, premium, if any, and interest on the Series 2021 Bonds are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operation Costs are paid, and the City is not obligated to pay the Series 2021 Bonds except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of, premium, if any, and interest on the Series 2021 Bonds. The Series 2021 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement. The owners of the Series 2021 Bonds have no right to compel the exercise of any taxing power of the City.**

The cover page is not intended to be a summary of the terms of, or the security for, the Series 2021 Bonds. Investors are advised to read this Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

*The Series 2021 Bonds are offered when, as and if issued by the City and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Certain legal matters will be passed upon on behalf of the City by the City Attorney, and certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe LLP as disclosure counsel and Jones Hall, A Professional Law Corporation as pension*

\* Preliminary, subject to change.

disclosure counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. It is expected that the Series 2021 Bonds in book-entry form will be available for delivery through the facilities of DTC on or about \_\_\_\_\_, 2021.

**Tax-Exempt Bonds Underwriting Syndicate**

**Citigroup**

**Morgan Stanley**

**Ramirez & Co., Inc.**

**UBS**

**Taxable Bonds Underwriting Syndicate**

**Morgan Stanley**

**Citigroup**

**Barclays**

**Siebert Williams Shank & Co., LLC**

**Wells Fargo Securities**

Dated: March \_\_, 2021.

**MATURITY SCHEDULE\***

**\$87,435,000\***  
**CITY OF SAN JOSE, CALIFORNIA**  
**AIRPORT REVENUE REFUNDING BONDS**  
**SERIES 2021A (AMT)**

<b><u>Maturity</u></b> <b><u>(March 1)</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP 798136<sup>†</sup></u></b>
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\$\_\_\_\_\_, \_\_\_\_\_% Term Bonds due March 1, 20\_\_\_\_, Yield \_\_\_\_\_%, Price \_\_\_\_\_%, CUSIP No. 798136\_\_\_\_<sup>†</sup>

**\$49,025,000\***  
**CITY OF SAN JOSE, CALIFORNIA**  
**AIRPORT REVENUE REFUNDING BONDS**  
**SERIES 2021B (Non-AMT)**

<b><u>Maturity</u></b> <b><u>(March 1)</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP 798136<sup>†</sup></u></b>
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\$\_\_\_\_\_, \_\_\_\_\_% Term Bonds due March 1, 20\_\_\_\_, Yield \_\_\_\_\_%, Price \_\_\_\_\_%, CUSIP No. 798136\_\_\_\_<sup>†</sup>

\* Preliminary, subject to change.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright © 2021 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

**\$295,330,000\***  
**CITY OF SAN JOSE, CALIFORNIA**  
**AIRPORT REVENUE REFUNDING BONDS**  
**SERIES 2021C (Taxable)**

<u><b>Maturity</b></u> <u><b>(March 1)</b></u>	<u><b>Amount</b></u>	<u><b>Interest Rate</b></u>	<u><b>Price</b></u>	<u><b>CUSIP 798136<sup>†</sup></b></u>
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\$\_\_\_\_\_, \_\_\_\_\_% Term Bonds due March 1, 20\_\_\_\_, Price \_\_\_\_\_%, CUSIP No. 798136\_\_\_\_<sup>†</sup>

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\* Preliminary, subject to change.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright © 2021 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

## **CITY OF SAN JOSE**

### **City Council**

Sam Liccardo, Mayor

District 1:	Chappie Jones, Vice Mayor	District 6:	Dev Davis, Member
District 2:	Sergio Jimenez, Member	District 7:	Maya Esparza, Member
District 3:	Raul Perez, Member	District 8:	Sylvia Arenas, Member
District 4:	David Cohen, Member	District 9:	Pam Foley, Member
District 5:	Magdalena Carrasco, Member	District 10:	Matt Mahan, Member

### **Airport Commission**

Dan Connolly, Chair  
Surjit Bains  
Joe Head  
Catherine Hendrix  
David Cohen

Ken Pyle, Vice Chair  
E. Ronald Blake  
Robert Hencken  
Julie Riera Matsushima  
Allison Stember

### **City Officials**

David Sykes, City Manager  
Toni Taber, City Clerk  
Joe Rois, City Auditor  
Nora Frimann, City Attorney  
John Aitken, Director of Aviation  
Julia Harper Cooper, Director of Finance

### **City Staff**

Judy M. Ross, Assistant Director of Aviation  
Kim Hawk, Deputy Director of Aviation, Finance & Administration  
Robert Lockhart, Deputy Director of Aviation, Operations  
Luz Cofresi-Howe, Assistant Director, Department of Finance  
Nikolai Sklaroff, Director of Debt & Treasury Management  
Joe Gray, Debt Administrator

### **Professional Services**

#### ***Bond Counsel***

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

#### ***Pension Disclosure Counsel***

Jones Hall, A Professional  
Law Corporation  
San Francisco, California

#### ***Municipal Advisors***

Public Financial Management  
San Francisco, California

Public Resources Advisory Group  
Oakland, California

#### ***Disclosure Counsel***

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

#### ***Trustee and Escrow Agent***

The Bank of New York  
Mellon Trust Company, N.A.  
Los Angeles, California

#### ***Verification Agent***

Robert Thomas CPA, LLC  
Minneapolis, Minnesota

***No Offering May Be Made Except by this Official Statement.*** No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by the City or the Underwriters.

***Use of this Official Statement.*** This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2021 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement does not constitute a contract between any owner of the Series 2021 Bonds and the City or the Underwriters.

***Preparation of this Official Statement.*** The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Norman Y. Mineta San José International Airport since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2021 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

***Estimates and Forecasts.*** Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “plan,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

***Document Summaries.*** All summaries of documents contained in this Official Statement 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 Official Statement to a document is qualified in its entirety by reference to such document, which is on file with the City. Copies of documents referred to herein are available from the Finance Department—Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, CA 95113; Phone (408) 535-7010; or by e-mail at [debt.management@sanjoseca.gov](mailto:debt.management@sanjoseca.gov). The City may impose a charge for copying, mailing and handling.

***No Registration or Qualification.*** The issuance and sale of the Series 2021 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and the Master Trust Agreement has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions provided thereunder.

***Airport and City Websites.*** The City maintains a number of websites, including a website for the Airport. However, the information presented on the City’s websites is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2021 Bonds.

***Effects of COVID-19.*** Information regarding the Airport’s finances and operations presented in this Official Statement should be considered in light of the ongoing effects of the COVID-19 pandemic. The COVID-19 pandemic has had, and is expected to continue to have, a substantial adverse effect on such finances and operations, the future extent of which is currently unknown and unpredictable. Current information and expectations about the effects of COVID-19 on the finances and operations of the City and the Airport, including but not limited to the tables presented under “IMPACTS OF THE COVID-19 PANDEMIC—Aviation Activity Planning Scenarios,” are based on current estimates and such information is not intended as a representation of facts or guarantee of future results.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2021 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2021 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2021 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES AND YIELDS STATED ON THE INSIDE COVER PAGE HEREOF, AND THE PUBLIC OFFERING PRICES AND YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS WITHOUT PRIOR NOTICE.**

**INFORMATION CONCERNING OFFERING RESTRICTIONS  
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES IN THIS SECTION TO THE “ISSUER” MEAN THE CITY OF SAN JOSE, CALIFORNIA AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE SERIES 2021 BONDS OFFERED HEREBY.

**NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)**

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SECURITIES TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (“EEA”) WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) REGULATION (EU) 2017/1129 (THE “PROSPECTUS REGULATION”) FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER TO ANY PERSON LOCATED WITHIN A MEMBER STATE OF THE EEA OF THE SECURITIES SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PRODUCE A PROSPECTUS OR SUPPLEMENT FOR SUCH AN OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF SECURITIES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE SECURITIES CONTEMPLATED IN THIS OFFICIAL STATEMENT.

THE OFFER OF ANY SECURITIES WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN ANY MEMBER STATE OF THE EEA, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION) OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 1(4) OF THE PROSPECTUS REGULATION, SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER OR THE CORPORATION FOR ANY SUCH OFFER; PROVIDED THAT NO SUCH OFFER OF THE SECURITIES SHALL REQUIRE THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS REGULATION OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 23 OF THE PROSPECTUS REGULATION.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE SECURITIES IN ANY MEMBER STATE OF THE EEA MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE SECURITIES.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” AS DEFINED IN THE PROSPECTUS REGULATION. THE CORPORATION AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT



(10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“**FSMA**”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

#### **NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG**

THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED OR APPROVED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE BONDS. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFERING CONTEMPLATED IN THIS OFFICIAL STATEMENT. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS OFFICIAL STATEMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS THIS THIS OFFICIAL STATEMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS (AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CHAPTER 32 OF THE LAWS OF HONG KONG)) (“C(WUMP)O”) IN HONG KONG NOR HAS IT BEEN REVIEWED OR APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (“SFO”). THE BONDS (EXCEPT FOR BONDS WHICH ARE A “STRUCTURED PRODUCT” AS DEFINED IN THE SFO MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF ANY DOCUMENT OTHER THAN (I) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE C(WUMP)O OR (II) TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER, OR (III) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A “PROSPECTUS” AS DEFINED IN THE C(WUMP)O, AND NO ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS MAY BE ISSUED OR MAY BE IN THE POSSESSION OF ANY PERSON FOR THE PURPOSE OF ISSUE (IN EACH CASE WHETHER IN HONG KONG OR ELSEWHERE), WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE

DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE AND ANY RULES MADE THEREUNDER.

### **NOTICE TO INVESTORS IN SWITZERLAND**

THIS OFFICIAL STATEMENT IS NOT INTENDED TO CONSTITUTE AN OFFER OR SOLICITATION TO PURCHASE OR INVEST IN THE BONDS. THE BONDS MAY NOT BE PUBLICLY OFFERED, SOLD OR ADVERTISED, DIRECTLY OR INDIRECTLY, IN, INTO OR FROM SWITZERLAND WITHIN THE MEANING OF THE SWISS FINANCIAL SERVICES ACT (“FINSA”) AND NO APPLICATION HAS OR WILL BE MADE TO ADMIT THE BONDS TO TRADING ON ANY TRADING VENUE (EXCHANGE OR MULTILATERAL TRADING FACILITY) IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS CONSTITUTES A PROSPECTUS OR A KEY INFORMATION DOCUMENT AS SUCH TERMS ARE UNDERSTOOD PURSUANT TO THE FINSA OR A LISTING PROSPECTUS WITHIN THE MEANING OF THE LISTING RULES OF THE SIX SWISS EXCHANGE LET. OR ANY OTHER REGULATED TRADING FACILITY IN SWITZERLAND, AND NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

ACCORDINGLY, THIS OFFICIAL STATEMENT IS COMMUNICATED IN OR FROM SWITZERLAND TO A LIMITED NUMBER OF SELECTED INVESTORS ONLY. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE OFFERING, NOR THE ISSUER, NOR THE BONDS HAVE BEEN OR WILL BE FILED WITH OR APPROVED BY ANY SWISS REGULATORY AUTHORITY.

THE BONDS DO NOT CONSTITUTE COLLECTIVE INVESTMENTS SCHEMES WITHIN THE MEANING OF THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES. THE BONDS ARE NOT SUBJECT TO AUTHORIZATION OR SUPERVISION BY THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY (FINMA). INVESTORS ARE EXPOSED TO THE DEFAULT RISK OF THE ISSUER.

### **NOTICE TO INVESTORS IN SINGAPORE**

NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH ANY OFFER OF THE BONDS HAS BEEN AND WILL NOT BE LODGED OR REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE (“MAS”) UNDER THE *SECURITIES AND FUTURES ACT (CAP. 289) OF SINGAPORE* (“SFA”). ACCORDINGLY, MAS ASSUMES NO RESPONSIBILITY FOR THE CONTENTS OF THIS OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT IS NOT A PROSPECTUS AS DEFINED IN THE SFA AND STATUTORY LIABILITY UNDER THE SFA IN RELATION TO THE CONTENTS OF PROSPECTUSES WOULD NOT APPLY. PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY WHETHER THE INVESTMENT IS SUITABLE FOR IT.

THIS OFFICIAL STATEMENT AND ANY OTHER DOCUMENT OR MATERIAL USED IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF THE BONDS MAY NOT BE CIRCULATED OR DISTRIBUTED, NOR MAY THE BONDS BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR AS DEFINED IN THE SFA PURSUANT TO SECTION 274 OF THE SFA, (II) TO A RELEVANT PERSON PURSUANT TO SECTION 275(1), OR ANY OTHER PERSON PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275, OF THE SFA WHERE EACH SUCH PERSON IS (1) AN EXPERT INVESTOR (AS DEFINED THE SFA) OR (2) NOT AN INDIVIDUAL.

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON THAT IS:

(A) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

(B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR, SECURITIES OR SECURITIES-BASED DERIVATIVES CONTRACTS (EACH AS DEFINED IN THE SFA) OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE BONDS PURSUANT TO AN OFFER MADE UNDER SECTION 275 OF THE SFA EXCEPT:

(1) TO AN INSTITUTIONAL INVESTOR OR TO A RELEVANT PERSON AS DEFINED IN THE SFA, OR TO ANY PERSON ARISING FROM AN OFFER REFERRED TO IN SECTION 275(1A) OR SECTION 276(4)(I)(B) OF THE SFA;

(2) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER;

(3) WHERE THE TRANSFER IS BY OPERATION OF LAW;

(4) AS SPECIFIED IN SECTION 276(7) OF THE SFA; OR

(5) AS SPECIFIED IN REGULATION 37A OF THE SECURITIES AND FUTURES (OFFERS OF INVESTMENTS) (SECURITIES AND SECURITIES-BASED DERIVATIVES CONTRACTS) REGULATIONS 2018 OF SINGAPORE.

IN CONNECTION WITH SECTION 309B OF THE SFA AND THE SECURITIES AND FUTURES (CAPITAL MARKETS PRODUCTS) REGULATIONS 2018 OF SINGAPORE (THE "CMP REGULATIONS 2018"), ALL RELEVANT PERSONS (AS DEFINED IN SECTION 309A(1) OF THE SFA) ARE HEREBY NOTIFIED THAT THE BONDS ARE 'PRESCRIBED CAPITAL MARKETS PRODUCTS'(AS DEFINED IN THE CMP REGULATIONS 2018) AND ARE EXCLUDED INVESTMENT PRODUCTS (AS DEFINED IN MAS NOTICE SFA 04-N12: NOTICE ON THE SALE OF INVESTMENT PRODUCTS AND MAS NOTICE FAA-N16: NOTICE ON RECOMMENDATIONS ON INVESTMENT PRODUCTS).

NOTHING SET OUT IN THIS NOTICE SHALL BE CONSTRUED AS LEGAL ADVICE AND EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL COUNSEL. THIS NOTICE IS FURTHER SUBJECT TO THE PROVISIONS OF THE SFA AND ITS REGULATIONS, AS THE SAME MAY BE AMENDED OR CONSOLIDATED FROM TIME TO TIME, AND DOES NOT PURPORT TO BE EXHAUSTIVE IN ANY RESPECT.

#### **NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN (THE REPUBLIC OF CHINA)**

THE OFFER OF THE BONDS HAS NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY, THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN (THE "FSC") AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS OF TAIWAN, AND THE BONDS, INCLUDING ANY COPY OF THIS OFFICIAL STATEMENT OR ANY OTHER DOCUMENTS RELATING TO THE BONDS, MAY NOT BE OFFERED, ISSUED OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN THAT REQUIRES THE REGISTRATION OR FILING WITH OR APPROVAL OF THE FSC. NO PERSON OR ENTITY IN TAIWAN HAS BEEN AUTHORIZED TO OFFER, SELL, DISTRIBUTE, GIVE ADVICE REGARDING OR OTHERWISE

INTERMEDIATE THE OFFERING, SALE OR DISTRIBUTION OF THE BONDS UNLESS THE BONDS OFFERED OR SOLD TO INVESTORS IN TAIWAN ARE OTHERWISE THROUGH TAIWAN LICENSED FINANCIAL INSTITUTIONS TO THE EXTENT PERMITTED UNDER RELEVANT TAIWAN LAWS OR REGULATIONS. THE BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE BY INVESTORS RESIDING IN TAIWAN (EITHER DIRECTLY OR THROUGH PROPERLY LICENSED TAIWAN INTERMEDIARIES). ANY SUBSCRIPTIONS OF BONDS SHALL ONLY BECOME EFFECTIVE UPON ACCEPTANCE BY THE ISSUER OR THE RELEVANT DEALER OUTSIDE TAIWAN AND SHALL BE DEEMED A CONTRACT ENTERED INTO IN THE JURISDICTION OF INCORPORATION OF THE ISSUER OR RELEVANT DEALER, AS THE CASE MAY BE, UNLESS OTHERWISE SPECIFIED IN THE SUBSCRIPTION DOCUMENTS RELATING TO THE BONDS SIGNED BY THE INVESTORS. TAIWAN INVESTORS WHO SUBSCRIBE AND PURCHASE THE BONDS SHALL COMPLY WITH ALL RELEVANT SECURITIES, TAX AND FOREIGN EXCHANGE LAWS AND REGULATIONS IN EFFECT IN TAIWAN.

### **NOTICE TO INVESTORS IN JAPAN**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (NO. 25 OF 1948, AS AMENDED, THE “FIEA”). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY “RESIDENT” OF JAPAN (AS DEFINED UNDER ITEM 5, PARAGRAPH 1, ARTICLE G OF THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT (ACT NO. 228 OF 1949, AS AMENDED)), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEA AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEA. AS IT IS A PRIMARY OFFERING, IN JAPAN, THE BONDS MAY ONLY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF CERTAIN QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED IN THE FIEA (“QIIS”). A QII WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

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## **OFFICIAL STATEMENT**

### **RELATING TO**

**\$431,790,000\***  
**CITY OF SAN JOSE, CALIFORNIA**  
**AIRPORT REVENUE REFUNDING BONDS**

**\$87,435,000\***  
**Series 2021A (AMT)**

**\$49,025,000\***  
**Series 2021B (Non-AMT)**

**\$295,330,000\***  
**Series 2021C (Taxable)**

### **INTRODUCTION**

#### **General**

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and appendices, is to provide information concerning the sale and delivery by the City of San José, California (the “City”) of \$87,435,000\* aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2021A (AMT) (the “Series 2021A Bonds”), \$49,025,000\* aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2021B (Non-AMT) (the “Series 2021B Bonds” and, together with the Series 2021A Bonds, the “Tax-Exempt Bonds”), and \$295,330,000\* aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2021C (Taxable) (the “Series 2021C Bonds” or the “Taxable Bonds”). The Tax-Exempt Bonds and the Taxable Bonds are herein referred to collectively as the “Series 2021 Bonds.”

Pursuant to Sections 200 and 1220 of the Charter of the City of San José (the “City Charter”), the City has the power to issue revenue bonds for airport facilities. The Series 2021 Bonds are to be issued and secured pursuant to the City Charter and Chapter 4.38 of the City Municipal Code (collectively, the “Law”) and pursuant to the Master Trust Agreement, dated as of July 1, 2001, between the City and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company, as trustee (the “Trustee”), as supplemented by the First Supplemental Trust Agreement, dated as of July 1, 2001 (the “First Supplemental Trust Agreement”), by the Second Supplemental Trust Agreement, dated as of December 1, 2002 (the “Second Supplemental Trust Agreement”), by the Third Supplemental Trust Agreement and the Fourth Supplemental Trust Agreement, each dated as of June 1, 2004 (respectively, the “Third Supplemental Trust Agreement” and the “Fourth Supplemental Trust Agreement”), by the Fifth Supplemental Trust Agreement, dated as of September 1, 2007 (the “Fifth Supplemental Trust Agreement”), by the Sixth Supplemental Trust Agreement, dated as of May 1, 2009 (the “Sixth Supplemental Trust Agreement”), by the Seventh Supplemental Trust Agreement, dated as of July 1, 2011 (the “Seventh Supplemental Trust Agreement”), by the Eighth Supplemental Trust Agreement, dated as of December 1, 2011 (the “Eighth Supplemental Trust Agreement”), by the Ninth Supplemental Trust Agreement, dated as of November 1, 2012 (the “Ninth Supplemental Trust Agreement”), by the Tenth

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\* Preliminary, subject to change.

Supplemental Trust Agreement, dated as of October 1, 2014 (the “Tenth Supplemental Trust Agreement”), by the Eleventh Supplemental Trust Agreement, dated as of April 1, 2017 (the “Eleventh Supplemental Trust Agreement”), and by the Twelfth Supplemental Trust Agreement, to be dated as of April 1, 2021 (the “Twelfth Supplemental Trust Agreement”), each between the City and the Trustee (collectively, the “Master Trust Agreement”). All capitalized terms used in this Official Statement, unless otherwise defined herein, have the meanings assigned to such terms in the Master Trust Agreement. See “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT—Certain Definitions” in Appendix C.

## **Purpose of the Series 2021 Bonds**

The Series 2021 Bonds are being issued to refund certain outstanding City of San José Airport Revenue Bonds and Airport Revenue Refunding Bonds (collectively, and as further defined below, the “Refunded Bonds”), to make a deposit into the 2021C Account of the Bond Reserve Fund, and to pay costs of issuing the Series 2021 Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF PROCEEDS.”

## **The City and the Airport**

The City is the third largest city in California and the tenth largest city in the United States based on its population of 1,049,187 as of January 1, 2020 (as reported by the California Department of Finance). The territory of the City encompasses approximately 181 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the “County”).

The Norman Y. Mineta San José International Airport (the “Airport”) is a commercial service and general aviation airport owned and operated by the City. The Airport is classified by the Federal Aviation Administration (the “FAA”) as a “medium hub” airport (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The Airport is located approximately four miles north of downtown San José and serves the California counties of Alameda, Monterey, San Benito, San Mateo, Santa Clara and Santa Cruz (the “Air Service Area”).

Eight passenger airlines and two air cargo carriers provided scheduled service at the Airport as of December 31, 2020. As of that date, the Airport had one international carrier. Passenger airlines serving the Airport and leasing space directly from the City are operating at the Airport pursuant to the terms of an operating agreement and terminal building lease with the City (the “Airline Lease Agreement”). All passenger airlines are operating at the Airport as Signatory Airlines (as defined in Appendix A), except for Frontier Airlines, which has executed a non-signatory agreement. British Airways was also operating as a Non-Signatory Airline before temporarily suspending its service at the Airport as of March 2020. See “LEASE AND OPERATING AGREEMENTS—Airline Agreements” in Appendix A.

Total enplaned passengers (passengers embarking on airplanes) at the Airport grew from approximately 4.2 million in fiscal year (July 1 to June 30) 2012-13 to approximately 5.1 million by fiscal year 2015-16, reflecting a compound annual growth rate of 6.3%. Between fiscal year 2016-17 and fiscal year 2018-19 enplaned passengers grew from approximately 5.7 million to approximately 7.5 million, reflecting a compound annual growth rate of 14.0%. Between fiscal year 2012-13 and fiscal year 2018-19, the Airport’s Bay Area market share increased four points, from 13.4% to 17.4%. For information relating to the Airport’s historical Bay Area market share, see “PASSENGER SERVICES AND OPERATIONS—Passenger Services” in Appendix A. The COVID-19 (defined below) pandemic, which broke out in early 2020, has had, and likely will continue to have, significant adverse effects on passenger traffic and Airport operations and financial performance. See “IMPACTS OF THE COVID-19 PANDEMIC” and



“CERTAIN FACTORS AFFECTING THE AIRPORT—Effect of COVID-19 Pandemic.” In the City’s fiscal year 2019-20, the Airport served approximately 5.7 million enplaned passengers, reflecting a 24.1% decrease from the approximately 7.5 million enplaned passengers in fiscal year 2018-19.

Despite the decline in enplaned passengers in fiscal year 2019-20, the Airport’s Bay Area market share increased to 18.4% in fiscal year 2019-20. See “PASSENGER SERVICES AND OPERATIONS—Passenger Services” in Appendix A. The City estimates that approximately 92.9% of enplaned passengers at the Airport in fiscal year 2019-20 and approximately 94.5% of enplaned passengers at the Airport in fiscal year 2018-19 were passengers beginning their trips at the Airport (often referred to as “origin and destination” or “O&D” passengers), as opposed to passengers connecting through the Airport to other cities. See “CERTAIN FACTORS AFFECTING THE AIRPORT” below and “PASSENGER SERVICES AND OPERATIONS” in Appendix A.

### **Security for the Series 2021 Bonds**

The Series 2021 Bonds are limited obligations of the City secured by a pledge of General Airport Revenues (defined below) and certain other funds held or made available under the Master Trust Agreement, after the payment of Maintenance and Operation Costs (defined below). As of March 2, 2021, the City had outstanding its City of San José Airport Revenue Bonds, Series 2011A-1 (the “Series 2011A-1 Bonds”) and Series 2011A-2 (the “Series 2011A-2 Bonds” and, together with the Series 2011A-1 Bonds, the “Series 2011A Bonds”), City of San José Airport Revenue Bonds, Series 2011B (the “Series 2011B Bonds”), City of San José Airport Revenue Refunding Bonds, Series 2014A (AMT) (the “Series 2014A Bonds”), Series 2014B (Non-AMT) (the “Series 2014B Bonds”) and Series 2014C (Non-AMT) (the “Series 2014C Bonds” and, together with the Series 2014A Bonds and the Series 2014B Bonds, the “Series 2014 Bonds”), and City of San José Airport Revenue Refunding Bonds, Series 2017A (AMT) (the “Series 2017A Bonds”) and Series 2017B (Non-AMT) (the “Series 2017B Bonds” and, together with the Series 2017A Bonds, the “Series 2017 Bonds”) in a total aggregate principal amount of \$1,094,485,000 (including \$1,026,190,000 aggregate principal amount of the Series 2011A-1 Bonds, the Series 2011A-2 Bonds, the Series 2011B Bonds, the Series 2014A Bonds, the Series 2017A Bonds, and the Series 2017B Bonds, all or a portion of which will be refunded with proceeds of the Series 2021 Bonds). See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE.”

On October 2, 1984, the City Council of the City of San José (the “City Council”) adopted Resolution No. 57794 providing for the issuance of City of San José airport revenue bonds (the “1984 Resolution”). On June 26, 2001, the City Council adopted a resolution amending and restating the 1984 Resolution as the Master Trust Agreement. Any Series 2011A Bonds, Series 2011B Bonds, Series 2014 Bonds and Series 2017 Bonds that remain outstanding following the issuance of the Series 2021 Bonds (collectively, the “Outstanding Bonds”) will be secured under the Master Trust Agreement on a parity with the Series 2021 Bonds. See “PLAN OF REFUNDING.” The Series 2021 Bonds, together with the Outstanding Bonds and any other future parity bond obligations issued under the Master Trust Agreement (the “Additional Bonds”), are referred to in this Official Statement as the “Bonds.” See “SECURITY FOR THE BONDS.”

**The principal of, premium, if any, and interest on the Bonds, including the Series 2021 Bonds, are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operation Costs are paid, and the City is not obligated to pay the Bonds except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of, premium, if any, and interest on the Bonds. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income**

**or receipts, except the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement. The Owners of the Bonds have no right to compel the exercise of any taxing power of the City. See “SECURITY FOR THE BONDS.”**

### **Continuing Disclosure**

The City is covenanting for the benefit of the Holders and Beneficial Owners of the Series 2021 Bonds to provide certain financial information and operating data and to give notices of certain events, if material, to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE.”

### **Potential for Bond Insurance**

The City may apply for municipal bond insurance to guarantee the scheduled payment of principal of and interest on one or more Series and maturities of the Series 2021 Bonds and will determine prior to the sale of the Series 2021 Bonds whether to obtain such insurance for one or more Series and maturities of the Series 2021 Bonds. In the event that municipal bond insurance is obtained for one or more Series and maturities of the Series 2021 Bonds (the “Insured Obligations”), then, notwithstanding anything to the contrary described in the Official Statement, the City will covenant (1) to provide the Municipal Bond Insurer with all notices and other information it is obligated to provide (i) under the Continuing Disclosure Certificate to be entered into with respect to the Series 2021 Bonds, and (ii) to the Holders of the Insured Obligations or the Trustee; (2) to obtain the consent of the Municipal Bond Insurer wherever the Master Trust Agreement requires the consent of the Bondholders; (3) to obtain the prior written consent of the Municipal Bond Insurer should any amendment, supplement or modification to the Master Trust Agreement adversely affect the rights or interest of the Municipal Bond Insurer; (4) upon the occurrence and continuance of a default or an event of default under the Master Trust Agreement, the Municipal Bond Insurer will be deemed the sole Holder of the Insured Obligations for all purposes and will be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Insured Obligations, provided that if the Municipal Bond Insurer has not made any payment under the municipal bond insurance policy, the Municipal Bond Insurer will have no further consent rights until such default is remedied; (5) that the Municipal Bond Insurer will be deemed to be a third party beneficiary of the Master Trust Agreement; and (6) to the extent the Municipal Bond Insurer makes payments directly or indirectly on account of principal of or interest on the Insured Obligations, the Municipal Bond Insurer will be subrogated to the rights of the Holders of the Insured Obligations to receive the amount of such principal and interest from the City, with interest thereon, as provided and solely from the sources stated in the Master Trust Agreement, and such Insured Obligations will remain Outstanding for all purposes and not be deemed to be defeased or otherwise satisfied or paid by the City.

### **Forward-Looking Statements**

**Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “plan,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.**

## **Miscellaneous**

The summaries of or references to the Master Trust Agreement, the Series 2021 Bonds, the Airline Lease Agreement and all other documents and instruments referred to in this Official Statement do not purport to be comprehensive or definitive. Each reference to any of the foregoing is qualified in its entirety by reference to each such document or instrument, copies of which are available for inspection at the Finance Department—Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, CA 95113.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Airport or the City since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the City and purchasers or owners of any of the Series 2021 Bonds.

## **IMPACTS OF THE COVID-19 PANDEMIC**

### **General**

The outbreak of a new strain of coronavirus (together with variants thereof, “COVID-19”) has spread to numerous countries across the globe, including the United States. The World Health Organization has characterized the spread of COVID-19 as a pandemic. The worldwide outbreak of COVID-19 has caused significant disruptions to domestic and international air travel, including passenger, cargo and general aviation operations, and has had significant negative effects on the economies of the Air Service Area, the State of California (the “State”), the nation, and the world.

The former President of the United States, the Governor of the State (the “Governor”), the Board of Supervisors of the County, and the City Council all have declared states of emergency as a result of the COVID-19 pandemic. The United States and certain state and local governments, and governments of foreign countries, have at times closed borders to non-essential travel and issued other travel restrictions and warnings, such as requiring travelers to self-isolate or quarantine for up to 14 days upon arrival, further depressing air travel demand. On March 16, 2020, the former President of the United States issued the Coronavirus Guidelines for America, calling upon Americans to take actions to slow the spread of COVID-19 in the United States, including, among other things, avoiding discretionary travel. Various state and local governments and agencies and others have also imposed restrictions on travel (including state-level restrictions requiring travelers to self-isolate for up to 14 days upon arrival), restricted public gatherings and large group events, ordered residents to stay at home, promoted or required telecommuting, and ordered closure of schools, restaurants, bars, and other public venues. The State and several counties in the Air Service Area have issued directives for all people to stay at home except to meet essential needs or to work to provide essential services (“stay-at-home directives”). From time to time, some of such stay-at-home directives have been revised to allow for limited commercial activity (such as outdoor restaurant service) and social interaction among small, consistent groups during periods in which the spread of COVID-19 has slowed. The City cannot predict whether the easing of such restrictions will continue, or when and whether more stringent restrictions will be implemented. The duration of these directives, even those with specified end dates, is not known with any level of certainty.

The COVID-19 outbreak and resulting social and business restrictions have severely disrupted, and continue to disrupt, the economies of the United States and foreign countries. Moreover, increased business failures, worker layoffs, and consumer and business bankruptcies have occurred and may continue to occur in the future. The adverse economic impacts of the COVID-19 outbreak, and the imposition of

stay-at-home directives, have acutely impacted airports as they have resulted in substantial reductions in passenger volume and flights. The COVID-19 outbreak has also adversely affected domestic and international travel and travel-related industries, as airlines have reported unprecedented reductions in passenger volume and expect these reductions to continue. In response, airlines have reduced flights in an attempt to match capacity to the reduced demand for air travel.

The United States government, the Federal Reserve, and foreign governments are taking statutory and regulatory actions and implementing further measures to mitigate the broad disruptive effects of the COVID-19 outbreak on the United States and global economies. The federal Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which became law on March 27, 2020, is one of the actions taken to address the crisis created by the COVID-19 pandemic. The CARES Act provided two types of funding for airports. Direct aid for airports, which must be used to reimburse amounts spent for any lawful airport purpose, is included in the CARES Act. On April 7, 2020, the City Council authorized the City Manager of the City to apply for and accept all available CARES Act funds for the Airport, and on April 14, 2020, the FAA announced that it would grant approximately \$65.6 million of direct aid funds to the Airport. This grant funding was received in fiscal year 2019-20. The Airport expects to use approximately \$53.5 million of the CARES Act funds to reimburse operating expenses incurred in fiscal year 2020-21, and expects to use the remaining approximately \$12.1 million to reimburse operating expenses in fiscal year 2021-22. In addition, the CARES Act includes a provision increasing the federal share of all federal fiscal year 2020 (ending September 30, 2020) Airport Improvement Program (“AIP”) grants to 100 percent. This provision resulted in approximately \$1.2 million in additional funding for the Airport for its federal fiscal year 2020 grant-funded projects. Every sponsor of an airport receiving funds under the CARES Act (including the City as sponsor of the Airport) was required to employ, through December 31, 2020, at least 90 percent of the number of individuals employed (after making adjustments for retirements or voluntary employee separations) at the sponsored airport as of the date of enactment of the CARES Act. The FAA requires CARES Act grantees to submit quarterly reports of employment levels. The Airport’s most recent quarterly report to the FAA stated that, as of December 31, 2020, after permitted adjustments, the City was compliant with this employment requirement. The CARES Act also provides for direct aid, loans, and loan guaranties for passenger and cargo airlines and other contractors that employ air carrier industry workers, contingent on their compliance with various requirements specified in the CARES Act.

On December 27, 2020, the former President of the United States signed the Consolidated Appropriations Act, 2021 (the “Appropriations Act”), a \$2.3 trillion spending bill which includes \$900 billion in COVID-19 relief funding. The Appropriations Act contains two types of funding relevant to the Airport. First, the Appropriations Act provides \$15 billion in financial assistance to passenger air carriers that is to be used exclusively for the “continuation of payment of employee wages, salaries, and benefits.” The Appropriations Act also includes an additional \$1 billion for the “continuation of payment of employee wages, salaries, and benefits” of aviation contractors that perform catering services or functions on the property of an airport directly related to air transportation. Second, the Appropriations Act provides for an additional amount for grants-in-aid for airports of \$2 billion “to prevent, prepare for, and respond to coronavirus.” Of this amount, \$1.75 billion is made available for primary airports (defined as those commercial service airports that the Secretary of the United States Department of Transportation determines to have more than 10,000 passenger boardings each year, including the Airport) to pay for costs “related to operations, personnel, cleaning, sanitization, janitorial services, combating the spread of pathogens at the airport, and debt service payments.” Furthermore, \$200 million of the grants-in-aid for airports are made available to sponsors of primary airports “to provide relief from rent and minimum annual guarantees to airport car rental, on-airport parking, and in-terminal concessions” located at such airports, which funds are to be distributed to such airports based on the airport’s total passenger enplanements compared to the total passenger enplanements at all airports. On February 12, 2021, the FAA announced that the Airport is eligible to receive a total of approximately \$15.1 million under the Appropriations Act, consisting of approximately \$11.0 million in new grant-in-aid funding, approximately

\$2.4 million in unallocated CARES Act funding, and approximately \$1.6 million in concessions relief funding. Following receipt, the Airport plans to use approximately \$13.4 million of such funding to pay debt service or other eligible operating expenses and approximately \$1.6 million to provide relief to concessionaires at the Airport.

Legislation has been introduced in the United States Congress, or is under public discussion, that would provide new and/or additional financial relief to individuals, businesses and organizations affected financially by the COVID-19 pandemic and related restrictions on activity, including potential additional relief to airlines and airports. The Airport cannot predict whether additional federal financial support will be made available to airports (including the Airport) or airlines in the future, under what conditions, or whether the Airport would accept any such available support. The Airport may seek other available sources of aid that become available in the future.

This section describes some of the impacts that the COVID-19 pandemic has had on the Airport's passenger traffic, finances and operations, and some of the actions that the Airport has taken or is taking in response. Additional information about the impact of and response to the COVID-19 pandemic appears elsewhere in this Official Statement. The COVID-19 pandemic has also resulted in substantial financial challenges for airlines serving the Airport, including substantial financial losses and announcements warning of layoffs or reductions in workforce. Information about airlines can be obtained as described under "CERTAIN FACTORS AFFECTING THE AIRPORT—Uncertainties of the Airline Industry."

### **Summary of the Airport's Actions in Response to COVID-19**

The COVID-19 pandemic has had, and is continuing to have, a substantial adverse impact on aircraft operations, passenger volumes and revenues at the Airport during fiscal year 2019-20 and fiscal year 2020-21. In addition, many of the Airport's tenants have requested and continue to request financial relief. Accordingly, the Airport and, in some cases, the City Council, have taken the following responsive actions:

- Identified cost reductions from the adopted budget in the amount of approximately \$13 million in fiscal year 2019-20 and approximately \$11 million in fiscal year 2020-21, which amounts are comprised of operating expense reductions. The COVID-19 pandemic was first identified early in calendar year 2020, after the Airport had submitted to the City its fiscal year 2020-21 operating budget. After the COVID-19 pandemic began, the Airport reduced its original operating budget figures by approximately \$10 million and re-submitted to the City. These reduced figures were included in the City's adopted fiscal year 2020-21 operating budget. There is no assurance that the City Council would have approved the Airport's original fiscal year 2020-21 operating budget. In fiscal year 2021-22, the Airport has planned cost reductions, including approximately \$47 million of projected debt service reductions in fiscal year 2021-22 through the issuance of the Series 2021 Bonds and refunding of the Refunded Bonds, among other measures. One of the Airport's objectives for issuance of the Series 2021 Bonds and the refunding of the Refunded Bonds, in addition to overall debt service savings, is to keep annual debt service at approximately the same reduced level through fiscal year 2022-23.
- Submitted grant reimbursement requests under the CARES Act. The Airport received a total of approximately \$65.6 million under the CARES Act for expense reimbursement, which amount is in addition to the federal grant matching share for projects approved in federal fiscal year 2019-20. The Airport did not use any of the CARES Act funding in fiscal year 2019-20. Instead, the Airport expects to use approximately \$53.5 million to reimburse operating expenses incurred in fiscal year 2020-21, and expects to use the remaining approximately \$12.1 million to reimburse operating

expenses in fiscal year 2021-22. The Airport has requested reimbursement under the CARES Act and, as of January 31, 2021, has received a total of approximately \$26.7 million.

- Submitted grant requests under the Appropriations Act. In February 2021, the FAA announced that the Airport is eligible to receive a total of approximately \$15.1 million under the Appropriations Act, including approximately \$11.0 million in new grant-in-aid funding, approximately \$2.4 million in unallocated CARES Act funding, and approximately \$1.6 million in concessions relief funding. Following receipt, the Airport plans to use approximately \$13.4 million of such funding to pay debt service or other eligible operating expenses and approximately \$1.6 million to provide relief to concessionaires at the Airport. The Airport expects to receive such funds in fiscal year 2020-21 and fiscal year 2021-22.
- Suspended or reduced the scope of certain capital projects that could be scaled back or delayed to future periods based on the operational needs of the Airport. These actions are projected to have reduced outlays compared to the adopted budget by approximately \$19 million in fiscal year 2019-20 and by approximately \$6 million in fiscal year 2020-21. The COVID-19 pandemic was first identified early in calendar year 2020, after the Airport had submitted to the City its fiscal year 2020-21 capital budget. After the COVID-19 pandemic began, the Airport reduced its original capital budget figures by approximately \$3 million and re-submitted to the City. These reduced figures were included in the City's adopted fiscal year 2020-21 capital budget. There is no assurance that the City Council would have approved the Airport's original fiscal year 2020-21 capital budget. The Airport may decide to resume these projects at a future date.
- Received approval from the City Council to provide immediate financial relief to the airlines operating at the Airport by temporarily extending the due date for all landing fees and terminal related rents, fees and charges that would have been due in April through September 2020. The Airport offered to extend the otherwise applicable due dates for April, May, and June 2020 fixed space rents to June 30, 2020, and to extend the otherwise applicable due dates for activity-based fees for April, May, and June 2020 to 60-day payment terms. For the period of July through September 2020, the Airport extended the due dates for fixed space rents to various dates during fiscal year 2020-21 and extended the activity-based fees to 60-day payment terms. [To be updated after final deferred payments become due March 1].
- Modified the Airport's airline support program to provide waivers of landing fees and federal inspection facilities fees for airlines that restart international flights that were suspended during the COVID-19 pandemic.
- Increased the airline rates, which include the landing fee rates and all terminal rates, by 15% on February 1, 2021 for the final five months of fiscal year 2020-21. This rate increase is considered a mid-year adjustment permitted under the Airline-Airport Lease and Operating Agreement, subject to certain conditions. See "Rentals, Fees and Charges—Terminal Rents—*Adjustments*" in Appendix G.
- On January 5, 2021, the City Council approved an increase of the level of customer facility charges that the on-Airport rental car companies collect from their passengers and remit to the City ("CFCs") to pay rental car customer transportation costs and debt service on Series 2011B Bonds, which financed the Consolidated Rental Car Facility (the "ConRAC"), from a maximum of \$7.50 per day to a maximum of \$9.00 per day, up to a maximum of five days per rental car contract, effective April 1, 2021. See "LEASE AND OPERATING AGREEMENTS—Customer Facility Charges" in Appendix A.

- Provided amendments for concession lease agreements to suspend the Minimum Annual Guarantee (“MAG”) from April 1, 2020 to December 31, 2020 for terminal and ConRAC concessions, with rent based on the activity-based percentage rent as provided in each concession lease agreement for April 2020 through June 2020. For July 2020 through December 2020, (a) each on-Airport rental car company that agreed to the amendment paid concession fees equal to its pro-rata share, based on 2019 market share (January through December 2019), of \$700,000; and (b) all other non-airline tenants that agreed to the amendment paid concession fees at two percentage points (2%) above the activity-based percentage rent as provided in each concession lease agreement. In January 2021, the City Council authorized amendments to extend the term of the MAG abatement through June 30, 2021, at the discretion of the Director of Aviation of the City (the “Director”). The amendments will provide a MAG waiver from January 2021 through March 2021 for the terminal and ConRAC concessions. For terminal concessions, the amendments will waive the contributions to the marketing and customer service fund through June 30, 2021. All other terms and conditions defined in the concession lease agreements have remained in effect, and all other contract terms will revert back to the original contract terms following the expiration of the MAG abatement period. The Director has not yet determined whether additional amendments affecting the applicable due dates from April 2021 through June 2021 will be executed for concession tenants. The revenue impact of the amendments, in addition to the lost revenue due to a reduction in passenger levels, was approximately \$6 million in fiscal year 2019-20 and is currently estimated to be approximately \$12 million in fiscal year 2020-21.
- Temporarily closed the Interim Facility (consisting of Gates 31 through 36) in February 2021. Prior to February 2021, while no gates were temporarily closed, flight operations had been consolidated in the main part of the terminal. Frequently the gates at both Terminal A+ (consisting of Gates 1 through 5) and the Interim Facility are not used, but those gates are available when necessary. See “THE CITY AND THE AIRPORT DEPARTMENT—General” in Appendix A. The limited use and temporary closure of these eleven gates has contributed to operating expense reductions. When air traffic recovers, the Airport may re-open some gates.
- The Airport is utilizing its building management system to manage energy usage to reduce operating costs in those portions of the terminals where there is reduced air traffic as well as in the administrative offices while many staff members are working from home.
- In January 2021, the Airport received the Global Biorisk Advisory Council (“GBAC”) STAR Facility accreditation, which is awarded to facilities maintaining the highest levels of cleanliness and safety as determined by GBAC. The Airport was the first airport in California to earn such accreditation. To achieve GBAC STAR Facility accreditation, a facility must demonstrate compliance with the program’s twenty elements, which range from standard operating procedures and risk assessment strategies to personal protective equipment, and emergency preparedness and response measures.
- The Airport has implemented the following measures to promote the health and safety of the passengers and employees at the Airport:
  - Required social distancing in public areas, and installed signage to remind individuals to follow social distancing guidelines. The Airport has also implemented the sanitation of high-touch areas and provided hand sanitizer and sanitizing wipes in such areas, and crafted and installed acrylic shields for airline ticket counters, gate areas, and other customer service delivery points.

- As a service available to all traveling passengers, the Airport initiated onsite COVID-19 testing in December 2020. Carbon Health, a technology-enabled healthcare provider, currently administers rapid polymerase chain reaction (PCR) COVID-19 testing, and charges travelers \$170 per test for this service. In addition, WorkSite Labs now offers COVID-19 testing exclusively to Hawaiian Airlines passengers who have coordinated such testing through Hawaiian Airlines' website, at a cost of \$90 per test. As of February 1, 2021, Southwest Airlines contracted with a third vendor, CityHealth Urgent Care, to provide optional COVID-19 testing to all passengers at a cost of \$20 per test.
- To implement applicable State and local Public Health Officer orders, Airport management announced that beginning on May 4, 2020, all members of the public and Airport personnel are required to wear a face covering inside Airport buildings. Acceptable face coverings include a scarf, a neck gaiter, a homemade covering made from a T-shirt, sweatshirt, or towel, held on with rubber bands or other fasteners, or a non-medical-grade mask.
- Installed an ultraviolet ("UV") lighting system on the handrails on some escalators at the Airport. The UV lighting system is designed to provide disinfection and protection against pathogens such as the virus that causes COVID-19.
- Added a nightly deep cleaning of Transportation Security Administration ("TSA") passenger screening checkpoints in both terminals to the Airport's routine daily cleaning regimen. Airport facilities are routinely cleaned to meet or exceed the latest guidance from the United States Centers for Disease Control and Prevention, including cleaning and disinfecting trash receptacles, water fountains, hydration stations, ticket counters, restroom stall door handles, and elevator buttons throughout the day, regularly disinfecting restrooms, deep-cleaning all public areas of the terminals each night using a stronger cleaning agent, and disinfecting all public areas of the terminal each night using the latest electrostatic disinfectant technology.
- In July 2020, the United States Departments of Transportation, Homeland Security, and Health and Human Services jointly issued a guidance document entitled *Runway to Recovery: The United States Framework for Airlines and Airports to Mitigate the Public Health Risks of Coronavirus* (the "*Framework*") setting forth several risk mitigation measures that the federal government expects airports and airlines to implement or support, to the extent feasible. The Airport's measures described above substantially implemented the *Framework*'s recommendations for airports, where practicable. Even with the Airport's efforts and its compliance with public health orders, however, the Airport cannot guarantee that even strict adherence to these measures will be successful in preventing or limiting the spread of COVID-19 in the Airport's facilities.
- On January 12, 2021, the United States Centers for Disease Control and Prevention ("CDC") issued an Order (the "CDC Order") requiring proof of a negative COVID-19 test or documentation of having recovered from COVID-19 for all air passengers arriving from a foreign country to the United States. The CDC Order became effective on January 26, 2021.
- On January 21, 2021, the President of the United States signed an Executive Order titled "Executive Order on Promoting COVID-19 Safety in Domestic and International Travel,"



directing heads of executive departments and agencies (including the Secretary of Transportation and the Administrator of the FAA) to immediately take action, to the extent appropriate and consistent with applicable law, to require masks to be worn in compliance with CDC guidelines in or on airports and commercial aircraft. Since May 4, 2020, the Airport has required all members of the public and Airport personnel to wear a face covering inside Airport buildings.

The Airport cannot predict whether these measures will be sufficient to mitigate the negative effects of the COVID-19 pandemic on the operations and financial condition of the Airport. The Airport will continue to assess and implement opportunities to reduce operating costs and adjust operations to keep the Airport safe and efficient in response to the ongoing changes.

If Airport revenues were to be lower than anticipated and/or expenses higher than anticipated, additional potential budget strategies that could be employed include reducing or limiting increases in operation and maintenance expenses; deferring or rescoping capital projects in the Five-Year Capital Improvement Program (the “CIP”); refunding debt, including approximately \$77.6 million of Series 2014 Bonds (excluding the Refunded Bonds), or restructuring debt to reduce near-term debt service; using additional PFC Revenues designated as Available PFC Revenues to pay debt service, assuming sufficient PFC Revenues exist; adjusting airline rates and charges (including mid-year if certain conditions are met as described under “Rentals, Fees and Charges—Terminal Rents—*Adjustments*” in Appendix G); adjusting non-airline fees and charges; using Airport unrestricted cash; and issuing taxable debt to increase spending flexibility.

### **Impact of COVID-19 on Passenger Traffic**

Passenger traffic at the Airport has declined substantially beginning in March 2020 compared to corresponding months in the prior year. The following table provides passenger traffic data by month from July 2019 through January 2021, based on data submitted by the airlines. Percentage change data set forth below represents the percentage change from the corresponding month in the prior year.

Month	Passenger Enplanements					
	Domestic	% Change <sup>(1)</sup>	International	% Change <sup>(1)</sup>	Total	Total % Change <sup>(1)</sup>
July 2019	676,370	10%	39,700	(25%)	716,070	8%
August 2019	676,621	10%	36,642	(24%)	713,263	8%
September 2019	643,416	16%	32,149	(16%)	675,565	14%
October 2019	660,902	13%	35,381	(6%)	696,283	12%
November 2019	610,020	4%	33,480	(2%)	643,500	4%
December 2019	651,418	15%	42,232	2%	693,650	14%
January 2020	538,561	9%	37,096	15%	575,657	10%
February 2020	515,273	7%	26,796	(3%)	542,069	6%
March 2020	231,610	(60%)	15,745	(54%)	247,355	(60%)
April 2020	17,586	(97%)	1,046	(97%)	18,632	(97%)
May 2020	39,701	(94%)	0	(100%)	39,701	(94%)
June 2020	96,596	(86%)	1,726	(96%)	98,322	(86%)
July 2020	127,890	(81%)	7,476	(81%)	135,366	(81%)
August 2020	122,486	(82%)	9,326	(75%)	131,812	(82%)
September 2020	123,409	(81%)	9,431	(71%)	132,840	(80%)
October 2020	135,468	(80%)	9,707	(73%)	145,175	(79%)
November 2020	138,331	(77%)	12,482	(63%)	150,813	(77%)
December 2020	109,085	(83%)	18,956	(55%)	128,041	(82%)
January 2021	87,909	(84%)	10,279	(72%)	98,188	(83%)

<sup>(1)</sup> Percentage change data represents the percentage change from the corresponding month in prior year.

Source: City of San José.

Additional information about passenger traffic in earlier fiscal years is provided under the heading “PASSENGER SERVICES AND OPERATIONS” in Appendix A.

Commercial airlines have continued to modify their published flight schedules on a rolling basis in response to changed passenger demand due to the COVID-19 pandemic. Scheduled flights are subject to change and cancellation at the airlines’ discretion. In addition, scheduled flights may not provide a reliable indicator of actual passenger levels and, if flown, may have a much lower load factor than had been typical of scheduled flights prior to the COVID-19 pandemic. The City is unable to speculate concerning actual Airport activity levels for the remainder of fiscal year 2020-21 and fiscal year 2021-22. Such activity levels may remain substantially below the activity levels from similar periods in fiscal year 2018-19 for an extended time period.

In March and April 2020, commercial international airlines operating at the Airport temporarily suspended operations, including Air Canada, All Nippon Airways, British Airways, Hainan Airlines and Volaris. Airport management conducts ongoing discussions with these international airlines regarding the resumption of their flights, and the Airport has changed the terms of its airline support program to provide for fee waivers for such airlines to resume international flights that were temporarily suspended during the COVID-19 pandemic. Since May 2020, Hainan Airlines has flown as a cargo-only operation, and in June 2020, Volaris resumed service to Guadalajara, Mexico. See “—Summary of the Airport’s Actions in Response to COVID-19” above.

### Impact of COVID-19 on Certain Airport Operations and Financial Data

The Airport continues its operations as essential infrastructure. The Airport’s revenues depend significantly on the level of aviation activity and passenger traffic at the Airport. In addition to declines in passenger enplanements, the Airport is experiencing and expects to continue to experience a decline in landed weight and a decrease in Airport revenues as a result of the COVID-19 pandemic. Non-essential concession operations, including duty free and certain other retail, have been temporarily closed in compliance with local stay-at-home directives since mid-March 2020. Certain food and beverage

concessions, as well as certain Airport parking areas, are temporarily closed because of significant reductions in passenger traffic levels since March 2020. There are approximately 26 concessions closed in Terminal A and 21 concessions closed in Terminal B; approximately 3 concessions in Terminal A and 11 concessions in Terminal B remain open.

The following tables reflect percentage variances for certain operating and financial data for fiscal year 2018-19 and fiscal year 2019-20, and the first six months of fiscal year 2020-21 compared to the same months in fiscal year 2019-20, respectively.

**SELECT OPERATING DATA**  
**% Change in Fiscal Year 2019-20 vs. Same Period in Fiscal Year 2018-19**

	<b>Jul 2019 – Feb 2020</b>	<b>Mar 2020 – Jun 2020</b>	<b>Fiscal Year 2019-20</b>
	<b>v.</b>	<b>v.</b>	<b>v.</b>
	<b>Jul 2018 – Feb 2019</b>	<b>Mar 2019 – Jun 2019</b>	<b>Fiscal Year 2018-19</b>
Enplaned Passengers	9%	(85%)	<b>(24%)</b>
Landed Weight	8%	(60%)	<b>(15%)</b>
Operations	7%	(60%)	<b>(16%)</b>
<b>Key Concession Revenue:</b>			
<i>Parking / Ground Transportation</i>	8%	(79%)	<b>(25%)</b>
<i>Rental Car</i>	1%	(62%)	<b>(20%)</b>
<i>Concessions<sup>(1)</sup></i>	8%	(50%)	<b>(13%)</b>

<sup>(1)</sup> Includes food and beverage concessions, retail concessions, lounge operations and advertising.

Source: City of San José.

**SELECT OPERATING DATA**  
**% Change in First Six Months of Fiscal Year 2020-21 vs. Same Period in Fiscal Year 2019-20**

	<b>Jul 2020</b>	<b>Aug 2020</b>	<b>Sep 2020</b>	<b>Oct 2020</b>	<b>Nov 2020</b>	<b>Dec 2020</b>
	<b>v.</b>	<b>v.</b>	<b>v.</b>	<b>v.</b>	<b>v.</b>	<b>v.</b>
	<b>Jul 2019</b>	<b>Aug 2019</b>	<b>Sep 2019</b>	<b>Oct 2019</b>	<b>Nov 2019</b>	<b>Dec 2019</b>
Enplaned Passengers	(81%)	(82%)	(80%)	(79%)	(77%)	(82%)
Landed Weight	(57%)	(61%)	(67%)	(69%)	(60%)	(62%)
Operations	(57%)	(60%)	(67%)	(68%)	(59%)	(61%)
<b>Key Concession Revenue:</b>						
<i>Parking / Ground Transportation</i>	(81%)	(83%)	(80%)	(82%)	(79%)	(83%)
<i>Rental Car</i>	(81%)	(59%)	(60%)	(58%)	(50%)	(45%)
<i>Concessions<sup>(1)</sup></i>	(35%)	(85%)	(48%)	(56%)	(57%)	(54%)

<sup>(1)</sup> Includes food and beverage concessions, retail concessions, lounge operations and advertising.

Source: City of San José.

Airline landed weight and the total number of operations trended more favorably than passenger levels in fiscal year 2019-20 and the first six months of fiscal year 2020-21, as commercial airlines adjusted their flight schedules to attempt to meet passenger demand. Concessions revenue trended better than passenger revenue, primarily because advertising revenues were higher than budgeted for fiscal year 2019-20 and expected to be in line with the budget for fiscal year 2020-21. Airport management has worked closely with the terminal concessionaires to open and close concessions as necessary based on passenger volumes. As of November 2020 [*To be revised closer to posting as needed*], six food and beverage concessions and eight retail concessions were open on a regular basis. Other retail concessions are expected to open during the period in which the gates near the concession are active. The Airport expects

to implement a phased reopening of concessions as passenger levels increase and to the extent permitted under state and local health orders.

Parking revenues were down 25% in fiscal year 2019-20, which was similar to the 24% decline in enplaned passengers. For the first six months of fiscal year 2020-21, parking revenues trended with passenger levels, even after a reduction in the parking rate to \$18 per day in March 2020 and April 2020 in certain parking lots. Rental car revenues declined by 20% in fiscal year 2019-20 and trended better than passenger levels for the majority of the first six months of fiscal year 2020-21.

## **Fiscal Year 2019-20 Financial Results**

The Airport's audited financial results for fiscal year 2019-20 are set forth in Appendix D.

Total revenues, which include all operating and non-operating revenues at the Airport, in fiscal year 2019-20 decreased by \$26.8 million (10.6%) to \$226.9 million from \$253.7 million in fiscal year 2018-19. Operating revenues in fiscal year 2019-20 increased by an estimated \$0.5 million (0.3%) to an estimated \$175.3 million from \$174.8 million in fiscal year 2018-19 due to increases in the landing fee and average terminal rental rate. The aviation revenue from terminal rents, landing fees, and other charges increased by approximately \$22.6 million (36.5%) to \$84.4 million from \$61.8 million in fiscal year 2018-19. Non-aviation revenues in fiscal year 2019-20 declined by an estimated \$22.1 million (19.6%) to an estimated \$90.9 million from \$113.0 million in fiscal year 2018-19. Revenues from ground transportation, parking, rental cars (excluding CFCs), retail, and food and beverage collectively declined by approximately \$17.1 million (23.2%) to approximately \$56.5 million from \$73.6 million in fiscal year 2018-19. Non-operating revenues decreased by \$11.6 million (19.3%) to approximately \$48.5 million from \$60.1 million in fiscal year 2018-19. This decrease in non-operating revenues is due primarily to the collection of up to \$20.5 million of PFC Revenues designated as Available PFC Revenues to pay debt service on Bonds compared to \$29.7 million of PFC Revenues applied for such purpose in fiscal year 2018-19 and \$15.4 million of CFC Revenues designated as Other Available Funds to pay debt service on Bonds compared to \$18.7 million of CFC Revenues applied for such purpose in fiscal year 2018-19. See "SECURITY FOR THE BONDS—Other Available Funds, CFC Revenues and Available PFC Revenues," "AIRPORT FINANCIAL MATTERS—Passenger Facility Charges" in Appendix A and Appendix D.

Total expenses in fiscal year 2019-20 increased by \$7.6 million (3.4%) to \$232.0 million from \$224.4 million in fiscal year 2018-19. Operating expenses increased by an estimated \$11.2 million (7.5%) to \$161.0 million from \$149.8 million in fiscal year 2018-19, due to increases in depreciation expense, other post-employment benefits expenses, salary and fringe benefits, higher costs for public safety employees, and pension expense, partially offset by a decrease in expenses related to noncapitalized projects. Depreciation expenses increased by approximately \$6.4 million (13.0%) to \$55.4 million from \$49.0 million in fiscal year 2018-19 due to the \$57.4 million interim facility placed in service in June 2019. Non-operating expenses decreased by approximately \$3.6 million (4.8%) to \$71.0 million from \$74.6 million in fiscal year 2018-19 due to a decrease in the airline net revenue sharing and interest expenses. See "AIRPORT FINANCIAL MATTERS" in Appendix A, and Appendix D.

## **Fiscal Year 2020-21 Operating and Capital Budgets**

On June 16, 2020, the City approved its fiscal year 2020-21 operating and capital budgets. The City's fiscal year 2020-21 operating budget includes approximately \$188.6 million of funds for operating expenses and debt service for the Airport, representing a 0.9% decrease compared to the City's fiscal year 2019-20 operating budget which included approximately \$190.4 million of funds for the Airport. The City's fiscal year 2020-21 capital budget includes approximately \$150.4 million of funds for the Airport, representing a 14.5% decrease compared to the City's fiscal year 2019-20 capital budget which included

approximately \$176.0 million of funds for the Airport.

At any public meeting, the City Council may amend or supplement the budget by affirmative vote of at least a majority of the total members of the City Council. On October 20, 2020, the fiscal year 2019-2020 Annual Report was reviewed and approved by the City Council. Additionally, the City prepares Bi-Monthly Financial Reports for the City Council as a method of monitoring the budget and financial status. On January 29, 2021, the Mid-Year Budget Review was released, which provided a detailed and expanded analysis of the operating and capital budget status. On February 9, 2021, the City Council considered the Mid-Year Budget Review and took actions as necessary to maintain a balanced budget. For a further discussion of the City's budget process, see "AIRPORT FINANCIAL MATTERS–Airport and City Budget Process" in Appendix A.

Airline and passenger revenues in fiscal year 2019-20 were approximately \$33 million less than was budgeted for fiscal year 2019-20, as the fiscal year 2019-20 budget was established prior to the onset of the COVID-19 pandemic. For a discussion of the fiscal year 2019-20 results relative to the prior fiscal year, see "—Fiscal Year 2019-20 Financial Results" above. While the fiscal year 2020-21 budget was established at the inception of the COVID-19 pandemic, there was minimal data available at that time regarding passenger and financial trends. Based on actual financial results during the first six months of fiscal year 2020-21 (from July 1, 2020 through December 31, 2020), Airport management has revised the estimated results for fiscal year 2020-21 and currently estimates that projected airline and passenger revenues may be approximately \$24 million less than was budgeted for fiscal year 2020-21.

In June 2020, the Airport adopted airline rates and charges for fiscal year 2020-21. The fiscal year 2020-21 terminal rental rates per square foot have been set such that the average cost per square foot will be \$240.82, a 10% decrease compared to the fiscal year 2019-20 terminal rental rate per square foot of \$268.31. These terminal rental rates exclude the revenue sharing for the airlines that is given to them as a payment, rather than rolled into rates in subsequent years as was done under the previous airline lease agreement. The fiscal year 2020-21 landing fee has been set at \$4.30 per 1,000 pounds of landed weight, a 50% increase compared to the fee in fiscal year 2019-20 of \$2.87 per 1,000 pounds. The rates and charges model, which was developed in June 2020, assumed enplanements of 3.0 million in fiscal year 2020-21 and that airline traffic would return to the Benchmark Level (defined below) in fiscal year 2022-23. For a discussion of the Benchmark Level, see "—Aviation Activity Planning Scenarios" below. It also assumed application of \$20.4 million of PFCs designated as Available PFC Revenues to pay debt service on Bonds, use of \$31.2 million of CARES Act funds to offset expenses, \$67.3 million of non-airline operating revenues, and use of \$2.3 million of Airport cash to cover necessary operating expenses, which will only be used if needed. Airport management made reductions in both operating and capital expenses to help drive rate reductions for the airlines, and nearly half of the CARES Act funding directly reduced the airline landing fee and terminal rental rates. For further discussion of the cost cutting efforts of Airport management, see "—Summary of the Airport's Actions in Response to COVID-19" above. For further discussion of terminal rental rates and landing fees, see "AIRPORT FINANCIAL MATTERS–Management Discussion of Recent Financial Results–*Airline Rates and Charges.*"

## **Cash and Liquidity**

Due to lower passenger levels and extensions of rental due dates, the Airport's levels of unrestricted cash and cash equivalents declined from a total of \$183.2 million at the end of February 2020 (equivalent to approximately 688 days cash on hand) to \$155.1 million at the end of December 2020 (equivalent to approximately 511 days cash on hand), according to preliminary unaudited internal reports. The balance of such funds at the end of December 2020 reflects the receipt of \$26.7 million in reimbursements under the CARES Act. In addition to its unrestricted cash and cash equivalents, the Airport also maintains restricted cash and cash equivalent funds totaling approximately \$27.4 million, as of

December 31, 2020. The following table and accompanying footnotes describe some of the financial resources available to the Airport. All figures are as of December 31, 2020.

General Revenue Fund: <sup>(1)</sup>	\$66.3 million
PFC Fund Balance: <sup>(2)</sup>	\$4.1 million
CFC Fund Balance: <sup>(3)</sup>	\$8.0 million
Available Commercial Paper: <sup>(4)</sup>	\$23.1 million

<sup>(1)</sup> See “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds” for a description of the General Revenue Fund. The majority of this balance is included in the Unrestricted Cash total, which as of December 31, 2020 was approximately \$155.1 million.

<sup>(2)</sup> Amounts in the PFC Fund have been designated by the City as Available PFC Revenues. See “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds.” The PFC Fund balance is included in the Restricted Cash total. The Airport expects to withdraw approximately \$2.9 million from the PFC Fund in fiscal year 2020-21.

<sup>(3)</sup> Amounts in the CFC Fund are pledged to repay only the Series 2021C Bonds. See “SECURITY FOR THE BONDS—Other Available Funds, CFC Revenues and Available PFC Revenues.” The CFC Fund balance is included in the Restricted Cash total. The Airport expects to withdraw approximately \$6.3 million from the CFC Fund in fiscal year 2020-21.

<sup>(4)</sup> The City is authorized to have up to \$75 million in principal outstanding at any one time under its commercial paper program for the Airport. As of December 31, 2020, approximately \$51.9 million is outstanding. See “SECURITY FOR THE BONDS—Subordinate Obligations.”

The Airport’s unrestricted cash and cash equivalents of \$155.1 million, which may be used to help pay expenses during the COVID-19 pandemic, is equivalent to approximately 511 days cash on hand, calculated using fiscal year 2020-21 budgeted operating expenses. As described above, the Airport expects to request and receive approximately an additional \$26.7 million of CARES Act reimbursement funding and no Appropriations Act funding, except for the approximately \$1.6 million of funding to be used for rent relief for concessionaires, before June 30, 2021, which will provide approximately an additional 88 days cash on hand.

The Airport also has debt service reserve accounts (held by the Trustee) with respect to its Bonds. It intends to secure the Series 2021A Bonds and the Series 2021B Bonds with funds on deposit in the General Account of the Bond Reserve Fund, and to secure the Series 2021C Bonds with a deposit into a separate 2021C Reserve Account within the Bond Reserve Fund. See “SECURITY FOR THE BONDS—Bond Reserve Fund.” As of December 31, 2020, the debt service reserve accounts totaled \$103.6 million *[to be updated with more current data prior to posting]*. As of the date of this Official Statement, the Airport has not drawn on any of the debt service reserve accounts.

## Aviation Activity Planning Scenarios

Given that new information related to COVID-19 emerges on a daily basis, and the near-term and medium-term effects of the COVID-19 pandemic cannot be predicted with any degree of certainty, Airport management is planning for the future using a scenario-based approach. The Airport has developed two aviation activity recovery planning scenarios. One scenario reflects a slower recovery in passenger traffic and serves as the Airport’s scenario for financial planning and budgeting purposes (the “Financial Planning Scenario”). The other reflects a faster recovery (the “Faster Recovery Planning Scenario”). The primary differences between the two scenarios are (i) assumptions regarding the date and speed at which a vaccine might be deployed, (ii) the anticipated travel restrictions that may be in place on the global, federal, state, and county levels, and (iii) the expected time period until the resumption of business travel in the Air Service Area. The scenarios were developed based on recent studies published by Moody’s and Fitch as well as on scenarios developed by other airports. The planning scenarios were most recently updated in December 2020; **however, no assurance can be given that any of the results contemplated in such planning scenarios will be achieved. Actual results may differ materially from the results included in**

**such planning scenarios. The Airport is using the Financial Planning Scenario and the Faster Recovery Planning Scenario solely for planning purposes, and neither scenario constitutes a prediction or projection of future financial results. See “INTRODUCTION—Forward-Looking Statements.”**

The two recovery scenarios have been built around estimates regarding the fiscal year in which the activity level at the Airport will return to a total passenger level of 12.2 million passengers in a single fiscal year (the “Benchmark Level”). The Benchmark Level is the total passenger level at which Airport management and the airlines had determined that additional terminal space would be required and was one of the triggers for commencement of work on Phase II of the Airport’s terminal development project under the Airport’s previous Airline-Airport Lease and Operating Agreement. See “CAPITAL DEVELOPMENT AT THE AIRPORT” in Appendix A. The Airport has used the Benchmark Level in its scenarios as the level at which the Airport’s recovery is assumed to be accomplished. In fiscal year 2018-19, the passenger level was 14.9 million passengers, exceeding the Benchmark Level.

The table below sets forth the two planning scenarios under development by Airport management extending through fiscal year 2024-25. Under the Financial Planning Scenario, the Airport’s passenger level is estimated to return to the Benchmark Level in fiscal year 2024-25, while under the Faster Recovery Planning Scenario, the Airport’s passenger level is estimated to return to the Benchmark Level in fiscal year 2022-23.

Fiscal Year	Financial Planning Scenario				Faster Recovery Planning Scenario			
	Total Passengers	Year-over-Year (YoY) Growth	Landed Weight	YoY Growth	Total Passengers	YoY Growth	Landed Weight	YoY Growth
2016-17 <sup>(1)</sup>	11,514,425	12.7%	7,451,193	16.8%	11,514,425	12.7%	7,451,193	16.8%
2017-18 <sup>(1)</sup>	13,490,514	17.2%	8,492,540	14.0%	13,490,514	17.2%	8,492,540	14.0%
2018-19 <sup>(1)</sup>	14,949,956	10.8%	9,229,146	8.7%	14,949,956	10.8%	9,229,146	8.7%
2019-20 <sup>(1)</sup>	11,328,759	(24.2%)	7,824,888	(15.2%)	11,328,759	(24.2%)	7,824,888	(15.2%)
2020-21	4,000,000	(64.7%)	3,722,690	(52.4%)	6,003,951	(47.0%)	4,988,283	(36.3%)
2021-22	7,500,000	87.5%	5,552,933	49.2%	10,000,000	66.6%	7,096,273	42.3%
2022-23	10,500,000	40.0%	7,404,940	33.4%	12,750,000	27.5%	8,332,489	17.4%
2023-24	12,000,000	14.3%	7,869,487	6.3%	14,500,000	13.7%	8,951,369	7.4%
2024-25	13,000,000	8.3%	8,486,823	7.8%	15,000,000	3.4%	9,260,037	3.4%

<sup>(1)</sup> Denotes actual results.

Source: City of San José.

The following table reflects the Airport's fiscal year 2019-20 actual financial results, together with the fiscal year 2020-21 budget, and estimates for certain financial metrics under the Financial Planning Scenario for fiscal years 2020-21 through 2024-25.



**Airport Planning Scenarios**  
**Certain Financial Metrics**

	Actuals <sup>(6)</sup>	Budget <sup>(6)</sup>	Financial Planning Scenario <sup>(6)</sup>				
(\$ millions)	Fiscal Year 2019-20	Fiscal Year 2020-21 <sup>(7)</sup>	Fiscal Year 2020-21 <sup>(7)</sup>	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25
Operating Revenue <sup>(1)</sup>	\$183.2	\$157.3	\$133.1	\$152.1	\$171.5	\$197.8	\$210.0
Federal COVID-19 Relief <sup>(2)</sup>	-	40.0	55.1	25.6	-	-	-
<b>Total Revenue</b>	<b>\$183.2</b>	<b>\$197.3<sup>(8)</sup></b>	<b>\$188.2</b>	<b>\$177.7</b>	<b>\$171.5</b>	<b>\$197.8</b>	<b>\$210.0</b>
Operating Expenses <sup>(3)</sup>	97.1	109.2	101.0	109.9	116.9	124.2	131.8
<b>Net General Airport Revenues</b>	<b>\$86.1</b>	<b>\$88.1</b>	<b>\$87.2</b>	<b>\$67.8</b>	<b>\$54.6</b>	<b>\$73.6</b>	<b>\$78.2</b>
PFC Revenue available for Debt Service <sup>(4)</sup>	27.5	20.4	18.1	13.5	17.1	24.2	24.5
CFC Revenue available for Debt Service <sup>(5)</sup>	19.1	10.6	9.2	8.0	9.0	10.0	12.0
<b>Revenue Available for Debt Service</b>	<b>\$132.6</b>	<b>\$119.1</b>	<b>\$114.5</b>	<b>\$89.3</b>	<b>\$80.7</b>	<b>\$107.8</b>	<b>\$114.7</b>
Debt Service on General Airport Revenue Bonds	93.3	93.9	93.9	46.2	48.0	70.0	72.0
<b>Net Remaining Revenue</b>	<b>\$39.4</b>	<b>\$25.2</b>	<b>\$20.6</b>	<b>\$43.1</b>	<b>\$32.7</b>	<b>\$37.8</b>	<b>\$42.7</b>
<b><u>Debt Service Coverage Calculation:</u></b>							
Net General Airport Revenues	\$86.1	\$88.1	\$87.2	\$67.8	\$54.6	\$73.6	\$78.2
Other Available Funds:							
CFC Revenues <sup>(5)</sup>	19.1	10.6	9.2	8.0	9.0	10.0	12.0
Prior Year Surplus	15.4	13.2	13.2	3.3	9.8	7.7	7.5
Rolling Debt Service Coverage	16.6	16.6	16.6	8.6	8.1	12.1	12.7
<b>Net Revenues Available for Bond Debt Service</b>	<b>\$137.2</b>	<b>\$128.5</b>	<b>\$126.2</b>	<b>\$87.7</b>	<b>\$81.5</b>	<b>\$103.4</b>	<b>\$110.4</b>
Revenue Bond Debt Service Payable from Revenues	93.3	93.9	93.9	46.2	48.0	70.0	72.0
Less: Available PFC Revenues <sup>(4)</sup>	(27.5)	(20.4)	(18.1)	(13.5)	(17.1)	(24.2)	(24.5)
<b>Net Revenue Bond Debt Service Payable from Revenues</b>	<b>\$65.8</b>	<b>\$73.5</b>	<b>\$75.8</b>	<b>\$32.7</b>	<b>\$30.9</b>	<b>\$45.8</b>	<b>\$47.5</b>
<b>Revenue Bond Debt Service Coverage Ratio</b>	<b>2.09</b>	<b>1.75</b>	<b>1.66</b>	<b>2.69</b>	<b>2.64</b>	<b>2.26</b>	<b>2.33</b>

(1) Operating Revenues includes investment income, operating grants, loss on capital assets disposal, and other net revenues.

(2) Includes CARES Act Revenues and Appropriations Act funding.

(3) Excludes depreciation.

(4) Amount includes PFC Revenue and the use of excess revenues available for Debt Service.

(5) Amount includes CFC Revenue and the use of excess revenues available for Debt Service.

(6) Totals and subtotals may not add due to rounding.

(7) The fiscal year 2020-21 budget assumes a passenger level of 6 million total passengers in fiscal year 2020-21. The Financial Planning Scenario assumes a passenger level of 4 million total passengers in fiscal year 2020-21.

(8) For the first six months of fiscal year 2020-21, actual total revenues were approximately 41.5% of budgeted total revenues.

Source: City of San José.

The following table presents the Airport's estimates for certain activity-based and financial metrics under the planning scenarios, comparing the estimated trends for the Financial Planning Scenario and the Faster Recovery Planning Scenario. Actual results are shown for fiscal years 2016-17 through 2019-20, and estimated projections are shown for fiscal years 2020-21 through 2024-25. Airline Revenues include

the revenues from landing fees and terminal rentals. Cost per Enplaned Passenger (“CPE”) is calculated by dividing the Airline Revenues by Enplaned Passengers (“ePAX”). CPE is a common metric utilized by airports, and the Airport’s goal is to maintain its CPE at such a level as to remain competitive with the other airports in the San Francisco Bay Area. See “AIRPORT FINANCIAL MATTERS—Management Discussion of Recent Financial Results” in Appendix A. Total Debt consists of total outstanding bond and commercial paper debt, and the figures for fiscal years 2021-22 through 2024-25 are estimates that include the refunding of the Refunded Bonds. Debt per ePAX represents Total Debt divided by ePAX.

Fiscal Year	Financial Planning Scenario					Faster Recovery Planning Scenario				
	ePAX	Airline Revenues (\$ millions)	CPE <sup>(1)</sup>	Total Debt <sup>(2)</sup> (\$ millions)	Debt per ePAX	ePAX	Airline Revenues (\$ millions)	CPE <sup>(1)</sup>	Total Debt <sup>(2)</sup> (\$ millions)	Debt per ePAX
2016-17 <sup>(3)</sup>	5,739,769	\$58.1	\$10.01	\$1,255	\$219	5,739,769	\$58.1	\$10.01	\$1,255	\$219
2017-18 <sup>(3)</sup>	6,725,127	\$62.8	\$9.24	\$1,195	\$178	6,725,127	\$62.8	\$9.24	\$1,195	\$178
2018-19 <sup>(3)</sup>	7,462,126	\$61.8	\$8.21	\$1,211	\$162	7,462,126	\$61.8	\$8.21	\$1,211	\$162
2019-20 <sup>(3)</sup>	5,660,067	\$84.4	\$14.79	\$1,180	\$208	5,660,067	\$84.4	\$14.79	\$1,180	\$208
2020-21	2,000,000	\$82.1	\$43.43	\$1,146	\$573	3,006,701	\$87.9	\$28.89	\$1,146	\$381
2021-22	3,743,552	\$83.7	\$19.79	\$1,102	\$294	4,991,403	\$89.1	\$14.79	\$1,096	\$220
2022-23	5,240,973	\$87.8	\$15.51	\$1,100	\$210	6,364,039	\$91.7	\$12.58	\$1,091	\$171
2023-24	5,989,684	\$103.3	\$16.19	\$1,074	\$179	7,237,535	\$106.2	\$12.73	\$1,064	\$147
2024-25	6,488,824	\$108.4	\$15.20	\$1,044	\$161	7,487,105	\$115.4	\$13.47	\$1,030	\$138

<sup>(1)</sup> CPE figures shown are adjusted for airline revenue sharing, and are shown net of cargo landing fees.

<sup>(2)</sup> Total Debt shown consists of total estimated outstanding Bonds and subordinate commercial paper notes for fiscal years 2021-22 through 2024-25 (excluding the Refunded Bonds), including the estimated total Series 2021 Bonds. The Airport expects to have approximately \$51,930,000 of commercial paper notes outstanding at the end of fiscal year 2020-21. Under the Financial Planning Scenario, the Airport estimates redeeming approximately \$8,000,000 of commercial paper notes by fiscal year 2024-25, and under the Faster Recovery Planning Scenario, the Airport estimates redeeming approximately \$22,000,000 of commercial paper notes by fiscal year 2024-25.

<sup>(3)</sup> Denotes actual results.

Source: City of San José.

COVID-19 continues to spread, and the COVID-19 pandemic is ongoing. The dynamic nature of the COVID-19 pandemic leads to many uncertainties, including but not limited to (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the potential impacts of numerous novel variants of the disease detected around the world; (iv) the duration of the outbreak; (v) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (vi) the level of adoption and effectiveness of mitigation measures taken by governmental authorities, by the Airport or by others; (vii) the development, effectiveness, availability and distribution timelines of medical therapeutics and vaccines; (viii) travel restrictions in various countries and parts of the United States and the short and longer-term demand for air travel, including at the Airport; (ix) the impact of the outbreak on the local, national or global economy or on the airlines and concessionaires serving the Airport, or on the airline or travel industry generally; (x) whether and to what extent the City may amend, adjust, or make other changes to the City’s arrangements with airlines, tenants and concessionaires; and (xi) the impact of the outbreak, government requirements imposed on the Airport or airlines as a result of the outbreak, and actions taken by the Airport in response to the outbreak on the Airport’s operations, revenues, expenses and financial condition. Given these ongoing uncertainties, Airport management will continue to evaluate its planning scenarios and revise such scenarios, and the financial plans and tools it is using to develop such scenarios, accordingly. Because any recovery of passenger traffic will depend on future actions and events, Airport management is unable to predict or project future passenger traffic and can only make planning decisions based on assumed scenarios. See “INTRODUCTION—Forward-Looking Statements.”

## PLAN OF REFUNDING

The Series 2021A Bonds are being issued (i) to refund all or a portion of the outstanding Series 2011A-1 Bonds, and (ii) to pay costs of issuing the Series 2021A Bonds. The Series 2021B Bonds are being issued (i) to refund all or a portion of the outstanding Series 2011A-2 Bonds, and (ii) to pay costs of issuing the Series 2021B Bonds. The Series 2021C Bonds are being issued (i) to refund all or a portion of

the outstanding Series 2011B Bonds, a portion of the outstanding Series 2014A Bonds, a portion of the outstanding Series 2017A Bonds, and a portion of the outstanding Series 2017B Bonds, (ii) to fund a deposit into the 2021C Account of the Bond Reserve Fund, and (iii) to pay costs of issuing the Series 2021C Bonds.

### **Refunding of Refunded Bonds and Restructured Debt Service**

As described in more detail above under “IMPACTS OF THE COVID-19 PANDEMIC—Summary of the Airport’s Actions in Response to COVID-19,” the Airport is restructuring its debt service to provide for cost reductions in response to the COVID-19 pandemic and its ongoing impacts. As a part of the restructuring, the Airport plans to apply a portion of the proceeds of the Series 2021C Bonds to refund the outstanding March 1, 2022 and March 1, 2023 maturities of each of the Series 2014A Bonds, Series 2017A Bonds, and Series 2017B Bonds. The outstanding March 1, 2022 and March 1, 2023 maturities of the Series 2014A Bonds being refunded with proceeds of the Series 2021C Bonds will be defeased on the date of issuance of the Series 2021C Bonds. The outstanding March 1, 2022 and March 1, 2023 maturities of each of the Series 2017A Bonds and Series 2017B Bonds being refunded with proceeds of the Series 2021C Bonds will be defeased on the date of issuance of the Series 2021C Bonds. This restructuring will provide debt service savings of approximately \$47.8\* million in fiscal year 2021-22 and approximately \$33.9\* million in fiscal year 2022-23.

The moneys required to refund the Refunded Bonds will be derived from the net proceeds of the Series 2021 Bonds and other available funds. The Refunded Bonds will either be redeemed on the delivery date of the Series 2021 Bonds, or defeased until their respective maturity dates, as described in the preceding paragraph. Pursuant to the Escrow Agreement to be entered into between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent for the Refunded Bonds (the “Escrow Agent”), moneys for the defeasance and payment of the March 1, 2022 and March 1, 2023 maturities of each of the Series 2014A Bonds, the Series 2017A Bonds, and the Series 2017B Bonds will be deposited in the escrow fund established for the Refunded Bonds (the “Escrow Fund”) and held in cash or applied to purchase Federal Securities (as such term is defined in the Master Trust Agreement) maturing on or before the applicable maturity date. The Federal Securities will be purchased and held by the Escrow Agent in the Escrow Fund in an amount sufficient to pay interest accruing on the March 1, 2022 and March 1, 2023 maturities of each of the Series 2014A Bonds, the Series 2017A Bonds, and the Series 2017B Bonds to their respective maturity date. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

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\* Preliminary, subject to change.

The following table identifies the Series 2011A-1 Bonds, Series 2011A-2 Bonds, Series 2011B Bonds, Series 2014A Bonds, Series 2017A Bonds, and Series 2017B Bonds that are expected to be refunded from the proceeds of the Series 2021 Bonds.

**Summary of Bonds to be Refunded\***

<b><u>Series</u></b>	<b><u>Maturity (March 1)</u></b>	<b><u>Principal Refunded (000)</u></b>	<b><u>Redemption Date</u></b>	<b><u>CUSIP</u></b>
2011A-1	2022	\$3,895	[Date of Issuance of Series 2021 Bonds]	798136SA6
	2023	4,085		798136SB4
	2024	4,295		798136SC2
	2025	4,510		798136SE8
	2026	4,730		798136SF5
	2030	21,555		798136SH1
	2034	41,795		798136SD0
	2034	30,000		798136SG3
2011A-2	2022	2,225		798136SU2
	2023	2,325		798136SV0
	2024	455		798136SW8
	2024	1,995		798136TA5
	2026	5,265		798136SZ1
	2031	19,060		798136SX6
	2036	34,790		798136SY4
2011B	2022	3,380		798136TM9
	2023	2,150		798136TN7
	2024	1,750		798136TP2
	2025	2,000		798136TQ0
	2026	13,680		798136TV9
	2032	5,610		798136TT4
	2032	48,800		798136TU1
	2041	16,000		798136TR8
	2041	159,525		798136TS6
2014A	2022	7,745	N/A	798136UJ4
	2022	20	N/A	798136UD7
	2023	8,475	N/A	798136UE5
2017A	2022	13,435	N/A	798136VA2
	2023	4,415	N/A	798136VB0
2017B	2022	4,275	N/A	798136VZ7
	2023	1,400	N/A	798136WA1

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\* Preliminary, subject to change.

The specific principal amount and maturity date, if any, of the Series 2011A-1 Bonds, Series 2011A-2 Bonds, Series 2011B Bonds, Series 2014A Bonds, Series 2017A Bonds, and Series 2017B Bonds that will be refunded (the “Refunded Bonds”) will be determined by the City at the time the City and the Underwriters (as defined herein) sign the Bond Purchase Agreement (as defined herein) for the Series 2021 Bonds. The issuance of the Series 2021 Bonds and the refunding of the Refunded Bonds are subject to market conditions, and the City will only issue the Series 2021 Bonds to refund any of the Refunded Bonds if such issuance and refunding result in acceptable debt service savings to the City.

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## ESTIMATED SOURCES AND USES OF PROCEEDS\*

The following table sets forth the estimated sources and uses of proceeds of the Series 2021 Bonds.

	<u>Series 2021A</u>	<u>Series 2021B</u>	<u>Series 2021C</u>	<u>Total</u>
<b>Sources of Funds:</b>				
Principal Amount				
Original Issue Premium				
Release from General				
Account of the Bond				
Reserve Fund				
Release from 2011B				
Reserve Account				
<b>Total Sources</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Uses of Funds:</b>				
Deposit to Redemption				
Fund				
Deposit to Escrow Fund				
Deposit to 2021C				
Account of the Bond				
Reserve Fund				
Costs of Issuance <sup>(1)</sup>				
<b>Total Uses</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

<sup>(1)</sup> Includes underwriters' discount, any additional proceeds of the Series 2021 Bonds, verification agent fees, rating agency fees, legal and other professional fees and other costs of issuing the Series 2021 Bonds.

## DESCRIPTION OF THE SERIES 2021 BONDS

### Form and Denomination

The Series 2021 Bonds are to be dated the date of their initial delivery and are to mature and bear interest as set forth on the inside cover page of this Official Statement. Interest on the Series 2021 Bonds is to be payable on each March 1 and September 1 (each a "Payment Date"), commencing September 1, 2021. The interest on the Series 2021 Bonds is to be payable to the person whose name appears on the bond registration books of the Trustee as the Owner thereof (the "Owner") as of the close of business on the fifteenth day of the month immediately preceding an interest Payment Date (the "Record Date") (DTC so long as the book entry system with DTC is in effect), whether or not such day is a business day, such interest to be paid by check mailed by first class mail on such Payment Date to such Owner at such address as appears on such registration books. Any Owner of at least \$1,000,000 aggregate principal amount of Series 2021 Bonds may elect to have interest payable by wire transfer to the bank account number on file with the Trustee (provided the Owner makes a written request to the Trustee before the Record Date).

Each of the Series 2021 Bonds will bear interest from the Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the sixteenth day of the month next preceding any Payment Date to the Payment Date, inclusive, in which event it is to bear interest from such Payment Date, or unless it is authenticated on or before August 15, 2021, in which event it is to bear interest from the date of its initial delivery; provided, however, that if, at the time of authentication of

\* Preliminary, subject to change.

any Series 2021 Bond, interest is in default on the Outstanding Series 2021 Bonds, such Series 2021 Bond is to bear interest from the Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2021 Bonds.

The Series 2021 Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. The Series 2021 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., or such other name as may be requested by an authorized representative of DTC, as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2021 Bonds. Individual purchases may be made in book entry form only. Purchasers will not receive certificates representing their interest in the Series 2021 Bonds purchased. So long as Cede & Co., or such other name as may be requested by an authorized representative of DTC, is the registered owner of the Series 2021 Bonds, as nominee of DTC, references to the Owners or registered owners mean Cede & Co. and not the Beneficial Owners of the Series 2021 Bonds.

So long as Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the registered owner of the Series 2021 Bonds, principal of and premium, if any, and interest on the Series 2021 Bonds are payable by wire transfer by the Trustee to Cede & Co., or such other name as may be requested by an authorized representative of DTC, as nominee for DTC, which is required, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners. Beneficial interests in the Series 2021 Bonds may be held through DTC, Clearstream Banking, S.A. or Euroclear Bank SA/NV as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system. See APPENDIX H—“PROVISIONS FOR THE BOOK ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” for a description of DTC, Clearstream Banking, S.A., Euroclear Bank S.A./N.V. as operator of the Euroclear System, and certain of their responsibilities, and the provisions for registration and registration of transfer of the Series 2021 Bonds if the book-entry-only system of registration is discontinued.

### **Redemption of the Series 2021 Bonds<sup>1</sup>**

***Optional Redemption of the Tax-Exempt Bonds.*** The Tax-Exempt Bonds maturing on and after March 1, 20\_\_ are subject to redemption prior to their respective maturity dates, at the option of the City, from any source of available funds, in whole or in part on any date on or after March 1, 20\_\_, at a redemption price equal to 100% of the principal amount of the Tax-Exempt Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, but without premium.

***Optional Redemption of the Taxable Bonds.*** The Taxable Bonds maturing on and after March 1, 20\_\_ are subject to redemption prior to their respective maturity dates, at the option of the City, from any source of available funds, in whole or in part on any date on or after March 1, 20\_\_, at a redemption price equal to 100% of the principal amount of the Taxable Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, but without premium.

***Optional Make Whole Redemption of the Taxable Bonds.*** Prior to March 1, 20\_\_, the Taxable Bonds are subject to redemption prior to their respective maturities, at the option of the City, from any source of available funds, as a whole or in part from any maturities selected by the City, at the Make-Whole Redemption Price, together with interest accrued thereon to the date fixed for redemption.

“Make-Whole Redemption Price” is equal to the greater of (1) 100 percent (100%) of the principal amount of the Taxable Bonds to be redeemed; or (2) the sum of the present value of the remaining

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<sup>1</sup> Preliminary, subject to change.

scheduled payments of principal and interest on the Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Taxable Bonds are to be redeemed, discounted to the date on which the Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus \_\_\_\_ basis points.

At the request of the City or the Trustee, the Make-Whole Redemption Price of the Taxable Bonds, with respect to clause (2) above, will be calculated by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense. The City and the Trustee may conclusively rely on the determination of the Treasury Rate by the independent accounting firm, investment banking firm or financial advisor and on any Make-Whole Redemption Price calculated by an independent accounting firm, investment banking firm or financial advisor and shall not be liable for such reliance.

"Treasury Rate" means, with respect to any redemption date for a particular Taxable Bond, the yield to maturity as of such Valuation Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519) that has become publicly available on the Valuation Date selected by the City (excluding inflation indexed securities) (or, if such statistical release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Taxable Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actual traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"Valuation Date" means a Business Day not later than the third Business Day preceding the redemption date but no more than 45 calendar days prior to the redemption date.

***Mandatory Sinking Fund Redemption of Series 2021A Bonds.*** The Series 2021A Bonds maturing on March 1, 20\_\_ are subject to redemption prior to their stated maturity from the 2021A Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
_____	_____
†	
_____	
† Final maturity.	

The Series 2021A Bonds maturing on March 1, 20\_\_ are subject to redemption prior to their stated maturity from the 2021A Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:



<u>Sinking Fund Payment Date (March 1)</u>	<u>Mandatory Sinking Fund Payment</u>
--	---------------------------------------

†

† Final maturity.

The principal amount to be redeemed in each year shown in the tables above will be reduced at the option of the City, by the principal amount of any Series 2021A Bonds scheduled for redemption on such sinking fund payment date or dates, which, at least 45 days prior to the sinking fund payment date, (1) have been acquired by the City and delivered to the Trustee for cancellation, (2) have been acquired and cancelled by the Trustee, at the direction of the City, or (3) have been optionally redeemed and not previously credited to a scheduled mandatory sinking fund redemption. Upon such purchase or optional redemption of such Series 2021A Bonds, the Trustee will then credit an amount equal to the principal of such Series 2021A Bonds so purchased or redeemed towards the sinking fund payments for the Series 2021A Bonds of such maturity in increments of \$5,000 or integral multiples thereof as directed by the City.

***Mandatory Sinking Fund Redemption of Series 2021B Bonds.*** The Series 2021B Bonds maturing on March 1, 20\_\_ are subject to redemption prior to their stated maturity from the 2021B Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

<u>Sinking Fund Payment Date (March 1)</u>	<u>Mandatory Sinking Fund Payment</u>
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†

† Final maturity.

The Series 2021B Bonds maturing on March 1, 20\_\_ are subject to redemption prior to their stated maturity from the 2021B Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

<u>Sinking Fund Payment Date (March 1)</u>	<u>Mandatory Sinking Fund Payment</u>
--	---------------------------------------

†

† Final maturity.

The principal amount to be redeemed in each year shown in the tables above will be reduced at the option of the City, by the principal amount of any Series 2021B Bonds scheduled for redemption on such sinking fund payment date or dates, which, at least 45 days prior to the sinking fund payment date, (1) have been acquired by the City and delivered to the Trustee for cancellation, (2) have been acquired and cancelled by the Trustee, at the direction of the City, or (3) have been optionally redeemed and not previously credited to a scheduled mandatory sinking fund redemption. Upon such purchase or optional redemption of such Series 2021B Bonds, the Trustee will then credit an amount equal to the principal of such Series 2021B Bonds so purchased or redeemed towards the sinking fund payments for the Series 2021B Bonds of such maturity in increments of \$5,000 or integral multiples thereof as directed by the City.

***Mandatory Sinking Fund Redemption of Series 2021C Bonds.*** The Series 2021C Bonds maturing on March 1, 20\_\_ are subject to redemption prior to their stated maturity from the 2021C Sinking Fund Account, on March 1 in each year, on a pro-rata pass-through distribution of principal basis, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
†	
† Final maturity.	

The Series 2021C Bonds maturing on March 1, 20\_\_ are subject to redemption prior to their stated maturity from the 2021C Sinking Fund Account, on March 1 in each year, on a pro-rata pass-through distribution of principal basis, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
†	
† Final maturity.	

The principal amount to be redeemed in each year shown in the tables above will be reduced at the option of the City, by the principal amount of any Series 2021C Bonds scheduled for redemption on such sinking fund payment date or dates, which, at least 45 days prior to the sinking fund payment date, (1) have been acquired by the City and delivered to the Trustee for cancellation, (2) have been acquired and cancelled by the Trustee, at the direction of the City, or (3) have been optionally redeemed and not previously credited to a scheduled mandatory sinking fund redemption. Upon such purchase or optional redemption of such Series 2021C Bonds, the Trustee will then credit an amount equal to the principal of such Series 2021C Bonds so purchased or redeemed towards the sinking fund payments for the Series 2021C Bonds of such maturity in increments of \$5,000 or integral multiples thereof as directed by the City.

***Selection of Series 2021 Bonds for Redemption.*** If less than all of the Tax-Exempt Bonds are called for redemption, the Bonds of such Series and the maturities thereof shall be redeemed as directed by the City, and if less than all of any maturity shall be called for redemption, the portion of such maturity to be redeemed shall be selected by lot. The Trustee is required to notify the City promptly in writing of the numbers of the Tax-Exempt Bonds so selected for redemption.

If less than all of the Taxable Bonds are to be optionally redeemed, the particular maturities of the Taxable Bonds to be redeemed at the option of the City will be determined by the City in its sole discretion. For so long as the Taxable Bonds are Book-Entry Bonds, and so long as DTC or its successor securities depository is the sole registered owner of the Taxable Bonds, if less than all of the Taxable Bonds of a maturity are called for prior redemption as described in this section “Redemption of the Series 2021 Bonds,” the particular Taxable Bonds or portions thereof to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures. If the Trustee does not provide the necessary information and identify the redemption as on a pro rata pass-through distribution of principal basis, the Taxable Bonds will be selected for redemption in accordance with DTC procedures, which may effect redemption by lot. If the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Taxable Bonds will be selected for redemption in accordance with DTC procedures, which may effect redemption by lot.

### **Notice of Redemption**

A notice of redemption is required to be mailed to the respective registered Owners of any Series 2021 Bonds (DTC so long as the book entry system with DTC is in effect) designated for redemption at their addresses appearing on the bond registration books, at least 20 days but not more than 60 days prior to the redemption date, provided, however, that such notice may be mailed as late as 15 days prior to the redemption date if the Bonds are no longer Book-Entry Bonds, which notice, in the case of each Series 2021 Bond called only in part, the portion of the principal thereof that is to be redeemed; provided that neither failure to mail such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Series 2021 Bonds.

### **Conditional Notice of Redemption and Rescission of Notice of Redemption**

The City may condition any notice of optional redemption upon receipt of funds or any other event. The City may, at its option, prior to the date fixed for redemption in any notice of optional redemption rescind and cancel such notice of optional redemption.

### **Effect of Redemption**

When notice of redemption has been duly given, and moneys for payment of the redemption price are held by the Trustee, the Series 2021 Bonds so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice; and from and after the date so designated interest on the Series 2021 Bonds so called for redemption will cease to accrue, said Series 2021 Bonds will cease to be entitled to any benefit or security under the Master Trust Agreement, and the Owners of said Series 2021 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee is required, upon surrender for payment of any of said Series 2021 Bonds, to pay such Series 2021 Bonds at the redemption price as aforesaid, together with interest accrued thereon to the date fixed for redemption.

The Master Trust Agreement requires that all Series 2021 Bonds redeemed pursuant to the provisions described above be cancelled upon surrender and that no Series 2021 Bonds be issued in place thereof.

## **Purchase of Series 2021 Bonds**

The City may, at its option, direct the Trustee to purchase any Series 2021 Bond at public or private sale as and when and at such prices not in excess of the par value thereof (including brokerage and other charges, but excluding accrued interest, which is payable from the applicable interest account established for such Series 2021 Bonds) as the Trustee may in its discretion determine, and all Series 2021 Bonds so purchased are to be cancelled by the Trustee.

## **SECURITY FOR THE BONDS**

### **Pledge of General Airport Revenues and Certain Other Available Funds**

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 Enterprise, and second, to the payment of principal of and premium, if any, and interest on the Bonds. See “—Flow of Funds.” The facilities comprising the Enterprise, however, have not been mortgaged to secure payment of the Bonds.

The Master Trust Agreement generally defines “Enterprise” as meaning the Airport, as now located partially within and partially outside the City, including runways, taxiways, landing pads, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated by the City in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions and improvements thereto, to the fullest extent permitted by the City Charter and the Law. The term “Enterprise,” unless otherwise specifically limited in any Supplemental Trust Agreement, also includes all other airports, airfields, landing places, heliports or places for the take-off and landing of aircraft, and all airport facilities appurtenant thereto, wheresoever situated, subsequently owned or operated by the City.

The Master Trust Agreement generally defines “General Airport Revenues” as meaning all revenues, income, receipts and moneys derived by the City from the operation of the Enterprise, including income derived from landing fees, the sale or use of airplane fuel, all other rents and charges made to or for the account of airplanes making use of the Enterprise, receipts from agriculture, automobile service stations and automobile parking on Airport land, proceeds of loss of use or business interruption insurance, and all receipts from leases and concessions, including rents, percentages of income or receipts for business conducted on any property in the Enterprise or from services performed by the City in connection with or incidental to the operation of the Enterprise. General Airport Revenues also includes all interest, profits or other income derived from the deposit or investment of any moneys in the General Revenue Fund or any account therein established under the Master Trust Agreement. General Airport Revenues expressly exclude:

- (a) any money received by or for the account of the City from the levy or collection of taxes,
- (b) moneys received from the State of California and the United States of America to the extent required to be deposited in restricted funds and/or used for purposes inconsistent with the terms of the Master Trust Agreement,
- (c) lease deposits and security deposits,

(d) moneys required to be paid to the State of California and the United States of America pursuant to agreements with the City,

(e) moneys received from insurance proceeds or settlements (except as otherwise provided in the Master Trust Agreement) or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Enterprise,

(f) proceeds from Bonds or Subordinate Obligations issued by the City or proceeds from loans, indebtedness or other obligations entered into by the City,

(g) moneys or securities received by the City as gifts or grants, to the extent the use thereof is restricted by the donor or grantor to purposes inconsistent with their use as General Airport Revenues under the terms of the Master Trust Agreement,

(h) CFC Revenues (generally, customer facilities charges; see Appendix C for a more complete definition and see “Other Available Funds, CFC Revenues and Available PFC Revenues” below),

(i) PFC Revenues (see “Other Available Funds, CFC Revenues and Available PFC Revenues” below),

(j) Special Facility Revenues (see “Special Facility Revenues” below),

(k) Unrealized Items (for a definition of this term, see Appendix C),

(l) Qualified Hedge Termination Payments (for a definition of this term, see Appendix C),  
and

(m) Cargo facility charges or similar fees imposed on any of cargo operators, cargo facilities or cargo parcels.

To the extent that CARES Act funding received by the Airport are available for any purpose for which airport revenues may lawfully be used, such funding is included in General Airport Revenues. However, to the extent the Airport receives CARES Act funding that is restricted or otherwise used for purposes inconsistent with their use as General Airport Revenues, including funds which may be used only to pay costs (including a federal share of up to 100%) relating to grants under the Further Consolidated Appropriations Act, 2020 (Public Law 116-94), such funds will not constitute General Airport Revenues. See “IMPACTS OF THE COVID-19 PANDEMIC.”

In addition to the pledge of General Airport Revenues, under the Twelfth Supplemental Trust Agreement the City has pledged to the payment of Debt Service (as defined in Appendix C) on the Bonds: (i) the Rolling Coverage Amount (as defined below), (ii) uncommitted monies from the prior fiscal year held in the General Revenue Fund on the first day of each fiscal year following all transfers of moneys to the Subordinated Debt Account within the Surplus Revenue Fund required under the Master Trust Agreement for the prior fiscal year, and (iii) all CFC Revenues in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds. See “— Other Available Funds, CFC Revenues and Available PFC Revenues.” The table below shows the maximum amount of CFC Revenues that may be applied to pay Annual Debt Service on the Series 2021C Bonds in each fiscal year.

Fiscal Year

Maximum CFC Revenues Eligible For Payment of  
Annual Debt Service on the Series 2021C Bonds  
\$

The only Series of Bonds that such pledged CFC Revenues may be applied to repay are the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds as shown above). The pledge of such additional CFC Revenues and other funds may be released in the future to the extent that Net General Airport Revenues (as defined in Appendix C) and any Other Available Funds not so released from the pledge are sufficient to meet the test specified in either paragraph (c)(i) or (c)(ii) under the heading “—Additional Series of Bonds—*Conditions for the Issuance of Additional Bonds*,” and the City has obtained confirmation from each Rating Agency (as defined in Appendix C) then rating the Bonds that such release will not adversely affect the ratings on the Bonds. The pledge of such additional CFC Revenues and other funds need not be a first lien on such revenues and funds. See “—Other Available Funds, CFC Revenues and Available PFC Revenues” and “—Additional Series of Bonds—*Conditions for the Issuance of Additional Bonds*.”

Under certain circumstances additional Other Available Funds and Available PFC Revenues may be pledged to and/or used to pay debt service on the Bonds. Although PFC Revenues generally do not fall within the definition of pledged General Airport Revenues, PFC Revenues may be used at the discretion of the Airport, and PFC Revenues are expected to be used but not pledged, to pay a portion of the Debt Service on the Series 2014A Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2014C Bonds, the Series 2017A Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2021A Bonds, the 2021B Bonds and the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2014A Bonds and the Series 2017A Bonds as shown above). PFC Revenues are not pledged, and may not be used, to pay debt service on the Series 2014B Bonds, the Series 2017B Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds) or the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds and the Series 2017B Bonds as shown above). See “—Other Available Funds, CFC Revenues and Available PFC Revenues” below and “AIRPORT FINANCIAL MATTERS” in Appendix A.

None of the City’s agreements with its Airport tenants, including the Airline Lease Agreement, is or will be assigned or pledged to the Trustee as security for the Bonds, including the Series 2021 Bonds. See “LEASE AND OPERATING AGREEMENTS” in Appendix A and “SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT” in Appendix G.

**Other Available Funds, CFC Revenues and Available PFC Revenues**

***Other Available Funds and CFC Revenues.*** Under the Master Trust Agreement, the City may for any period elect to designate as Other Available Funds any amounts (excluding PFC Revenues) available to the City but not otherwise a part of General Airport Revenues, including without limitation CFC Revenues, the Rolling Coverage Amount (see definition below under “Rate Maintenance Covenant”) and other fund balances as described below, by filing with the Trustee a written statement designating the amount and source of such Other Available Funds and containing a statement that such Other Available Funds are legally available to be applied to pay Debt Service during such period. After the filing of such written statement, the Other Available Funds designated therein are required to be deposited in the General Revenue Fund and applied as provided in the Master Trust Agreement. Notwithstanding any other

provision, if such Other Available Funds are subject to any prior pledge or lien, the application thereof to the payment of Debt Service will be subordinate to the terms of such pledge or lien and the written statement designating the Other Available Funds is required to indicate the amount of the obligation payable in such fiscal year (currently the period beginning July 1 and ending June 30) from the Other Available Funds pursuant to such pledge or lien.

As described under the heading “—Pledge of General Airport Revenues and Certain Other Available Funds,” the City has designated the Rolling Coverage Amount, certain uncommitted monies from the prior fiscal year held in the General Revenue Fund, and CFC Revenues, in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, as Other Available Funds and, under the Twelfth Supplemental Trust Agreement it has pledged such amounts to the payment of Debt Service on the Bonds until the final maturity date of the Bonds. The only Series of Bonds that such pledged CFC Revenues may be applied to repay are the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds). Such pledge is subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “—Pledge of General Airport Revenues and Certain Other Available Funds.” See also “AIRPORT FINANCIAL MATTERS—Customer Facility Charges” in Appendix A for a discussion of CFC Revenues.

Additionally, on the first day of each fiscal year, any additional beginning uncommitted balance of the General Revenue Fund (see “—Rate Maintenance Covenant” below) will automatically be considered Other Available Funds unless the City provides otherwise in a Written Statement of the City delivered to the Trustee. The City has covenanted in the Twelfth Supplemental Trust Agreement not to deliver such a Written Statement of the City provided that, should the Rolling Coverage Amount or any additional beginning uncommitted balance of the General Revenue Fund be released from the pledge as described under the heading “—Pledge of General Airport Revenues and Certain Other Available Funds,” such covenant shall be void and deemed to be of no further effect.

***Available PFC Revenues.*** Under the Master Trust Agreement, the City may for any period elect to designate any PFC Revenues as “Available PFC Revenues” by filing with the Trustee 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 Debt Service during such period. After the filing of a written statement, the Available PFC Revenues designated therein are required to be deposited in the Interest Fund and the Principal Fund, as directed by the City, and used to pay Debt Service. Notwithstanding any other provision, if such Available PFC Revenues are subject to any prior pledge or lien, the application thereof to the payment of Debt Service will be subordinate to the terms of such pledge or lien and the written statement of the City designating the Available PFC Revenues is required to indicate the amount of the obligation payable in such fiscal year from the Available PFC Revenues pursuant to such pledge or lien.

Use of Available PFC Revenues to pay Debt Service reduces the amount of Debt Service for purposes of compliance with the Rate Maintenance Covenant under the Master Trust Agreement. In addition, if Available PFC Revenues are pledged to pay Debt Service, then the amount of such Debt Service is reduced by the amount of such pledged Available PFC Revenues for purposes of compliance with the additional debt tests under the Master Trust Agreement. See “—Rate Maintenance Covenant” and “—Additional Series of Bonds” below. Available PFC Revenues are expected to be used, but are not pledged, to pay a portion of the Debt Service on the Series 2014A Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2014C Bonds, the Series 2017A Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2021A Bonds, the Series 2021B Bonds, and the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2014A Bonds and the Series 2017A Bonds). “PFC Revenues” are defined under the Master Trust Agreement as passenger facility charges collected by the City pursuant to applicable law, as amended from time to time, and interest earnings thereon, net of amounts that collecting air carriers are entitled to

retain for collecting, handling and remitting such passenger facility charge revenues. See “AIRPORT FINANCIAL MATTERS” and “CAPITAL DEVELOPMENT AT THE AIRPORT” in Appendix A. See also “CERTAIN FACTORS AFFECTING THE AIRPORT—Bankruptcy Risks—*Airline or Other Tenant Bankruptcies*” and “—Availability of Funding from PFC Revenues and CFC Revenues” herein.

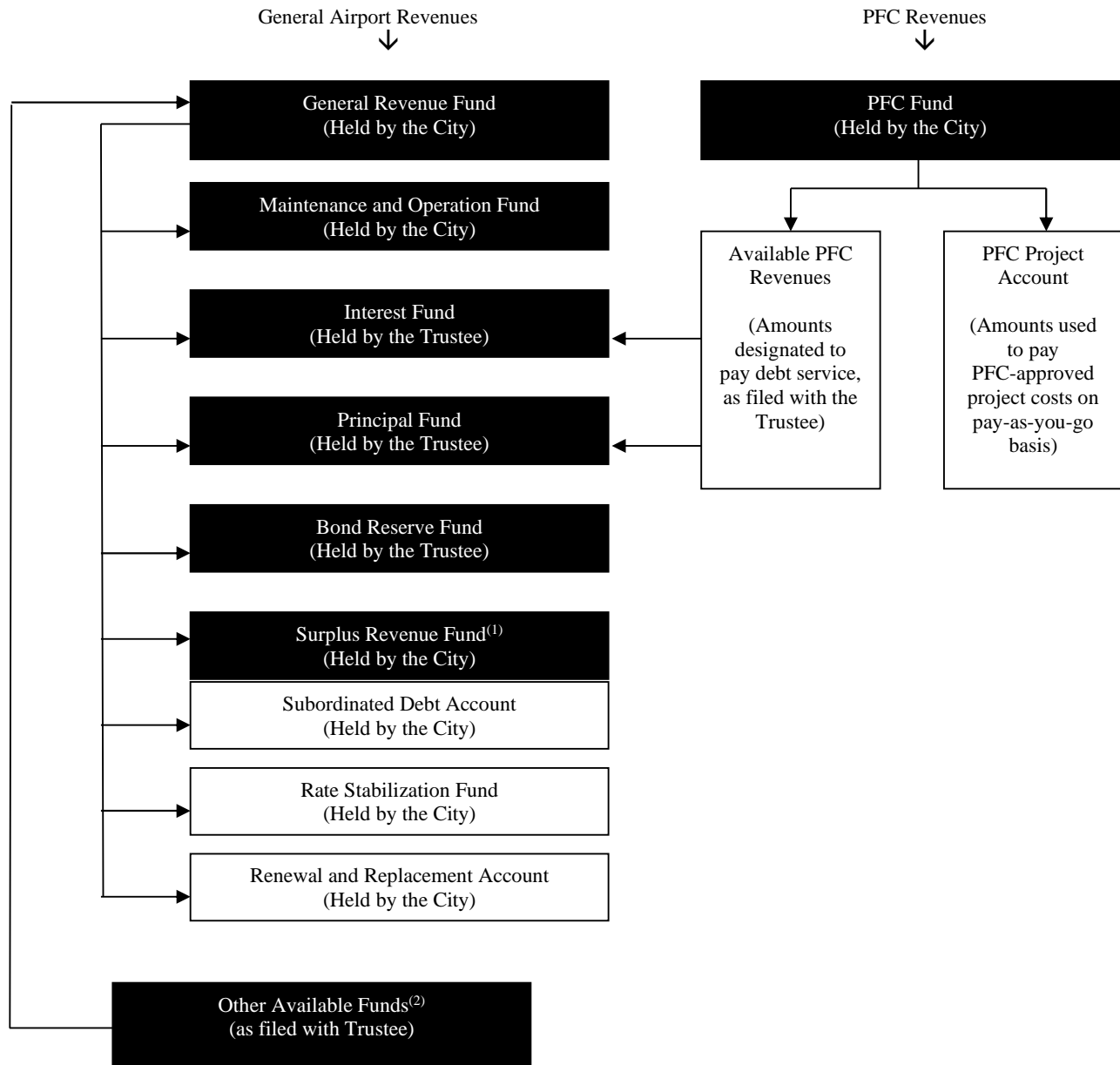
### **Flow of Funds**

Pursuant to the Master Trust Agreement, all General Airport Revenues are required to be deposited, upon receipt, by the City in a special fund in the City Treasury designated as the “City of San José Airport Revenue Fund” (the “General Revenue Fund”). Such fund was established by an ordinance of the City pursuant to Resolution No. 45333, adopted on March 12, 1974, as amended and supplemented (the “1974 Resolution”), and continues to be maintained under the Master Trust Agreement. For a summary of the flow of funds under the Master Trust Agreement, see Table 1.

The Master Trust Agreement requires that moneys or deposits in the General Revenue Fund shall be applied solely in accordance with the order of priorities established by the Master Trust Agreement. The first priority against the General Revenue Fund is the payment of Maintenance and Operation Costs of the Enterprise. The second priority is interest on the Bonds, followed by principal of the Bonds, including any Guaranteed Obligations and Regularly Scheduled Hedge Payments under a Qualified Hedge (unless otherwise provided in a Supplemental Trust Agreement). All moneys in the General Revenue Fund are required either to be set aside by the City or to be paid over to the Trustee and deposited in one or more of the funds described below. The Interest Fund, the Principal Fund and the Bond Reserve Fund are required to be maintained by the Trustee, and the Maintenance and Operation Fund and the Surplus Revenue Fund are required to be maintained by the City.



**Table 1**  
**Norman Y. Mineta San José International Airport**  
**Summary of Flow of Funds Under the Master Trust Agreement**



(1) Amounts remaining in the Surplus Revenue Fund at the end of each fiscal year (after required deposits have been made to the accounts therein) may be released to the City and used for any lawful Airport purpose.

(2) Other Available Funds includes the Rolling Coverage Amount, uncommitted balances in the General Revenue Fund at the beginning of each Fiscal Year, designated CFC Revenues that are used to pay debt service, and grant funds that are used to pay debt service. The City has pledged certain Other Available Funds to the payment of Debt Service on the Bonds, subject to release of such pledge in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “—Pledge of General Airport Revenues and Certain Other Available Funds,” and “—Other Available Funds, CFC Revenues and Available PFC Revenues.” See also “AIRPORT FINANCIAL MATTERS—Customer Facility Charges” in Appendix A for a discussion of CFC Revenues.

If at any time the City is in payment default under the Master Trust Agreement, the City is required, within five days after receipt of the written request of the Trustee or of a Municipal Bond Insurer or of the Owners of 10% of the aggregate principal amount of Bonds Outstanding, to transfer to the Trustee all moneys held in all funds maintained by the City under the Master Trust Agreement, and thereafter is required, at least monthly, to transfer all General Airport Revenues received by the City to the Trustee until such default is cured.

General Airport Revenues are required to be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund to be satisfied before any transfer is made to any fund subsequent in priority. In general, if General Airport Revenues are insufficient for the full deposit requested in any fund, the Trustee is required to apply the amount available pro rata in proportion to the amount required in each account within such fund.

(a) Maintenance and Operation Fund. On or before the first day of each month, the City is required to set aside out of the General Revenue Fund and to deposit in the Maintenance and Operation Fund an amount equal to (i) one-twelfth of the amount budgeted by the City in the original or a revised budget for Maintenance and Operation Costs of the Enterprise for the then-current fiscal year or (ii) such other amount as the City determines is necessary to pay the Maintenance and Operations Cost of the Enterprise in such month. Moneys in the Maintenance and Operation Fund are required to be used to pay the Maintenance and Operation Costs of the Enterprise as they become due and payable.

(b) Interest Fund. After making the deposit required by subsection (a) above, the City is required to transfer to the Trustee for deposit in the Interest Fund: (i) on or before the second Business Day before each Payment Date, the amount necessary to make the required interest payment on the Outstanding Series 2021 Bonds, Series 2017 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), and the Series 2014 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds) on such Payment Date; and (ii) the amounts required to be deposited in the Interest Fund with respect to any Additional Bonds pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Moneys in each account of the Interest Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the interest on the applicable series of Bonds as it becomes due and payable.

(c) Principal Fund. After making the deposits required by subsections (a) and (b) above, the City is required to transfer to the Trustee for deposit in the Principal Fund: (i) on or before the second Business Day before each Payment Date, the amount necessary to make the required principal payment on the Outstanding Series 2021 Bonds, Series 2017 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), and the Series 2014 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds) on such Payment Date; and (ii) the amounts required to be deposited in the Principal Fund with respect to the Principal Installments for any Additional Bonds and any associated Guaranteed Obligation Requirements pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Moneys in each account of the Principal Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the Principal Installments on the applicable series of Bonds as they become due and payable, the Guaranteed Obligation Requirements with respect to such Bonds when due and payable, and the purchase price of Bonds purchased pursuant to the Master Trust Agreement.

(d) Bond Reserve Fund. After making the deposits required by subsections (a), (b) and (c) above, on or before the first day of each month, the City is required to transfer to the Trustee for deposit in the Bond Reserve Fund such amount as will be required to maintain in each account in the Bond Reserve Fund a balance equal to the applicable Required Reserve for such account; provided that at the written direction of the City, the amount to be replenished to any account within the Bond Reserve Fund

after a draw on such account to pay debt service on any Bonds may be divided into no more than 12 equal monthly installments. Moneys in each account within the Bond Reserve Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the principal of and interest on the Bonds for which such account within the Bond Reserve Fund is available as provided in the Master Trust Agreement or in any Supplemental Trust Agreement in the event that no other moneys are available therefor, or for payment or redemption of all of such Bonds then outstanding. See “—Bond Reserve Fund.”

(e) Surplus Revenue Fund. On the fifteenth day of each month, the City is required to determine the moneys remaining in the General Revenue Fund attributable to a prior calendar month which are available for transfer to the Surplus Revenue Fund after having set aside and transferred all amounts required to be set aside or transferred by the Trustee or the City as provided in the Master Trust Agreement, and the City will, at a minimum, transfer and deposit in the Surplus Revenue Fund an amount equal to the lesser of (i) the amount, if any, required to be deposited in the Subordinated Debt Account pursuant to the provisions of any Subordinate Obligations payable therefrom, or (ii) the amount remaining in the General Revenue Fund. The City may retain any moneys in excess of such minimum amount in the General Revenue Fund. All moneys in the Surplus Revenue Fund are required to be deposited in the following respective special accounts within the Surplus Revenue Fund in the following order of priority:

- (1) Subordinated Debt Account;
- (2) Rate Stabilization Fund; and
- (3) Renewal and Replacement Account.

The inability of the City to make any deposit described by this paragraph (e) by reason of a lack of General Airport Revenues will not constitute an event of default under the Master Trust Agreement. If at any time any moneys in the Surplus Revenue Fund are needed to pay the principal of and interest on the Bonds, or to pay Maintenance and Operation Costs of the Enterprise for the then-current fiscal year for which no adequate budgeted amount from General Airport Revenues was provided by the City, the City may transfer such moneys from any such account (except the Subordinated Debt Account) for such purposes. The procedures under the Master Trust Agreement with respect to funding and application of amounts within the Surplus Revenue Fund may be amended at any time without the consent of the Bondholders.

(1) Subordinated Debt Account. On or before the fifteenth day of each month, the City is required to set aside out of the Surplus Revenue Fund and deposit in the Subordinated Debt Account until there have been deposited in each month in the Subordinated Debt Account an amount equal to the amount, if any, required to be paid prior to the next scheduled deposit for all expenses, indebtedness, and other charges on all Subordinate Obligations payable therefrom. If in any month insufficient moneys are available in the Surplus Revenue Fund to provide for the required deposit into the Subordinated Debt Account, such deficit must be made up from moneys in any account in the Surplus Revenue Fund subsequent in priority to the Subordinated Debt Account.

(2) Rate Stabilization Fund. The Rate Stabilization Fund is established to facilitate the deposit and collection of moneys from the rates and charges of users of the facilities of the Enterprise in the amounts and at the times needed to satisfy the financial requirements of the Enterprise and to insure the City’s ability to meet its obligations under the Master Trust Agreement. The moneys deposited in the Rate Stabilization Fund may be accumulated from any

rates, fees, charges or surcharges which the City allocates or designates for the purposes of this Account (herein called the “Allocated General Airport Revenues”). Collection of moneys into the Rate Stabilization Fund may be implemented by the City, in its discretion, upon a determination that due to unusual or exceptional circumstances it is necessary to accumulate and reserve sufficient amounts of moneys to assure the proper operation of the Enterprise and the City’s compliance with the Master Trust Agreement. By way of example only, and not as a limitation, such a determination may be made upon a projected significant imbalance of rates and charges for various facilities of the Enterprise, projected extraordinary vacancy rates for certain facilities of the Enterprise, unusual discrepancies in activity levels which lead to anomalies in the calculation of rates and charges, or seismic disturbances or other natural disasters affecting the operation of the Enterprise. Moneys in the Rate Stabilization Fund also may be applied by the City to facilitate administration of revenue sharing or rate stabilization provisions of contractual agreements with airlines or other tenants of the Airport.

Moneys in the Rate Stabilization Fund are required to be used and withdrawn by the City from time to time for deposit into the Maintenance and Operation Fund, the Interest Fund and the Principal Fund, and the City may budget the payment of Maintenance and Operation Costs of the Enterprise and payment of principal of and interest on Bonds from moneys in the Rate Stabilization Fund.

The Airline Lease Agreements currently do not provide for further deposits into the Rate Stabilization Fund, and provide for the distribution of funds remaining in the Rate Stabilization Fund upon the occurrence of certain conditions. See “APPENDIX G – SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT.”

(3) Renewal and Replacement Account. On or before the fifteenth day of each month, the City is required to set aside out of the Surplus Revenue Fund and deposit in the Renewal and Replacement Account all remaining moneys in the Surplus Revenue Fund (after the deposits described by paragraphs (e)(1) and (e)(2) above have been made) until such time as there have been deposited in the Renewal and Replacement Account in each fiscal year such amount as has been budgeted by the City for deposit into such account in such fiscal year. Moneys in the Renewal and Replacement Account are to be withdrawn by the City from time to time and deposited in a special fund of the City known as the Airport Renewal and Replacement Fund, as directed by a resolution of the Council.

All moneys remaining in the Surplus Revenue Fund on the fifteenth day of the last month of each fiscal year (after the deposits described by paragraphs (e)(1), (e)(2), and (e)(3) above have been made), may be transferred by the City to any other fund or account of the City to be used for any other lawful aviation-related purpose of the City; provided, however, the City may not withdraw any moneys held by the City in the Surplus Revenue Fund if and when the City is in default under the Master Trust Agreement.

### **Rate Maintenance Covenant**

The City has covenanted in the Master Trust Agreement that it will, at all times while any of the Bonds remain outstanding, manage its operations and establish, fix, prescribe and collect rentals, rates, fees and charges in connection with the services and facilities furnished by the Enterprise in each fiscal year so that the sum of (i) Net General Airport Revenues (generally, General Airport Revenues less Maintenance and Operations Costs of the Enterprise, but not including such Maintenance and Operations Costs as may be paid from available moneys other than General Airport Revenues; see Appendix C for a summary of the definition of the term “Maintenance and Operation Costs of the Enterprise”) for such fiscal year, plus (ii)

any Other Available Funds for such fiscal year after making reasonable allowances for contingencies and errors in the estimates, will be at least sufficient to pay the sum of:

- (a) the Annual Debt Service for such fiscal year on all of the Bonds as it becomes due and payable;
- (b) all other payments required in such fiscal year for compliance with the terms of the Master Trust Agreement (except any requirement to apply funds with respect to the Surplus Revenue Fund), and of any Supplemental Trust Agreement providing for the issuance of Additional Bonds pursuant to the Master Trust Agreement; and
- (c) all other payments relating to Subordinate Obligations of the City in such fiscal year which are charges, liens or encumbrances upon, or payable from, the General Airport Revenues.

Additionally, the City will, at all times while any of the Bonds remain outstanding, manage its operations and establish, fix, prescribe and collect rentals, rates, fees and charges in connection with the services and facilities furnished by the Enterprise so that (i) the sum of (1) Net General Airport Revenues for each fiscal year, plus (2) any Other Available Funds for such fiscal year is equal to at least 125% of Annual Debt Service for such fiscal year, and (ii) the sum of (1) Net General Airport Revenues for each fiscal year, plus (2) any Other Available Funds for such fiscal year (excluding, however, the Rolling Coverage Amount and any amounts not generated from actual cash receipts during the fiscal year unless such amounts are included in the initial or amended budget for the Enterprise in that fiscal year and in the initial or amended calculation of airline and other rates and charges for such fiscal year), is equal to at least 100% of Annual Debt Service for such fiscal year. "Annual Debt Service" is defined under the Master Trust Agreement as the Debt Service for the fiscal year less the Available PFC Revenues for such fiscal year. See Appendix C for a definition of "Debt Service." "Rolling Coverage Amount" is defined under the Master Trust Agreement as the uncommitted amounts in the Maintenance and Operation Fund or the General Revenue Fund, in an amount not to exceed 25% of Annual Debt Service in any fiscal year, that are available to pay Maintenance and Operation Costs of the Enterprise or Debt Service on Bonds and that are designated as the Rolling Coverage Amount by the City.

The Master Trust Agreement provides that the City may make adjustments from time to time in such rentals, rates, fees and charges and may make such classification thereof as it deems necessary during such fiscal year, but shall not reduce such rentals, rates, fees and charges below those then in effect unless the Net General Airport Revenues and Other Available Funds from such reduced rates will at all times be sufficient to meet the requirements described above. Such covenants are collectively referred to in this Official Statement as the "Rate Maintenance Covenant."

In general, if the City does not achieve financial results that comply with the Rate Maintenance Covenant in any fiscal year, the City is required under the Master Trust Agreement to hire during the next fiscal year a Qualified Independent Airport Consultant to make recommendations as to a revision of the rates, fees and charges, or Maintenance and Operations Costs of the Enterprise, or methods of operations of the Enterprise, if any, that will result in producing the amounts so required in the then-current fiscal year. Non-compliance with the Rate Maintenance Covenant is not an Event of Default under the Master Trust Agreement unless it occurs in two consecutive fiscal years.

### **Bond Reserve Fund**

The Master Trust Agreement requires the establishment and maintenance of a Bond Reserve Fund and requires the City to deposit to the General Account or to another Reserve Account within the Bond Reserve Fund the amount required to maintain in such account a balance equal to the applicable Required

Reserve for such account. The General Account of the Bond Reserve Fund secures the Series 2014 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2017 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), and will secure the Series 2021A Bonds and the Series 2021B Bonds (the “General Account Bonds”), and, at the election of the City, may secure Additional Bonds issued in the future. The Series 2021C Bonds will be secured by a separate 2021C Reserve Account, as described below.

***The General Account.*** The Master Trust Agreement provides for the establishment and maintenance of an account designated as the “General Account” in the Bond Reserve Fund. Amounts in the General Account are available only to pay principal of and interest on (i) the General Account Bonds, and (ii) any Additional Bonds for which the General Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. The General Account is not available to pay principal of and interest on the Series 2021C Bonds.

The Required Reserve for the General Account Bonds and any Additional Bonds issued on a parity therewith and secured by the General Account within the Bond Reserve Fund shall be the lesser of (i) the Maximum Annual Debt Service on all General Account Bonds and such Additional Bonds, or (ii) the amount permitted to be held in the General Account within the Bond Reserve Fund by the arbitrage bond regulations issued by the United States Department of the Treasury under Section 148 of the Code, as such regulations are, at the time, applicable and in effect (the “General Account Required Reserve”); provided, however, that any Required Reserve may be provided in whole or in part by one or more Qualified Reserve Facilities.

The General Account Required Reserve, as of the date of issuance of the Series 2021 Bonds, will be approximately \$58,522,575.\* Upon the issuance of the Series 2021 Bonds, approximately \$[\_\_\_\_\_] million\* of cash and investments will be held in the General Account of the Bond Reserve Fund, which will be sufficient to satisfy the General Account Required Reserve. All amounts in the General Account of the Bond Reserve Fund are held in cash and investments consistent with the City’s investment policy. See “OTHER MATTERS— Investment Policy and Practices of the City” in Appendix A.

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 its deposit to the General Account. As of the date of issuance of the Series 2021 Bonds, cash and investments in the General Account will be in an amount at least equal to the General Account Required Reserve.

***Other Reserve Accounts.*** Pursuant to any Supplemental Trust Agreement providing for the issuance of Additional Bonds, the Trustee may establish a separate account within the Bond Reserve Fund available only for the payment of such series of Additional Bonds and which account will have its own Required Reserve. The Master Trust Agreement provides that if such a separate account is created, said Additional Bonds do not have any claim on the other accounts maintained in the Bond Reserve Fund.

As permitted by the Master Trust Agreement, an account designated the “2021C Reserve Account” has been established within the Bond Reserve Fund. Amounts in the 2021C Reserve Account are available only to pay the Series 2021C Bonds and any Additional Bonds for which the 2021C Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. The 2021C Reserve Account is not available to pay or secure the Series 2021A Bonds or the Series 2021B Bonds. The Required Reserve for the 2021C Reserve Account, as of the date of issuance of the Series 2021C Bonds, will be approximately \$27,272,266,\* which will be satisfied by the

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\* Preliminary, subject to change.

deposit of proceeds from the Series 2021C Bonds into the 2021C Reserve Account on the date of issuance of the Series 2021C Bonds.

***Amounts Held in the Bond Reserve Fund.*** The approximate amounts held in the accounts within the Bond Reserve Fund as of the date of issuance of the Series 2021 Bonds are shown in the following table.

**Table 2<sup>(1)</sup>**  
**Bond Reserve Requirement Funding Sources**  
**As of Date of Issuance of Series 2021 Bonds**  
**[Reserve Fund Deposits to be Confirmed]**

Account	Account Valuation <sup>(4)</sup>
General Account <sup>(2)</sup>	\$[_____]
2021C Reserve Account <sup>(3)</sup>	\$[_____]

<sup>(1)</sup> Preliminary, subject to change.

<sup>(2)</sup> Secures the Series 2014 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2017 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds) and will secure the Series 2021A Bonds and Series 2021B Bonds, all as of the date of issuance of the Series 2021 Bonds. See “PLAN OF REFUNDING.”

<sup>(3)</sup> Amounts in the 2021C Reserve Account are available only to pay the Series 2021C Bonds and any Additional Bonds for which the 2021C Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.

<sup>(4)</sup> As of the date of this Official Statement, the Airport has not drawn on any of its reserve accounts. See “IMPACTS OF THE COVID-19 PANDEMIC—Cash and Liquidity.”

Source: City of San José.

## Additional Series of Bonds

**General.** The Master Trust Agreement provides that in addition to any Outstanding Bonds, the City may by Supplemental Trust Agreement issue other series of Additional Bonds payable from the General Airport Revenues on a parity with Outstanding Bonds and secured by a lien upon and pledge of such General Airport Revenues equal to the lien and pledge securing the Outstanding Bonds, but only upon compliance by the City with certain general conditions under the Master Trust Agreement, (additional conditions are described further below):

(a) The City will not be in default under the Master Trust Agreement or any Supplemental Trust Agreements or such default shall be cured by the delivery of such Additional Bonds.

(b) The aggregate principal amount of Additional Bonds proposed to be issued shall not exceed any limitation imposed by law, the Master Trust Agreement or any Supplemental Trust Agreement.

(c) If the Supplemental Trust Agreement providing for the issuance of such series of Additional Bonds provides that such series of Additional Bonds is required to be secured by the General Account or another account of the Bond Reserve Fund, such Supplemental Trust Agreement shall require that the Bond Reserve Fund established pursuant to the Master Trust Agreement be increased, if and to the extent necessary to an amount at least equal to the Required Reserve for such account. Said deposit may be satisfied from such proceeds or any other source, as provided in said Supplemental Trust Agreement.

(d) Principal Installments are required to be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such series on or before their respective maturity dates.

(e) The conditions for the issuance of such Additional Bonds contained in the Master Trust Agreement and in any applicable Supplemental Trust Agreement are complied with as certified by a Written Statement of the City.

**Conditions for the Issuance of Additional Bonds.** Subject to compliance with the Master Trust Agreement, the City may issue and the Trustee may authenticate and deliver Additional Bonds provided that the City satisfies the conditions described below. In the case of the Series 2021 Bonds, the City intends to comply with the alternative described in paragraph (c)(i) below.



(a) If the proceeds derived from the sale of an earlier series of Bonds which are available for the payment of the cost of acquisition and construction of any portion of a Project to be financed from such proceeds, together with any other available funds, are not sufficient to pay the entire cost of acquisition and construction of such portion of such Project, and it is necessary to provide additional funds for completing the acquisition and construction of such portion of such Project and paying the cost thereof in an amount determined by the City, a series of Additional Bonds may be issued by the City in a principal amount not to exceed 15% of the principal amount of the prior series of Bonds to which such Additional Bonds relate.

(b) For the purpose of refunding any Bonds issued under the Master Trust Agreement, a series of Additional Bonds may be issued by the City only if (i) the proceeds of the Additional Bonds of such series (except for proceeds used to pay costs of issuance, accrued interest and to fund any required reserve for such series of Additional Bonds) are required to be used, together with any other available moneys, to pay or defease all or a portion of the Bonds then outstanding, and (ii) the Annual Debt Service for the Additional Bonds of such series shall be less than or equal to the Annual Debt Service on the Bonds to be paid or defeased in each year that such Additional Bonds are to be outstanding.

(c) For any other Airport purpose authorized under the Master Trust Agreement, provided, that either:

(i) the Trustee receives a Certificate of the City setting forth a calculation showing that, for either (A) the most recently completed fiscal year for which audited financial statements are available preceding the issuance of such series of Additional Bonds, or (B) such other consecutive twelve month period during the eighteen months immediately preceding the issuance of such series of Additional Bonds selected by the City, the sum of (i) Net General Airport Revenues for such period, plus (ii) any Other Available Funds (subject to the provisions described in paragraph (d) below) for such period is at least 125% of Maximum Annual Debt Service after the proposed Additional Bonds are issued; provided that if a period other than a fiscal year is used to make the above calculation, the Certificate of the City is required to include a statement to the effect that the City does not expect Net General Airport Revenues for the fiscal year in which such Certificate is delivered to be lower than the Net General Airport Revenues as calculated in such Certificate; or

(ii) the Trustee receives a written report of a Qualified Independent Airport Consultant setting forth estimates of General Airport Revenues, Maintenance and Operation Costs of the Enterprise, Net General Airport Revenues, Other Available Funds and Available PFC Revenues, for the longer of (X) the next five fiscal years, or (Y) if any portion of the proceeds of such series of Additional Bonds is to be used to finance construction and capitalized interest on such Additional Bonds for the expected period of construction, the three fiscal years following the fiscal year in which the City estimates such portion of the Project will be completed. The Trustee must also receive a Certificate of the City setting forth the Annual Debt Service on all Bonds (including such Additional Bonds) for each of the fiscal years covered by said report, including Annual Debt Service as estimated in such Certificate of the City with respect to future series of Bonds, if any, which the City estimates will be required to complete payment of the estimated cost of construction of such portion of the Project and any other uncompleted portion of the Project from which the report projects additional revenues. Such Certificate of the City must demonstrate that the sum of (A) the estimated Net General Airport Revenues in each of the fiscal years set forth in the report of the Qualified Independent Airport Consultant, plus (B) the Other Available Funds, if any, pledged by the City to the payment of the Bonds as provided in subsection (d), is at least equal to 125% of Annual Debt Service for the corresponding fiscal years as set forth in the Certificate of the City.

(d) With respect to both paragraphs (c)(i) and (c)(ii) above, the sum of (i) Net General Airport Revenues plus (ii) Other Available Funds (excluding, however, the Rolling Coverage Amount) will not be less than 100% of Maximum Annual Debt Service, Annual Debt Service or Debt Service for a 12-month period, as the case may be. In addition, Other Available Funds and Available PFC Revenues may not be included in the calculations pursuant to subsections (c)(i) or (c)(ii) above unless the City has pledged such Other Available Funds or Available PFC Revenues, as the case may be, to the payment of Debt Service until the final maturity date of the Bonds and such Additional Bonds pursuant to a Supplemental Trust Agreement; provided, however, that the City may at any time release such Other Available Funds or Available PFC Revenues, in whole or in part, from such pledge, pursuant to a Supplemental Trust Agreement, to the extent that the Net General Airport Revenues and any Other Available Funds or Available PFC Revenues not so released are sufficient to meet the coverage calculations described by paragraphs (c)(i) or (c)(ii) above; and provided further, that prior to any such release, the City will have obtained a confirmation from each Rating Agency then rating on the Bonds, that such release will not adversely affect the rating on the Bonds. Any such pledge need not be a first lien on the source of revenue from which such Other Available Funds or Available PFC Revenues are derived, but the City must certify that it expects that any prior pledge of such Other Available Funds or Available PFC Revenues will not cause the amount of Other Available Funds or Available PFC Revenues in any fiscal year to be less than the amount so pledged.

***Issuance of the Series 2021 Bonds.*** As described under the heading “—Pledge of General Airport Revenues and Certain Other Available Funds,” the City has designated the Rolling Coverage Amount, certain uncommitted monies from the prior fiscal year held in the General Revenue Fund, and CFC Revenues, in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, as Other Available Funds and, under the Twelfth Supplemental Trust Agreement it has pledged such amounts to the payment of Debt Service on the Bonds until the final maturity date of the Bonds. See “—Other Available Funds, CFC Revenues and Available PFC Revenues—*Other Available Funds, CFC Revenues*” above. Pursuant to the provisions of the Master Trust Agreement described in paragraphs (c) and (d) under the heading “—*Conditions for the Issuance of Additional Bonds,*” amounts so pledged are included in the calculations described in paragraph (c)(i) relating to the issuance of Additional Bonds, including the Series 2021 Bonds. See “APPENDIX A—AIRPORT FINANCIAL MATTERS—Management Discussion of Recent Financial Results—Historical Debt Service Coverage.”

### **Subordinate Obligations**

In November 1999, the City authorized the issuance from time to time of its Norman Y. Mineta San José International Airport Subordinated Commercial Paper Notes (the “Subordinated Commercial Paper Notes”) that are secured by a lien on Surplus Revenues (which are General Airport Revenues remaining after the payment of Maintenance and Operating Costs of the Enterprise and the payment of debt service on the Bonds and the funding of any reserve funds established for the Bonds). The City Council adopted a resolution on January 11, 2011 authorizing the continued issuance of the Subordinated Commercial Paper Notes in a combined amount of principal of and interest thereon not to exceed \$600 million outstanding at any one time. In September 2018, the City entered into a letter of credit and reimbursement agreement (the “Reimbursement Agreement”) with Bank of America, N.A. (“BANA”), pursuant to which BANA issued a letter of credit supporting the Subordinated Commercial Paper Notes (the “BANA Letter of Credit”). As of the date of this Official Statement, the City has decided to limit its Subordinated Commercial Paper Note issuances to the total credit support provided by BANA through the BANA Letter of Credit. The Subordinated Commercial Paper Notes may be outstanding, from time to time, in a combined amount of principal of and interest thereon not to exceed \$81,657,535. The authorized principal component of the Subordinated Commercial Paper Note is \$75 million. The BANA Letter of Credit is stated to expire on September 10, 2021, unless such letter of credit is extended or terminated earlier pursuant to its terms.

An event of default under the Reimbursement Agreement would entitle BANA to demand that no additional Subordinated Commercial Paper Notes be issued, that the City reimburse BANA immediately for draws under the letter of credit and that all other amounts owed by the City to BANA 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 Commercial Paper 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 BANA 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.

Although the Master Trust Agreement does not limit the City's right to issue additional Subordinate Obligations, in the Reimbursement Agreement, the City agreed that it would not issue any additional indebtedness secured by General Airport Revenues if a term loan under the Reimbursement Agreement is outstanding (except to repay all such term loans) and that it would not issue any additional indebtedness secured by General Airport Revenues unless the City certifies that certain financial metrics are projected to be met.

### **Special Facility Revenues**

The Master Trust Agreement provides that the City may enter into contracts, leases, subleases or other agreements ("Special Facility Agreements") pursuant to which the City or the other parties to such agreements will agree to construct a building or facility incident or related to the Enterprise and designated in such agreement as a Special Facility (a "Special Facility") on land constituting part of the Enterprise or will agree to acquire or construct a Special Facility on land not then constituting part of the Enterprise (which land if not then owned or leased by the City may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure, or other facility (including the site thereof) for a Special Facility under the following conditions:

(1) No Special Facility may be constructed or acquired and subject to a Special Facility Agreement under the Master Trust Agreement if the result of the use or occupation of such Special Facility under the Special Facility Agreement would result in a reduction of Net General Airport Revenues and Other Available Funds below the minimum amount of Net General Airport Revenues and Other Available Funds covenanted to be produced and maintained in accordance with the Master Trust Agreement as determined by a certificate of the City (see "Rate Maintenance Covenant" above); and

(2) Any financing for the Special Facility is required to be secured as provided in the Special Facility Agreement and may not be secured by or payable from the General Airport Revenues or any of the funds or accounts held under the Master Trust Agreement. The Special Facility Agreement may provide the terms and conditions under which any revenues of the Special Facility will become General Airport Revenues.

There are currently no Special Facilities at the Airport.

## Other Security Features of the Master Trust Agreement

The Master Trust Agreement contains other covenants that relate to the security for the Bonds, including covenants concerning the sale of property, insurance, eminent domain proceeds, events of default and remedies, defeasance and other matters. The Master Trust Agreement does not provide for acceleration of the payment of principal of and interest on the Bonds in the event of a default. See Appendix C for a summary of certain of these provisions.

## OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Table 3 provides information as of June 30, 2020 relating to each issue of the Outstanding Bonds and the City's currently outstanding Subordinated Commercial Paper Notes.

**Table 3**  
**Norman Y. Mineta San José International Airport**  
**Certain Information Related to the Outstanding Bonds and Subordinated Commercial Paper Notes**  
**As of March 2, 2021**

Name of Issue	Date of Issuance	Original Principal Amount	Outstanding Principal Amount	Final Maturity Date
<b>Senior Lien</b>				
City of San José Airport Revenue Bonds				
Series 2011A-1 <sup>(1)</sup>	July 28, 2011	\$150,405,000	\$114,865,000	March 1, 2034
Series 2011A-2 <sup>(1)</sup>	July 28, 2011	86,380,000	66,115,000	March 1, 2034
Series 2011B <sup>(1)</sup>	December 14, 2011	271,820,000	252,895,000	March 1, 2041
Series 2014A <sup>(1)</sup>	October 7, 2014	57,350,000	34,480,000	March 1, 2026
Series 2014B	October 7, 2014	28,010,000	28,010,000	March 1, 2028
Series 2014C	October 7, 2014	40,285,000	40,285,000	March 1, 2031
Series 2017A <sup>(1)</sup>	April 11, 2017	473,595,000	423,200,000	March 1, 2047
Series 2017B <sup>(1)</sup>	April 11, 2017	150,675,000	134,635,000	March 1, 2047
<b>Total Senior Lien</b>		<b><u>\$1,258,520,000</u></b>	<b><u>\$1,094,485,000</u></b>	
<b>Subordinate Lien</b>				
City of San José Norman Y. Mineta San José International Airport Subordinated Commercial Paper Notes <sup>(2)</sup>	Varies	-	\$51,930,000	Rolling maturities of 270 days or less
<b>Total Subordinate Lien</b>			<b><u>\$51,930,000</u></b>	

<sup>(1)</sup> See "PLAN OF REFUNDING."

<sup>(2)</sup> See "SECURITY FOR THE BONDS – Subordinate Obligations."

Source: City of San José.

**Senior Lien.** Table 4 sets forth the debt service requirements on the Outstanding Bonds and the Series 2021 Bonds.

**Table 4**  
**Norman Y. Mineta San José International Airport**  
**Airport Revenue Bonds Debt Service Requirements<sup>(1)</sup>**

Fiscal Year Ended June 30	Total Debt Service on Outstanding Bonds <sup>(2)</sup>	Principal Requirements on Series 2021A Bonds	Interest Requirements on Series 2021A Bonds	Total Debt Service on Series 2021A Bonds	Principal Requirements on Series 2021B Bonds	Interest Requirements on Series 2021B Bonds	Total Debt Service on Series 2021B Bonds	Principal Requirements on Series 2021C Bonds	Interest Requirements on Series 2021C Bonds	Total Debt Service on Series 2021C Bonds	Total Debt Service on Series 2021 Bonds	Total Debt Service
2022	\$94,010,020											
2023	81,925,803											
2024	82,788,645											
2025	83,664,933											
2026	80,770,583											
2027	80,669,048											
2028	81,590,475											
2029	87,386,055											
2030	88,367,103											
2031	89,374,875											
2032	90,399,815											
2033	91,452,763											
2034	92,145,625											
2035	74,236,685											
2036	74,761,465											
2037	75,297,335											
2038	75,883,513											
2039	76,385,995											
2040	77,168,483											
2041	77,785,515											
2042	48,644,250											
2043	48,639,750											
2044	48,644,250											
2045	48,643,250											
2046	48,642,250											
2047	48,641,250											
2048	-											
2049	-											
2050	-											
2051	-											
Totals	\$1,947,919,734											

<sup>(1)</sup> Preliminary, subject to change. Totals may not add due to rounding.

<sup>(2)</sup> Debt service on the Outstanding Bonds prior to any refunding of the Refunded Bonds. See "PLAN OF REFUNDING."

Source: City of San José.

Table 4-A below shows the debt service before and after restructuring of debt service and the refunding of the Refunded Bonds in connection with the issuance of the Series 2021 Bonds, as described under “PLAN OF FINANCE.” Table 4-A is based on certain assumptions of the City, and is subject to change based on market conditions on the financial needs of the Airport. See “IMPACTS OF THE COVID-19 PANDEMIC—Aviation Activity Planning Scenarios.” Table 4-A does not include the issuance of any Additional Bonds that may be issued by the City.

**Table 4-A**  
**Norman Y. Mineta San José International Airport**  
**Debt Service After Refunding<sup>(1)</sup>**

<b>Fiscal Year Ended June 30</b>	<b>Debt Service on Outstanding Bonds Before Refunding</b>	<b>Debt Service on Outstanding Bonds After Refunding</b>	<b>Increase/(Decrease) in Debt Service on Outstanding Bonds After Refunding</b>
2022	94,010,020		
2023	81,925,803		
2024	82,788,645		
2025	83,664,933		
2026	80,770,583		
2027	80,669,048		
2028	81,590,475		
2029	87,386,055		
2030	88,367,103		
2031	89,374,875		
2032	90,399,815		
2033	91,452,763		
2034	92,145,625		
2035	74,236,685		
2036	74,761,465		
2037	75,297,335		
2038	75,883,513		
2039	76,385,995		
2040	77,168,483		
2041	77,785,515		
2042	48,644,250		
2043	48,639,750		
2044	48,644,250		
2045	48,643,250		
2046	48,642,250		
2047	48,641,250		
2048	-		
2049	-		
2050	-		
2051	-		
<b>Totals</b>	<b>\$1,947,919,734</b>		

<sup>(1)</sup> Preliminary, subject to change. Totals may not add due to rounding.

Source: City of San José.

## **CERTAIN FACTORS AFFECTING THE AIRPORT**

The following is a general discussion of certain factors that may affect activities at the Airport and does not purport to be an exhaustive listing of factors and other considerations affecting the Airport. There are other factors not discussed below, in the Appendices hereto or elsewhere in this Official Statement that may affect activities at the Airport.

### **Effect of COVID-19 Pandemic**

The COVID-19 pandemic has had and likely will continue to have substantial adverse effects on passenger traffic and Airport operations and financial performance. The dynamic nature of the COVID-19 pandemic leads to many uncertainties and so, the City cannot predict: (i) the duration or extent of the COVID-19 pandemic or another outbreak or pandemic; (ii) the scope or duration of the current COVID-19 pandemic and any additional restrictions or warnings related to air travel, gatherings or any other activities, and the duration or extent to which airlines will reduce services at the Airport, or whether airlines will cease operations at the Airport or shut down in response to such restrictions or warnings; (iii) what additional short or long-term effects the restrictions and warnings imposed as a result of the COVID-19 pandemic may have on air travel (including to and from the Airport), the retail and services provided by Airport concessionaires, Airport costs or Airport revenues; (iv) to what extent the COVID-19 pandemic, another outbreak or pandemic may disrupt the local, State, national or global economy, manufacturing or supply chain, and if any such disruption may adversely impact Airport-related construction, the cost, sources of funds, schedule or implementation of the Airport's CIP, or other Airport operations; (v) the extent to which the COVID-19 pandemic, or another outbreak or pandemic, or the resultant disruption to the local, State, national or global economy, may result in changes in demand for air travel, or have an impact on the airlines or concessionaires serving the Airport, or the airline and travel industry, generally; (vi) whether or to what extent the Airport may amend, adjust, or make other changes to the Airport's arrangements with its tenants and concessionaires; (vii) whether any of the foregoing may have a material adverse effect on the finances and operations of the Airport; or (viii) the extent or duration of telecommuting and the possibility of increased utilization of video conferencing by businesses and others after the COVID-19 pandemic which may reduce demand for business travel.

The City cannot predict the extent and duration of changes in air traffic volume as a result of the COVID-19 pandemic and its associated economic impacts. It is possible that air travel behavior and patterns may be permanently altered, once the various guidelines and orders implemented in response to the COVID-19 pandemic have been lifted, as a result of residents' and businesses' telecommuting experiences during the outbreak. In particular, such experiences may result in a permanent decline in business travel, the extent of which is currently unknown.

Prospective investors should assume that the restrictions and limitations related to COVID-19, and the current upheaval to the air travel industry and the national and global economies, will continue at least over the near term, and that recovery may be prolonged, adversely impacting Airport revenues. Future outbreaks, pandemics or events outside the Airport's control may further reduce demand for travel, which in turn could cause a decrease in passenger activity at the Airport and declines in Airport revenues. See "IMPACTS OF THE COVID-19 PANDEMIC."

### **General Factors Affecting Airline and Passenger Activity**

Future airline traffic at the Airport and demand for air travel will be affected by, among other things, the growth of or decline in the population and economy of the Air Service Area and by national, regional and international economic conditions, federal regulatory actions, airline service, air fare prices, and operation of the national air traffic control system. In general, the price of air travel is, in turn,



affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure, aircraft choices, hubbing strategies and route decisions of the airlines serving an airport, the willingness and ability of competing airlines to enter an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns, noise restrictions and other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport.

Reductions in airline traffic and/or shifts in airline traffic and market share at the Airport and financial difficulties at individual airlines could, over time, materially alter the relative financial obligations of the individual airlines operating at the Airport and lead to increases in per-passenger-mile costs of service and to reductions of service at the Airport. Factors which could have an adverse effect on air travel in the future include, but are not limited to, terrorist attacks, additional or continued military activities involving U.S. troops, outbreaks of illness such as the COVID-19 pandemic, airline accidents, the availability of business travel substitutes including video conferencing and streaming technology, regulatory changes, rising fuel prices, continuing elevated levels of unemployment, turmoil in the capital markets or general weakness in the national, state, regional or local economy. See “—Uncertainties in the Air Service Area” and “—Uncertainties of the Airline Industry.”

### **Possible Downtown High-Rise Development Impacts on Air Service**

Downtown San José is directly under the primary aircraft approach and departure paths for the Airport. Historically, in the review of proposed high-rise building projects, the City has relied upon the FAA’s issuance of a project-specific “No Hazard Determination” as the finding that the development would not adversely impact airspace or Airport operations. However, airlines must satisfy other, often more-restrictive, operating procedures mandated by the FAA (commonly referred to as “One Engine Inoperative” or “OEI” procedures) that may constrain their ability to economically operate due to high-rise buildings which, in turn, can impact City goals to retain or attract new airline service. Because of the proximity of downtown San José to the Airport, further downtown high-rise development, including but not limited to temporary obstructions from construction cranes, could impact the Airport’s ability to attract more long-haul domestic and international service. In the event that obstructions in the takeoff path are too high, the airlines have to fly lighter aircraft or carry lighter loads (i.e. less fuel or fewer passengers) to be able to clear the obstructions with one engine inoperative. This, in turn, could adversely impact or preclude the air carriers’ ability to schedule long-haul flights (which typically require larger aircraft and more fuel) at the Airport. On March 28, 2019, the City Council adopted recommendations from the Downtown Airspace and Development Capacity Study (DADCS), to allow building heights to reach the lowest Terminal Instrument Procedures (TERPS) departure surface in the Downtown and Diridon Station Area, subject to the project-specific FAA No Hazard Determination. Construction crane heights in the Downtown and Diridon Station Area are also subject to safety approvals from the FAA. On March 9, 2021, the City Council [considered] certain operational restrictions and permit fees on construction cranes in the Downtown and Diridon Station Area in addition to all applicable FAA safety approvals. The City cannot predict the impact of future downtown high-rise building projects, including the impact of construction crane heights, on future long-haul domestic and international service at the Airport.

### **Uncertainties in the Air Service Area**

The Airport’s General Airport Revenues and other amounts pledged to secure the Series 2021 Bonds depend significantly on the level of aviation activity and passenger traffic at the Airport. The principal determinants of passenger demand at the Airport include the population and economy of the Airport service region; national and international economic conditions, including imposition of tariffs; political conditions, including wars, other hostilities and acts of terrorism; airfares and competition from

surrounding airports; airline service and route networks; the capacity of the national air transportation system and the Airport; accidents involving commercial passenger aircraft; visa requirements and other limitations on the ability of foreign citizens to enter the United States; currency exchange rates; and the occurrence of pandemics, such as the COVID-19 pandemic; and the occurrence of natural and man-made disasters. Airfares and airline service are, in turn, affected by the financial condition of the airlines and regulatory requirements imposed on airlines, among other factors.

Approximately 92.9% of the enplaned passengers at the Airport are O&D passengers as opposed to passengers connecting through the Airport to other cities. As described in Appendix A, air traffic at the Airport is thus dependent upon the economy of the Airport's Air Service Area as well as on the route decisions and financial condition of individual airlines. Although the Airport's six-county Air Service Area is large and has a relatively diversified socio-economic base, the economy in the Air Service Area depends in significant part upon the financial strength and stability of the software, technology and communications industries, and upon the success of major employers in the Air Service Area. Several employers in the Air Service Area have announced headquarters relocations in recent years. For example, in December 2020, Hewlett Packard Enterprise ("HPE") announced that it would move its headquarters to Houston, Texas, and Oracle announced that it would move its headquarters to Austin, Texas. Although HPE plans to move its headquarters outside the Air Service Area, its strategic hub for research and development, innovation, technology talent, and its headquarters for its Aruba company will remain in the Air Service Area. Reduced demand for air travel in and out of the Air Service Area could also result in fewer airlines serving the Airport.

After increasing at a compound annual growth rate of 7.5% between fiscal year 2010-11 and fiscal year 2018-19, passenger enplanements at the Airport decreased by approximately 24.1% in fiscal year 2019-20. Passenger traffic at the Airport has declined substantially since the beginning of the COVID-19 pandemic in March 2020 compared to corresponding months in the prior fiscal year. The City cannot predict the duration or extent of the COVID-19 pandemic, or to what extent the COVID-19 pandemic may continue to disrupt the local, State, national or global economy. See "IMPACTS OF THE COVID-19 PANDEMIC" and "—Effect of COVID-19 Pandemic."

No assurance can be given that the passenger traffic at the Airport or enplanement levels will recover to or exceed pre-COVID-19 levels. See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" in Appendix A.

## **Competition**

**Other Airports.** The Airport competes for passengers and cargo with San Francisco International Airport ("SFO"), approximately 34 miles northwest of the Airport, and with Oakland International Airport ("OAK"), approximately 36 miles north of the Airport. These three airports serve the entire 12-County area, ranging from Sonoma County to the north and Monterey County to the south. Both the Airport and OAK serve predominately domestic O&D traffic, while SFO is considered the Bay Area's international gateway, serving as the primary point of departure and arrival for international passengers. Although the Airport and OAK had both added direct international flights to key destinations in Europe and Asia, a portion of those routes were subsequently withdrawn under strong competitive pressures, which were primarily related to the international travel ban implemented as a result of the COVID-19 pandemic. Given the relatively close proximity of all of the Bay Area airports, certain passengers may be willing to utilize any of the three airports in the region, which spurs competition among the Airport, SFO and OAK to capture passenger activity market share. A smaller commercial service airport that services portions of the Air Service Area, Monterey Peninsula Airport, is approximately 75 driving miles from the Airport. The COVID-19 pandemic has impacted passenger levels at all three major Bay Area airports. From March to December 2020, passenger levels declined year-over-year by 81.9% at the Airport, 83.0%

at SFO, and 75.1% at OAK. The passenger trends at SFO and OAK described in the preceding sentence are sourced from publicly available information provided by SFO and OAK, respectively.

**California High Speed Rail.** The California High Speed Rail Authority (the “CHSR Authority”) is pursuing a statewide, high speed rail system in California linking Los Angeles to the San Francisco Bay Area, with a proposed station to be located in the City. The CHSR Authority has indicated it will pursue a phased implementation of service. Groundbreaking on the initial construction segment of the project (Merced to Bakersfield) began in 2015 and is expected to be operational by 2028-2029. The City is unable to predict if or when a statewide, high speed rail system will become operational between the San Francisco Bay Area, the City and Los Angeles, or what effect such rail system would have, if any, on passenger traffic at the Airport or its revenues.

### **Uncertainties of the Airline Industry**

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as terrorist attacks, economic recessions or pandemics. Business conditions within the airline industry, such as increases in fuel and other costs and aging aircraft fleets, together with increased competition from airlines that shed debt and other obligations in bankruptcy, among other factors, could adversely affect the ability of some of the airlines that serve the Airport to meet their financial obligations to the City. Such conditions are generally beyond the control of the City and, in some cases, the airlines. These and other market conditions could in the future result in additional airline bankruptcies, the inability of other weakened airlines to take over routes abandoned by a faltering airline, increased airline concentration at the Airport and a restructuring of the airline industry.

After 2008, the airline industry saw a significant amount of consolidation. Four examples of this consolidation are the mergers between Delta Air Lines, Inc. and Northwest Airlines (“Delta Air Lines”) in 2008, United Airlines and Continental Airlines (“United Airlines”) in 2010, Southwest Airlines and AirTran Airways (“Southwest Airlines”) in 2011, and American Airlines and US Airways (“American Airlines Group”) in 2013. Most recently, on December 14, 2016, Virgin America Inc. became a wholly-owned subsidiary of Alaska Air Group, Inc. See “—Bankruptcy Risks—*Airline or Other Tenant Bankruptcies.*” Airline consolidation, capacity discipline, economic conditions, and relatively stable fuel prices contributed to record profitability of the airlines from 2010 through 2019. Those profits were substantially impacted in the first quarter of 2020 as a result of the impact of the COVID-19 pandemic on global travel demand.

Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the national economy, other regional and world economies, corporate profitability, fuel prices, security concerns and other factors. For example, the current COVID-19 pandemic and the economic impacts thereof have had a significant and adverse impact on the demand for air travel and the airline industry. The COVID-19 pandemic has resulted in substantial financial challenges for airlines serving the Airport, including substantial financial losses and announcements warning of layoffs or reduction in workforce. See “IMPACTS OF THE COVID-19 PANDEMIC—Impact of COVID-19 on Certain Airport Operations and Financial Data.” While the Airport has in the past seen passenger traffic return after or grow through airline bankruptcies and consolidations and other events affecting the airline industry, the COVID-19 pandemic is an unprecedented event and its near-term and long-term effects on the airline industry cannot be predicted with any certainty, including the prospect of prolonged downsizing of aircraft fleets and associated levels

of capacity. Other structural changes to the industry also result from the impact of airline consolidations, optimization of route structures, low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code.

Although the Airline Lease Agreement permits the City to adjust rental rates and landing fees to take into account amounts that go unpaid by a defaulting airline, no assurance can be given that the non-defaulting airlines will continue to serve the Airport and to pay the higher rates and fees.

## **Cybersecurity**

The City and the Airport rely on a large and complex technology environment to conduct their operations. As a recipient and provider of personal, private, and sensitive information, the City and the Airport are subject to cyber threats, including, but not limited to: hacking, viruses/malware, and other attacks on information and communications assets. The City's Information Technology Department has no knowledge or notice of any significant data breaches on City [and Airport] information and systems assets to date.

In recent years, the City established a Cybersecurity Office and hired its first Chief Information Security Officer (the "CISO"), within the City's Information Technology Department, to coordinate cybersecurity preparation and response across City departments. Under the direction of the CISO, the City has developed and disseminated an administrative policy entitled "Information and Systems Security Policy" to set forth policies and procedures governing the use and security of the City's information systems and an Information Security Standards Handbook that establishes the security baseline of the City's information systems. The Cybersecurity Office also worked with City departments to improve system and infrastructure changes by establishing a Citywide Change Control Board ("CCB") in August 2018. The CCB's main objective is to communicate and inform changes to computer systems as part of maintenance or upgrades across all impacted departments. Additionally, a Cybersecurity Advisory Board, with cybersecurity leaders from the public and private sectors, was established to validate and refine the City's cybersecurity strategies, policies approach, and roadmap.

The City has conducted training with City employees who handle credit card transactions. The Cybersecurity Office also provided cybersecurity training and testing for all City employees, including phishing email tests, social engineering tests, periodic cybersecurity newsletters, and workshops. These efforts have been coupled with the Cybersecurity Office's ongoing information technology security assessments to identify and remediate potential weaknesses in networks.

In response to several ransomware attacks carried out against municipalities, the City upgraded its servers and workstations to guard against various strains of cryptoware and has implemented a solution to address Business Email Compromise (the attack of the City's email system through which the attacker gains access to a City email account). Since 2019, the City has also focused on creating system contingency plans to test recovery of systems in the event of a major disaster.

To mitigate its risk, the City purchased specialized insurance coverage covering cyber risks but there is no assurance that such coverage will be maintained in the future or that the coverage amount will be sufficient to address the cost of any particular cyberattack.

In 2020, as a result of the COVID-19 pandemic, the City adapted to allow for remote work, utilizing online cloud tools and a private network. Safeguards were enhanced to migrate to a mobile workforce while maintaining a balance between functionality and security, including secure cloud access as return to work plans and processes are put into place for COVID-19 recovery. The City continues to perform technical refresh projects with an aim to reduce risk of legacy systems by designing modern,

secure architectures that take advantage of hybrid cloud and on-premise infrastructures.

In late 2020, the City implemented a Virtual Security Operations Center to provide visibility across multiple networks, and to provide a robust incident response capability. This newly implemented capability is expected to mature over time to include automated responses, integration with other defense toolsets, enhanced triaging for investigations, and integration with the City's Office of Emergency Management for larger incidents. In 2021, the City plans to further enhance the resilience of its systems through a series of contract awards designed to identify and correct gaps, provide state-of-the-art protection to all devices, continue employee training, and provide third-party expertise for incident response.

No assurances can be given that any organization's cybersecurity and operational controls will be completely successful in guarding against cyber threats, cyberattacks, and/or advanced persistent threats. The results of any attack on the City's computer and information technology systems could impact its operations and cause serious damage to the City's operations. The costs of remedying any such damage could be substantial. Hence, the City's cybersecurity work focuses on prevention and resilience, as described above.

The City, like numerous other public and private sector entities, was made vulnerable in the recent cyberattack against SolarWinds. In response, the City followed federal guidance, applied fixes identified in such guidance, and adhered to category determinations as instructed by the federal Cybersecurity and Infrastructure Security Agency. The City's Incident Response Team found no indications of compromise to the City's network and systems and found no evidence of data exfiltration as a result of the attack.

The airlines serving the Airport and other Airport tenants also face cybersecurity threats that could affect their operations and finances. Notwithstanding security measures, information technology and infrastructure at the Airport, any of the airlines serving the Airport or any other tenants at the Airport may be vulnerable to attacks by outside or internal hackers, or breached by employee error, negligence or malfeasance. Any such breach or attack could compromise systems and the information stored therein. Any such disruption or other loss of information could result in disruption to the operations of the Airport and/or the airlines serving the Airport and to the services provided at the Airport, thereby adversely affecting the ability of the Airport to generate revenue.

## **Bankruptcy Risks**

The rights of the owners of the Bonds and the enforceability of the City's obligation to make payments on the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights under existing law or under laws enacted in the future and may also be subject to the exercise of judicial discretion under certain circumstances. The opinions of Bond Counsel and of the City Attorney as to the enforceability of the obligations of the City will be qualified as to bankruptcy and similar events and as to the application of equitable principles and the exercise of judicial discretion in appropriate cases and to common law and statutes affecting the enforceability of contractual obligations generally and to principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

***Airline or Other Tenant Bankruptcies.*** A bankruptcy of an airline or of another tenant or tenants operating at the Airport could result in delays or reductions in payments on the Bonds. Airlines operating at the Airport have filed for bankruptcy in the past and may do so in the future. The COVID-19 pandemic has severely and negatively affected domestic and international air travel. See "IMPACTS OF THE COVID-19 PANDEMIC" and "—Effect of COVID-19 Pandemic."

In January 2021, several media outlets reported that the parent company of Hainan Airlines, HNA Group Co., Ltd., entered a bankruptcy proceeding in China. In connection with airlines in bankruptcy outside of the United States, the City cannot predict what types of orders or relief could be issued by foreign tribunals or the extent of delays in connection with such proceedings or the extent to which such orders would be enforceable in the United States.

The automatic stay provisions of the United States Bankruptcy Code (the “Bankruptcy Code”) could prevent (unless approval of the bankruptcy court were obtained) any action to collect any amount owing by the airline or other tenant to the City or any action to enforce any obligation of the airline or other tenant to the City. With the authorization of the bankruptcy court, the airline or other tenant may be able to repudiate some or all of its agreements with the City and stop performing its obligations (including payment obligations) under such agreements. Such a repudiation could also excuse the other parties to such agreements from performing any of their obligations. The airline or other tenant may be able, without the consent and over the objection of the City, the Trustee and the Owners of the Bonds, to alter the terms, including the payment terms, of its agreements with the City, so long as the bankruptcy court determines that the alterations are fair and equitable. In addition, with the authorization of the bankruptcy court, the airline or other tenant may be able to assign its rights and obligations under any of its agreements with the City to another entity, despite any contractual provisions prohibiting such an assignment. The Trustee and the Owners of the Bonds also may be required to return to the airline or other tenant, as preferential transfers, any money that was used to make payments on the Bonds and that was received by the City or the Trustee from the airline or other tenant during the 90 days immediately preceding the filing of the bankruptcy petition. Claims by the City under any lease with the airline or other tenant may be subject to limitations.

As described in Appendix A, airlines that serve the Airport are required not only to make payments under various agreements with the City but also to pay to the City the PFCs collected from passengers on behalf of the City. An airline is likely to be in possession of PFCs at the time it goes into bankruptcy. Although there are provisions in the law requiring airlines to treat PFCs as trust funds, the application of these provisions in a bankruptcy case is not clear. The airline may not be required to turn over to the City or to the Trustee any PFCs in its possession at the time it goes into bankruptcy. Even while the airline is in bankruptcy, it may not be required to turn over PFCs that are collected prior to the time that the City or the Trustee demands the turnover of the PFCs. Even after a demand is made, it is possible that the airline would not be required to turn over subsequently-collected PFCs. See “AIRPORT FINANCIAL MATTERS—Passenger Facility Charges” in Appendix A for a discussion of other factors concerning PFC Revenues.

A number of rental car companies that operate at the Airport have also been the subject of bankruptcy proceedings. The Hertz Corporation (“Hertz”), which conducts on-Airport rental car operations at the Airport, filed voluntary petitions for reorganization under United States Bankruptcy Code Chapter 11 on May 22, 2020. On its restructuring website, Hertz cites the impact of COVID-19 on travel, stating that the impact was “sudden and dramatic.” Hertz further states that “the reorganization process will provide Hertz with the time to put in place a new, stronger financial foundation to move successfully through the pandemic and best position the company for the future, while continuing normal business operations.” Hertz continues to operate at the Airport. On December 18, 2020, the City stipulated that the time period during which Hertz may assume or reject its concession agreement is extended through and including the earlier of (a) the effective date of a Chapter 11 plan for Hertz and (b) March 21, 2021 without prejudice to the right of the debtors to assume or reject the operating agreement prior to either date or to request additional extensions of time within which to assume or reject the concession agreement. To date, Hertz is current on its post-petition obligations to the City under the concession agreement.

As described in Appendix A (see “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—*Rental Car Agreements*”), in addition to lease and other payments, the rental car companies operating at the Airport remit CFCs to the Airport. Under the Twelfth Supplemental Trust Agreement, the City has pledged to the payment of Debt Service on the Bonds CFC Revenues in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds.” The only Series of Bonds that such pledged CFC Revenues may be applied to repay are the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds). A rental car company may owe current or future lease payments to the Airport and is likely to be in possession of CFCs at the time it goes into bankruptcy. Although there are provisions in the agreements between the City and the rental car companies requiring the rental car companies to treat CFCs as trust funds, the enforceability and application of these provisions in a bankruptcy case is not clear. A rental car company in bankruptcy may not be required to turn over to the City or to the Trustee any CFCs in its possession at the time it goes into bankruptcy. Even while the rental car company is in bankruptcy, it may not be required to turn over CFCs that it collects to the City or the Trustee.

There could be delays in payments on the Bonds, including the Series 2021 Bonds, while the court considers any of these and other issues. There may be other effects of a bankruptcy of an airline or other tenant that could result in substantial delays or in reductions in payments to the holders of the Bonds, including the Series 2021 Bonds. Regardless of any specific adverse determinations in a bankruptcy proceeding, a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds, including the Series 2021 Bonds.

**City Bankruptcy.** The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”). However, third parties cannot bring involuntary bankruptcy proceedings against the City. The Airport, being a department of the City, cannot itself file for bankruptcy protection. Should the City file for bankruptcy, there could be adverse effects on the holders of the Series 2021 Bonds.

If the General Airport Revenues are “special revenues” under the Bankruptcy Code, then General Airport Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Master Trust Agreement. “Special revenues” are defined in the Bankruptcy Code to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide transportation services. While the General Airport Revenues appear to satisfy this definition and thus should be “special revenues,” no assurance can be given that a court would not hold that the General Airport Revenues are not “special revenues.” If the General Airport Revenues are determined to not be “special revenues,” then General Airport Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Master Trust Agreement. The holders of the Series 2021 Bonds may not be able to assert a claim against any property of the City or the Airport other than the General Airport Revenues, and if these amounts are no longer subject to the lien of the Master Trust Agreement, then there may be no amounts from which the holders of the Series 2021 Bonds are entitled to be paid.

The Bankruptcy Code provides that “special revenues” can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use General Airport Revenues to pay necessary operating expenses of the Airport, before the remaining General Airport Revenues are turned over to the Trustee to pay amounts owed to the holders of the Series 2021 Bonds. It is not clear precisely which expenses would constitute necessary operating expenses.

If the City is in bankruptcy, parties (including the holders of the Series 2021 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Series 2021 Bonds from funds in the Trustee's possession. The rate covenant may not be enforceable in bankruptcy by the Trustee or the holders of the Series 2021 Bonds.

The City is permitted to hold General Airport Revenues for up to one year before transferring General Airport Revenues to the Trustee. If the City goes into bankruptcy, the City may not be required to turn over to the Trustee any General Airport Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the City has possession of General Airport Revenues (whether collected before or after commencement of the bankruptcy) and if the City does not voluntarily turn over such General Airport Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the holders of the Series 2021 Bonds would have to follow to attempt to obtain possession of such General Airport Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Under such circumstances, there may be delays or reductions in payments on the Series 2021 Bonds.

Under the Bankruptcy Code, the City may be able to borrow additional money that is secured by a lien on any of its property (including the General Airport Revenues), which lien could have priority over the lien of the Master Trust Agreement, as long as the bankruptcy court determines that the rights of the Trustee and the holders of the Series 2021 Bonds will be adequately protected. The City may be able to cause some of the General Airport Revenues to be released to it, free and clear of lien of the Master Trust Agreement, as long as the bankruptcy court determines that the rights of the Trustee and the holders of the Series 2021 Bonds will be adequately protected.

Under the Bankruptcy Code, the City may be able, without the consent and over the objection of the Trustee and the holders of the Series 2021 Bonds, to alter the principal, priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Master Trust Agreement and the Series 2021 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

### **Information Concerning the Airlines**

The City makes no representation as to the business operations, financial condition or future viability of any airline and makes no representation about the filings referred to below.

The principal domestic airlines, or their respective parent corporations, and foreign airlines with American Depositary Receipts ("ADRs") registered on a national exchange are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, concerning such domestic airlines or their respective parent corporations and such foreign airlines, is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, and at the offices of The New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005 (for certain airlines whose stock or whose parent's stock is traded on the New York Stock Exchange). Copies of such reports and statements can be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates or from the SEC website at <http://www.sec.gov>. In addition, each airline is required to file periodic reports of financial and operating statistics with the Department of Transportation. Such reports can be inspected at



the Bureau of Transportation Statistics, Research and Innovative Technology Administration, Department of Transportation, 1200 New Jersey Avenue, SE, Washington, D.C. 20590.

Airlines owned by foreign governments, or foreign corporations operating airlines (unless such airlines have ADRs registered on a national exchange), are not required to file information with the SEC. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the United States Department of Transportation.

## **Regulatory Uncertainties**

**General.** As described in Appendix A, development at the Airport is regulated extensively by the City and by the State of California and requires a number of reviews and permits. Operations and development at the Airport are also subject to extensive federal oversight. The City operates the Airport pursuant to an airport operating certificate issued annually by the FAA after on-site review. In addition to this operating certificate, the Airport is required to obtain other permits and/or authorizations from the FAA and from other regulatory agencies and is bound by contractual agreements included as a condition to receiving grants under the federal Airport Improvement Program. All long-term planning and development is subject to the FAA's approval; outside audits of the Airport's financial statements are subject to periodic audits by the FAA; the City's use of Airport revenues, which is generally limited to airport-related purposes, is subject to audit and review by the FAA; and the City's use of PFC Revenues and grant proceeds is also subject to approval, audit and review. See "AIRPORT FINANCIAL MATTERS—Federal Grants" and "—Passenger Facility Charges" and "LITIGATION AND POTENTIAL CLAIMS" in Appendix A.

The Airport is also subject to regulation and mandates by agencies of the United States Department of Homeland Security, including the TSA as required by the Federal Aviation and Transportation Security Act. As described in Appendix A, the TSA has required the Airport to implement additional security-related projects and may in the future require the Airport to implement additional security-related projects, but the timing, scope and source of funding of such projects cannot be predicted. See "AIRPORT FINANCIAL MATTERS—Federal Security Grants—Aviation Security Act" in Appendix A.

**Rates and Charges Regulation.** The Federal Aviation Administration Authorization Act of 1994, as amended (the "1994 Act") and FAA regulations require that an airport maintain a rate structure that is as "self-sustaining" as possible and limit the use of all revenue generated by an airport receiving federal financing assistance (including local taxes on aviation fuel and other airport-related receipts) to purposes related to the airport. The statutes and regulations provide that for all airports, with certain exceptions, the use of airport revenue for purposes other than the capital or operating costs of the airport, the local airport system or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property is unlawful revenue diversion and provide for monetary penalties and other remedies in the event of violations.

The 1994 Act also provides that without air carrier approval, an airport may not include in its rate base debt service allocable to projects not yet completed and in service. Section 113 of the 1994 Act ("Section 113") requires that airport fees be "reasonable" and provides a mechanism by which the Secretary of Transportation can review rates and charges complaints brought by air carriers. Section 113 specifically states that its provisions do not apply to (a) a fee imposed pursuant to a written agreement with air carriers using airport facilities, (b) a fee imposed pursuant to a financing agreement or covenant entered into prior to August 23, 1994, the date of enactment of Section 113, or (c) any other existing fee not in dispute as of August 23, 1994.

The 1994 Act also mandates an expedited administrative process by which the Secretary of Transportation is required to review rates and charges complaints brought by airlines. In January 1995, the U.S. Department of Transportation, acting through the FAA, issued its final rule outlining the procedures to be followed in determining the reasonableness of new fees or fee increases imposed on airlines and in June 1996, issued a policy statement (the “Policy Statement”) setting forth the standards that the U.S. Department of Transportation will use in determining the reasonableness of the fees charged to airlines and other aeronautical users.

On August 1, 1997, the U.S. Court of Appeals to the District of Columbia Circuit in a case brought by the Air Transport Association vacated and remanded the Policy Statement to the Secretary of the U.S. Department of Transportation for reconsideration of the standards set forth in the Policy Statement. On October 15, 1997, the U.S. Court of Appeals amended its previous order to vacate only certain sections of the Policy Statement, including sections relating to valuation of the airfield, permissible components of the airfield rate base, use of any “reasonable methodology” for valuation of non-airfield assets and recovery of imputed interest in the airfield rate base. In February 2003, the FAA withdrew its advance notice of proposed policy regarding rates and charges and has not issued further guidance. In September 2013, the FAA, in conjunction with the U.S. Department of Transportation, held three meetings with aviation industry participants (airports, airlines and consultants) seeking both historical and forward-looking feedback regarding industry developments and practices to assist the FAA in its comprehensive review of its current rates and charges policy and whether revisions or other future actions may be necessary. The City cannot determine at this time when or whether new guidelines will be published, the costs that will be permitted to be included in determining an airport’s rate base and/or the extent to which such future guidelines may limit the City’s flexibility in negotiating airline agreements or in setting rates and charges by resolution or ordinance for use of the Airport’s facilities. Any new federal legislation or other federal guidelines or any standards promulgated by a court in connection with a dispute could limit substantially the amounts and/or allocation of costs payable by airlines serving the Airport. In establishing any new rates and charge methodology for the Airport during the course of future airline agreement negotiations, the City intends to comply with federal law and with the Rate Maintenance Covenant contained in the Master Trust Agreement. See “LEASE AND OPERATING AGREEMENTS” in Appendix A.

### **Availability of Funding From PFC Revenues and CFC Revenues**

The amount of PFC Revenues received by the City in future years will vary based upon the actual number of PFC-eligible passenger enplanements at the Airport and the level of the PFC. No assurance can be given that any level of enplanements will be realized or that the level of PFC the City may impose will not change. A shortfall in PFCs may require the City to increase rates and charges at the Airport to meet the debt service requirements on the Bonds, and/or require the City to identify other sources of funding for the payment of debt service.

Additionally, under current law the FAA may terminate the City’s authority to impose PFCs, subject to informal and formal procedural safeguards, if (a) PFC Revenues are not being used for approved projects in accordance with the FAA’s approval, the statutes authorizing the PFC or the regulations promulgated thereunder, or (b) the City otherwise violates such statutes or regulations. The City’s authority to impose PFCs may also be terminated if the City violates certain provisions of the Airport Noise and Capacity Act of 1990 (“ANCA”) and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to help provide that the City’s authority to impose PFCs will not be summarily terminated. No assurance can be given that the City’s authority to impose PFCs will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or the FAA so as to reduce PFC Revenues available to the City or that the City will not seek to decrease

the amount of PFCs to be collected. In the event the FAA or Congress reduced or terminated the City's ability to impose PFCs or reduced or eliminated the FAA's grant program or the size of the grants the City could receive, the City may need to increase rates and charges at the Airport to meet the debt service requirements on the Bonds. See “—Regulatory Uncertainties—*Rates and Charges Regulation*” above.

CFC Revenues are pledged to the payment of Debt Service on the Bonds in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. The only Series of Bonds that such pledged CFC Revenues may be applied to repay are the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds). See “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds.” To the extent available, CFC revenues may also be applied to pay transportation costs. See “AIRPORT FINANCIAL MATTERS—Customer Facility Charges” in Appendix A for a discussion of CFC Revenues. No assurance can be given that the City's authority to impose CFCs will not be affected by future legislation or by future legal challenges so as to reduce CFC Revenues available to the City or that the City will not seek to decrease the amount of CFCs to be collected. To the extent that the City's authority to impose CFCs were reduced or eliminated, or the City decided to decrease the amount of CFCs it collects from customers of the rental car companies, the lease payments that rental car companies are required to make in connection with their operations at the ConRAC would increase pursuant to the lease agreements entered into with the rental car companies. No assurance can be given, however, that such increases would be sufficient to avoid the City needing to increase other rates and charges, including Facility Rent for the rental car companies, at the Airport to meet the debt service requirements on the Bonds.

## **Climate Change**

The change in the earth's average atmospheric temperature, generally referred to as “climate change,” is expected to, among other things, cause sea levels to rise, extreme temperatures to become more common, and extreme weather events to become more frequent and severe.

In 2018, the United Nations' Intergovernmental Panel on Climate Change published a report titled “Special Report on Global Warming of 1.5 °C” (the “IPCC Report”) assessing the projected impacts to a range of natural and human systems of global average warming of 1.5°C and above. The IPCC Report recounts that global warming up to 1.5°C as compared to pre-industrial levels will result in warming of extreme temperatures in many regions, increases in frequency, intensity and/or amount of heavy precipitation in several regions, and an increase in the intensity or frequency of droughts in some regions. The IPCC Report further describes that increases in global temperatures, including warming of up to 2.0°C, will negatively affect human health, pose greater risks to urban areas, and increase poverty. The IPCC Report indicates that although 1.5°C of global warming would pose heightened risks to human well-being, limiting global warming to 1.5°C above pre-industrial levels would make it markedly easier to achieve many aspects of sustainable development.

In 2018, the State released its Fourth Climate Change Assessment (the “Fourth Assessment”) assessing the impacts of climate change on the State and on nine regions within the State. The Fourth Assessment finds that by 2100, if greenhouse gas (“GHG”) emissions continue to increase, the average annual maximum daily temperature across the State is projected to increase by between 5.6°F and 8.8°F and the average area burned by wildfires across the State could increase by up to 77 percent. The Fourth Assessment reports that the transportation sector in the Bay Area is particularly vulnerable to flooding caused by sea level rise and storm surges due to the region's concentration of airports, roads, and railways along the San Francisco Bay. For information regarding the risk of flooding at the Airport, see “—Environmental Hazards—*Flood Hazards*.”

Projections of the impacts of climate change on the Airport and its tenants, and on the Airport's operations are complex and depend on many factors that are outside the Airport's control. The various scientific studies that forecast the amount and timing of the adverse impacts of global climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the Airport cannot predict the timing or precise magnitude of adverse economic effects resulting from climate change, including, without limitation, material adverse impacts on the business operations or the financial condition of the Airport and the local economy during the term of the Series 2021 Bonds. While the impacts of climate change may be mitigated by the Airport's past and future investment in adaptation strategies, the Airport can give no assurance about the net effects of those strategies and whether the Airport will be required to take additional adaptive mitigation measures. For more information regarding the Airport's sustainability initiatives, see "CAPITAL DEVELOPMENT AT THE AIRPORT—Sustainability Initiatives" in Appendix A.

Beyond the direct adverse material impact of global climate change itself, present, pending, and possible global initiatives and federal regulations aimed at curbing the effects of climate change may directly or indirectly materially impact the operations or financial condition of the Airport. Of particular importance are regulations pertaining to GHG emissions. According to the United States Environmental Protection Agency ("EPA"), aircraft account for 12% of all U.S. transportation GHG emissions and 3% of total U.S. GHG emissions. While in 2016 the EPA finalized an endangerment finding that GHG emissions from "U.S. covered aircraft" cause or contribute to air pollution, triggering the Clean Air Act Section 231's requirement to regulate, aircraft GHG emission standards are not yet proposed and there has been no public EPA action in this area since December 2016. Regulations may be implemented in the future. In March 2017, the International Civil Aviation Organization ("ICAO"), a specialized agency within the United Nations, adopted GHG carbon neutral growth targets applicable to (i) new aircraft type designs as of 2020 and (ii) new deliveries of current in-production aircraft models from 2023. The global standard, which applies to aircrafts over 5,700 kilograms that emit more than 10,000 metric tons of carbon dioxide, includes a cutoff date of 2028 for production of non-compliant aircraft. The ICAO also passed in October 2016 a market-based mechanism to curb emissions, the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"). CORSIA is designed to achieve carbon-neutral growth for international (but not domestic) civil aviation from 2020 onwards, via pilot, volunteer and mandatory phases. As of December 2020, 88 nations, including the United States, indicated that they would participate in the pilot and volunteer phases of CORSIA. The CORSIA pilot phase began on January 1, 2021. Two means for airlines to comply with CORSIA are through: 1) the purchase of carbon offsets and 2) claiming emission reductions through CORSIA eligible fuels. Consequently, CORSIA is expected to drive airline demand for sustainable aviation fuels ("SAF") and the potentially the need for future SAF infrastructure at airports.

State laws and regulations aimed at curbing GHG emissions may also directly or indirectly materially impact the operations or financial condition of the Airport. In 2005, the Governor signed Executive Order S-3-05 setting the stage for multiple legislative actions to reduce GHG emissions to 80% below 1990 levels by 2050. The adoption of the California Global Warming Solutions Act of 2006 ("AB 32") and subsequent companion bills, including but not limited to the Sustainable Communities and Climate Protection Act of 2008 ("SB 375") that builds upon AB 32 to reduce GHG emissions by linking transportation funding to land use planning, demonstrate the commitment by the State to take action and reduce GHG emissions to 1990 levels by 2020 and to 80% below 1990 levels by 2050. Additionally, the State adopted Senate Bill No. 32, which established a revised statewide GHG emission reduction target of 40% below 1990 levels by 2030.

The City is unable to predict what additional laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste

regulations) will be adopted, or what effects such laws and regulations will have on the City, the Airport, airlines operating at the Airport, other Airport tenants, or the local economy. The effects, however, could be material.

## **Environmental Hazards**

***Seismic Hazards.*** According to the safety element of the City’s “2040 General Plan” (the “General Plan”), the City, including the Airport, is located in a region of very high seismic activity. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the City. The Airport is located within 6 to 12 miles of the San Andreas Fault, the Hayward Fault and the Calaveras Fault, which are known to be active earthquake faults and pose the greatest potential for surface rupture in the Bay Area. The City has experienced at least nine recorded earthquakes with a Richter scale magnitude of 6.0 or greater, and with the epicenter located within the Bay Area. The South Napa earthquake with a Richter scale magnitude of 6.0 according to the U.S. Geological Survey (“USGS”), occurred on August 24, 2014; however little or no damage was reported in the City and no damage occurred at the Airport. Prior to the South Napa earthquake, the City experienced the Loma Prieta earthquake on October 17, 1989 which had a Richter scale magnitude of 6.9 according to the USGS. In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the USGS, the California Geological Society, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of magnitude 6.7 or larger will occur in the Bay Area before the year 2045. In addition, the USGS released a report in April 2017 entitled the HayWired Earthquake Scenario, which estimates property damage and direct business disruption losses of \$82 billion (in 2016 dollars) from a magnitude 7.0 earthquake on the Hayward Fault.

The seismic risks to a structure are dependent upon several factors, including the distance of the structure from the active fault, the character of the earthquake, the nature of construction of the structure, and the geologic conditions underlying the structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault “creeps” over a long period of time. Pursuant to applicable state law, the California Geological Survey has prepared maps to identify certain areas as liquefaction hazard zones. “Liquefaction” is the transformation of soil from a solid state to a liquid state during a major earthquake, and liquefaction hazard zones are areas where historic occurrence of liquefaction or local geological, geotechnical and ground water conditions indicate a potential for permanent ground displacements during a major earthquake. According to the most recent published maps prepared by the California Geological Survey, the Airport is located within an area subject to a high potential for liquefaction during a major earthquake.

The Airport and its then existing facilities remained open after the Loma Prieta earthquake. Terminal A has been designed and inspected in accordance with the “essential facility” standards of the 1985 Uniform Building Code (the “UBC”). This standard means that Terminal A has been designed with a higher force factor, to a seismic factor of 1.5, as compared to non-essential facilities constructed to a seismic factor of 1.0. An “essential facility,” as defined by the UBC, is a structure which must remain operational for emergency post-earthquake operations. Terminal A sustained no damage during the Loma Prieta earthquake. At the time of the Loma Prieta earthquake, Terminal A was nearing completion and was not yet occupied. Terminal B and its concourse, substantially completed in June 2010, were designed and constructed in accordance with the California Building Code, 2007 Edition.

Because the Airport is located within an area of active earthquake faults, the possibility does exist for operations at the Airport to be disrupted or for facilities at the Airport to be damaged by a strong earthquake. The Master Trust Agreement does not require earthquake insurance on the Airport facilities,

and the City does not currently carry a policy of earthquake insurance. All Airport facilities, however, are designed and constructed in accordance with applicable state and local building codes, with stringent requirements for earthquake resistant design.

**Flood Hazards.** The City and the Santa Clara Valley have a history of flooding due to heavy rain and inadequate storm drains and flood protection conveyance systems, which has resulted in property damage. The Santa Clara Valley Water District (the “District”) is responsible for flood protection infrastructure in Santa Clara County on streams and waterways. The District coordinates flood hazard mitigation efforts for the major creeks and waterways in the City and assists the City in the review of development proposals that could impact flood protection efforts.

The Federal Emergency Management Agency (“FEMA”) oversees the delineation of flood zones. FEMA publishes Flood Insurance Rate Maps (“FIRMs”) that show the expected frequency and severity of flooding by area, typically for the existing land use and drainage/flood control facilities. The maps prepared by FEMA for the San José area indicate that during a 100-year flood event (area subject to a flood that has a one percent chance of being equaled or exceeded in any given year), sections of the City would be subject to flooding from creek overbanking, inadequate storm drains and levees or inundation from the San Francisco Bay. Approximately 20,000 parcels in the City are within the 100-year flood hazard area established by FEMA. This represents approximately 10 percent of the total number of properties within the City.

The Guadalupe River channel on the east side of the Airport is designated on the FEMA maps as Zone A (areas of 100-year flood). In June 2005, the District informed the City of the completion of the Guadalupe River flood control improvements which removed a majority of the Airport from the 100-year flood zone. Additionally, the Airport has completed construction of airfield improvements and Airport Master Plan EIR mitigation measures designed to accommodate runoff from a 100-year flood event. The majority of the central, northern and eastern portions of the Airport are located in an area designated by FEMA as Zone X while some portions are in Zone AH. According to FEMA, Zone X is the flood insurance rate zone that corresponds to the areas of moderate or minimal flood hazard. Zone AH is used in areas subject to inundation by 1-percent-annual-chance shallow flooding (usually areas of ponding) where average depths are between one and three feet. The western portion of the Airport is in an area designated by FEMA as Zone D. The Zone D designation is used for areas where there are possible but undetermined flood hazards. In areas designated as Zone D, no analysis of flood hazards have been conducted.

The District is also responsible for several dams located upstream of the City. In a catastrophic event, damage to one or more of these dams could result in flooding within the City as shown on inundation maps originally prepared by the District in the early 1970’s and mid 1990’s (the map for Guadalupe Dam was further updated in 2019, the map for Lenihan Dam was further updated in 2016, and the map for Anderson Dam was further updated in 2016). These inundation maps are on file with the California Office of Emergency Services and with the City.

The District commenced seismic stability studies on nine of the District’s dams in 2007. On July 6, 2011, the District issued a press release announcing the results of a seismic study of the Anderson Dam, an earth and rockfill structure constructed in 1950, which concluded that the dam could be affected by a major earthquake with a magnitude of 7.25 on the Calaveras Fault within two kilometers of the dam. The study further stated that the analysis found loosely compacted layers of liquefiable materials in the foundation of the dam. These materials are susceptible to a reduction in strength when subjected to severe earthquake shaking. If the foundation were damaged, part of the dam could experience 15 to 25 feet of vertical deformation, with an additional 15 feet of potential cracking. The study stated that if the reservoir were full at the time, there could be an uncontrolled release of water. Although the City

believes the chances are very remote, a complete failure of the Anderson Dam could send a wall of water 35 feet high into downtown Morgan Hill in 14 minutes, and 8 feet deep into the City within three hours.

In response to the seismic study, the District initiated a project to retrofit the Anderson Dam. The planning phase of the Anderson Dam Seismic Retrofit project has been completed and currently the project is in the early part of the engineering design phase, which identified significant new issues with the dam that will require a much more extensive retrofit of the embankment. The modified project is scheduled for completion in 2031 at an estimated cost of \$600 million.

The Anderson Dam is regulated by the State of California Division of Safety of Dams (“DSOD”), which performs yearly reviews and requires maintenance and safety standards to be enforced by the dam owners and operators. Additionally, the Federal Energy Regulatory Commission (“FERC”) has dam safety jurisdiction at the Anderson Dam. Prior to February 20, 2020, these regulatory agencies set a reservoir elevation restriction equivalent to 58 percent of capacity, or 52,553 acre-feet of water. These agencies set these storage elevation restrictions understanding that reservoirs cannot physically be kept below a restricted level at all times; but after a large inflow event, the dam operator must use available measures to lower the water surface to the maximum height dictated by the DSOD operating restriction. Studies have shown a large earthquake could damage Anderson Dam, causing damage or failure and an uncontrolled release of water that could inundate cities and rural areas from San Francisco Bay south to Monterey Bay, including much of Silicon Valley.

On February 20, 2020, FERC notified the District of new Dam Safety Directives requiring that the District immediately take all appropriate measures to maintain and quickly lower the reservoir to elevation 565 feet if the reservoir rises in the event of significant inflow, and further lower the reservoir to elevation 488 feet, starting on October 1, 2020, and take all appropriate measures to maintain and quickly lower the reservoir to dead pool in the event of significant inflow once the elevation is reached. The District responded to the FERC directive by noting that emptying the Anderson Reservoir has the potential to damage the intake structure, which would result in a loss of control of water flows out of the reservoir, potentially impacting downstream communities.

Pursuant to the FERC directive, the District immediately restricted the reservoir operating level to elevation 565 feet and began defining the interim risk reduction measures now referred to as the FERC Order Compliance Project (“FOCP”). On October 1, 2020, pursuant to the FOCP, the District began to reduce the water level in the Anderson Reservoir. For safety reasons and to initiate the Anderson Dam Seismic Retrofit project, the Anderson Reservoir was reduced to approximately 2,000 acre feet (or 3% capacity), as of December 2020. This water level reduces the risk of Anderson Dam failure, and helps to allow for capacity in the reservoir in the event that the Coyote Reservoir Dam (which is located upstream) either spills or is damaged by an earthquake. The City anticipates that the Anderson Reservoir will remain at this level throughout the Anderson Dam Seismic Retrofit project. During this time, the Anderson Reservoir will not be completely dry, as three seasonal creeks and the Coyote Reservoir feed into the Anderson Reservoir, and the intake structure that feeds the outlet pipe at the base of the Anderson Dam is higher than dead pool.

Coyote Reservoir and Dam, also operated by the District, lie immediately upstream of Anderson Reservoir and are located on the Calaveras fault. Coyote Reservoir was constructed in the 1930’s and is currently operated under a State of California Division of Safety of Dams storage restriction limit equivalent to 53 percent of capacity. When Coyote Reservoir exceeds 100 percent of storage capacity due to extreme wet weather, spillway flows from Coyote Reservoir enter the south end of Anderson Reservoir. Coyote Reservoir has a total storage capacity of 23,244 acre-feet, which is approximately 25 percent of the storage capacity of Anderson Reservoir, which can store a total of 90,373 acre-feet. In the event of a total failure of Coyote Reservoir Dam, the resulting water that would be released because of

such failure would be expected to be contained within the channel that leads to Anderson Reservoir. If Anderson Reservoir lacked the storage capacity to contain the Coyote Reservoir water flows resulting from a dam failure event, the Anderson Reservoir spillway would convey those flows to Coyote Creek below the Anderson Reservoir and ultimately into San José. Depending on the amount of water released along the Anderson Reservoir spillway as a result of a failure of the Coyote Reservoir Dam, ingress and egress to the Airport could be impacted to some extent.

On October 26, 2011, the District announced preliminary findings from a seismic study indicating that its Calero and Guadalupe dams could be subject to significant damage if a major earthquake occurred near either dam. In response to these preliminary findings, the District has further restricted reservoir levels at the Calero and Guadalupe dams. Failure of either of these two dams would impact the City, but it is not anticipated that the water released would reach the Airport. In 2012, the District initiated a project to retrofit Calero and Guadalupe Dams. The planning phase of the project has been completed. The design phase of the project commenced in 2015. Construction of these two dam retrofit projects is scheduled for completion in fiscal year 2023-24 at an estimated cost of \$145 million.

Reports or studies were completed for the Almaden Dam in October 2012, the Lenihan Dam in December 2012, and the Stevens Creek Dam in December 2013, that concluded that the dams are in suitable condition and that no retrofit work is required. The District continues to work with the State of California Division of Safety of Dams to study seismic stability of its other dams and is adapting operations accordingly.

During periods of extreme rain events the Guadalupe River may rise above the outflows from Airport property, potentially resulting in water ponding on the airfield and water retention in the lower levels of the Terminal A parking structure. Procedures are in place to remove standing water and to maintain the revenue operations of the ground and upper levels of the Terminal A parking structure. Depending on the severity of flooding, flooding at the Airport could result in reduced operations at the Airport that could have a negative effect on the Airport's finances.

In September 2020, in response to recommendations made by the City's property insurer, the Airport developed a Flood Emergency Response Plan ("FERP"). The Airport's FERP contains an outline of actions to be taken by the Airport before, during and after a flood to minimize property damage and business interruption. The Airport's FERP assumes that in a 100-year flood event, localized shallow water ponding in lower lying areas of the airfield may occur, which may prevent aircrafts from being able to safely maneuver due to physical water hazards or problems with operational systems such as airfield lighting.

2017 Flooding. Due to significant rainfall in the Santa Clara Valley during fall 2016 and winter 2017, Anderson Dam's water capacity exceeded the capacity restriction and the District released water from the dam. On February 18, 2017, Anderson Dam exceeded 100% of its capacity, and as a result of the uncontrollable but predictable release of water over the spillway, the City experienced significant flooding along Coyote Creek.

The uncontrollable spillway release lasted 10 days. The reservoir spillway event began on February 18, 2017 and reached its peak on February 21, 2017 before declining and eventually stopping on February 28, 2017. Beginning February 28, 2017, the reservoir levels slowly retreated as the District used the outlet at the base of the dam to draw down water levels at a rate of approximately 425 cubic feet per second (fully opened).

This flooding required evacuations of approximately 14,000 residents in three areas of the City: Rock Springs; neighborhoods in the William Street area (Olinder, Brookwood Terrace, and Naglee Park);



and three mobile home parks in the Rincon area. The flood significantly impacted both privately and publicly owned property and facilities in the Rock Springs and William Street neighborhoods. Flooding also occurred on Highway 101, south of the City, causing the closure of the freeway for most of the day in this location on February 21, 2017.

The Coyote Creek flooding did not affect the Airport, but in a separate incident on the same day, the Airport did experience minor flooding in its Terminal A garage associated with its proximity to the Guadalupe River and its elevation.

**Wildfire Risk.** In a report entitled: “Wildfires and Climate Change: California’s Energy Future -- A Report from Governor Newsom’s Strike Force” published on April 12, 2019 (the “Wildfire Report”), the Governor’s Strike Force made a number of recommendations to address the challenges presented by catastrophic wildfires in California. The Wildfire Report notes that “Climate change, widespread tree mortality, weak utility infrastructure, and the proliferation of homes in the wildland-urban interface magnify the wildfire threat and place substantially more people and property at risk than ever before.”

The California Department of Forestry and Fire Protection (“CAL FIRE”) classifies State Responsibility Areas (in which the State is financially responsible for preventing and suppressing fires) as either Moderate, High, or Very High “Fire Hazard Severity Zones” (“FHSZ”). CAL FIRE has designated approximately 85.64 square miles of State Responsibility Area within the City as FHSZ of which, 4.08 square miles is Moderate, 81.12 square miles is High, and 0.44 square miles is Very High. CAL FIRE has identified 5.16 square miles within the City’s Local Responsibility Area (in which the City is financially responsible for preventing and suppressing fires) as Very High FHSZ. The City has not taken action to date to designate this area as Very High FHSZ. The Airport is not located in any identified FHSZ. The City does maintain multiple radio towers located in the boundaries of an identified FHSZ, which are used to dispatch the City’s 911 emergency response. During the 2020 wildfires, some of the City-owned radio towers experienced damage, none of which negatively impacted City or Airport operations or radio communications. The City cannot predict or make any representations regarding the effects that wildfires and related conditions have or may have on the City or the Airport, or to what extent the effects said disasters might have on economic activity in the City, or passenger levels at the Airport.

## **Natural Gas Transmission Pipelines**

On September 9, 2010, a Pacific Gas and Electric Company (“PG&E”) high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. In a final Pipeline Accident Report, adopted by the National Transportation Safety Board (the “NTSB”) on August 30, 2011, the NTSB found recurring deficiencies in PG&E’s pipeline integrity management program, which the NTSB concluded were evidence of a systemic problem. According to the NTSB website there has been no other reported explosion since 2010 within the vicinity of the Airport. There are numerous similar pipelines owned, operated and maintained by PG&E located throughout the City. In the immediate vicinity of the Airport, publicly available information on PG&E’s website ([www.pge.com](http://www.pge.com)) indicates that the three closest transmission level gas pipelines are approximately 1,200 to 4,000 feet from the Airport’s property lines, but that there are 4 inch and 6 inch gas mains on Airport Boulevard. All pipelines in the area have maximum allowable operating pressure (MAOP) which results in a low operating stress level. PG&E’s website also provides information regarding its high pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work on its pipelines.

PG&E has instituted a comprehensive inspection and monitoring program with the purpose of ensuring the safety of its natural gas transmission pipeline system. PG&E regularly conducts patrols, leak surveys, and cathodic protection (corrosion protection) system inspections for its natural gas pipelines. PG&E's policy is to address issues identified as a threat to public safety immediately. PG&E conducts quarterly patrols for its gas transmission pipelines to look for indications of construction activity and other factors affecting safety and operation – there were no adverse indicators affecting pipeline safety during the last quarterly patrol done in January 2021. Leaks Surveys are done semi-annually. Leak surveys are either conducted by a leak surveyor walking above the pipeline with leak detection instruments or conducted aerially and followed-up with a ground leak survey if there is a leak indication identified during the aerial survey. There were no leaks found in the survey conducted by PG&E in January 2021 for Transmission Line 132, and no leaks found in the survey conducted by PG&E in October 2020 for the Tully Curtner Feeder Main. These lines are located near but not on the Airport. PG&E utilizes an active cathodic protection (“CP”) system on its gas transmission and steel distribution pipelines to protect them against corrosion. PG&E inspects its CP systems at least annually to ensure they are operating correctly.

The effects of any failure of the high pressure natural gas transmission pipelines closest to the Airport or the gas mains on Airport Boulevard are difficult to predict, but could include explosion and concussive force, fire, smoke, transportation delays and detours on routes to and from the Airport, and potential forced evacuation of nearby structures. However, given the distance and the significant infrastructure separating PG&E's transmission pipelines from Airport facilities, it is anticipated that no immediate damage to the Airport would result from such a failure. In addition, any ancillary effects on transportation routes would in part be mitigated by the fact that the Airport has three entrances, and traffic could be rerouted should one entrance be impacted by such a failure. Finally, smoke from fires could impact air traffic depending on intensity and wind direction.

The City is not able to independently confirm the information set forth above or the information contained in the NTSB's Pipeline Accident Report or on the PG&E website, including the exact distances of any high pressure transmission lines from Airport facilities, and can provide no assurances as to the accuracy or completeness of such information. Information available in the NTSB's Pipeline Accident Report and from PG&E's website is not part of this Official Statement nor has such information been incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Series 2021 Bonds. Further, the City can provide no assurances as to the condition of PG&E pipelines and other facilities in the City, or predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to experience any type of failure, including a possible fire or explosion.

## **Worldwide Health Concerns**

Travel restrictions, as well as other public health measures, may be imposed to limit the spread of communicable diseases which may arise. The COVID-19 pandemic has had an adverse effect on domestic and international travel and a number of travel-related industries, and has severely and broadly disrupted local and global economies.

Other previous travel alerts or advisories include the 2016 travel alert by the CDC warning pregnant women to avoid travel to areas where outbreaks of the Zika virus, which has been linked to birth defects, were occurring. In 2009, WHO and the U.S. Department of Health and Human Services (through the Secretary of the Department of Homeland Security) declared public health emergencies as the result of outbreaks of a serious strain of H1N1 influenza or “flu.” In spring 2003, there was an outbreak of a serious strain of bird flu in Asia and Canada called “Severe Acute Respiratory Syndrome” or SARS.

Future outbreaks or pandemics may lead to a further decrease in air traffic, at least for a temporary period, which in turn could cause a further decrease in passenger activity at the Airport and a corresponding decline in General Airport Revenues. A disruption to the global supply chain due to a pandemic can also stall manufacturing and construction operations, which in turn could interfere with the Airport's implementation of the CIP and other operations, or the operations of the airlines operating at the Airport. The Airport currently has adopted temporary measures that are intended to mitigate the impacts on the Airport of the COVID-19 outbreak. However, the Airport is unable to predict if these measures are sufficient, or the extent and duration of the impact that the COVID-19 outbreak will have in the long-term on air travel to and from the Airport and on operations of the Airport. Prospective investors should assume that the restrictions and limitations related to COVID, and the current upheaval to the air travel industry and the national and global economies, will increase at least over the near term and, therefore, have an adverse impact on Airport revenues. See "IMPACTS OF THE COVID-19 PANDEMIC" and "—Effect of COVID-19 Pandemic."

## **RATINGS**

The Series 2021 Bonds have been assigned an underlying rating of “\_\_”, “\_\_” and “\_\_” by [S&P, Moody's and Fitch], respectively. The ratings assigned by [Moody's, S&P and Fitch] reflect only the views of such organizations. The explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2021 Bonds. Neither the City nor the Underwriters have the obligation to contest any revision or withdrawal by the rating agencies of any such ratings.

## **TAX MATTERS**

### **Tax-Exempt Bonds**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes, except that no opinion is expressed as to the status of interest on any Series 2021A Bond for any period that such Series 2021A Bond is held by a “substantial user” of the facilities refinanced by the Series 2021A Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel observes that interest on the Series 2021A Bonds is a specific preference item for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Series 2021B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Tax-Exempt Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Tax-Exempt Bonds is less than the amount to be paid at maturity of such Tax-Exempt Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax-Exempt Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Tax-Exempt Bonds which is excluded from gross income for federal income tax

purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of such maturity of the Tax-Exempt Bonds is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax-Exempt Bonds accrues daily over the term to maturity of such Tax-Exempt Bonds on the basis of a constant interest rate compounded semiannually (with straight line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax-Exempt Bonds to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Tax-Exempt Bonds. Beneficial Owners of the Series Tax-Exempt should consult their own tax advisors with respect to the tax consequences of ownership of the Tax-Exempt Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Tax-Exempt Bonds in the original offering to the public at the first price at which a substantial amount of such Tax-Exempt Bonds is sold to the public.

The Tax-Exempt Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax-Exempt Bonds. The City has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax-Exempt Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Tax-Exempt Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Tax-Exempt Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions

may also affect, perhaps significantly, the market price for, or marketability of, the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax-Exempt Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Tax-Exempt Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Tax-Exempt Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

## **Taxable Bonds**

In the opinion of Bond Counsel, interest on the Taxable Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Taxable Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix E hereto.

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to holders of the Taxable Bonds that acquire their Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, investors whose "functional currency" is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Taxable Bonds under state, local or non-U.S. tax laws. In addition,

this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds (i.e., the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds in light of their particular circumstances.

### ***U.S. Holders***

Interest. Interest on the Taxable Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Taxable Bonds is less than the amount to be paid at maturity of such Taxable Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Taxable Bonds) by more than a de minimis amount, the difference may constitute original issue discount (“OID”). U.S. Holders of Taxable Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Taxable Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Taxable Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Taxable Bond.

Sale or Other Taxable Disposition of the Taxable Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Taxable Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Bond, which will be taxed in the manner

described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Taxable Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

**Defeasance of the Taxable Bonds.** If the City defeases any Taxable Bond, the Taxable Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted U.S. federal income tax basis in the Taxable Bond.

**Information Reporting and Backup Withholding.** Payments on the Taxable Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Taxable Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Taxable Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

### ***Non-U.S. Holders***

**Interest.** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders," payments of principal of, and interest on, any Taxable Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation described in Section 881(c)(3)(C) of the Code, and (2) a bank which acquires such Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

**Disposition of the Taxable Bonds.** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act ("FATCA,")—U.S. Holders and Non-U.S. Holders," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City or a deemed retirement due to defeasance of the Taxable Bond) or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by

an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

**Information Reporting and Backup Withholding.** Subject to the discussion below under the heading “Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders,” under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

#### ***Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders***

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Taxable Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Taxable Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

### **LITIGATION**

There is no litigation now pending against the City with service of process accomplished or, to the knowledge, after due inquiry, of its Director of Finance, Director of Aviation or City Manager, threatened in writing, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2021 Bonds or contesting the validity of the Series 2021 Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2021 Bonds or the use of the Series 2021 Bond proceeds. As described in “APPENDIX A—LITIGATION AND POTENTIAL CLAIMS,” a number of litigation matters relating to the Airport are pending against the City.



The City is not able to predict the outcome of the pending litigation, but does not believe that it will adversely impact the ability of the City to pay debt service on the Series 2021 Bonds.

## **LEGAL MATTERS**

The validity of the Series 2021 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Orrick Herrington & Sutcliffe LLP, as Bond Counsel, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, Underwriters' Counsel, and for the City by the City Attorney. Certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, and by Jones Hall, A Professional Law Corporation, as Pension Disclosure Counsel. All of the fees of Bond Counsel, Disclosure Counsel and Underwriters' Counsel with regard to the issuance of the Series 2021 Bonds are contingent upon the issuance and delivery of the Series 2021 Bonds.

## **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of owners of the Series 2021 Bonds to provide certain financial information and operating data relating to the City and the Airport by not later than nine months after the end of the City's fiscal year (resulting in a deadline of March 31 of each year) beginning with the fiscal year ending June 30, 2021 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, in some cases only if such events are material. The filing of the Annual Bond Disclosure Report or notices of material events will be made solely by transmitting such filing to the Municipal Securities Rulemaking Board pursuant to its Electronic Municipal Market Access ("EMMA") system as provided at <http://www.emma.msrb.org>. These covenants have been made to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). For the specific nature of the information to be contained in the Annual Report or the notices of material events delivered by the City to provide certain information, see Appendix F. The Trustee has no obligation to enforce the undertakings of the City in the Continuing Disclosure Certificate, and a failure by the City to provide any information required thereunder shall not constitute an Event of Default under the Master Trust Agreement.

[To be revised based on report obtained from BLX prior to posting]. The City engaged third-party consultants to conduct an analysis of the City's historical compliance with its continuing disclosure obligations from fiscal year 2014-15 through fiscal year 2019-20, during which the City was responsible for numerous bond issuances, including bond issuances of the City, the City of San José Financing Authority, the San José-Santa Clara Clean Water Financing Authority, and various City of San José special assessment and community facilities districts and a convention center facilities district. During the five year period preceding the date of this Official Statement, the City failed to file, or file on a timely basis, notices of rating changes, or insurer-related rating changes or rating withdrawals with respect to numerous series of bonds. In addition, the assessed value of taxable property and top ten real property tax assesses information contained in the Annual Reports for each of the past five years reflects information as of the "prior" fiscal year instead of the "current" fiscal year, as may have been required by the terms of its undertakings relating to previous issues of general obligation bonds.

## **MUNICIPAL ADVISORS**

The City has retained the services of Public Financial Management, San Francisco, California, and Public Resources Advisory Group, Oakland, California, as Municipal Advisors in connection with the sale of the Series 2021 Bonds. The Municipal Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy,

completeness or fairness of the information contained in this Official Statement. All of the fees of the Municipal Advisors with regard to the issuance of the Series 2021 Bonds are contingent upon the issuance and delivery of the Series 2021 Bonds.

## **UNDERWRITING**

### **Tax-Exempt Bonds**

The Tax-Exempt Bonds are being purchased from the City by Citigroup Global Markets Inc. as representative of the underwriters in the Tax-Exempt Bonds syndicate listed on the front cover of this Official Statement (collectively, the “Tax-Exempt Bonds Underwriters”). The Tax-Exempt Bonds Underwriters have agreed to purchase the Tax-Exempt Bonds at a purchase price of \$\_\_\_\_\_ (representing the aggregate principal amount of the Tax-Exempt Bonds of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_, plus/less a net original issue premium/discount of \$\_\_\_\_\_).

The Bond Purchase Agreement pursuant to which the Tax-Exempt Bonds are being sold (the “Tax-Exempt Bond Purchase Agreement”) provides that the Tax-Exempt Bonds Underwriters’ obligation to make such purchase is subject to certain terms and conditions set forth in the Tax-Exempt Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Tax-Exempt Bonds Underwriters may offer and sell the Tax-Exempt Bonds to certain dealers and others at a price lower than the offering price stated on the inside cover hereof. The offering prices may be changed from time to time by the Tax-Exempt Bonds Underwriters.

The following two paragraphs have been provided by Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, respectively, for inclusion in this Official Statement and the City cannot and does not assume any responsibility for the accuracy or completeness of such statements or information

Citigroup Global Markets Inc., one of the Tax-Exempt Bonds Underwriters of the Tax-Exempt Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

Morgan Stanley & Co. LLC, one of the Tax-Exempt Bonds Underwriters of the Tax-Exempt Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Tax-Exempt Bonds.

UBS Financial Services Inc. (“UBS FSI”) has entered into a distribution and service agreement with its affiliate UBS Securities LLC (“UBS Securities”) for the distribution of certain municipal securities offerings. Pursuant to such agreement, UBS FSI will share a portion of its underwriting compensation with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

## Taxable Bonds

The Taxable Bonds are being purchased from the City by Morgan Stanley & Co. LLC as representative of the underwriters in the Taxable Bonds syndicate listed on the front cover of this Official Statement (collectively, the “Taxable Bonds Underwriters” and, together with the Tax-Exempt Bonds Underwriters, the “Underwriters”). The Taxable Bonds Underwriters have agreed to purchase the Taxable Bonds at a purchase price of \$\_\_\_\_\_ (representing the aggregate principal amount of the Taxable Bonds of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_, plus/less a net original issue premium/discount of \$\_\_\_\_\_).

The Bond Purchase Agreement pursuant to which the Taxable Bonds are being sold (the “Taxable Bond Purchase Agreement”) provides that the Taxable Bonds Underwriters’ obligation to make such purchase is subject to certain terms and conditions set forth in the Taxable Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Taxable Bonds Underwriters may offer and sell the Taxable Bonds to certain dealers and others at a price lower than the offering price stated on the inside cover hereof. The offering prices may be changed from time to time by the Taxable Bonds Underwriters.

The following two paragraphs have been provided by Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., respectively, for inclusion in this Official Statement and the City cannot and does not assume any responsibility for the accuracy or completeness of such statements or information

Morgan Stanley & Co. LLC, one of the Taxable Bonds Underwriters of the Taxable Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Taxable Bonds.

Citigroup Global Markets Inc., one of the Taxable Bonds Underwriters of the Taxable Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

SWS Capital Management, LLC, a Siebert Williams Shank & Co., LLC (“SWS”) affiliate (“Affiliate”), which is a registered investment advisor, has three sub-advisory agreements with PFM Asset Management LLC, which is an investment advisor affiliate of PFM Financial Advisors LLC. The sub-advisory agreements do not relate to the City of San José. Affiliate’s business is separate from SWS’ business and the employees of SWS who cover the City of San José are not involved in the activities of Affiliate.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the Taxable Bonds Underwriters of the Taxable Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Taxable Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Taxable Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Taxable Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

### **Additional Information**

The following two paragraphs have been provided by the Underwriters for inclusion in this Official Statement and the City does not take any responsibility for or make any representations as to the accuracy or completeness of such statements or information.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Underwriters may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City. The market activities of the Underwriters and other market participants may impact the value of the Series 2021 Bonds.

### **VERIFICATION OF MATHEMATICAL ACCURACY**

Upon delivery of the Series 2021C Bonds, the arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the Airport relating to the: (i) adequacy of forecasted receipts of principal and interest on the escrow securities and cash held in the escrow fund to pay the interest on and maturity of the Series 2014A Bonds, the Series 2017A Bonds, and the Series 2017B Bonds; (ii) the scheduled payments of principal and interest with respect to the Series 2014A Bonds, the Series 2017A Bonds, and the Series 2017B Bonds on and to their respective maturity date; (iii) yields on the securities to be deposited pursuant to the escrow fund relating to the Series 2014A Bonds, the Series 2017A Bonds, and the Series 2017B Bonds upon delivery of the Series 2021C Bonds, and (iv) level of debt service savings from the refunding, will be verified by Robert Thomas CPA, LLC (the “Verification Agent”). Such verification shall be based solely upon information and assumptions supplied to the Verification Agent by the Underwriters or the Municipal Advisors. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Airport set forth in Appendix D have been examined by Macias Gini & O'Connell LLP, independent certified public accountants, for the periods indicated and to the extent set forth in their report thereon. The Master Trust Agreement requires the City to have its financial statements audited annually by an independent certified public accountant. The audited financial statements prepared by the City each fiscal year are required to be provided to the Trustee within 180 days after the end of each such year in accordance with the Master Trust Agreement. Macias Gini & O'Connell LLP has not been requested to consent to the use of its name or to the inclusion of its report in this Official Statement, has not performed any post-audit review of the financial condition or operations of the Airport and has not reviewed this Official Statement.

## MISCELLANEOUS

Certain statements contained in this official statement, including the appendices, do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

Any statement made in this Official Statement indicated to involve matters of opinion or estimates are represented as opinions or estimates in good faith. No assurance can be given that the facts will materialize as so opined or estimated. The City and the Airport maintain websites at [www.sanjoseca.gov](http://www.sanjoseca.gov), [www.sjc.org](http://www.sjc.org) and [www.csjfinance.org](http://www.csjfinance.org). Information on such websites is not part of this Official Statement nor has such information been incorporated by reference herein and should not be relied upon in deciding whether to invest in the Series 2021 Bonds.

This Official Statement has been duly authorized and approved by the City Council and duly executed and delivered on its behalf by the officials signing below.

CITY OF SAN JOSE, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

By: \_\_\_\_\_  
Director of Aviation

## APPENDIX A

### THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

*Historic information about the Airport’s finances and operations presented in this Official Statement (including this Appendix A) should be considered in light of the ongoing effects of the COVID-19 pandemic. The COVID-19 pandemic has had, and is expected to continue to have, a substantial adverse effect on such finances and operations, the future extent of which is currently unknown and unpredictable. See “IMPACTS OF THE COVID-19 PANDEMIC” and “CERTAIN FACTORS AFFECTING THE AIRPORT—Effect of COVID-19 Pandemic” in the forepart of the Official Statement. Historical trends are summarized below; however, such historical trends do not reflect the ongoing impact of the COVID-19 pandemic. The historical data presented in this Appendix A should not be interpreted as a reflection of current or future economic conditions in the Air Service Area or in the San Francisco Bay Area.*

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Silicon Valley is headquarters to many of the world's largest technology companies, including Apple, Cisco, Facebook, Intel and Google, among others, as depicted below. The mileage between the Airport (SJC) and facilities of each of the listed companies is measured as the crow flies.



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

The region enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and will continue to attract visitors from all over the world. It is home to numerous major sporting and entertainment venues, museums, a world-renowned aquarium, theme parks, retail centers, and other attractions. Levi’s Stadium, home of the San Francisco 49ers and host of Superbowl 50 in 2016, opened in July 2014 and is located just three miles from the Airport. In February 2015, Avaya Stadium opened across the street from the Airport’s west side and is the home of major

league soccer's San José Earthquakes. The SAP Center has been the home of the San José Sharks of the National Hockey League since 1993 and is approximately four miles from the Airport.

The Air Service Area's expanding population base, relatively high per capita income, advanced levels of educational attainment, and high level of economic production provide the primary base for supporting air transportation at the Airport.

## Demographic and Economic Profile

The Airport is often referred to as an "origin and destination airport" because it primarily serves passengers beginning or ending their trips at the Airport, as opposed to passengers connecting through the Airport to other cities. The City estimates that during fiscal year 2019-20, approximately 92.9% of the passengers enplaning at the Airport were origin and destination ("O&D") passengers. In general, at airports primarily serving O&D passengers, air traffic is more dependent upon the population and economy of the air service area than upon the financial condition and route decisions of individual airlines.

**Population.** Population growth is a key factor influencing the demand for air travel. California is the most populous state in the nation, and the Air Service Area had a substantial population base with an estimated 5.2 million residents in 2020. The table below shows the growth in population in the Air Service Area experienced between 2010 and 2020. According to California Department of Finance estimates, the population for the six counties comprising the Air Service Area grew from 5,169,165 in 2010 to 5,180,776 in 2020.

<b>Table 1</b> <b>Air Service Area Population</b> <b>Historical 2010 and 2019 (Estimate)</b> <b>(as of April 1, 2010 and January 1, 2020)</b>				
<b>County</b>	<b>Census 2010</b>	<b>Census 2020 (Estimate)</b>	<b>Total Increase 2010-2020</b>	<b>% Change</b>
1. Santa Clara	1,794,337	1,961,969	167,632	9.3%
2. Alameda	1,517,756	1,670,834	153,078	10.1
3. San Mateo	722,372	773,244	50,872	7.0
4. Monterey	416,968	441,143	24,175	5.8
5. Santa Cruz	263,954	271,233	7,279	2.8
6. San Benito	55,474	62,353	6,879	12.4
<b>Air Service Area</b>	<b>4,770,861</b>	<b>5,180,776</b>	<b>409,915</b>	<b>8.6%</b>

*Source:* United States Census Bureau (Census 2010 & 2020 Population Estimates).

**Income.** According to U.S. Bureau of Economic Analysis' estimates updated as of November 17, 2020, for 2019 Santa Clara County had a Per Capita Personal Income ("PCPI") of \$115,997 which was 174% of the state average of \$66,619 and 205% of the national average of \$56,490. Within the Air Service Area, the remaining counties personal income and PCPI were as follows for 2017 through 2019:

**Table 2**  
**Personal Income and Per Capita Personal Income within the Air Service Area**  
**2017 through 2019**

<b>County</b>	<b>Personal Income (Thousands of Dollars)</b>			<b>2017-2019 Change</b>	<b>Per Capita Personal Income</b>			<b>2017-2019 Change</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>		<b>2017</b>	<b>2018</b>	<b>2019</b>	
Alameda	\$119,446,412	\$128,728,021	\$135,663,560	\$16,217,148	\$71,947	\$77,233	\$81,171	\$9,224
Monterey	\$23,765,296	\$24,576,499	\$25,973,189	\$2,207,893	\$54,691	\$56,634	\$59,838	\$5,147
San Benito	\$3,038,759	\$3,235,448	\$3,470,822	\$432,063	\$50,508	\$52,637	\$55,261	\$4,753
San Mateo	\$90,766,229	\$98,568,258	\$102,803,127	\$12,036,898	\$118,047	\$128,230	\$134,107	\$16,060
Santa Cruz	\$17,791,731	\$18,697,119	\$19,559,977	\$1,768,246	\$64,731	\$68,277	\$71,592	\$6,861
Santa Clara	\$194,585,963	\$213,221,976	\$223,624,580	\$29,038,617	\$100,691	\$110,344	\$115,997	\$15,306
<b>Air Service Area<sup>(1)</sup></b>	<b>\$449,394,390</b>	<b>\$487,027,321</b>	<b>\$511,095,255</b>	<b>\$61,700,865</b>	<b>\$87,581</b>	<b>\$94,807</b>	<b>\$99,515</b>	<b>\$11,934</b>
<b>California</b>	<b>\$2,383,130,513</b>	<b>\$2,514,503,372</b>	<b>\$2,632,279,775</b>	<b>\$249,149,262</b>	<b>\$60,549</b>	<b>\$63,720</b>	<b>\$66,619</b>	<b>\$6,070</b>
<b>National</b>	<b>\$16,937,582,000</b>	<b>\$17,839,255,000</b>	<b>\$18,542,262,000</b>	<b>\$1,604,680,000</b>	<b>\$52,118</b>	<b>\$54,606</b>	<b>\$56,490</b>	<b>\$4,372</b>

(1) Per Capita Personal Income amounts for Air Service Area for years 2017 to 2019 are weighted average using US Census 2017-2019 Population Estimates.

(2) Some data reported previously were revised to reflect information as of November 17, 2020.

Source: US Bureau of Economic Analysis.

**Educational Attainment.** The percentage of the Air Service Area’s population 25 years and older with a bachelor’s degree or higher (the category most likely to travel by air) was approximately 47.4%, according to the U.S. Census Bureau, 2015-2019 American Community Survey, substantially higher than that for California and for the nation. The high level of educational attainment is associated with its high labor force productivity and high per capita personal income.

The Air Service Area is also home to numerous public and private institutions of higher education, including Stanford University, San José State University, Santa Clara University, the University of California at Berkeley, the University of California at Santa Cruz, California State University Monterey Bay, and over 20 additional universities, colleges, and technical schools. Many of these universities and colleges were instrumental in the development of Silicon Valley and the technology industry and continue to play an important role in the economy of the region, through corporate, medical, and government research; large student populations; contributions to the high levels of educational attainment in the region; and significant contributions in terms of workforce for the technology industry and other industry sectors.

**Regional Economy.** Until the onset of the COVID-19 pandemic, the economic base of the Air Service Area is relatively stable and diversified. The Air Service Area has significant competitive advantages in its highly educated labor force, extensive research and development facilities, and high quality of life. These advantages have contributed to the region becoming a leading center of information technology, advanced manufacturing, software, biotechnology, “clean technology,” and digital media.

The COVID-19 pandemic has disrupted and continues to disrupt the regional economy. See “IMPACTS OF THE COVID-19 PANDEMIC–General.” State and local public health orders enacted in response to the COVID-19 pandemic have accompanied reduced business operations and business closures in the leisure and hospitality sector. According to the California Employment Development Department (the “California EDD”), employment in the leisure and hospitality sector contracted more than in any other sector between December 2019 and December 2020 in both the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (the “San José MSA”) and the San Francisco-Redwood City-South San Francisco Metropolitan Division (the “San Francisco MD”). Moreover, during the COVID-19

pandemic, much of the region's white-collar workforce transitioned to working from home as many nonessential offices remained closed through 2020 and into 2021. This transition to working from home has accompanied a decline in economic activity that is traditionally associated with on-site working and business travel. Many business conferences and conventions have been canceled or held virtually using videoconferencing platforms. The lasting impact of this transition is currently unknown, but a permanent shift to remote working could negatively impact business travel and the economic activity that accompanies such travel. Despite this transition, employment in the business and professional services sector increased slightly in the San José MSA between December 2019 and December 2020, according to the California EDD.

**Employment.** According to the U.S. Bureau of Labor Statistics and the California EDD, the Air Service Area's 2019 unemployment rate was 3.0% with approximately 82,400 unemployed, compared with 4.0% for California and 3.7% for the nation. All six counties comprising the Air Service Area experienced a decrease in unemployment from 2010, during which the Air Service Area recorded a 10.7% unemployment rate. The six counties comprising the Air Service Area experienced an increase in unemployment rates in 2020 relative to 2019 to approximately 8.0%, with approximately 210,717 unemployed, according to the California EDD.

Monthly unemployment data released by the California EDD shows that unemployment increased sharply following the onset of the COVID-19 pandemic and has since gradually improved. Unemployment in the San José MSA increased from 3.5% in March 2020 to 12.0% in April 2020, and unemployment in the San Francisco MD increased from 3.0% in March 2020 to 12.1% in April 2020. The local unemployment rate reached 6.0% in the San José MSA and 6.1% in the San Francisco MD by December 2020.

## THE CITY AND THE AIRPORT DEPARTMENT

### **The City**

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

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

The City Council appoints the City Manager who is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk, City Auditor, and Independent Police Auditor and the Office of Retirement Services. The City Attorney, City Clerk, City Auditor and Independent Police Auditor are appointed by and carry out the policies set forth by the City Council. The City Charter provides that the boards of administration for each of the City's retirement plans, the Federated City Employees' Retirement System ("Federated Plan") and the Police and Fire Department Retirement Plan ("Police and Fire Plan" and together with the Federated Plan, the "Retirement Plans") hire and prescribe the duties of the chief executive officer and chief investment officer within the Office of Retirement Services who serve at the pleasure of the retirement boards. For a more detailed discussion of the

governance of the City's Retirement Plans, see "APPENDIX B – CITY OF SAN JOSE FEDERATED RETIREMENT PLAN."

At City Council meetings during June and July 2020, the City Council considered placing a measure on the November 3, 2020 ballot to amend the City Charter to, among other revisions, change the form of City government from a "Council – Manager" to a "Mayor – Council" form of government, to change the cycle of the Mayoral election to align with the presidential election and to specify certain limitations regarding campaign contributions, acceptance of gifts and membership on City boards and commissions in the City Charter. Ultimately, the City Council did not place the proposed measure on the November ballot.

Instead, on July 28, 2020, the City Council voted to establish a Charter Review Commission to bring forward recommendations to the City Council on (1) the City's governance structure including the "Mayor-Council" governance structure found in other cities in the United States in which the Mayor has executive authority and the Council has legislative authority, and (2) alignment of the Mayoral election with the presidential election and whether the term of office of the candidate elected to be Mayor in 2022 would serve a two year term or six year term. In addition, the City Council referred to the Charter Review Commission and the City's Board of Fair Campaign Practices, the limitations on campaign contributions, acceptance of gifts and membership on City boards and commissions that had been considered by the City Council at its meetings in June and July 2020 for consideration and recommendation. Consistent with the direction given by the City Council at the July 28, 2020 meeting, the City Council approved the formation of the Charter Review Commission on September 22, 2020.

## **The Airport Department**

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

In addition to the Office of the Director of Aviation, the Airport Department has five divisions: Airport Planning and Development, Airport Facilities and Engineering, Airport Operations, Airport Finance and Administration, and Airport Marketing and Communications. At its peak, the Airport Department had 400 authorized positions in fiscal year 2008-09. For fiscal year 2019-20, the Airport Department had 225.5 authorized positions and has 214.0 authorized positions in its budget for fiscal year 2020-21. Except for certain unrepresented employees, full-time and part-time employees assigned to the Airport Department are members of the Federated Plan. For further information regarding the City's labor relations, see "OTHER MATTERS—Labor Relations" herein and for further information concerning the City's Retirement Plans, see "OTHER MATTERS—Retirement Plans" herein and "APPENDIX B – CITY OF SAN JOSE FEDERATED RETIREMENT PLAN."

## **THE AIRPORT**

### **General**

The Airport is located on approximately 1,000 acres of land approximately four miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport had its beginning in 1945, with the lease of approximately 16 acres of farmland from the City to Mr. James M. Nissen. Mr. Nissen and his associates formed an operating company (California Aviation Inc.), which undertook the construction of a 1,900-foot runway, a hangar, and an office building. Flight operations were initiated in 1946. In the fall of 1948, the City assumed the operation of the 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 again renamed Norman Y. Mineta San José International Airport. According to a March, 2017 American City Business Journals article, the Norman Y. Mineta San José International Airport was ranked as the “best-run airport in the country.”

As of December 2019, passenger levels at the Airport were above the pre-recession levels of fiscal year 2008. From fiscal year 2013 through December 2019, the Airport experienced a rebound in passenger activity, resulting in a total of approximately 15.7 million passengers traveling through the Airport and passenger traffic growth of 9.3% on a rolling twelve-month basis, representing a 9.9% compound annual growth rate from fiscal year 2013 through fiscal year 2019. International enplanements declined 12.2% on a rolling twelve-month basis through December 2019. The Airport grew from 53 to 59 announced nonstop destinations in fiscal year 2019 and, with the announced destinations, had 232 peak daily departures in fiscal year 2019, up from 208 during fiscal year 2018. The Airport now has one international carrier. See “PASSENGER SERVICES AND OPERATIONS” - Table 3 below. Based on the added capacity, according to the Official Airline Guide (OAG) as of January 3, 2020, the Airport was scheduled to add more seat capacity in the second half of fiscal year 2019-20 than any other large or medium hub airport in the nation, reflecting an 11.0% increase in seats over the prior fiscal year.

To accommodate the large increase in air traffic, the Airport added two gates at the south end of Terminal B and a 6-gate interim facility at the south end of Terminal B (the “Interim Facility”). The Interim Facility, completed in June 2019, has boarding bridges as well as food and beverage concessions. The Interim Facility was designed and built as a temporary facility that can operate during construction of the future Terminal C in the same area.

Following the outbreak of COVID-19, and the resulting stay-at-home directives, passenger levels have dropped significantly and are currently below the pre-recession levels of fiscal year 2008. See “IMPACTS OF THE COVID-19 PANDEMIC—Impact of COVID-19 on Passenger Traffic.”

### **Existing Facilities**

**General.** Existing facilities at the Airport include three parallel runways, one of which is currently being used as a taxiway; two commercial passenger terminals; an International Arrivals Facility; maintenance buildings; parking facilities; a control tower; and various other facilities.

For a description of the Airport’s capital development program, see “CAPITAL DEVELOPMENT AT THE AIRPORT” below.





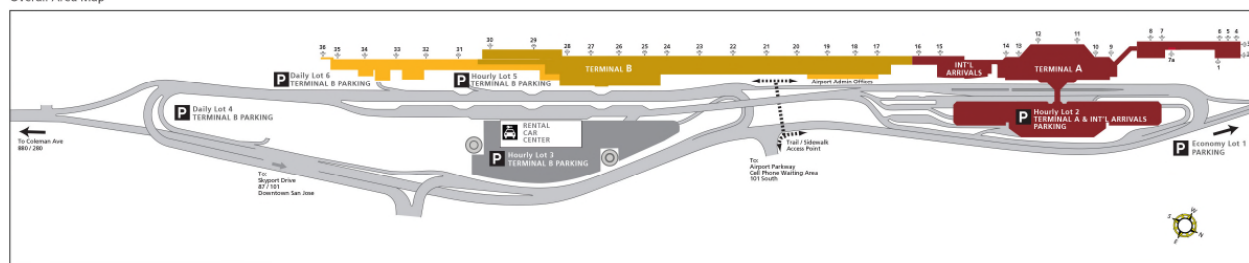
**Airfield Facilities.** The Airport's airfield facilities consist of three parallel runways, including two air carrier runways (Runway 12R/30L and Runway 12L/30R), one general aviation runway (Runway 11/29) and connecting taxiways. Runway 12L/30R is the primary runway for departures, and Runway 12R/30L is the primary runway for arrivals.

Runway 12L/30R is approximately 11,000 feet long, and Runway 12R/30L is 11,000 feet long, the maximum length allowed under the Airport Master Plan.

Runway 11/29, approximately 4,600 feet long, is a lighted, non-instrument runway located on the west side of the airfield that has been converted into a temporary taxiway. The City's FAA grant-funded Runway Incursion and Mitigation Study (RIM) concluded that former Runway 11/29 will be closed. Official closure is expected in 2021.

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

Overall Area Map



**Terminal Facilities.** Passenger services are located in Terminal A, Terminal B and the International Arrivals Facility, for a total of 36 gates, all of which have passenger loading bridges. Ground loading does occur on some flights. American Airlines, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, United Airlines, and Volaris are currently located in Terminal A. Alaska Airlines and

Southwest Airlines are currently located in Terminal B. The terminal facilities include food, beverage and other concessions.

Total capacity in the terminals is estimated to be 14.4 million passengers annually. Terminal A, including the Terminal A+ extension that opened in 1990, is a 16-gate, multi-story building. Terminal A, which was renovated and expanded in 2010, is designed to handle up to approximately 8.3 million passengers annually. Terminal B, which opened in June 2010, includes 20 gates (including the six gates in the Interim Facility), ticket counters, baggage claim areas, concession areas, security screening areas, passenger holdroom areas and airline and other tenant offices. Terminal B is designed to handle approximately 6.1 million passengers annually.

The International Arrivals Facility, which opened in 2002, is located between Terminal A and Terminal B, and is accessible from both the south end of Terminal A and the north end of Terminal B. In addition to offices for U.S. Customs and Border Protection and U.S. Public Health Service, the International Arrivals Facility houses two of the 16 aircraft gates in Terminal A, two of the 20 aircraft gates in Terminal B, and a waiting area for departing international passengers. These gates can be used for either international or domestic flights, providing the Airport with flexibility to adjust to the changing schedules of the airlines. In 2013, the Airport opened *The Club at SJC*, a lounge located in the International Arrivals Facility that is open to all airline passengers. The Airport opened its second location of *The Club at SJC* in 2019, which provides seating for 88 visitors and provides all-inclusive dining, workspaces, quiet space and shower facilities. By purchasing a day pass for \$45, travelers have access to the lounge where they can work quietly, rest between flights, or freshen up during their journey.

***Rental Car Facilities.*** Currently, seven rental car companies, representing a total of eleven rental car brands, operate at the Airport in the seven-story ConRAC located immediately across the street from Terminal B. The ConRAC, which opened in June 2010, includes 2,000 rental car ready-return spaces and approximately 308 covered spaces located on the first floor. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—*Rental Car Agreements.*”

***Parking.*** As of December 31, 2020, the Airport had a total of approximately 2,593 available public parking spaces. Terminal A is connected to a parking garage with approximately 658 spaces for public parking. The first floor of the ConRAC is dedicated to public parking for Terminal B and includes approximately 308 covered spaces with an adjacent surface parking lot containing 345 spaces. Two additional surface parking lots, one adjacent to Terminal B and one adjacent to the ConRAC, provide approximately 1,282 parking spaces for Terminal B. The Airport’s economy surface parking lot is located on 16 acres of Airport property northeast of Terminal A and includes approximately 1,673 surface economy parking spaces and 900 covered economy spaces. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—*Parking Agreement*” below. The Airport is currently constructing a new economy lot parking garage on the site of the economy surface parking lot, and therefore the economy surface parking lot is currently closed.

***General Aviation Facilities.*** As of December 31, 2020, there were approximately 140 general aviation aircraft based at the Airport. General aviation facilities include a combination of T-hangers and tie-down spaces. Other general aviation facilities are provided by two fixed-base operators (“FBOs”), that provide services such as aircraft parking, aircraft storage, fuel sales, aircraft sales, rentals and maintenance, charter service, flight instruction and aircraft radio sales and one specialized aviation service operator (“SASO”) that provides commercial aeronautical services to its sub-lessees only.

The Airport currently has two operating FBOs. Atlantic Aviation (formerly San José Jet Center) started operations in 1986 and currently has five hangars that offer full service to based and itinerant aircraft. ACM Property Services, LLC opened a new facility in 2008 and operated as a full service FBO



that was acquired by San José Jet Center which later was acquired by Atlantic Aviation. The other FBO, Signature Flight Support Corporation, started operations in October of 2015 and currently has seven hangars that offer full services to based and itinerant aircraft.

AvBase San José, LLC (“AvBase”), started operations as a SASO in 2005, offering general aviation services to its sub-lessees only. AvBase also offers fueling services to aircraft owned by AvBase and its sub-lessees.

An additional thirteen (13) acres north of the FAA air traffic control tower is currently undeveloped. The City completed negotiations with Signature Flight Support Corporation in July 2018 to add three (3) acres to the existing Signature FBO leasehold. The remaining ten (10) undeveloped acres north of the FAA air traffic control tower remain available for future development opportunities, but there are no immediate plans for development. See “LITIGATION AND POTENTIAL CLAIMS—*SJJC Aviation Services, LLC v. City of San José*” in Appendix A.

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

***Fuel, Cargo and Other Support Facilities.*** An Airport fuel farm completed in December 2009 is located on Airport property on the north side of Highway 101, with a pipeline under Highway 101 that connects the fuel farm to fuel dispensing racks located on the airfield apron north of Terminal A. The airlines serving the Airport formed a consortium which funded and oversaw construction of the fuel farm. The consortium is responsible for the operation and maintenance of the fuel farm. The storage capacity of the fuel farm is 45,000 barrels of jet fuel. Fuel is distributed to the fuel farm via a two-mile underground pipeline connected to the San José Kinder Morgan Products Terminal. Consistent with the Airport’s Master Plan, in 2013 the City agreed to relocate the jet fueling staging and maintenance activities from the southeast end of the Airport to the northeast side of the Airport. The project was completed in early 2015. See “CAPITAL DEVELOPMENT AT THE AIRPORT—Environmental Matters.”

Other facilities include the City’s Aircraft Rescue and Firefighting Facility (“ARFF”), which is currently located near the southeast corner of the Airport, and ground support, equipment maintenance and belly freight facilities near the southeast corners of the airfield. Construction of a second ARFF located in the southwest corner of the Airport is scheduled to be completed by the Summer of 2022, and the existing ARFF may be demolished for future development. On the northeast side of the Airport a taxi staging building was completed in March 2013, to help manage multiple taxi companies and drivers, dispatching both taxis and commercial door-to-door shuttles. The agreement with the current on-demand taxi staging company has expired, and the Airport is in the process of conducting a Request for Proposals (“RFP”) to replace the current company, anticipating the new company would then take over on-demand taxi staging the site. The new agreement is expected to be awarded in the Spring of 2021.

## PASSENGER SERVICES AND OPERATIONS

### **Passenger Services**

As of December 31, 2020, eight passenger airlines provided nonstop service from the Airport to a total of 27 U.S. cities and seven foreign cities, and two airlines provided scheduled all-cargo service at the Airport. All passenger airlines are operating at the Airport as Signatory Airlines (defined below), except for Frontier Airlines, which has executed a non-signatory agreement. British Airways was also operating as a Non-Signatory Airline before temporarily suspending its service at the Airport.

**Table 3**  
**Norman Y. Mineta San José International Airport**  
**Airlines Serving the Airport**  
**as of December 31, 2020**

<u>Domestic Airlines</u>	<u>Foreign-Flag Airlines</u>
Alaska Airlines	Volaris
American Airlines	
Delta Air Lines	
Frontier Airlines <sup>(1)</sup>	
Hawaiian Airlines	
Southwest Airlines	
United Airlines	
<u>All-Cargo Airlines</u>	
FedEx Corporation	
United Parcel Service	

<sup>(1)</sup> Denotes non-signatory airline. See “LEASE AND OPERATING AGREEMENTS—Airline Lease Agreement” below.

*Source:* Norman Y. Mineta San José International Airport.

Total enplanements in fiscal year 2019-20 were approximately 5.7 million, which was below the total enplanement level achieved in fiscal year 2018-19 as shown in Table 4. For four consecutive fiscal years, from fiscal year 2012-13 to fiscal year 2015-16, total enplanements grew at single-digit rates with a compound annual growth rate of 6.3%. In the next three consecutive fiscal years, from fiscal year 2016-17 to fiscal year 2018-19, total enplanements grew at double-digit rates with a compound annual growth rate of 14.0%. As several airlines reduced or suspended service in response to the COVID-19 pandemic, total enplanements declined by 24.1% in fiscal year 2019-20 compared to the prior fiscal year. As of February 2020, the Airport remained on pace to set another consecutive annual record for passengers, with new Hawaii routes being added by Southwest, new service by Air Canada to Toronto, American Airlines flights to Austin, Alaska Airlines service to Puerto Vallarta, and additional capacity by other carriers. In March and April 2020, several commercial international airlines operating at the Airport temporarily suspended operations, including Air Canada, All Nippon Airways, British Airways, Hainan Airlines and Volaris. Alaska Airlines also suspended its international routes in March 2020. Since May 2020, Hainan Airlines has flown as a cargo-only operation, and in June 2020, Volaris resumed service to Guadalajara, Mexico.

**Table 4**  
**Norman Y. Mineta San José International Airport**  
**Historical Passenger Enplanements**  
**Fiscal Years Ended June 30<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Air Carrier Domestic Enplanements <sup>(2)(3)</sup></b>	<b>Air Carrier International Enplanements</b>	<b>Total Enplanements</b>	<b>Percent Change in Total Enplanements</b>
2010-11	4,111,260	77,963	4,189,223	2.0%
2011-12	4,041,624	83,261	4,124,885	(1.5%)
2012-13	4,124,464	110,289	4,234,753	2.7%
2013-14	4,353,383	163,638	4,517,021	6.7%
2014-15	4,592,047	172,954	4,765,001	5.5%
2015-16	4,847,098	240,607	5,087,705	6.8%
2016-17	5,334,312	405,457	5,739,769	12.8%
2017-18	6,258,431	466,696	6,725,127	17.2%
2018-19	6,997,766	464,360	7,462,126	11.0%
2019-20	5,358,074	301,993	5,660,067	(24.1%)
<b><u>Compound Annual Growth Rates</u></b>				
FY13-FY16	5.5%	29.7%	6.3%	
FY17-FY19	14.5%	7.0%	14.0%	

<sup>(1)</sup> Some data reported previously have been revised to reflect more recent information.

<sup>(2)</sup> Includes scheduled and unscheduled regional commuter aircraft.

<sup>(3)</sup> Includes commuter enplanements previously reported separately.

*Source:* Norman Y. Mineta San José International Airport.

The Airport's Bay Area market share increased approximately 5.0 percentage points, from 13.4% in fiscal year 2012-13 to 18.4% in fiscal year 2019-20, resulting from seven years of consecutive passenger growth. During this time period, the market share for Oakland International Airport ("OAK") decreased by approximately 0.3 percentage points, while the market share for the San Francisco International Airport ("SFO") decreased by approximately 4.7 percentage points.

**Table 4-A**  
**Bay Area Market Share**  
**Fiscal Years 2012-13 Through 2019-20**

<b>Fiscal Year</b>	<b>The Airport</b>	<b>OAK</b>	<b>SFO</b>	<b>Total Bay Area Passengers</b>	<b>Annual Percentage Growth of Bay Area Passengers</b>
2012-13	13.4%	15.8%	70.8%	63,180,877	3.6%
2013-14	13.9%	15.2%	70.9%	65,144,737	3.1%
2014-15	13.9%	15.7%	70.4%	68,553,492	5.2%
2015-16	13.9%	15.9%	70.2%	73,248,648	6.8%
2016-17	14.8%	16.1%	69.1%	78,081,242	6.6%
2017-18	15.9%	15.8%	68.3%	84,627,617	8.4%
2018-19	17.4%	15.8%	66.8%	86,138,851	1.8%
2019-20	18.4%	15.5%	66.1%	61,463,668	(28.6%)

*Source:* Norman Y. Mineta San José International Airport.

**Table 5**  
**Norman Y. Mineta San José International Airport**  
**Historical Passenger Enplanements**  
**Fiscal Year-to-date Ended December 31**

<b>Fiscal Year</b>	<b>Air Carrier Domestic Enplanements <sup>(1)</sup></b>	<b>Air Carrier International Enplanements</b>	<b>Total Enplanements</b>	<b>Percent Change in Total Enplanements</b>
2019-20	3,918,747	219,584	4,138,331	9.72%
2020-21	756,669	67,378	824,047	(80.09%)

<sup>(1)</sup> Includes scheduled and unscheduled regional commuter aircraft.

*Source:* Norman Y. Mineta San José International Airport.

Table 6 lists the airports and cities served by nonstop flights from the Airport as of December 31, 2020.

**Table 6**  
**Norman Y. Mineta San José International Airport**  
**Airports and Cities Served by Nonstop Service as of December 31, 2020**

<b>Airport</b>	<b>Domestic City</b>	<b>Airport Code</b>
Hartsfield–Jackson Atlanta International Airport	Atlanta, Georgia	ATL
Austin–Bergstrom International Airport	Austin, Texas	AUS
Nashville International Airport	Nashville, Tennessee	BNA

Boise Airport	Boise, Idaho	BOI
Hollywood Burbank Airport	Burbank, California	BUR
Baltimore/Washington International Airport	Baltimore, Maryland	BWI
Dallas Love Field	Dallas, Texas	DAL
Denver International Airport	Denver, Colorado	DEN
Dallas/Fort Worth International Airport	Dallas, Texas	DFW
Spokane International Airport	Spokane, Washington	GEG
Daniel K. Inouye International Airport	Honolulu, Hawaii	HNL
William P. Hobby Airport	Houston, Texas	HOU
George Bush Intercontinental Airport	Houston, Texas	IAH
Jackson Hole Airport	Jackson, Wyoming	JAC
Ellison Onizuka Kona International Airport at Keahole	Keohole, Hawaii	KOA
McCarran International Airport	Las Vegas, Nevada	LAS
Los Angeles International Airport	Los Angeles, California	LAX
Long Beach Airport	Long Beach, California	LGB
Lihue Airport	Lihue, Hawaii	LIH
Chicago Midway International Airport	Chicago, Illinois	MDW
Kahului Airport	Kahului, Hawaii	OGG
Ontario International Airport	Ontario, California	ONT
O'Hare International Airport	Chicago, Illinois	ORD
Portland International Airport	Portland, Oregon	PDX
Phoenix Sky Harbor International Airport	Phoenix, Arizona	PHX
San Diego International Airport	San Diego, California	SAN
Seattle–Tacoma International Airport	Seattle, Washington	SEA
Salt Lake City International Airport	Salt Lake City, Utah	SLC
John Wayne Airport	Santa Ana, California	SNA
St. Louis Lambert International Airport	St. Louis, Missouri	STL

<b>Airport</b>	<b>Foreign City</b>	<b>Airport Code</b>
Aeropuerto Internacional de Guanajuato	León, Mexico	BJX
Don Miguel Hidalgo y Costilla International Airport	Guadalajara, Mexico	GDL
Aeropuerto Internacional Benito Juárez	Mexico City, Mexico	MEX
General Francisco J. Mujica International Airport	Morelia, Mexico	MLM
Licenciado Gustavo Díaz Ordaz International Airport	Puerto Vallarta, Mexico	PVR
Los Cabos International Airport	Los Cabos, Mexico	SJD
General Leobardo C. Ruiz International Airport	Zacatecas, Mexico	ZCL

*Source:* Norman Y. Mineta San José International Airport.

The City offers an air service support program to support the development of new passenger air service at the Airport. For air service that qualifies for the air service support program, the City offers a waiver of landing fees for a period of between twelve and eighteen months. The new air service must meet a minimum frequency requirement of three times weekly nonstop service for twelve consecutive

months or four consecutive months for international seasonal service. Given the constraints on airport facilities, there are no fee waivers for ticket counters or boarding gates. The air service support program also provides for dedicated marketing funds ranging from \$25,000 to \$500,000, depending on the type of new service provided. In cases where an airline introduces multiple low-frequency routes within a twelve-month period, the Director of Aviation has the discretion to recognize the contribution of such additional services and extend the program benefits to such airline, including landing fee waivers and the award of marketing funds up to \$100,000. The terms and conditions of the air service support program can be modified at any time by the City Council. On February 2, 2021, the City Council approved a revision to the air service support program to reduce the minimum weekly flight threshold (which is a condition to receive fee waivers and marketing support) retroactive from January 1, 2021 through the termination or expiration of the City's Proclamation of Local Emergency relating to the COVID-19 pandemic.

The COVID-19 pandemic has resulted in international travel restrictions and quarantine conditions, including a temporary suspension of all international flights at the Airport. On August 4, 2020, the Airport received approval from the City Council to provide temporary limited-term landing and Federal Inspection Facilities ("FIS") fee waivers ranging from three to six months upon resumption of the international routes. The fee waiver period is effective August 4, 2020 through June 30, 2021 for North American flights and through June 30, 2022 for intercontinental flights.

### **Enplanements by Airline**

As of December 31, 2020, eight different passenger carriers served approximately 37 nonstop destinations, offering the business and leisure traveler a range of domestic and international travel options. Seven of the passenger airlines are Signatory Airlines (defined below) under the Airline Lease Agreement (defined below). In addition, the Airport has service to 12 distinct airline hubs, included in the 37 total nonstop destinations, that provide access from around the nation and across the globe. The four largest carriers that anchor the Airport's service are Southwest Airlines, Alaska Airlines, Delta Air Lines, and American Airlines, who combine for approximately 88% of passenger enplanements and collectively have nonstop service to 19 destinations. Southwest Airlines is the leading airline at the Airport, with a market share of approximately 51% in fiscal year 2019-20, while Alaska Airlines, Delta Air Lines, and American Airlines held market shares of 18%, 11%, and 8%, respectively, in the same time period. As shown in Table 7, as of the end of fiscal year 2018-19, Delta Air Lines, which named the Airport as a "focus city" in 2019, and Alaska Airlines continued to expand service at the Airport, as did Southwest Airlines, United Airlines, Volaris, Frontier Airlines, British Airways and Hainan Airlines. All airlines operating at the Airport, however, contracted service in fiscal year 2019-20. Although the Airport previously added direct international flights to key destinations in Europe and Asia, a portion of those routes were subsequently withdrawn under strong competitive pressures, which were primarily related to the international travel ban implemented as a result of the COVID-19 pandemic. For more information regarding changes to the airlines operating at the Airport during the COVID-19 pandemic, see "IMPACTS OF THE COVID-19 PANDEMIC—Impact of COVID-19 on Passenger Traffic."

Table 7 sets forth enplanements for airlines (together with their affiliates) serving the Airport for the fiscal years 2015-16 through 2019-20.

**Table 7**  
**Norman Y. Mineta San José International Airport**  
**Enplaned Commercial Passengers by Airline**  
**Fiscal Years Ended June 30**  
**(Ranked by Fiscal Year 2020 Results)**

Airline <sup>(1)</sup>	FY 2015-16		FY 2016-17		FY 2017-18		FY 2018-19		FY 2019-20	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,507,648	49.3%	2,607,667	45.4%	3,050,314	45.4%	3,569,213	47.8%	2,893,513	51.1%
Alaska Airlines <sup>(2)</sup>	795,136	15.6	988,852	17.2	1,183,145	17.6	1,416,446	19.0	1,004,249	17.7
Delta Air Lines <sup>(3)</sup>	551,084	10.8	648,825	11.3	701,037	10.4	783,809	10.5	640,408	11.3
American Airlines <sup>(4)</sup>	642,626	12.6	634,827	11.1	628,683	9.3	606,477	8.1	443,899	7.8
United Airlines <sup>(5)</sup>	184,570	3.6	237,281	4.1	314,024	4.7	323,965	4.3	215,104	3.8
JetBlue Airways	73,950	1.5	151,587	2.6	222,987	3.3	155,313	2.1	92,699	1.6
Volaris	58,385	1.1	61,585	1.1	60,602	0.9	91,784	1.2	89,250	1.6
Hawaiian Airlines	164,088	3.2	153,379	2.7	169,044	2.5	143,314	1.9	88,139	1.6
Frontier Airlines	-	-	-	-	80,943	1.2	99,539	1.3	52,646	0.9
British Airways	9,872	0.2	54,145	0.9	54,092	0.8	59,099	0.8	37,503	0.7
Air Canada	6,882	0.1	46,701	0.8	57,145	0.8	56,389	0.8	37,232	0.7
All Nippon Airways	49,717	1.0	49,160	0.9	49,735	0.7	48,901	0.7	31,735	0.6
Hainan Airlines	34,939	0.7	44,123	0.8	38,995	0.6	42,025	0.6	23,111	0.4
Aeromexico	-	-	-	-	51,326	0.8	34,761	0.5	5,670	0.1
Lufthansa	-	-	40,490	0.7	30,057	0.4	17,756	0.2	-	-
Air China	-	-	15,511	0.3	25,829	0.4	4,436	0.1	-	-
Other <sup>(6)</sup>	8,808	0.2	5,636	0.1	7,169	0.1	8,899	0.1	4,909	0.1
Total <sup>(7)</sup>	5,087,705	100%	5,739,769	100%	6,725,127	100%	7,462,126	100%	5,660,067	100%

<sup>(1)</sup> Unlike previous official statements with respect to the Outstanding Bonds, the information presented herein does not separately report flights operated by the affiliate airlines. The enplanement information of flights operated by the affiliate airlines is included in the data of certain other airlines as noted in the footnotes below.

<sup>(2)</sup> Includes enplaned passengers on flights operated by Horizon and Skywest.

<sup>(3)</sup> Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

<sup>(4)</sup> Includes enplaned passengers on flights operated by Skywest, Mesa Airlines, and Compass Airlines.

<sup>(5)</sup> Includes enplaned passengers on flights operated by Skywest and GoJet.

<sup>(6)</sup> Consists of charter airlines and airlines no longer serving the Airport.

<sup>(7)</sup> Totals may not add due to rounding.

*Source:* Norman Y. Mineta San José International Airport.

## Historical Air Cargo

In addition to cargo carried by passenger airlines, FedEx Corporation and United Parcel Service, each of which is a signatory cargo carrier, provided domestic and international air cargo service at the Airport as of June 30, 2020. See “LEASE AND OPERATING AGREEMENTS—Airline Agreements.” In fiscal year 2019-20, the total amount of enplaned and deplaned cargo carried by all-cargo carriers at the Airport decreased by approximately 15.0% from fiscal year 2018-19 to approximately 97,602,911 pounds.

## Landed Weight and Airport Operations

Table 8 sets forth total landed weight of aircraft (other than general aviation and military aircraft) that used the Airport in fiscal years 2010-11 through 2019-20. Landed weights declined from fiscal year 2010-11 to fiscal year 2011-12, but increased every year from fiscal year 2012-13 through fiscal year 2018-19. In fiscal year 2019-20, due to decreased air traffic resulting from the COVID-19 pandemic, landed weights declined 15.2% from fiscal year 2018-19 levels. See “IMPACTS OF THE COVID-19 PANDEMIC.” Landed weights for fiscal year 2020-21 year-to-date through December 31, 2020 have declined 61.7%.

<b>Table 8</b>				
<b>Norman Y. Mineta San José International Airport</b>				
<b>Historical Gross Landed Weight<sup>(1)</sup></b>				
<b>(in thousand pounds)</b>				
<b>Fiscal Years Ended June 30</b>				
<b>Fiscal Year</b>	<b>Air Carrier<sup>(2)</sup></b>	<b>All-Cargo<sup>(3)</sup></b>	<b>Total<sup>(4)</sup></b>	<b>Annual Percentage Change</b>
2010-11	5,221,002	319,185	5,540,187	(3.4%)
2011-12	5,125,391	268,748	5,394,139	(2.6%)
2012-13	5,213,194	248,067	5,461,261	1.2%
2013-14	5,536,593	235,002	5,771,595	5.7%
2014-15	5,628,460	236,706	5,865,167	1.6%
2015-16	6,113,904	266,344	6,380,248	8.8%
2016-17	7,202,172	249,020	7,451,193	16.8%
2017-18	8,244,933	247,607	8,492,540	14.0%
2018-19	8,984,703	244,440	9,229,143	8.7%
2019-20	7,591,258	233,630	7,824,888	(15.2%)
<b>Compound Annual Growth Rates</b>				
FY11-FY16	3.2%	(3.6%)	2.9%	
FY17-FY20	1.8%	(2.1%)	1.6%	

<sup>(1)</sup> Some data reported previously have been revised to reflect more recent information.

<sup>(2)</sup> Includes domestic, international, and regional commuter airlines.

<sup>(3)</sup> Includes all-cargo service only. Includes cargo service provided by Air Transport International, which ceased cargo service operations from the Airport on September 2, 2011.

<sup>(4)</sup> Totals may not add due to rounding.

*Source:* Norman Y. Mineta San José International Airport.

Table 9 lists the number of aircraft operations (take-offs and landings) at the Airport for fiscal years 2010-11 through 2019-20. Total aircraft operations decreased from fiscal year 2010-11 to fiscal year 2011-12, but increased every year from fiscal year 2011-12 to fiscal year 2018-19. The growth in aircraft operations during that time period was slower than the growth in passenger activity, which is



partially due to an increase in the load factor on flights during such time period. In fiscal year 2019-20, due to decreased demand for air traffic caused by the COVID-19 pandemic, total aircraft operations declined 12.3% from fiscal year 2018-19 levels. See “IMPACTS OF THE COVID-19 PANDEMIC.”

**Table 9**  
**Norman Y. Mineta San José International Airport**  
**Historical Aircraft Operations<sup>(1)(2)</sup>**  
**Fiscal Years Ended June 30**

<b>Fiscal Year</b>	<b>Air Carrier Operations<sup>(3)</sup></b>	<b>All-Cargo Operations</b>	<b>Total Commercial Operations<sup>(4)</sup></b>	<b>Commercial Operations as a % of Total</b>	<b>General Aviation Operations<sup>(5)</sup></b>	<b>Military Operations</b>	<b>Total Operations</b>	<b>% Change in Total Operations</b>
2010-11	89,266	2,046	91,312	74.8%	30,503	276	122,091	(7.2%)
2011-12	86,478	1,678	88,156	73.4%	31,664	285	120,105	(1.6%)
2012-13	87,508	1,536	89,044	73.8%	31,321	210	120,575	0.4%
2013-14	91,056	1,468	92,524	75.6%	29,619	208	122,351	1.5%
2014-15	92,458	1,500	93,958	73.7%	33,246	213	127,417	4.1%
2015-16	96,640	1,614	98,254	74.7%	33,048	259	131,561	3.3%
2016-17	110,336	1,596	111,932	76.3%	34,551	239	146,722	11.5%
2017-18	128,242	1,596	129,838	78.3%	35,664	249	165,751	13.0%
2018-19	141,454	1,562	143,016	74.5%	48,762	230	192,008	15.8%
2019-20	119,018	1,494	120,512	71.6%	47,724	148	168,384	(12.3%)
<b><u>Annual Compound Growth Rate</u></b>								
FY11-FY16	1.6%	(4.6%)	1.5%		1.6%	(1.3%)	1.5%	
FY17-FY20	2.6%	(2.2%)	2.5%		11.4%	(14.8%)	4.7%	

<sup>(1)</sup> An aircraft operation is defined as the takeoff and landing of an aircraft.

<sup>(2)</sup> Some data reported previously have been revised to reflect more recent information.

<sup>(3)</sup> Includes domestic, international, and regional commuter operations.

<sup>(4)</sup> Represents the sum of Air Carrier Operations and All-Cargo Operations.

<sup>(5)</sup> Includes local and itinerant general aviation.

*Source:* Norman Y. Mineta San José International Airport.

## LEASE AND OPERATING AGREEMENTS

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

### **Airline Agreements**

***Airline Lease Agreement.*** The current Airline-Airport Lease and Operating Agreement (the "Airline Lease Agreement") for passenger and cargo airlines is a ten-year agreement that expires on June 30, 2029. The term of the agreement may be extended for two (2) consecutive five-year renewal periods, from July 1, 2029 to June 30, 2034 and from July 1, 2034 to June 30, 2039, by the mutual written agreement of the airlines and the City. The agreement was entered into by mutual consent of the City and each Signatory Airline (defined below) and is subject to early termination under certain circumstances. The rate setting methodology under the Airline Lease Agreement is residual in the airfield and compensatory in the terminals. The rate setting methodology for the airline gates and ticket counters within the terminals, however, is also residual. In addition, the airlines provide extraordinary coverage protection (as described below). In fiscal year 2019-20, approximately 48% of the Airport's operating revenues were derived from payments made pursuant to the Airline Lease Agreement. The holdover provisions of the Airline Lease Agreement provide that a Signatory Airline that holds over without the City's written consent after the term of the agreement has expired or been canceled will pay the 25% premium applicable to Non-Signatory Airlines (see below). For a summary of certain provisions of the Airline Lease Agreement, see "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix G.

The provisions of the Airline Lease Agreement are subordinate to provisions of the Master Trust Agreement. The Airline Lease Agreement will not be assigned or pledged to the Trustee as security for the Series 2021 Bonds.

The Airline Lease Agreement provides that (a) any Passenger Carrier (as defined in the Airline Lease Agreement) that signs an agreement with the City substantially similar to the Airline Lease Agreement and pays to City at least \$500,000 per year in Terminal Rents and other charges due for its use of the Terminal, excluding PFC payments, or (b) any Cargo Carrier (as defined in the Airline Lease Agreement) that signs an Airline-Airport Cargo Operating Agreement shall be a "Signatory Airline."

***Rates and Charges Ordinance.*** All passenger airlines are operating at the Airport as Signatory Airlines, except for Frontier Airlines, which has executed a non-signatory agreement. British Airways was also operating as a Non-Signatory Airline before temporarily suspending its service at the Airport as of March 2020. Any Passenger 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 substantially similar to that of the Airline Lease Agreement. Non-Signatory Airlines are charged a premium of 25% over the rates and charges applicable to Signatory Airlines and will not participate in the MII review process. If the Non-Signatory Airline is an "Affiliate" and has received the affiliate designation in writing by the mainline carrier, then the Affiliate will pay the rates and charges at the same rate as the Signatory Airlines and will not be subject to the 25% premium.

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

and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

***Revenue-Sharing.*** The current Airline Lease Agreement requires that in any fiscal year in which there are Net Remaining Revenues (as defined in the Airline Lease Agreement) generated at the Airport and all requirements (including the minimum rate covenant requirement) of the Master Trust Agreement and any subordinated financing agreement have been satisfied, the Net Remaining Revenues are to be divided between the City and all Signatory Passenger Carriers as follows: Until the first Fiscal Year after the date of beneficial occupancy of the New Terminal Project (as defined in the Airline Lease Agreement and formerly known as "Phase 2"), the first \$4,000,000 shall be retained by the City and the balance of Net Remaining Revenues, if any, shall be divided 60% to the Signatory Passenger Carriers and 40% to the City. In Fiscal Years beginning after the date of beneficial occupancy of the New Terminal Project, the Airline Lease Agreement requires that the first \$2,000,000 shall be retained by the City and the balance of Net Remaining Revenues, if any, be divided 60% to the Signatory Passenger Carriers and 40% to the City. In all Fiscal Years, each Signatory Passenger Carrier's share of the balance of the Net Remaining Revenues is to be a function of its proportionate share of total Enplaned Passengers (as defined in the Airline Lease Agreement) for all Signatory Passenger Carriers for that Fiscal Year. The City's share of any Net Remaining Revenues shall be retained by the Airport in a discretionary fund to be used by the City for any lawful Airport purpose.

***Extraordinary Coverage Protection.*** The airlines acknowledge in the Airline Lease Agreement that in order to satisfy the Coverage Amount for Debt Service (as such terms are defined in the Airline Lease Agreement) on bonds and subordinated indebtedness, each airline will be required to make extraordinary coverage protection payments in addition to Landing Fees and Terminal Rents (as such terms are defined in the Airline Lease Agreement) otherwise established by the Airline Lease Agreement in any Fiscal Year in which the amount of Revenues less Operating Expenses (as such terms are defined in the Airline Lease Agreement) is projected to be less than the amount required by the minimum rate covenant requirement set forth in the Master Trust Agreement, as such rate covenant may be amended, supplemented or restated from time to time. Pursuant to the Airline Lease Agreement, any amounts that must be collected for any such extraordinary coverage protection payments are to be allocated to the Airfield Revenue Requirement or the Airline Terminal Revenue Requirement (as such terms are defined in the Airline Lease Agreement). Should extraordinary coverage protection payments be made in any given Fiscal Year, the City is required in subsequent Fiscal Years to refund to the airline its proportionate share of such payments as soon as there are sufficient Net Remaining Revenues available under the Airline Lease Agreement to first allow the City to retain \$4,000,000 (until the first Fiscal Year after the date of beneficial occupancy of the New Terminal Project) or \$2,000,000 (in Fiscal Years beginning after the date of beneficial occupancy of the New Terminal Project). The Airline Lease Agreement requires that the refund of extraordinary coverage protection payments occur before the remaining balance of Net Remaining Revenues, if any, is divided 60% to the Signatory Passenger Carriers and 40% to the City. To date, the City has not imposed additional fees under the Extraordinary Coverage provisions described herein.

### **Parking, Rental Car, Concession and Other Agreements**

In addition to the Airline Lease Agreement, the City has entered into leases, concession agreements and other agreements with a parking operator, seven automobile rental companies (representing a total of eleven rental car brands), three in-flight kitchen operators, several Airport-based retailers, two FBOs, one SASO and one corporate general aviation operator. Approximately 52% of the Airport's gross operating revenues in fiscal year 2019-20 were derived from these and other sources of non-airline revenues, compared to 65% in fiscal year 2018-19. See "AIRPORT FINANCIAL

MATTERS—Historical Operating Results” and “—Management Discussion of Recent Financial Results.”

***Parking Agreement.*** The City’s public parking and employee parking lots at the Airport are managed by SP Plus Corporation (“SP Plus”) pursuant to a two-year agreement that includes three options to extend. The agreement, which became effective on December 1, 2019, provides that SP Plus will be paid an annual fixed management fee plus reimbursable expenses and supplemental services.

The City sets rates for parking in the Airport’s public parking lots. The parking fee structure for all lots is \$2.00 per 20 minutes, with a maximum first 24-hour charge of \$18.00. These rates have been in place since April 2020. For fiscal year 2019-20, parking fees represented approximately 13.8% of Airport gross operating revenue. See “AIRPORT FINANCIAL MATTERS—Management Discussion of Recent Financial Results—*Parking and Roadway Revenues.*”

***Rental Car Agreements.*** The City opened the ConRAC in June 2010. Each of the seven rental car companies (representing a total of eleven rental car brands) that currently operate on-Airport has an agreement with the City for its operations at the ConRAC that was set to terminate on June 30, 2020, subject to two mutually agreed optional ten-year extensions, which must be approved by the City and the rental car companies. The City and the rental car companies are currently negotiating the terms of the first ten year extension, and the parties continue to operate pursuant to the terms of the agreements during this holdover period. Pursuant to these agreements, the rental car companies must pay facility rent to the City for use of the ConRAC and related transportation expenses (“Facility Rent”) and remit to the City customer facility charges that are collected from the rental car companies’ customers (“CFCs”). Facility Rent is included in General Airport Revenues. For additional information regarding CFCs, see “AIRPORT FINANCIAL MATTERS—Customer Facility Charges.”

Facility Rent is calculated by a two-step process under the terms of the rental car agreement. First, an amount equal to the sum of annual debt service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds and coverage amounts and reserve fund requirements applicable to the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, less estimated CFC Revenues, is allocated to each rental car company based upon that company’s percentage occupancy of the ConRAC. Second, each rental car company’s share of: (a) operating costs for the transportation system operated by the City to transport passengers between the terminals and the ConRAC (the “ConRAC Transportation System”); and (b) the City’s cost to demolish the previous temporary common use rental car facilities at the Airport (“Demolition Costs”), amortized over the initial ten-year term of the agreement are then added to the first amount to determine the Facility Rent due from each rental car company. In the event that CFC Revenues exceed the sum of annual debt service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds 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 ConRAC Transportation System. In the event that CFC Revenues remain after CFC Revenues are deducted from each company’s share of operating costs for the ConRAC 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. Through fiscal year 2019-20, no CFC Revenues had been applied toward Demolition Costs. This is largely because Demolition Costs were financed using other sources and at the time of the demolition the previous temporary common use rental car facilities CFC Revenues were not sufficient to cover all transportation costs and debt service. The City had previously determined that it should identify the specific rental car customers who used the ConRAC 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 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, starting in fiscal year 2017, the City began to apply CFC revenues (to the extent available) to transportation costs. The Airport did not expend CFC Revenues on transportation costs in the fiscal year ended June 30, 2020. See “AIRPORT FINANCIAL MATTERS—Customer Facility Charges.”

Total Facility Rent for the ConRAC in fiscal year 2019-20 was approximately \$1.2 million. Facility Rent will vary each year in relation to any change in the total amount of CFC Revenues collected during such year. In the event that CFC Revenues are higher than estimated, the total Facility Rent would be lower. If the CFC Revenues are lower than estimated, total Facility Rent will be higher.

In addition to Facility Rent and CFC Revenues, the rental car companies pay the City a concession fee equal to the greater of a MAG or 10% of gross revenues, ground rent equal to the fair market rental value of the underlying Airport land, and utility charges allocated based upon relative square footages occupied by the rental car companies at the ConRAC. Ground rent is subject to annual adjustment based upon year-to-year increases in the consumer price index (“CPI”), with the adjustment in the sixth year made by appraisal. Rent was increased in the fiscal year 2015-16 pursuant to the appraisal. The current rents have adjusted each year by CPI and the Airport is negotiating with the industry to revise the timing of the next appraisal to coincide with other appraisals for land at the airport. In fiscal year 2019-20, rental car concession and facility and ground rental revenue represented approximately 8.7% of Airport gross operating revenue. On a combined basis, the rental car companies did not exceed MAG in fiscal year 2019-20.

***Terminal Concession, Advertising and Other Agreements.*** Food and beverage and retail concession services at the Airport are provided by six concessionaires under six separate agreements. Host International, Inc (“Host”), SSP America, SJC, LLC (“SSP”), Elevate Gourmet Brands-SFO Group, JV (“Elevate”), and WSE, Group Inc. (“WSE”) each provide food and beverage services at the Airport under food and beverage concession agreements. AMS-SJC-JV (“Hudson”) and PRI San José, LLC (“PRI”) provide retail services under retail concession agreements. In 2018, the Airport issued an RFP with respect to several of its food and beverage concession agreements that were set to expire on June 30, 2020. The Airport awarded one location to Elevate, one location to WSE and the balance of the locations to SSP, pursuant to new food and beverage concession agreements that will expire in 2035.

In June 2015, Dufry AG, the parent company of Hudson acquired 50.1% control of World Duty Free Group North America, LLC (“WDFG”), and therefore both retail companies are now owned by Dufry AG. As a result of the acquisition, two retail concession agreements were consolidated into one retail concession agreement with Dufry AG. Under the consolidated agreement, nearly 50% of the retail concession locations are due to expire in 2024 (with the reminder set to expire in 2026).

In 2016, the Airport issued an RFP for eight new specialty retail kiosks to provide opportunities for local and small businesses to operate at the Airport. The Airport awarded a retail concession agreement to PRI for a five-year term that expires in 2023.

Airport operating revenue from the food and beverage and retail concession agreements in fiscal year 2019-20 equaled approximately \$7.5 million of Airport gross operating revenue, which was 15.5% higher than the combined MAG for food and beverage, and retail concessions.

The City has an Airport Advertising Concession Agreement with Clear Channel Outdoor, Inc., d/b/a Clear Channel Airports for digital terminal advertising, outdoor advertising, transit and bus shelter advertising, and promotional marketing opportunities at the Airport for a term running through June 30, 2027. The agreement guarantees the City the greater of a MAG or a percentage of revenues through June 30, 2027. The MAG adjusted from \$4,575,000 on February 1, 2008, to \$4,244,455 retroactive to

commencement date on February 1, 2008, to \$4,222,324 on July 1, 2010, to \$1,800,000 on July 1, 2017, to \$1,900,000 on July 1, 2018, to \$2,000,000 on July 1, 2019, and to \$2,050,000 on July 1, 2020. The MAG will continue to increase by 2.5% annually each July 1. In 2016, the City entered into a concession agreement with AC Holdings, Inc. (“AC Holdings”) to provide news, information and entertainment television programming material produced and provided by CNN in the passenger holdrooms at the Airport, which provided the Airport with a MAG of \$45,000 per year for five years, beginning in 2017. On January 12, 2021, AC Holdings notified the Airport that it would cease operations as of March 31, 2021. The Airport is working with AC Holdings to remove its equipment and does not anticipate another similar service in the near future.

The City also has a ground lease with LSG/Skychefs, Inc., the operator of an in-flight kitchen that provides catering services to some of the airlines at the Airport. The ground lease provides for a minimum payment of 85% of gross revenue or a MAG, whichever is greater, and expires on February 14, 2024. Flying Food Group and Gate Gourmet are operating at the Airport under a permit. The in-flight kitchen services of these companies are produced at an off airport facility, and the permit provides that each company pay a monthly permit fee as well as 10% of gross revenues.

The City issues licenses for the operation of newsracks and has agreements with operators of foreign currency exchanges, ATMs, luggage cart racks, pay phones, visitor information publications, prohibited item mailers and wireless antenna. A luggage cart contract was signed on August 1, 2014 with Smarte Carte, Inc. (“Smarte Cart”), which requires Smarte Cart to pay a percentage of gross revenues. On January 5, 2021, the City Council approved an amendment to the luggage cart contract to provide for an extended term through July 31, 2024. In order to do business at the Airport, all other operators pay fixed fees, subject to annual adjustment.

All ground transportation providers conducting business at the Airport (whether by picking up or dropping off passengers, parcels or baggage) must have a ground transportation permit issued by the Airport. Ground transportation providers include hotels, motels, limousines, pre-arranged door-to-door shuttles, off-airport parking shuttles, courtesy vehicles, charter buses, schedule buses, couriers, transportation network companies (“TNCs”), pre-arranged taxicab operators, and taxicab operators in the on-demand taxi staging program. These companies are subject to fees established by the City Council. The current pick-up and drop-off fee ranges from \$1.80 to \$3.00, unless the operator is a TNC (which pays a flat fee of \$3.00) or a taxi cab operator (which is exempt from drop-off fees). The Airport has issued approximately 350 ground transportation permits that are currently active.

## AIRPORT FINANCIAL MATTERS

### **Airport and City Budget Process**

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

1. See “SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT” in Appendix G.

The Airline Lease Agreement provides for revenue sharing as described under the caption “LEASE AND OPERATING AGREEMENTS—Airline Agreements—*Revenue-Sharing*” above. In addition, the Airline Lease Agreement provides that in order to satisfy the Coverage Amount for Debt Service on bonds and subordinated indebtedness, each airline will be required to make extraordinary coverage protection payments in addition to Landing Fees and Terminal Rents otherwise established by the Airline Lease Agreement in any Fiscal Year in which the amount of Revenues less Operating Expenses is projected to be less than the amount required by the minimum rate covenant requirement set forth in the Master Trust Agreement. See “LEASE AND OPERATING AGREEMENTS—Airline Agreements—*Extraordinary Coverage Protection*” above.

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

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

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

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

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

The Proposed Operating and Capital Budgets contain the complete financial plan for the City, including the Airport Department, for the next fiscal year. The Proposed Operating Budget accounts for all revenue received by the City and accounts for the usage of the revenue. It describes activities by City Service Area, department, core service and program areas, and makes recommended additions or reductions to those activities. The Proposed Capital Budget and Five-Year CIP describes all capital revenues and the planned usage of that revenue. It documents all projects expected to be funded over the



next five years, including project descriptions, funding, and timelines. The City Council holds a number of study sessions beginning in May to discuss the proposed operating and capital budgets and also holds a series of public hearings on these proposed budgets in May and June.

In early June, the Mayor releases the final budget modification message. It contains changes to the proposed budget recommended by the Mayor after City Council review and discussion of the document during the budget study sessions and public hearings. In June, the City Council adopts the operating and capital budgets for the next fiscal year, along with the implementing appropriation ordinances and funding sources resolutions that appropriate the budgeted amounts to the respective departments. The City Council approved the fiscal year 2020-21 Operating and Capital Budgets on June 16, 2020 and adopted the budgets and implemented annual appropriation ordinance and related documents on June 23, 2020.

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

There are a number of policies, agreements and legal restrictions that regulate the application of Airport revenue. The federal Airport and Airway Improvement Act of 1982 and related statutes mandate that airport owners/operators use all internally generated revenues for the capital/operating costs of their local aviation-related facilities. Federal grant agreements entered into by the Airport also contain this restriction. Additionally, the Airport is organized as a proprietary enterprise fund which requires that its costs be recovered with fees and charges, which must also be set on a cost-recovery basis. The amount the Airport paid for direct City services, excluding Police and Fire services, was approximately \$72.5 million in fiscal year 2019-20, compared to approximately \$69.3 million in fiscal year 2018-19. The City also provides certain general support services to the Airport and charges a pro-rata fee. The amount charged to the Airport for these general support services for fiscal year 2019-20 was approximately \$5.4 million, compared to approximately \$5.1 million in fiscal year 2018-19. See "LITIGATION AND POTENTIAL CLAIMS—FAA Audit of Use of Airport Revenue—Cost Allocations."

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

***City Audit and Management Report.*** The City Council engages an independent certified public accountant (the "Accountant") who examines books, records, inventories and reports of all officers and employees who receive, control, handle, or disburse public funds and of any other officers, employees or departments as the City Council directs. These duties are performed both annually and upon request. For the financial statements for fiscal years 1999-00 to 2014-15, and from 2017-18 to 2019-20, the City retained Macias Gini & O'Connell LLP as the Accountant. In fiscal years 2015-16 and 2016-17, the City engaged Grant Thornton LLP as the Accountant. Within 180 days following the end of each fiscal year, the Accountant submits the final audit to the City Council. The City publishes its financial statements as of the close of the fiscal year in the Comprehensive Annual Financial Report ("CAFR").

In addition to the annual audit of the City's financial statements, the Accountant issues an annual audit report of the City's internal controls over financial reporting (the "Management Report") to the City Council. The significant deficiencies noted by the Accountant in the Management Report described below are incorporated in the Single Audit Report for federal grant awards, including the federal grants, awarded to the Airport.

In the 2019-20 Management Report, the Accountant noted two (2) deficiencies relating to internal controls over the financial reporting process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented, or detected and corrected on a timely basis. The Accountant noted a material weakness in the City's internal controls over the financial reporting process, and a control deficiency regarding application of the availability criterion for revenue recognition in the 2019-20 Management Report.

The Accountant commented that while the City has made significant efforts in improving its financial reporting process over the past several years, that progress has been impeded by persistent turnover from resignations, retirements, and extended leaves in the CAFR reporting units within the Finance Department – Accounting Division, which contributed negatively to the completion of the fiscal year 2019-2020 audit process and resulted in a material weakness finding. The audit process was hampered further by the sudden and unexpected remote work environment for the CAFR reporting units made necessary by the COVID-19 pandemic and consequent shelter-in-place order issued by Santa Clara County. The City's management, in its response to this finding, specifies various steps to address these challenges, which are detailed further in the San José Management Letter For Fiscal Year Ended June 30, 2020.

The Accountant also identified a control deficiency in the application of the availability criterion for revenue recognition, which resulted in overstated revenues of \$7.4 million in governmental funds. The City's management, in its response to this finding, noted that the Finance Department will continue training financial statement preparers on the application of the availability criterion, and establish an enhanced review process to confirm the validity of the revenue recorded and comply with the availability criterion. The 2018-2019 Management Report identified a material weakness and a significant deficiency during that audit process; the material weakness has been corrected and closure of the significant deficiency is pending completion of the City's 2019-2020 Single Audit Report.

The audited financial statements of the Airport for fiscal year 2019-20 are included as Appendix D to this Official Statement. The Accountant has not reviewed this Official Statement, has not been requested to consent to the inclusion herein of the audited financial statements and has not performed any post audit review of the financial condition or operations of the Airport.

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

### **Passenger Facility Charges**

Passenger Facility Charges ("PFCs") are fees authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended (the "PFC Act"), as implemented by the FAA pursuant to published regulations ("PFC Regulations"), to be collected from enplaned paying passengers to finance eligible, approved airport-related projects ("PFC Projects"). The PFC Act authorized the FAA to approve a PFC of \$1.00, \$2.00 or \$3.00. In 2000, the Wendell M. Ford Aviation Investment and Reform Act for the 21st

Century (“AIR-21”) was signed into law, allowing the FAA to authorize a PFC of \$4.00 or \$4.50. Airport operators are required to apply to the FAA for approval before imposing or using PFCs.

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

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

As of June 30, 2020, the City is authorized by the FAA to impose and use PFCs, including investment income thereon (collectively, PFC Revenues), of up to \$919,182,836. The City estimates that it had collected and accumulated approximately \$551.2 million in PFC Revenues and interest from the Airport’s passenger airlines through June 30, 2020 and had spent approximately \$534.9 million of that amount on approved projects (including debt service on certain Series of Bonds) as of the same date.

Debt Service paid with PFC Revenues is not included in the calculation of rates and charges payable by the airlines, and PFC Revenues are not included in the definition of pledged “General Airport Revenues” under the Master Trust Agreement. PFC Revenues, however, in some cases have been and, in the future, are expected again to be used (but not pledged) to pay the portion of Debt Service on the Outstanding Bonds that is allocable to PFC Projects, including the Series 2021A Bonds, the Series 2021B Bonds, the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2014A Bonds and the Series 2017A Bonds), the Series 2017A Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds) and the Series 2014 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds). PFC Revenues may not be used to pay Maintenance and Operation Expenses or to pay debt service on Bonds other than Bonds that finance PFC Projects. Finally, when calculating Annual Debt Service, Debt Service in a given fiscal year will be reduced by the amount of any PFC Revenues designated by the City as “Available PFC Revenues” and deposited with the Trustee to pay Debt Service in such fiscal year as provided in the Master Trust Agreement. See “SECURITY FOR THE BONDS—Other Available Funds, CFC Revenues and Available PFC Revenues” in the forepart of this Official Statement.

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

Uncertainties” in the forepart of this Official Statement and “LITIGATION AND POTENTIAL CLAIMS—FAA Audit of Use of Airport Revenue” in this Appendix A.

### **Customer Facility Charges**

CFCs are collected by the rental car companies from their customers and then remitted to the City. From January 1, 2008 through November 30, 2011, the Airport imposed a CFC of \$10.00 per rental contract. Pursuant to Section 1936 of the California Civil Code (now California Government Code Section 50474.3) the City increased, effective December 1, 2011, the CFC to \$6.00 per contract day, for a maximum of five days per rental car contract, and further increased the per contract day CFC to \$7.50 per contract day, for a maximum of five days per rental contract, commencing January 1, 2014. On January 5, 2021, the City Council approved an increase of the CFC to \$9.00 per contract day, for a maximum of five days per rental car contract, commencing April 1, 2021. Revenues from CFCs (referred to as CFC Revenues in the Master Trust Agreement) 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 (collectively, the “CFC Eligible Costs”). The City currently applies the CFC Revenues toward payment of debt service on debt obligations issued to fund CFC Eligible Costs (the “CFC Eligible Obligations”) and the City’s actual costs related to CFC Eligible Obligations. CFC Eligible Obligations currently include the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds). To the extent available, the City began to apply CFC revenues to transportation costs starting in fiscal year 2016-17, but did not apply any CFC revenues to transportation costs in fiscal year 2019-20. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—*Rental Car Agreements*.”

Under the Master Trust Agreement, CFC Revenues (approximately \$19.1 million in fiscal year 2019-20) are excluded from the definition of “General Airport Revenues”; however, CFC Revenues may, at the option of the City, be designated as Other Available Funds to pay debt service on CFC Eligible Obligations. See “AIRPORT FINANCIAL MATTERS—Historical Operating Results” below and “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT—Other Available Funds” in APPENDIX C. Under the Twelfth Supplemental Trust Agreement, CFC Revenues are pledged to the payment of Debt Service on the Bonds in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds” in the forepart of this Official Statement. The only Series of Bonds that such pledged CFC Revenues may be applied to repay are the Series 2021C Bonds (to the extent the 2021C Bonds refund the Series 2011B Bonds). CFC revenues of \$19.1 million and \$18.7 million had been designated as “Other Available Funds” for payment of eligible bond debt service in fiscal year 2019-20 and fiscal year 2018-19, respectively. Table 10 below shows the amount of CFC revenues that have historically been designated “Other Available Funds” and the amount of CFC revenues that have historically been treated as separate operating revenues. Table 10-A below shows similar figures for the first six months of fiscal year 2020-21.

**Table 10**  
**Norman Y. Mineta San José International Airport**  
**Historical CFC Revenues<sup>(1)</sup>**  
**Fiscal Years Ended June 30**

<b>Fiscal Year</b>	<b>CFC Revenues Designated as “Other Available Revenues”</b>	<b>Additional CFC Revenues</b>	<b>Total</b>	<b>Annual Percentage Change</b>
2010-11 <sup>(2)</sup>	\$6,804	-	\$6,804	14%
2011-12 <sup>(2)</sup>	10,137	-	10,137	48%
2012-13	13,385	-	13,385	32%
2013-14	15,494	-	15,494	16%
2014-15 <sup>(3)</sup>	18,690	-	18,690	21%
2015-16 <sup>(3)</sup>	19,888	-	19,888	6%
2016-17	18,026	\$1,931	19,957	0%
2017-18	18,364	2,518	20,882	5%
2018-19	18,704	2,761	21,465	3%
2019-20	15,394	-	15,394	(11%)

<sup>(1)</sup> All amounts shown in thousands of dollars.

<sup>(2)</sup> The amounts shown in fiscal year 2010-11 and 2011-12 were revised to reflect “Other Available Funds for Debt Service.”

<sup>(3)</sup> CFC Revenues available for debt service were restated in fiscal years 2014-15 and 2015-16 to be limited to the amount of CFC eligible debt service.

*Source:* Norman Y. Mineta San José International Airport.

**Table 10-A**  
**Norman Y. Mineta San José International Airport**  
**Historical CFC Revenues<sup>(1)</sup>**  
**First Six Months of Fiscal Year 2020-21**

<b>Period<sup>(2)</sup></b>	<b>CFC Revenues Designated as “Other Available Revenues”</b>	<b>Additional CFC Revenues</b>	<b>Total</b>	<b>Year-Over-Year Percentage Change</b>
August 2020	\$465.6	-	\$465.6	(75.0%)
September 2020	\$474.2	-	\$474.2	(75.1%)
October 2020	\$482.1	-	\$482.1	(76.2%)
November 2020	\$499.0	-	\$499.0	(75.1%)
December 2020	\$458.7	-	\$458.7	(72.4%)
January 2021	\$318.2	-	\$318.2	(77.7%)

<sup>(1)</sup> All amounts shown in thousands of dollars.

<sup>(2)</sup> CFC Revenues are collected and recorded one month following the month in which they accrue.

*Source:* Norman Y. Mineta San José International Airport.

Additionally, to the extent that any CFC Revenues have been designated as “Other Available Funds” and pledged to the payment of Debt Service as provided in the Master Trust Agreement, such CFC Revenues may be added to Net General Airport Revenues for the purpose of satisfying certain requirements relating to the issuance of Additional Bonds. See “SECURITY FOR THE BONDS—Additional Series of Bonds—*Conditions for the Issuance of Additional Bonds*” in the forepart of this Official Statement.

The initial term of the City’s current agreements with the on-Airport rental companies for use of the ConRAC was 10 years, beginning June 1, 2010 and ending June 30, 2020, subject to two optional ten year extensions, which require approval by the City and the rental car companies. The City and the rental car companies are currently negotiating the terms of the first ten year extension, and the parties continue to operate pursuant to the terms of the agreements during this holdover period. Should all of the rental car companies determine not to extend the agreements, the City would not be able to continue to collect CFC Revenues after the on-Airport rental car companies vacate the ConRAC (other than for CFCs collected by off-Airport rental car companies for on-Airport common use transportation costs). In such event, the City would seek other tenants or uses for the ConRAC, but would remain responsible for payment of the remaining CFC Eligible Obligations from General Airport Revenues until such time as new rental car companies were to begin operations at the ConRAC and the City could again collect CFCs.

Through fiscal year 2019-20, no CFC revenues had been applied toward Demolition Costs. The City had previously determined that it should identify the specific rental car customers who used the ConRAC 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 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 began to apply CFC revenues to

transportation costs starting in fiscal year 2016-17, although it did not apply any CFC revenues to transportation costs in fiscal year 2019-20.

## **Federal Grants**

The Airport and Airway Improvement Act of 1982, as amended, created the Airport Improvement Program (the “AIP”), which is administered by the FAA. Grants are available to airport operators in the form of entitlement funds and discretionary funds and are payable on a reimbursement basis. Entitlement funds are apportioned annually based upon the number of enplaned passengers and the aggregate landed weight of all-cargo aircraft; discretionary funds are available at the discretion of the FAA based upon a national priority system. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund that is supported by user fees, fuel taxes, and other similar revenue sources that must be authorized and approved by Congress. Authority for the existing federal user fees, fuel taxes and other revenue sources for the Airport and Airway Trust Fund, FAA expenditure authority for the Trust Fund, AIP appropriations and FAA authority to issue AIP grants was most recently reauthorized on October 5, 2018. See “CERTAIN FACTORS AFFECTING THE AIRPORT—Regulatory Uncertainties—*General*” in the forefront of this Official Statement.

The City currently receives approximately \$2.5 million of AIP entitlement grants per federal fiscal year ending September 30. In August 2020, the City received an FAA grant for the Pavement Management Program for \$400,000. In September 2020, the City received approximately \$7.0 million in FAA grant funding to construct a new ARFF. This is in addition to the \$10.0 million received in December 2019 for this project. See “CAPITAL DEVELOPMENT AT THE AIRPORT—Five Year Capital Improvement Program.”

## **Federal Security Grants**

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

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

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

***Security Grants.*** The City currently participates in the TSA law enforcement officer reimbursement program over the period from January 1, 2021 through December 31, 2023. This program provides partial funding for the mandated security measure of providing a law enforcement officer presence at each passenger-screening location in the amount of \$284,700 annually. Any federal funding provided through the reimbursement program would partially offset the Airport's total security costs.

The TSA approved a new five-year cooperative agreement effective July 1, 2020 through June 30, 2025 with an annual funding of \$202,000 for four explosive detection canine teams (\$50,500 per team).

In September 2019, the Airport entered into an agreement with the TSA to provide \$2.5 million for new security technologies on portions of the Airport perimeter. This agreement will expire on September 30, 2024.

### **Historical Operating Results**

The following tables summarize operating revenues and maintenance and operation expenses at the Airport for fiscal years 2015-16 through 2019-20. The summary presented in Table 11 is derived from the audited financial statements of the Airport Department for fiscal years 2015-16 through 2019-20.



**Table 11**  
**Norman Y. Mineta San José International Airport**  
**Summary of Operating Revenues and Maintenance and Operation Expenses**  
**Fiscal Years Ended June 30**

	2015-16 <sup>(1)</sup>	2016-17 <sup>(1)</sup>	2017-18 <sup>(1)</sup>	2018-19 <sup>(1)</sup>	2019-20 <sup>(1)</sup>
<b>Operating Revenues:</b>					
Airline Rates & Charges:					
Landing Fees	\$13,095,546	\$18,369,680	\$19,296,794	\$18,984,453	\$21,682,500
Terminal Rental	40,800,293	39,778,321	43,476,503	42,814,627	62,689,544
Total Airline Rates and Charges	\$53,895,839	\$58,148,001	\$62,773,297	\$61,799,080	\$84,372,044
Other Operating Revenues:					
Terminal Concessions	\$17,575,813	\$20,206,590	\$22,374,869	\$23,716,743	\$20,623,495
Airfield Area	4,891,452	7,306,545	8,026,892	8,340,064	6,534,655
Parking and Roadway <sup>(2)</sup>	53,703,763	52,514,182	59,714,260	64,507,752	50,972,941
Fuel Handling Fees	3,225,613	3,080,382	3,078,026	2,929,570	2,288,616
General Aviation/Other CFCs for	8,660,881	9,748,227	10,096,062	10,772,808	10,499,275
Transportation Costs	-	1,931,208	2,518,167	2,761,531	-
Total Other Revenues	88,057,522	94,787,134	105,808,276	113,028,468	90,918,982
Total Operating Revenues <sup>(3)</sup>	\$141,953,361	\$152,935,135	\$168,581,573	\$174,827,548	\$175,291,026
<b>Maintenance and Operation Expenses:<sup>(4)</sup></b>					
Terminal Buildings	\$27,724,459	\$31,115,432	\$34,922,052	\$37,371,223	\$41,025,389
Airfield Area	12,767,355	16,775,579	20,115,815	20,062,237	21,912,191
Parking and Roadway	16,683,408	16,046,348	16,282,557	15,837,473	16,760,739
Fuel Handling Costs	(564,646)	16,000	58,567	69,279	26,607
General Aviation	1,963,490	1,382,625	2,437,603	2,383,080	1,716,754
General and Administrative	19,334,091	23,056,916	25,117,612	25,041,601	24,159,104
Depreciation and Amortization	51,863,642	46,449,311	47,486,266	49,026,263	55,382,980
Total Maintenance and Operation Expenses	\$129,771,799	\$134,842,211	\$146,420,472	\$149,791,156	\$160,983,764
<b>Net Operating Gain/Loss</b>	<b>\$12,181,562</b>	<b>\$18,092,924</b>	<b>\$22,161,101</b>	<b>\$25,036,392</b>	<b>\$14,307,262</b>

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

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

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

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

Source: Norman Y. Mineta San José International Airport.

Passenger enplanement activity increased between fiscal year 2012-13 and fiscal year 2018-19, but declined in fiscal year 2019-20 due to the COVID-19 pandemic. From March 2020 through January 2021, passenger enplanements declined as a result of the COVID-19 pandemic, with the largest decline seen in April 2020. For additional information regarding enplaned passenger trends, see "IMPACTS OF THE COVID-19 PANDEMIC—Impact of COVID-19 on Passenger Traffic." Revenues were up primarily due to increased volume in airline activity, increased concession fees resulting from the additional airline activity and passenger levels, increases in the ground rental rates, and additional space rentals. While Parking and Roadway revenues increased during this period, they did not increase at the same rate as enplaned passengers. The Airport attributes this to the fact that TNCs such as Uber and Lyft

were authorized to start operating at the Airport in November 2015. While the revenue from TNCs has grown significantly since late 2015, parking revenue growth has generally been below the growth in enplaned passengers since February 2016 through January 2020. As of February 2020, parking revenue growth has been slightly below or better than enplanement growth. Maintenance and operation expenses were relatively consistent during these fiscal years. Maintenance and operation expenses incurred in the normal course of business increased slightly and were offset by a decrease in fuel handling costs and parking and roadway expenditures. The fuel handling cost credit in fiscal year 2015-16 was due to the completion of the fuel farm clean-up and reduction of previously booked expenditures. See “Management Discussion of Recent Financial Results” herein for additional explanations regarding the changes in operating revenue and maintenance and operation expenses.

**Table 12**  
**Norman Y. Mineta San José International Airport**  
**Unaudited Summary of Operating Revenues and Maintenance and Operation Expenses**  
**Six Months Ended December 31, 2019 and 2020<sup>(1)</sup>**

	Six months ended December 31, 2019	Six months ended December 31, 2020
<b>Operating Revenues:</b>		
Airline Rates & Charges:		
Landing Fees	\$11,553,947	\$ 6,474,958
Terminal Rental	<u>32,372,918</u>	<u>28,889,294</u>
Total Airline Rates and Charges	\$43,926,866	\$35,364,252
Other Operating Revenues:		
Terminal Concessions	\$11,592,594	\$ 5,303,351
Airfield Area	3,634,938	1,326,419
Parking and Roadway <sup>(2)</sup>	32,533,449	9,687,163
Fuel Handling Fees	1,211,865	658,549
General Aviation and Other	<u>5,365,782</u>	<u>5,380,528</u>
Total Other Revenues	\$54,338,627	\$22,356,010
 Total Operating Revenues <sup>(3)</sup>	 \$98,265,493	 \$57,720,262
<b>Maintenance and Operation Expenses</b>		
<b>(4):</b>		
Terminal Buildings	\$17,068,641	\$16,541,225
Airfield Area	10,190,610	10,931,660
Parking and Roadway	6,418,860	4,678,694
Fuel Handling Costs	7,399	43,834
General Aviation	792,877	521,023
General and Administrative	11,447,016	10,948,970
Cost of Workers' Compensation Claims	<u>55,503</u>	<u>35,612</u>
Total Maintenance and Operation		
Expenses Before Depreciation and		
Amortization	\$45,980,906	\$43,701,019
 <b>Net Operating Income</b>	 <b>\$52,284,586</b>	 <b>\$14,019,244</b>

(1) Unaudited. The information in this table is presented on a modified cash-basis and is derived from unaudited interim financial statements. Totals may not add due to rounding.

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

(3) Includes investment income, but excludes PFC Revenues and CFC Revenues.

(4) Excludes depreciation and amortization and certain expenditures for projects that are treated in the Airport's audited financial statements as maintenance and operation expenses, but that are paid from certain Airport capital funds, rather than from Operating Revenues deposited in the Maintenance and Operation Fund. See "—Management Discussion of Recent Financial Results—Airport Revenues and Expenses."

Source: Norman Y. Mineta San José International Airport.

**Unrestricted Cash Balance.** As of June 30, 2020, the Airport's unrestricted cash balance was approximately \$155.8 million as compared to \$159.2 million as of June 30, 2019. Unrestricted cash balances fluctuate throughout the fiscal year due to timing of cash receipts and disbursements. As of December 31, 2020, the Airport's unrestricted cash balance was approximately \$155.1 million. See "IMPACTS OF THE COVID-19 PANDEMIC—Cash and Liquidity." No assurance can be given that the Airport's future unrestricted cash balances will be similar to its unrestricted cash balances in fiscal year 2019-20 or the first half of fiscal year 2020-21, and the Master Trust Agreement does not require that the Airport maintain any particular unrestricted cash balance.

***Six Months Ended December 31, 2020 (Unaudited).*** The Airport Department’s unaudited interim financial statements for the first six months of fiscal years 2019-20 and 2020-21 are derived from the Airport Department’s unaudited, interim financial statements. The unaudited interim financial statements are prepared on a modified cash basis, not on an accrual basis, and do not include items such as depreciation and amortization. In addition, the Airport Department’s unaudited interim financial statements do not include costs that are paid from capital funds but are treated as maintenance and operating expenses in the Airport Department’s audited financial statements. The unaudited interim financial statements are also subject to year-end and other accounting adjustments and are not comparable to the financial statements summarized in Table 11.

The Airport achieved a net operating surplus of \$14,019,244 during the six months ended December 31, 2020. This reflects a decrease of \$38,265,343 over the same period of the prior fiscal year. The net operating surplus decrease was the result of a decrease in total operating revenues of \$40,545,230 offset by the decrease in total maintenance and operation expenses of \$2,279,888 (before depreciation and amortization) for the six-month period. With the exception of general airport revenue, decreases have been posted in all operating revenue categories during the six months ended December 31, 2020 due to the COVID-19 pandemic. The decrease in total maintenance and operation expenses (before depreciation and amortization) is primarily due to the decreases in parking and roadway expenses, terminal building, and general and administrative expenses.

## **Management Discussion of Recent Financial Results**

***Overview.*** From fiscal year 2012-13 until fiscal year 2019-20, the Airport experienced a rebound in passenger activity, resulting in a total of approximately 11.3 million passengers traveling through the Airport in fiscal year 2019-20. In light of reduced passenger traffic caused by the COVID-19 pandemic, passenger traffic declined 24.2% in fiscal year 2019-20. Fiscal year-to-date passenger traffic through December 2020 has declined 80.2% compared to the same period in fiscal year 2019-20. While the Airport continues to carefully manage expenditures due to its 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 (currently known as the Silicon Valley Organization) 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.

The Airport has an objective of maintaining a competitive cost per enplaned passenger (“CPE”) with the other bay area airports. The CPE was \$8.21 in fiscal year 2018-19 and \$14.79 in fiscal year 2019-20. The CPE was originally estimated to be \$25.45 for fiscal year 2020-21 based on a number of assumptions which may or may not materialize. As discussed in “IMPACTS OF THE COVID-19 PANDEMIC—Aviation Activity Planning Scenarios,” the Airport has developed a Financial Planning Scenario and a Faster Recovery Planning Scenario, each of which was most recently updated in December 2020. Under the Financial Planning Scenario, CPE for fiscal year 2020-21 is estimated to be \$43.43, and under the Faster Recovery Planning Scenario, CPE for fiscal year 2020-21 is estimated to be \$28.89.

***Airport Revenues and Expenses.*** Total operating revenues in fiscal year 2019-20 increased slightly by approximately 0.3% to \$175.3 million compared to the prior fiscal year. Even though passenger and flight activities decreased as a result of the COVID-19 pandemic, aviation revenues in fiscal year 2019-20 increased by approximately 36.5%, or \$22.6 million, compared to fiscal year 2018-19. This is due to an increase in landing fee and terminal rental rates in fiscal year 2019-20. See “IMPACTS

OF THE COVID-19 PANDEMIC—Fiscal Year 2020-21 Operating and Capital Budgets” and “*Airline Rates and Charges*” below. The increase in the aviation revenues was partially offset by non-aviation revenues, which declined by 19.6%, or \$22.1 million, in fiscal year 2019-20 compared to fiscal year 2018-19. Decreases were posted in all revenue categories with the exception of landing fees and terminal rents. Terminal building/concessions revenues decreased by 13.1% or \$3.1 million, and airfield revenues decreased by 21.6% or \$1.8 million compared to their respective levels in the prior fiscal year, primarily due to the decline in passenger activity and the abatement of MAG for non-airline tenants. Parking and roadway revenues were down 21.0% or \$13.5 million, mainly due to a decrease in public parking revenues and TNC trip fees, resulting from decreased passenger activity.

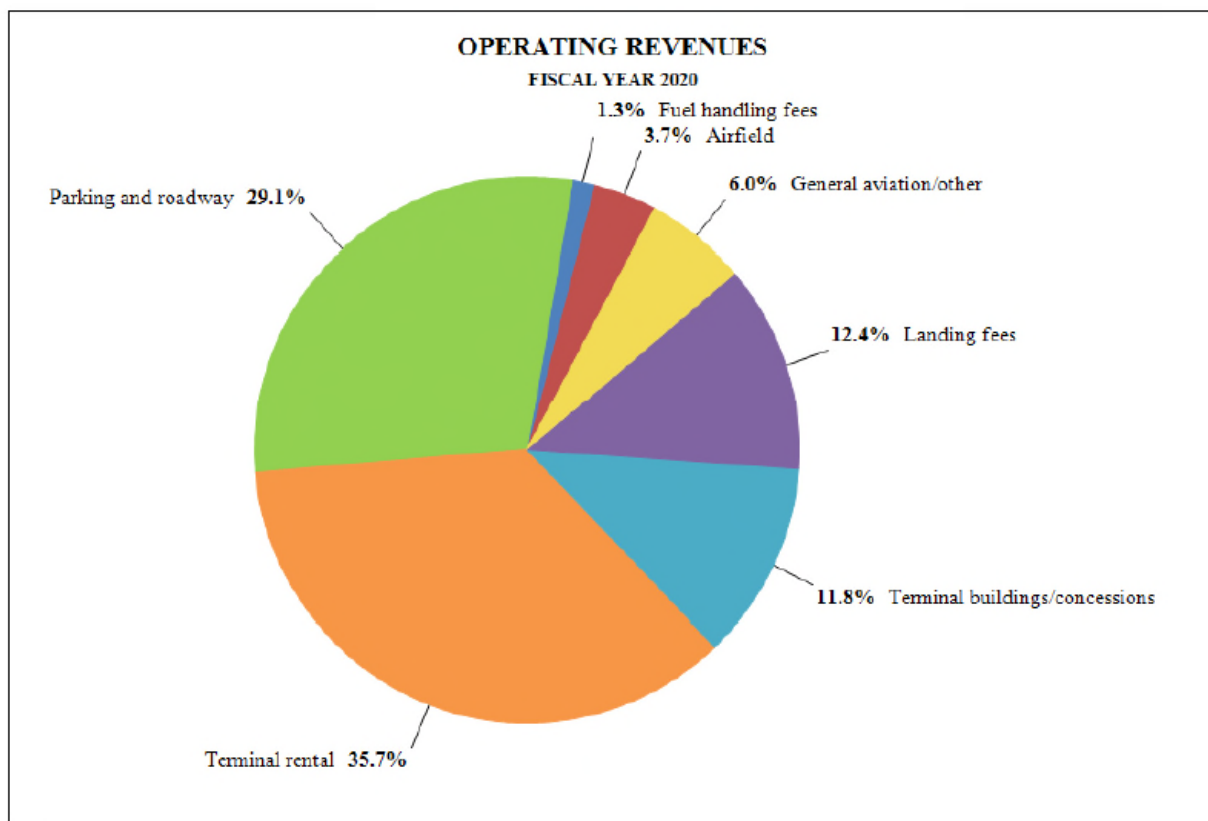
The amount of Maintenance and Operation Expenses shown in Table 11 includes depreciation and amortization and certain expenditures of projects that are treated in the Airport’s audited financial statements as maintenance and operation expenses but that are paid from sources other than General Airport Revenues. Such other sources of funds include certain expenses paid from Airport capital funds that did not meet the criteria for capitalization into fixed assets. The total amount of such operating expenses paid annually from sources other than General Airport Revenues is shown in Table 13.

Maintenance and Operation expenses for fiscal year 2019-20, as reflected in Table 13 increased by \$11.2 million compared to the prior fiscal year. Increases were experienced due to increases in depreciation expense, Other Post Employment Benefits (“OPEB”) expense, salaries and fringe benefits, higher costs for public safety employees, and pension expense, partially offset by a decrease in expenses related to noncapitalized projects. Overhead expenses increased by 6.0% or \$306,100, due to the increased number of budgeted positions in fiscal year 2019-20, partially offset by the rate change from 25.0% in fiscal year 2018-19 to 24.7% in fiscal year 2019-20. Fees charged by the City for police and firefighting services increased by 7.2% or \$1.2 million, due to a transition from funding increased firefighter staffing for Index D coverage with overtime in fiscal year 2018-19 to full-time positions in fiscal year 2019-20, as well as increases in salaries and associated benefits, overhead, and overtime for both fire and police department personnel. The Index classification determines the minimum number of ARFF staff and vehicles required to staff the ARFF facility in accordance with Sections 139.315 and 139.317 of the Code of Federal Regulations. The Index classification applicable to the Airport is determined by a combination of the length of aircraft and the average daily departures of aircraft.

***Airline Rates and Charges.*** The primary charges paid by the airlines are landing fees and terminal rentals for leased space. For fiscal year 2019-20 the average terminal rental rate was \$268.31 per square foot while landing fee rate was \$2.87 per 1,000 pounds of aircraft maximum gross landed weight (“MGLW”). For fiscal year 2020-21, the average terminal rental rate is \$240.82 per square foot while the landing fee rate is \$4.30 per 1,000 pounds of aircraft MGLW. See “CERTAIN FACTORS AFFECTING THE AIRPORT—Regulatory Uncertainties—*Rates and Charges Regulation*” in the forepart of this Official Statement.

***Parking and Roadway Revenues.*** During fiscal year 2019-20, public parking revenues of approximately \$24.1 million decreased by 25.3% and concession fees from rental car companies of approximately \$13.6 million decreased by 22.3%, compared to fiscal year 2018-19. The Airport also derived \$12.0 million in revenues in fiscal year 2019-20 from employee parking, dispatch and trip fees from taxi companies and other ground transportation operators and ground rental revenue and utility charges from rental car companies, compared to \$14.6 million in fiscal year 2018-19. ConRAC Facility Rent paid by the rental car companies was \$1.7 million in both fiscal years 2019-20 and 2018-19. See “THE AIRPORT—Existing Facilities—*Parking*” and “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements” above.

**Revenue Diversity.** The chart below summarizes the Airport Department’s major sources of revenue for fiscal year 2019-20. As shown in the chart, the Airport Department derived approximately 48.1% of its revenues from the landing fees and terminal rentals paid by the airlines serving the Airport, compared to 35.3% in fiscal year 2018-19, and approximately 51.9% of its revenues from various sources other than the airlines (primarily parking, rental cars, terminal concessions, income from certain non-airline leases and interest income) in fiscal year 2019-20, compared to 64.7% in fiscal year 2018-19.



Source: Norman Y. Mineta San José International Airport.

**Historical Debt Service Coverage.** The Annual Debt Service coverage ratios for the five fiscal years ended June 30, 2020, calculated in accordance with the Master Trust Agreement, are presented in Table 13. The prior year’s ending surplus, the amount that the City maintains as “rolling coverage” on the Bonds, unspent bond proceeds, CFC Revenues, and reimbursement for prior capital expenditures are considered “Other Available Funds” and are added to the Net General Airport Revenues Available for Bond Debt Service under the Master Trust Agreement. For information regarding projected Debt Service coverage ratios, see “IMPACTS OF THE COVID-19 PANDEMIC—Aviation Activity Planning Scenarios.”

The Master Trust Agreement also provides a separate mechanism by which PFC Revenues can be applied to reduce the amount of Debt Service for purposes of the debt service coverage calculation. In fiscal year 2009-10, the City began applying PFC Revenues toward Debt Service.

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

	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total Operating Revenues</b> <sup>(1)</sup>	\$141,953,361	\$152,935,135	\$168,581,571	\$174,827,548	\$175,291,027
Adjustments to Total Operating Revenues					
Plus: Interest income and non-operating revenues	3,800,600	3,343,439	5,280,819	6,367,121	7,909,515
Less: Other revenues <sup>(2)</sup>	55,053 <sup>(5)</sup>	-	-	-	-
Adjusted Revenues	\$145,809,014	\$156,278,574	\$173,862,390	\$181,194,669	\$183,200,543
<b>Maintenance &amp; Operation Expenses</b>	\$129,771,799	\$134,842,210	\$146,420,471	\$149,791,154	\$160,983,762
Adjustments to Maintenance and Operation Expenses					
Less: Maintenance and operation expenses paid from sources other than General Airport Revenues <sup>(3)</sup>	(3,901,692)	(4,864,538)	(4,210,181)	(7,481,941)	(1,400,269)
Less: Unspent 2004 Bond Proceeds used to pay Operating Costs	-	-	-	-	-
Less: Depreciation and Amortization	(51,863,642)	(46,449,311)	(47,486,266)	(49,026,262)	(55,382,980)
Less: Net Pension Liability, Deferred Outflows / Inflows of Resources Related to Pensions	(687,479)	(5,866,392)	(8,993,721)	(577,693)	(6,788,276)
Expenses paid from Maintenance & Operation Fund	\$73,318,986	\$77,661,969	\$85,730,303	\$92,705,258	\$97,412,237
Add: Transfer to General Fund	-	-	-	-	-
Add: Capitalized Expenses in Fund 523	-	93,119	32,264	61,653	-
Less: LOC Fees <sup>(4)</sup>	(200,540)	(177,831)	(178,275)	(195,228)	(290,565)
Adjusted Maintenance and Operation Expenses	\$73,118,446	\$77,577,257	\$85,584,292	\$92,571,682	\$97,121,673
Net General Airport Revenues	\$72,690,568	\$78,701,317	\$88,278,098	\$88,622,987	\$86,078,870
Plus: Reimbursement for Prior Capital Expenditures	-	-	-	-	-
CFC Revenues	17,700,648	18,025,887	18,363,648	18,703,660	19,057,245
Remaining of the 2007 Reserve Fund	-	-	7,411,375	-	-
Unspent 2004 Bond Proceeds used to pay Debt Service	-	-	-	-	-
Unspent 2007B Bond Proceeds	11,082,575 <sup>(6)</sup>	4,294,719	-	-	-
Prior year's ending surplus	24,348,572	37,278,615	34,043,370	25,530,263	15,385,348
Rolling coverage	18,333,780	18,276,738	18,338,714	18,511,586	16,645,496
Total: Other Available Funds	\$71,465,575	\$77,875,959	\$78,157,107	\$62,745,509	\$51,088,089
Net Revenues Available for Bond Debt Service	\$144,156,143	\$156,577,276	\$166,435,205	\$151,368,496	\$137,166,959
Revenue Bond Debt Service Requirement	\$95,451,785	\$95,659,549	\$103,765,518	\$92,501,033	\$93,257,618
Less: Available PFC Revenues	(24,828,669)	(24,788,523)	(24,791,627)	(27,025,696)	(27,479,274)
Net Revenue Bond Debt Service Payable from Revenues	\$70,623,116	\$70,871,026	\$78,973,891	\$65,475,337	\$65,778,344
Revenue Bond Debt Service Coverage Ratio	2.04	2.21	2.11	2.31	2.09

<sup>(1)</sup> Does not include CFC Revenues, PFC Revenues or AIP grant proceeds. AIP grant proceeds, CFC Revenues and PFC Revenues are included in the City's audited financial statements as non-operating revenues.

<sup>(2)</sup> Includes reimbursements from the Airport's tenants for improvements initially funded by the Airport. Under the Master Trust Agreement, these payments are excluded from the definition of "General Airport Revenues" and are not pledged to the payment of Bonds. See "SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds" in the forepart of this Official Statement.

<sup>(3)</sup> Consists of Maintenance and Operation Expenses that were paid from available moneys other than General Airport Revenues, which consist primarily of certain capital projects that did not meet the criteria for capitalization into fixed assets that were paid from Airport capital funds.

<sup>(4)</sup> Letter of credit fees associated with the Subordinated Commercial Paper Notes, net of capitalized fees. Letter of credit fees are reflected in this Table 13 and in Table 11 as a Maintenance and Operation Expense for accounting purposes; however, fees imposed pursuant to the reimbursement agreements relating to such letters of credit are Subordinate Obligations and are not incorporated in Maintenance and Operation Expenses for purposes of calculating debt service coverage.

<sup>(5)</sup> At the end of each of fiscal year 2015-16, the Airport reimbursed certain tenants the portion of their deposits which exceeded the costs of the tenant improvements.

<sup>(6)</sup> As of March 1, 2017, all remaining unspent 2007B Bond Proceeds have been applied to pay Debt Service on outstanding Series 2007B Bonds.

Source: Norman Y. Mineta San José International Airport.

As described under the heading “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds” in the forepart of this Official Statement, the City has designated the Rolling Coverage Amount, certain uncommitted monies from the prior fiscal year held in the General Revenue Fund, and CFC Revenues, in an amount not to exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds, as Other Available Funds and, under the Twelfth Supplemental Trust Agreement it has pledged such amounts to the payment of Debt Service on the Bonds until the final maturity date of the Bonds. Pursuant to the Master Trust Agreement, amounts so pledged are included in certain calculations relating to the issuance of Additional Bonds. See “SECURITY FOR THE BONDS—Additional Series of Bonds.” The following table reflects the amounts included in such calculations in connection with the issuance of the Series 2021 Bonds based on the audited financial statements for fiscal year 2019-20:

<b>Table 13A</b> <b>Series 2021 Bonds</b> <b>Historical Additional Bonds Test Calculations</b>	
Net General Airport Revenues	\$ 86,078,870
Plus Pledged Other Available Funds:	
Rolling Coverage Amount	16,645,496
Uncommitted Monies	15,385,348 <sup>(1)</sup>
CFC Revenues	19,057,245 <sup>(2)</sup>
Total Net General Airport Revenues and Pledged Other Available Funds Available for Debt Service	\$137,166,959
Bonds Maximum Annual Debt Service	\$ _____
Coverage Ratio	____ <sup>(3)</sup>
<sup>(1)</sup> Uncommitted monies from fiscal year 2019-20 held in the General Revenue Fund on July 1, 2020 following all transfers of moneys to the Subordinated Debt Account within the Surplus Revenue Fund required under the Master Trust Agreement for fiscal year 2019-20. <sup>(2)</sup> The amount of pledged CFC Revenues does not exceed Annual Debt Service on the portion of the Series 2021C Bonds that refund the Series 2011B Bonds in any year. <sup>(3)</sup> 1.25 required.	



## CAPITAL DEVELOPMENT AT THE AIRPORT

The Airport's capital development program (the "Airport Development Program") has been formulated through a master planning process, which originally received City Council approval in 1997. The Airport Development Program consists of two phases, Phase 1 and the New Terminal Project. The City has substantially completed Phase 1 of the Airport Development Program, which includes projects in the Terminal Area Improvement Program, as described below under "—Phase 1 of the Airport Development Program." Projects in the New Terminal Project of the Airport Development Program are pre-approved in the Airline Lease Agreement, but construction of the New Terminal Project projects is contingent upon having a consultation with the Airlines at least ninety (90) days before the City issues an RFP for the construction of the New Terminal Project projects. The City retains sole discretion to make all final decisions with respect to the financing, programming, design, and construction of the New Terminal Project projects. Due to the impact of COVID-19, the New Terminal Project is currently on hold, and it is presently unknown when planning for this project will resume. Any decision to proceed with the New Terminal Project will be subject to a number of factors, including passenger demand levels, existing terminal and facility capacities, financial metrics and support from stakeholders and the community. See "LEASE AND OPERATING AGREEMENTS—Airline Agreements" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Capital Expenditures" in Appendix G.

### **Airport Master Plan**

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the "Master Plan"). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (the "ALP") displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2037 for commercial passenger service, air cargo and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned New Terminal Project 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 42 gates; parking and garage facilities comprised of up to 12,700 public parking spaces, 3,700 employee parking spaces and 2,000 rental car ready-return spaces; air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions.

In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements. 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 completed 29-acre Signature FBO development is located in this portion of the Airport with an additional 3.5 acre expansion to Signature FBO under construction as of mid-2019. An additional 9.5 acres north of the FAA air traffic control tower remain available for future general aviation development opportunities. In 2018, the City

Council approved a minor amendment to the Master Plan, adding aviation support facility development on the west side in addition to general aviation. Construction of a new ARFF began in 2020 on the southwest side and is scheduled to be completed by the Summer of 2022. The existing ARFF may be demolished for future development. See “THE AIRPORT—Existing Facilities—*General Aviation Facilities*.”

In April 2020, the City Council approved a Major Amendment to the Master Plan and the associated environmental impact report, modifying the Airport Development Program. The Master Plan amendment included updated aviation demand forecasts and shifted the Airport’s horizon year to 2037 with over 70 specific facility improvement projects, many of which have been completed to date. Major additions include airfield safety improvements, a short-term parking garage adjacent the ConRAC comprised of up to 5,000 parking spaces, and a multi-story business hotel consisting of up to 300,000 square feet and including up to 330 rooms and 300 parking spaces. All projects from the Master Plan amendment are depicted on an amended ALP, which was conditionally approved by the FAA in June 2020.

### **Phase 1 of the Airport Development Program**

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

### **New Terminal Project of the Airport Development Program**

New Terminal Project projects will consist primarily of the design and construction of a new Terminal C concourse, including a total of 14 additional gates, and a new central plant facility. Under certain circumstances, the City is required to consult with the Signatory Airlines before proceeding with additional future capital developments. New Terminal Project projects are pre-approved in the Airline Lease Agreement, but construction of the New Terminal Project projects is contingent upon having a consultation with the Airlines at least ninety (90) days before the City issues an RFP for the construction of the New Terminal Project projects. The City retains sole discretion to make all final decisions with respect to the financing, programming, design, and construction of the New Terminal Project projects. Pursuant to the terms of the Airline Lease Agreement, the City may proceed with the New Terminal Project projects if it determines, in its sole discretion, that the New Terminal Project projects continue to be needed and can be financed on reasonable terms. The New Terminal Project projects will include new FIS only if at least an annual rate of 550,000 international deplaning passengers arrive at the Airport for a sustained period of 18 months. If that trigger is met, the New Terminal Project projects will include an integrated FIS facility to be built within the new terminal space designed to serve all arriving international passengers, and up to six new gates will have secure access to the FIS facility. The Airport will only proceed with the development of the New Terminal Project when the operational need exists and as financial affordability permits. As described above under “CAPITAL DEVELOPMENT AT THE AIRPORT,” the New Terminal Project is currently on hold, and it is presently unknown when planning for this project will resume. See “SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE

AGREEMENT—Capital Expenditures” in Appendix G and “PASSENGER SERVICES AND OPERATION—Landed Weight and Airport Operations” herein.

### **Costs and Funding Sources of the Airport Development Program**

Phase 1 of the Airport Development Program, which is substantially completed, was initially budgeted at \$1.3 billion (including, among other costs, design, engineering, construction, reserves, contingency, insurance and escalation for inflation). Phase 1 costs were funded from a combination of federal grants, PFC Revenues, internally generated Airport funds and the proceeds of Bonds and Subordinated Commercial Paper Notes.

The current estimated cost of the New Terminal Project of the Airport Development Program in July 1, 2018 dollars is approximately \$1.05 billion if the project does not include the build-out of the new FIS facility, and approximately \$1.20 billion if it does include the new FIS facility. If the new FIS facility is triggered after the start of the New Terminal Project projects, the cost to add the new FIS facility in July 1, 2018 dollars is approximately \$180 million. See “—New Terminal Project of the Airport Development Program.” The City expects sources of funding for New Terminal Project projects to include (but not necessarily be limited to) federal grants, PFC Revenues, internally-generated Airport funds, and, if necessary, Airport user fees, the proceeds of additional Bonds or Subordinated Commercial Paper Notes.

### **Five Year Capital Improvement Program**

In June 2020, the City also adopted a five year, 2021-2025 Airport Capital Improvement Program (the “CIP”) primarily comprised of projects that are necessary for the safe and efficient operation of the Airport and are not part of either Phase 1 or the New Terminal Project of the Airport Development Program. The CIP is updated annually and reflects the Airport Department’s prioritization of projects that address a variety of requirements and needs, including public safety, regulatory requirements, accommodation of air carrier and general aviation operations, and the convenience of the travelling public and that are balanced against the maintenance of competitive rates and charges imposed on the airlines. The estimated costs for the projects included in the CIP total approximately \$310.1 million and are subject to change. The summary of the key capital projects is shown below, and excludes transfers to pay PFC-eligible debt service. Approximately 42% of the estimated CIP costs are contingent upon the receipt of grant funding and the future availability of other Airport funds.

**Table 14**  
**Norman Y. Mineta San José International Airport**  
**Five Year CIP**

<b>CIP Project</b>	<b>Estimated Cost (millions)</b>
Terminal B ramp rehabilitation	\$47.3
Airfield Geometric Implementation	56.2
Upgrade current ARFF Facility	15.6
Terminal A ramp rehabilitation	6.8
Perimeter Security Projects	2.6
Airfield Electrical Circuit Rehabilitation	16.8
Economy Lot 1 Parking Garage	23.4
Terminal Accessibility Upgrades	7.0
Terminal A Parking Garage Resurfacing	2.2
Parking Accessibility Upgrades	7.7
Operations system replacement	2.5
Terminal building modifications	2.7
Terminal Paging System	6.0
Biometric Access Control	0.9
Other Airfield Facility Projects	0.8
Other Aviation Support Projects	7.5
Passenger Terminal Facilities	5.7
Aviation Support Projects Transportation and Parking	6.0
Other (aviation, environmental, terminal, non-construction)	25.4
<b>Total 5-Year CIP:</b>	<b>\$243.1<sup>(1)</sup></b>

<sup>(1)</sup> The 2021-2025 Airport Capital Improvement Program provides for total capital expenditures of \$310,109,000, excluding ending fund balances from prior fiscal years. The capital projects listed above exclude transfers to pay PFC-eligible debt service.

*Source:* City of San José.

All Signatory Airlines have Majority In Interest (“MII”) participation rights with respect to airfield CIP projects; only passenger Signatory Passenger Carriers have MII participation rights with respect to terminal CIP projects. MII review of CIP projects by the Signatory Airlines only applies to projects that have project costs, net of any PFCs, CFCs, federal grants, and other forms of financial assistance, of less than \$10 million. MII review will not apply to the New Terminal Project or projects: (a) that are required by the federal government; (b) that must be rebuilt or replaced to meet the Airport’s obligations under the Airline Lease Agreement or applicable law; (c) that are required to respond to emergencies in order to keep the Airport open for public use; (d) that are undertaken in cost centers other than the airfield and terminal cost centers; (e) that are funded directly or indirectly by PFCs, CFCs, federal grants, or other forms of financial assistance; (f) for the increased requirements of any Signatory Airline(s) if such Signatory Airline(s) agree to increased rentals, fees, and charges sufficient to cover the annual debt service and operating expenses associated with the project; or (g) that are for special purpose facilities for which the user will pay or reimburse the Airport.

The City may not proceed to design or build CIP projects that are subject to MII review without first giving the Signatory Airlines a detailed description of the purpose and expected costs of each such project, the preferred means of financing or paying the costs of the project, the anticipated allocation of costs to the airfield and terminal cost and revenue center, and an opportunity to voice any objections to the project. If an MII review by the Signatory Airlines does not disapprove the project, the Airport may

proceed with design and construction. If, within 60 days of the Airport's notice, a written MII review by the Signatory Airlines disapproves the proposed project, the Airport shall defer the project for a period of up to one year to allow for further consultation with the Signatory Airlines. At the end of the one-year deferral period, the Airport may proceed with the project notwithstanding any remaining airline objections.

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

There are likely to be numerous changes to the CIP due to the effects of the COVID-19 pandemic. The Airport has suspended or reduced the scope of certain capital projects that could be scaled back or delayed to future periods based on the operational needs of the Airport. The Airport may decide to resume these projects at a future date. See "IMPACTS OF THE COVID-19 PANDEMIC—Summary of the Airport's Actions in Response to COVID-19."

## **Environmental Matters**

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

An Environmental Impact Report under CEQA was prepared and certified by the City of San José (the "1997 Master Plan EIR") for the Master Plan adopted on June 10, 1997. Under the provisions of the San José Municipal Code, the Master Plan has been formally amended over time since the original 1997 adoption of the updated Master Plan. In associated conformance with CEQA, updates to the 1997 Master Plan EIR were subsequently approved through one Supplemental EIR and several EIR addenda. The City Council certified a new Environmental Impact Report under CEQA for the updated Master Plan on April 6, 2020.

An Environmental Impact Statement under NEPA was prepared by the FAA (the "Master Plan EIS") for the updated ALP displaying the proposed Airport Master Plan improvements, with a Record of Decision issued on December 6, 1999, providing unconditional approval of the Master Plan Phase 1 project improvements shown on the updated ALP. Projects scheduled for later phases of implementation received FAA conditional approval, indicating the potential need for subsequent NEPA clearance. As the ALP has been amended over time to reflect the City-adopted amendments to the Master Plan, the FAA has conducted applicable NEPA clearance. The most recent NEPA clearance for an ALP amendment was issued on October 26, 2018.

***Airport Noise and Capacity Act of 1990.*** The Airport Noise and Capacity Act of 1990 ("ANCA") provides for a phaseout of Stage II aircraft by December 31, 1999 and also limits the scope of the local airport operator's regulatory discretion for adopting new aircraft operational restrictions for noise purposes. The FAA subsequently adopted regulations implementing ANCA under Part 161 of the Federal Aviation Regulations ("Part 161"). From 1990 forward, airport proprietors considering the adoption of restrictions or prohibitions on the operation of Stage II and Stage III aircraft are required to conduct studies that detail the economic costs and benefits of proposed restrictions, to publish proposed restrictions and to provide notice to potentially affected airlines and conduct any necessary environmental

analysis, prior to enacting restrictions on the operations of Stage II or Stage III aircraft. Proposed restrictions on the operation of Stage III aircraft adopted after 1990 also require affirmative approval of the FAA under defined statutory criteria before they may legally be implemented. ANCA and Part 161 make the adoption of many traditional aircraft operating noise regulations by local airport proprietors infeasible without the concurrence of the airlines or other operators affected by the restrictions. Subject to certain procedural safeguards, violations of ANCA or of Part 161 could result in termination of an airport's authority to impose and use PFCs or to receive AIP grant awards.

***California Airport Noise Regulations.*** From 1972 until 2012, the Airport operated under a variance pursuant to the California Airport Noise Regulations (CCR Title 21, Division 2.5, Chapter 6) (the Noise Regulations). The Noise Regulations identify an exterior 65 decibel ("dB") Community Noise Equivalent Level ("CNEL") contour at an airport as the "Noise Impact Boundary." The Noise Regulations provide that no proprietor of a "noise problem airport" shall operate an airport with a Noise Impact Boundary based on the standard of 65 dB CNEL, unless the operator has applied for or received a variance as prescribed by the Noise Regulations. To obtain a variance, an airport that has been deemed a noise problem airport by the county in which the airport is located must demonstrate to the State that it is making good faith efforts to eliminate incompatible land uses within the Noise Impact Boundary. Under the Noise Regulations, residential land uses may be made compatible through land acquisition, sound insulation to an interior noise level of 45 dB CNEL, or by obtaining avigation easements for the incompatible land uses. See "—ACT Program" below. Once the county determines that an airport is a noise problem airport, an airport will remain subject to the variance requirement under the Noise Regulations until such time that the county determines that the airport is no longer a noise problem airport.

The Santa Clara County Board of Supervisors designated the Airport as a noise problem airport on June 19, 1972. Since that time, the State has issued a successive series of three-year variances to the City. Because the City has eliminated incompatible land uses within the Noise Impact Boundary through completion of its ACT Program (described below), in 2011 the City requested that Santa Clara County determine that the Airport is no longer a noise problem airport. On May 24, 2012, the County of Santa Clara verified that the Airport meets the noise standard as required in Section 5012 of the State Noise Standards and no longer requires a variance. The Airport will continue to be monitored with respect to the noise impact, and a variance could be required in the future.

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

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

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

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

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

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

**Underground Fuel Tanks.** Until December 22, 1998, the City and Chevron U.S.A., Inc. (“Chevron”), operated adjacent fuel storage facilities at the Airport. The City’s facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Chevron operated its fuel storage facility at the Airport until the opening of the new fuel storage facility owned and operated by a consortium of airlines in December 2009.

The City and Chevron entered into an agreement effective November 30, 2009, for coordinated corrective actions at the closed City and Chevron fuel storage facility sites at the Airport. Under the agreement, Chevron was the lead in coordinating and reporting to the regulators, conducting investigations, and performing remedial activities. The agreement provides for a 50/50 cost sharing

responsibility for costs accrued until successful closure of the sites. In early 2014, the City applied for closure of the site with Santa Clara County. The City also requested reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (“Plume Fund”) for the full amount of the costs incurred for these corrective actions. Any reimbursement received from the State will be split 50/50 between the Airport and Chevron.

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 in an amount of \$0.1 million, bringing the total payments to \$2.2 million, 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 Plume Fund amounting to a total of \$3.0 million. In June 2016, the Airport received \$1.5 million from Chevron, which represents 50% of the reimbursement, less a deductible.

There are currently several underground storage tanks (“USTs”) in operation at the Airport, three of which are operated by the Airport and three of which are operated by various Airport tenants. With respect to the three USTs currently owned and operated by the Airport, the two 10,000-gallon tanks (one unleaded gasoline tank and one diesel tank) at Fleet Services are currently operational. These USTs are inspected monthly by the Airport’s contractor and annually by the health department of the County inspectors. The Airport continually addresses routine compliance issues regarding the tank leak detection system and spill bucket as any routine operating and maintenance issues arise during inspections.

The Airport is currently finalizing plans to remove a 1,000-gallon diesel tank that was previously connected to the Terminal A generator. The power has been re-routed to a newer generator and staff is currently working with a consultant to create all necessary bid-documents and specifications to close this UST. All diesel fuel has already been removed from the tank. The closure process will entail coordination with the environmental health department of the County and City’s Fire Department. Soil samples will be taken around the tank to ensure there is no residual contamination, and the tank will be cleaned and filled with concrete. There are no known leaks at this location, and there has been no previous remediation.

The City cannot make predict whether any future remediation work may need to be completed with respect to any USTs.

## **Sustainability Initiatives**

In 2011, the City prepared its Greenhouse Gas Reduction Strategy in conjunction with the preparation of the Envision San José 2040 General Plan (“General Plan”) process to ensure that the implementation of the General Plan update aligns with the implementation requirements of California Global Warming Solutions Act of 2006 (“AB 32”) and the Sustainable Communities and Climate Protection Act of 2008 (“SB 375”). The General Plan is the City’s comprehensive and long-range plan to guide physical development within San José. The purposes of the Greenhouse Gas Reduction Strategy were to: (i) capture and consolidate GHG reduction efforts already underway by the City; (ii) distill policy direction on GHG reduction from the General Plan update; (iii) quantify GHG reductions that could result from land use changes incorporated in the General Plan’s Land Use/Transportation diagram; (iv) create a framework for the ongoing monitoring and revision of this Greenhouse Gas Reduction Strategy; and (v) achieve General Plan-level environmental clearance in a way that is compliant with CEQA for future development activities (through the year 2020) occurring within San José. The City updated the Greenhouse Gas Reduction Strategy in 2015 and is in the process of further updating the Greenhouse Gas Reduction Strategy to comply with Senate Bill No. 32 for emissions reductions through year 2030. Further, the Greenhouse Gas Reduction Strategy 2030, once adopted, would allow future development projects to demonstrate consistency with the Green House Gas Reduction Strategy 2030 to



streamline the GHG emissions analysis for the environmental review process. The City Council adopted the Green House Gas Reduction Strategy 2030 on November 17, 2020.

In February 2018, City Council accepted the Climate Smart San José Plan (“Climate Smart”) which is intended to provide a policy framework to address global warming, establish a sustainable water supply, reduce dependency upon fossil fuels, and create cleaner air by 2050. Under a fully-implemented Climate Smart Plan, the City would exceed the AB 32 and SB 375 targets and achieve an estimated 88 percent reduction in GHG levels in 2050 as compared to 1990.

Climate Smart outlines future strategies for the City which align with the Paris Climate Agreement. The City Council has approved one of the major Climate Smart initiatives, San José Clean Energy (“SJCE”). As previously described, SJCE is a community choice energy program operated by the City’s Community Energy Department which supplies the City and City residents and businesses with cleaner electricity options through PG&E’s infrastructure. In August 2017, the City Council approved the City of San José Financing Authority’s issuance of lease revenue commercial paper notes for the purpose of financing start-up costs relating to SJCE, including capitalization and related costs, in the principal amount of \$10 million. SJCE launched services to the City in September 2018 and to City residents and businesses in February 2019, and its operating costs, including repayment of financing costs, are anticipated to be borne by SJCE customers/ratepayers.

Other strategies in Climate Smart include encouraging densification of development and increasing residents’ access to mass transit to reduce vehicle miles travelled. Climate Smart also contemplates support for State requirements for Zero Net Carbon new residential construction, as well as strategies for retrofitting existing residential buildings to improve energy usage. If all of the actions in Climate Smart are implemented, the cost to residents and the City (estimated to be \$264 billion or 2.55% of gross domestic product (“GDP”) cumulative through 2050) is anticipated to be offset by long-term savings and avoided costs (estimated at \$269 billion or 2.6% of GDP cumulative through 2050). As to the City, the estimated annual cost for full implementation is \$435 million, with ninety-five percent of this cost (\$413.25 million) attributed to SJCE, as discussed above. The remaining cost is for staff facilitation and coordination activities.

In September 2019, the City Council approved a building reach code ordinance that encourages building electrification and energy efficiency, requires solar-readiness on nonresidential buildings, and requires electric vehicle (“EV”)–readiness and EV equipment installation. In addition, in October 2019, the City Council approved an ordinance prohibiting natural gas infrastructure in new detached accessory dwelling units, single-family, and low-rise multi-family buildings that would supplement the reach code ordinance. Both ordinances apply to new construction starting January 1, 2020.

In February 2020, the Airport Commission approved the Airport Sustainability Management Plan (the “SMP”), which serves as the Airport’s roadmap for reducing resource consumption, environmental impacts, and GHG emissions while promoting social responsibility. The SMP identifies crucial management, governance, and policy-related issues, and is organized around eight key sustainability dimensions: (i) energy; (ii) water; (iii) waste; (iv) ground transportation; (v) natural resources; (vi) social responsibility; (vii) sustainability governance; and (viii) climate action. The SMP outlines six broad categories of actions through which the Airport can make meaningful progress towards its sustainability goals.

#### Tracking and Reporting Sustainability Performance

The SMP sets forth the Airport’s goal to track its sustainability performance, and to make such data visible through using clear and simple metrics which become part of daily life for Airport leadership,

staff, vendors, and the public. The SMP will serve as a framework for a biennial sustainability reporting process that is grounded in the Global Reporting Initiative (“GRI”) framework. Providing such reports will make the Airport’s progress visible to stakeholders and detail the Airport’s progress in a range of environmental and social responsibility issues. Additionally, the Airport has developed internal tools to help track its utility data (including energy and water usage and waste disposal data) and is in the process of automating its data management systems to enable the development of a sustainability dashboard system.

Among the Airport’s key performance metrics and targets in this area, the Airport is targeting Level 3 accreditation from the Airport Carbon Accreditation (“ACA”) by 2023. The ACA is a global carbon management certification program for airports, which independently assesses and recognizes the efforts of airports to manage and reduce their carbon emissions through six levels of certification.

#### Engaging Staff and Passengers in Sustainability Commitment

The Airport is reaching out to and collaborating with both internal and external stakeholders to raise awareness, provide support for programs and community enterprises, and promote best practices as a part of the Airport’s commitment to sustainability. These actions include donating food and supplies to service organizations, maintaining a work culture that supports good waste reduction practices, and providing transit passes to employees and tenants to promote the use of public transportation. The Airport is targeting that by 2023, 100% of its employees will receive sustainability training, and the number of Airport-sponsored community-focused events will increase to seven per year.

#### Conserving Resources Through Efficient Technologies and Practices

The Airport is using smart technologies (including building management system controls for heating, ventilation, and air conditioning systems and lighting) to track real-time needs and reduce energy consumption. Moreover, the Airport is continually replacing existing lighting with high-efficiency LED lights within the terminals, parking facilities, and the airfield. The Airport is also realizing further energy savings by upgrading lighting controls and reducing lighting needs based on occupancy and natural light.

When developing Terminal B, the Airport focused on reducing energy consumption and conserving resources, including by encouraging tenants to track and reduce their energy using EnergyStar benchmarking. Additionally, the City maintains an environmentally preferred general purchasing policy which has been rigorously followed by stakeholders and staff at the Airport.

The Airport is aiming to reduce its annual energy use to 110,000 gigajoules in existing facilities by 2028 (down from 130,000 gigajoules in 2018). In addition, the Airport is targeting reductions in its water use to 2.2 gallons per passenger by 2028 (down from 3.5 gallons per passenger in 2018).

#### Promoting Low-Carbon Energy and Fuels

The Airport’s strategy to transition to a low-carbon fuel supply includes the introduction of low-carbon standards for new construction of buildings and central energy plants, as well as the purchase of new vehicles. The Airport recently transitioned to the San José Clean Energy Green Source Program for all Airport buildings. Through this transition, the Airport increased its make-up of purchased electricity from 69% carbon-free sources to 80% carbon-free sources, and also increased its amount of renewable sources from 33% to 45%. The Airport has also implemented several initiatives to encourage low-carbon fuels for all transportation and fleet vehicles, and is working to electrify its own fleet of vehicles and shuttle buses. The Airport is aiming to source 100% of its electric power from renewable sources by 2022, and is aiming to be completely carbon-neutral by 2032.

### Advancing a Circular Economy Through Recycling and Reuse

The Airport's model to create a circular economy (one in which consumption and emissions are minimized by utilizing reuse, recycling, refurbishing, and repair) is based on (i) designing out waste and pollution; (ii) keeping products and materials in use; and (iii) regenerating natural systems. The Airport is engaged in implementing several projects to advance the concept of a circular economy, including installing "purple pipe" recycled water infrastructure to most landscaped areas and restrooms in Terminal B, installing water filling stations at numerous locations in the terminals, and launching food donation and cigarette waste-to-energy programs.

Among the Airport's key performance metrics and targets in this area, the Airport is targeting to increase the percentage of its water usage that comes from recycled sources to 50% by 2025 (from 34% in 2018), and to become a zero-waste facility by 2023.

### Fostering Health and Wellness for People and the Environment

The Airport recognizes that improved wellness for its employees results in better productivity, reduced absenteeism, and enhanced longevity. To that end, the Airport is targeting to have 75% of its employees participate in Airport-sponsored wellness programs by 2027, and to hold three wildlife cleanup events per year by 2023.

While the Airport has made progress towards achieving the goals set forth in the SMP, the Airport cannot make any assurance that it will continue to make progress towards or achieve such goals. Events outside of the Airport's control may materially adversely affect the Airport's ability to achieve its sustainability goals. See "INTRODUCTION—Forward-Looking Statements." Due to the COVID-19 pandemic, for example, the Airport has had to place many of the initiatives and programs outlined in the SMP on hold for at least fiscal year 2020-21. The timelines for the achievement of certain goals set forth in the SMP will need to be revised, and such revisions will depend on the duration of the COVID-19 pandemic. See "IMPACTS OF THE COVID-19 PANDEMIC."

### OTHER MATTERS

#### **Security Matters**

The Airport has increased the height of perimeter fencing above TSA standards to enhance the security measures in place at areas of the airfield that are not subject to additional development due to future construction opportunities. In 2017, the Airport completed installation and implementation of additional cameras, both thermal and high-definition, to create a ring of camera coverage around the airport perimeter that will detect any unauthorized persons. Also in 2017, an exit lane system was installed and became operational in Terminal B to detect any individuals attempting to enter the boarding gate area by walking into the terminal against the flow of exiting passengers, or any person attempting to throw an object into the holdroom. When the Interim Facility was opened in 2019, additional automated exit lanes were installed and are operational at the gates in the Interim Facility. Additional security measures eligible for TSA reimbursement will be installed within the next year, including two high speed folding vehicle gates and added perimeter surveillance equipment as part of a grant to test perimeter technologies.

#### **Investment Policy and Practices of the City**

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the

provisions of the California Government Code, the Charter, the City Municipal Code and the City Investment Policy.

The City Council adopted the Investment Policy on April 2, 1985, 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 City has not entered into any interest rate or commodity swap or hedging agreements and does not currently expect to enter into any such agreements.

On September 15, 2020, in response to market changes resulting from the impact of the COVID-19 pandemic, the City Council approved a temporary modification to the Investment Policy, increasing the weighted average maturity of the investment portfolio from the existing Investment Policy maximum of 2 years to 2.5 years (or 931 days) for a limited time. [On March 9, 2021, the City Council extended this temporary modification to the Investment Policy to July 1, 2022. In addition, on March 9, 2021, the City Council approved an increase to the municipal bond investment sector limit from 20% to 30%, and approved adjustments to the Investment Policy's social responsibility requirements.]

### **Investment Portfolio**

As of December 31, 2020, the book value of the City's pooled investment fund was \$1,854,000,295 while the market value was \$1,876,355,813. The fund is classified by different types of investment securities. The composition of this fund, including the weighted average days to maturity and yield, is provided in Table 15. Airport monies invested in the fund represented approximately 9.95% of the fund.

To prevent potential loss of principal on any of the City's investments, the Investment Policy strictly limits the composition of the holdings within the Investment Portfolio. The Finance Department's investment staff continues to focus investment decisions in accordance with the Investment Policy's primary investment objectives as described above in "Investment Policy and Practices of the City."

**Table 15**  
**City of San José Pooled Investment Fund**  
**General Pool Investments**  
**As of December 31, 2020<sup>(1)</sup>**

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity <sup>(5)</sup>	Weighted Average Yield
U.S. Treasury Bills and Notes	\$25,035,156	1.4%	\$25,971,550	756	1.78%
Federal Agency Securities <sup>(2)</sup>	556,484,718	30.0	563,222,776	1,048	1.31
Supranational Securities <sup>(3)</sup>	157,391,960	8.5	160,704,965	653	1.77
Negotiable Certificate of Deposit	75,000,000	4.0	74,999,150	242	0.27
Commercial Paper	34,821,500	1.9	34,992,800	53	0.76
Corporate Notes	385,686,886	20.8	389,320,780	377	2.08
Asset-Backed Securities	26,497,007	1.4	26,910,145	1,175	1.46
Municipal Bonds	323,998,668	17.5	328,430,669	797	1.77
Mortgage-Backed Bonds	170,629,173	9.2	173,347,751	1,051	1.70
Money Market Mutual Fund	20,148,227	1.1	20,148,227	1	0.01
State of California Local Agency Investment Fund <sup>(4)</sup>	78,307,000	4.2	78,307,000	1	0.84
<b>Total</b>	<b>\$1,854,000,295</b>	<b>100.00%</b>	<b>\$1,876,355,813</b>	<b>723</b>	<b>1.54%</b>

<sup>(1)</sup> Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.

<sup>(2)</sup> Composed of securities issued by Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Corporation (Farmer Mac).

<sup>(3)</sup> Composed of securities issued by International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

<sup>(4)</sup> Estimated based upon City's participation in the LAIF. Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.

<sup>(5)</sup> On September 15, 2020, the City Council approved a temporary modification to the Investment Policy, increasing the weighted average maturity of the investment portfolio from the existing Investment Policy maximum of 2 years to 2.5 years (or 931 days) for a limited time.

*Source:* City of San José Finance Department.

## Labor Relations

**Overview.** The City has eleven recognized employee bargaining units, six of which represent employees assigned to the Airport. Two of the bargaining units represent public safety employees who provide services at the Airport for which the Airport Department reimburses the City's General Fund.

The table below shows the representation and agreement expiration dates for the eleven bargaining units. As indicated in the table, the City and eight bargaining units entered into agreements with a term expiring June 30, 2021, and the City and three bargaining units entered into agreements with a term expiring on June 30, 2023. In addition to its represented employees, the City has approximately 304 unrepresented employees budgeted for 2020-2021, approximately 16 of which are assigned to the Airport. The Airport Department has 214 authorized positions in its budget for fiscal year 2020-2021. The City and the Police Officers' Association are currently in negotiations regarding the wage reopener from the current agreement in addition to negotiations over a successor agreement.

**Table 16**  
**City of San José**  
**Summary of Labor Agreements**

	<b>Agreement Expiration Date</b>	<b>Full-Time Equivalent Employment<sup>(1)</sup></b>	<b>Assigned to Airport<sup>(4)</sup></b>
Assoc. of Building, Mechanical and Electrical Inspectors (ABMEI) <sup>(2)</sup> .....	06/30/2023	88	0
Association of Maintenance Supervisory Personnel (AMSP) .	06/30/2021	116	25
Association of Engineers and Architects (AEA) <sup>(3)</sup> .....	06/30/2021	334	10
Association of Legal Professionals (ALP) <sup>(2)</sup> .....	06/30/2021	45	0
International Union of Operating Engineers, Local No. 3 (OE#3) .....	06/30/2021	740	42
International Brotherhood of Electrical Workers (IBEW) .....	06/30/2021	77	4
City Association of Management Personnel (CAMP) .....	06/30/2021	493	32
San José Police Officers' Association (POA) <sup>(2)</sup> .....	06/30/2021	1,157	0
International Association of Firefighters (IAFF Local 230) <sup>(2)</sup> .	06/30/2023	701	0
Municipal Employees Federation (MEF).....	06/30/2021	2,475	71
Peace Officer Park Ranger Association (POPRA) <sup>(2)</sup> .....	06/30/2023	16	0
Total .....		6,242	184

Full-time Equivalents (FTEs) are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE. *The FTE numbers presented are based upon the 2020-2021 Adopted Budget, and have been rounded to the nearest FTE.*

<sup>(1)</sup> The total number of employees does not include approximately 304 unrepresented positions budgeted in 2020-2021.

<sup>(2)</sup> Does not represent any employees paid by the Airport Department.

<sup>(3)</sup> The City has two separate agreements with AEA; the first agreement is related to employees of Unit 41 and Unit 42 and the second agreement is related to employees in Unit 43. Both agreements expire on June 30, 2021.

<sup>(4)</sup> Based on actual (not budgeted) data per the City's PeopleSoft payroll records as of January 27, 2021.

*Source:* City of San José, Office of Employee Relations, City Manager's Budget Office.

***State Law Requirements Related to Labor Negotiations.*** Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the public safety bargaining unit declares that the negotiations are at impasse, and the parties are unable to reach an agreement during the subsequent mediation. A summary of the City Charter's binding interest arbitration provisions is set forth below in "City Charter Binding Interest Arbitration Provisions." The agreements with the other bargaining units include "no strike" clauses during the terms of their respective agreements.

Also under California law (the Meyers-Milias-Brown Act), the City and the bargaining units have the mutual obligation to meet and confer in good faith promptly upon request by either party and to endeavor to reach agreement on matters within the scope of representation, which generally include wages, hours, benefits and other terms and conditions of employment. Generally, the bargaining units may have limitations in their contracts on whether or not they are required to meet and confer on certain items during the term of a contract. In the event that the City and a bargaining unit are unable to reach an agreement, the parties are required to follow the impasse procedures set forth in the City's resolution governing employer-employee relations which specifies mediation of the dispute. The non-public safety bargaining units do not have the right to binding interest arbitration of disputes. Prior to January 2012, if mediation with a non-public safety bargaining group did not result in an agreement, the City Council

could choose to implement the City's last, best and final offer. Implementation of terms, however, does not result in a bargaining agreement or contract.

Effective January 2012, State law was amended to provide for an additional step before the City Council may impose a last, best and final offer. State law currently requires a non-binding fact-finding process upon election by a bargaining unit. A three-person fact-finding panel, comprised of representatives selected by the employer, bargaining unit and a chairperson selected by the California Public Employee Relations Board or by mutual agreement of the parties, is charged with making written findings of fact and advisory non-binding recommendations covering unresolved issues during negotiations. The panel is empowered to conduct investigations, hold hearings and issue subpoenas requiring the attendance and testimony of witnesses and the production of evidence. In arriving at their findings and recommendations, the panel is required to consider and apply numerous factors, including without limitation: (a) applicable State and Federal laws; (b) local rules, regulations, or ordinances; (c) stipulations by the parties; (d) the interests and welfare of the public and the financial ability of the public agency; (e) comparison of wages, hours and conditions of employment of employees performing similar services for comparable public agencies; (f) the consumer price index for goods and services; (g) the overall compensation presently received by employees; and (h) any other facts which are "normally or traditionally taken into consideration in making the findings and recommendations." After applicable mediation and fact finding procedures have been exhausted, but no earlier than ten (10) days after the issuance of the panel's written findings of fact and advisory non-binding recommendations, a public agency may implement its last, best and final offer. Prior to doing so, the City must hold a public hearing regarding the impasse. It is expected that the fact finding process could significantly lengthen the negotiation process and increase the City's costs.

***City Charter Binding Interest Arbitration Provisions.*** As previously noted, the Charter's binding interest arbitration provisions apply only to the POA and IAFF, Local 230. In November 2010, the voters approved a Charter amendment to revise the Charter's binding interest arbitration provisions for the City's public safety bargaining units to, among other things, change the selection process for the neutral arbitrator member of the Arbitration Board (as defined below) and the factors to be weighed by the Arbitration Board in making its award, and to place limits on the Arbitration Board's authority. The Charter's provisions governing arbitration, as amended, are described below.

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

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

The primary factors in decisions regarding compensation shall be the City's financial condition and, in addition, its ability to pay for employee compensation from on-going revenues without reducing

City services. The Charter defines “compensation” as being all costs to the City, whether new or ongoing, for salary and benefits, including but not limited to any wages or other pays, pension, and active and retiree healthcare. No arbitration award may be issued unless a majority of the Arbitration Board determines, based upon a fair and thorough review of the City’s financial condition and a cost analysis of the parties’ last offers, that the City can meet the cost of the award from on-going revenues without reducing City services. The arbitrators shall also consider and give substantial weight to the rate of increase or decrease of compensation approved by the City Council for other bargaining units.

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

***Changes in Labor Costs over Last Decade.*** During the period from fiscal year 2010-2011 through fiscal year 2020-2021, the City’s total compensation costs increased significantly, by approximately 55%, while base payroll costs have increased by approximately 31%. From fiscal year 2010-2011 through fiscal year 2020-2021, the Airport Department increased its total compensation costs by approximately 35%, as full-time equivalents (“FTEs”) were increased slightly (by approximately 4%) during this period. As noted above, FTEs are the combined total number of budgeted full-time positions. [The term “total compensation costs” refers to the City’s cost of pay and benefits, including base pay, retirement contributions paid by the City to the Police and Fire Plan and Federated Plan and to the [Tier 3] defined contribution retirement plan available to certain unrepresented employees, health insurance and other benefits.]

The table below shows the difference in budgeted costs of total compensation of the City’s FTEs from 2010-2011 through 2020-2021 for all of the City’s funds.



**Table 17**  
**City of San José**  
**Citywide Salary and Benefits<sup>(1)</sup>**

	2010-2011 <sup>(2)</sup>	2020-2021 <sup>(2)</sup>	Difference <sup>(2)</sup>
<b>Base Payroll</b>	<b>\$567,254,807</b>	<b>\$742,933,044</b>	30.97%
<b>Retirement Benefits</b>	<b>\$176,166,127</b>	<b>\$435,421,923</b>	147.17%
<b>Other Fringe Benefits</b>	<b>\$78,234,962</b>	<b>\$95,433,376</b>	21.98%
<b>Total (All Benefits)</b>	<b>\$821,655,896</b>	<b>\$1,273,788,343</b>	55.03%
<b>Total FTEs</b>	<b>5,840</b>	<b>6,592</b>	12.88%
<b>Average Total Cost Per FTE<sup>(3)</sup></b>	<b>\$140,695</b>	<b>\$193,232</b>	37.34%

<sup>(1)</sup> Does not include worker's compensation cost or overtime. The amounts are budgeted costs and include the cost of providing paid time off, such as vacation, holidays, personal/executive leave, and sick leave, to the extent that paid leave is taken during the fiscal year. The actual salary and benefit costs of individual employees vary.

<sup>(2)</sup> Figures may reflect rounding.

<sup>(3)</sup> Includes total retirement costs, including unfunded liabilities.

*Source:* City of San José Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2010-2011 through 2020-2021 Adopted Budget.

### ***Modification to Pension and Retiree Healthcare Benefits and other Employment Benefits.***

#### **Pension and Retiree Healthcare Benefits:**

During fiscal year 2011-12, the City and all eleven bargaining units engaged in negotiations related to retirement issues, including the terms of a ballot measure to amend the retirement provisions set forth in the City Charter. Those negotiations did not result in an agreement with any of the City's bargaining units concerning the terms of the proposed City Charter amendment or other retirement related issues. In March 2012, the City Council voted to place the Charter amendment measure, designated as Measure B, on the June 5, 2012 ballot which the voters approved.

Following its passage, litigation challenging Measure B ensued. In 2015 and 2016, the City Council formally approved separate Alternative Pension Reform Settlement Frameworks agreements ("Settlement Frameworks") with its sworn and non-sworn bargaining units which included an agreement that a ballot measure will be placed on the November 8, 2016, election for the voters to replace Measure B by codifying the significant terms of the Settlement Frameworks into the City Charter. This ultimately resulted in the Alternative Pension Reform Act, designated as Measure F, being placed on the November 2016 ballot, to amend the City Charter's provisions related to retirement benefits. The voters approved Measure F in November 2016, and the City has implemented the terms of the Settlement Frameworks and Measure F. All of the bargaining units that were litigants in the lawsuits challenging Measure B, as well as the three bargaining units that were not litigants in these lawsuits, have agreed to the applicable Settlement Frameworks. Additionally, the provisions of the Settlement Frameworks applicable to non-sworn employees apply, with certain exceptions, to non-sworn unrepresented employees. For a more detailed discussion of Measures B (2012) and Measure F (2016), and the terms and implementation of the Settlement Frameworks, see "APPENDIX B – CITY OF SAN JOSE FEDERATED RETIREMENT PLAN."

### **Other Employment Benefits:**

To address ten prior consecutive years of General Fund shortfalls up to fiscal year 2013-2014, the City and its workforce, had to endure very difficult decisions, including reductions in total compensation, resources and services. During that time, the City reached agreements or imposed terms on bargaining units that contained a total 10% ongoing total compensation reduction for all employees, rolling back general wage increases that were received in fiscal year 2010-2011, healthcare cost containment, the elimination of the disability leave supplement for non-sworn employees, changes to overtime calculation, the elimination of vacation sellback, and changes to the salary step structure. Since then, due to some fiscal improvements, the City was able to start slowly restoring pay and services over the last few years, including pay increases for all City employees.

One of the benefits that was modified during this time period is payout of accrued sick leave to employees upon retirement. The City reached agreements with all of its bargaining units to eliminate this benefit for new employees and to freeze the benefit for other employees. Specifically, sick leave payments upon retirement were eliminated for non-sworn employees, including unrepresented employees, hired on or after September 30, 2012; for police sworn employees hired on or after July 7, 2013; and for fire sworn employees hired on or after September 14, 2014. For employees who remain eligible for this benefit, the rate at which the payout is calculated and the sick leave balance that is payable is frozen at various dates depending on the employee's bargaining unit: July 6, 2013 for represented and unrepresented employees and police officers; and June 21, 2014 for sworn fire employees on the sick leave balance accrued as of June 20, 2015.

***Approved Bargaining Unit Agreements for 2020-2021.*** As of January 2021, the City has agreements with AEA, ALP, AMSP, CAMP, IBEW, MEF, OE#3 and POA with a term ending June 30, 2021, and agreements with ABMEI, IAFF Local 230, and POPRA with a term ending June 30, 2023. As of January 31, 2021, the City has only begun successor agreement negotiations with the POA.

### **Retirement Plans**

***Overview.*** With the exception of certain unrepresented employees, all regular full-time and certain part-time City employees, including employees assigned to the Airport, participate in one of two Retirement Plans established pursuant to the City Charter: the Federated Plan and the Police and Fire Plan. Both Retirement Plans consist of a single-employer defined-benefit pension plan ("Pension Plan") and a postemployment healthcare plan ("Healthcare Plan" unless otherwise specified, the Healthcare Plan includes both postemployment medical and dental benefits.). Both Retirement Plans are structured as tax-qualified defined benefit plans. Each Retirement Plan is administered by its own Board of Administration (each a "Board"), and day-to-day operations are carried out by the City's Office of Retirement Services staff under the oversight of the Boards.

The governing terms of each Retirement Plan are set forth in the City's Municipal Code. Each Retirement Plan has different benefit tiers. Prior to June 18, 2017, the Federated Plan had Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C had the same reduced pension benefits as compared to Tier 1. Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013 and were not eligible for the defined benefit retiree health care benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid had those employees been eligible. Tier 2C had retiree dental benefits but no retiree healthcare benefits. The Police and Fire Plan has Tier 1 and Tier 2 for both police and fire members with reduced pension benefits for the Tier 2 police and fire members as compared to the Tier 1 members. Until July 30, 2017, Tier 1 and Tier 2 members of the Police and Fire Plan had the same retiree healthcare (medical and dental benefits).

Subsequent ordinances amending the City's Municipal Code have since been adopted by the City Council and the changes became effective on June 18, 2017, which was the commencement date of the first pay period of fiscal year 2017-18. As implementation issues arise, minor modifications have been made to the provisions of the Federated City Employees' Retirement System ("FCERS") in the City's Municipal Code to address them. Effective June 18, 2017, the FCERS has several tiers: Tier 1, Tier 1 Rehire, Tier 1 Classic, Tier 2, and Tier 2B. Tier 1 consists of those employees hired on or before September 29, 2012, and former Tier 1 employees rehired on or after June 18, 2017 who did not take a return of contributions; Tier 1 Rehire consists of those former employees rehired on or after September 30, 2012 through June 17, 2017; Tier 1 Classic consists of those employees with "Classic" membership with CalPERS or a reciprocal agency hired on or after September 30, 2012, but before September 27, 2013, and those employees with "Classic" membership with CalPERS or a reciprocal agency hired on or after September 27, 2013; Tier 2 consists of those employees hired, rehired, or reinstated on or after September 30, 2012, but before September 27, 2013; and Tier 2B consists of those employees hired, rehired, or reinstated on or after September 27, 2013 and who have not met the City's eligibility requirements for retiree healthcare. Employees in Tier 1 Classic hired on or after September 27, 2013, and employees in Tier 2B, are not eligible for the defined benefit retiree healthcare plan. For more information regarding the FCERS benefit tiers, see "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS—Retirement Plan Tiers" in Appendix B.

Both Pension Plans pay a monthly pension allowance and provide either fixed or index-based cost of living increases, depending upon the tier. The Healthcare Plans pay all, or a portion of, health and dental insurance premiums for qualified retirees and their survivors and dependents. Participation by covered employees in the applicable Retirement Plans is mandatory, except for employees excluded under the City Charter and certain executive management and professional staff. Employees contribute a percentage of their salaries to the applicable Retirement Plans, and the City provides funding either through contributions equal to a percentage of its full-time employee covered payroll or an actuarially determined lump-sum determined annually by each Retirement Plan. The City does not participate in the Federal Social Security System.

The Healthcare Plans consist of accounts established under Internal Revenue Code Section 401(h) within the Pension Plans and Internal Revenue Code Section 115 Trusts established by the City to supplement the 401(h) accounts. The 115 Trusts and the 401(h) accounts are collectively referred to as the Healthcare Plans.

Pursuant to the Settlement Frameworks, the City established two separate Voluntary Employee Beneficiary Associations ("VEBAs") for retiree healthcare for the members of both Retirement Plans. A VEBA is a defined contribution health reimbursement arrangement plan for retiree healthcare expenses. The City does not make contributions into the VEBAs and the VEBAs are not subject to the jurisdiction of the retirement boards.

Employees of the City of San José Fire Department and Police Department staff the Airport's rescue and fire fighter station and provide police services at the Airport. The Airport reimburses the City's General Fund for these Police and Fire services, including costs and liabilities associated with participation in the Police and Fire Plan. The Airport's share of the City's costs and liabilities associated with the Police and Fire Plan is a component of the aforementioned reimbursement, and such costs are not anticipated by the City or the Airport to materially adversely affect the City's ability to pay debt service on the Bonds. The Airport does not contribute directly to the Police and Fire Plan.

For a more detailed discussion of the City's Federated Plan, including service retirement formulas, contributions and their calculation, funding status, litigation concerning Measure B and

retirement benefits and implementation of Measure F, see “APPENDIX B – CITY OF SAN JOSE FEDERATED RETIREMENT PLAN.”

***Funding Status and Contribution Rates.*** Each Board employs the services of an actuary (Cheiron, Inc. is the actuary for both Retirement Plans (the “Plan Actuary”). The total contribution rates for employees and the City are based upon actuarial calculations that take into consideration a number of assumptions, including assumed investment earnings on the valuation assets of the Pension Plans and the Healthcare Plans that are used to pay benefits. The Plan Actuary provides annual valuation reports to the Boards and supplements the Retirement Plans Comprehensive Annual Financial Report.

As of June 30, 2020, the funding status on an actuarial basis of the Pension Plan within the Federated Plan and the Police and Fire Plan was 52.3% and 73.6%, respectively, and the funding status of the Healthcare Plan (on a GASB basis) within the Federated Plan and the Police and Fire Plan was 46.6% and [\_\_.]%, respectively. For more information regarding the Pension Plan and the Healthcare Plan within the Federated Plan, see “FEDERATED PENSION PLAN—Funding Status” and “FEDERATED HEALTHCARE PLAN—Funding Status” in Appendix B.

Contribution rates for the Airport and the participating employees for the periods July 1, 2018 through June 29, 2019, June 30, 2019 through June 27, 2020, and June 28, 2020 through June 26, 2021 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2017, June 30, 2018, and June 30, 2019, respectively, for the defined benefit Pension Plan and postemployment Healthcare Plan. The City’s and the participating employees’ annual contributions to the Pension Plans are based upon an actuarially determined percentage of each employee’s covered payroll to arrive at an Actuarially Determined Contribution (“ADC”) sufficient to provide adequate assets to pay benefits when due.

In January and February 2016, the Boards approved the City’s request that the floor methodology for Tier 1 pension contributions be used only for the employer normal cost contribution (which includes administrative expenses) and that the employer unfunded actuarial liability contribution be set at the dollar amount recommended by the actuary and adopted by the applicable Board in the annual actuarial valuation report beginning fiscal year 2016-2017.

For the Healthcare Plans, the City began, as of June 2009, the process of phasing in full payment of the annual required contribution (“ARC”) for both the City and the employees as recommended by the Plan Actuary. See “FEDERATED HEALTHCARE PLAN—Contributions—*General*” in Appendix B. As noted above in “—LABOR RELATIONS – Modification to Pension and Retiree Healthcare Benefits and Other Employment Benefits”, part of the agreed upon Settlement Frameworks includes closing the Healthcare Plan to new participants (which new entrants are only entitled to catastrophic disability benefits) as well as setting the retiree healthcare contribution rates for employees who remain in the defined benefit retiree healthcare plan at a set percentage of pay; and allowing employees to opt out of the defined benefit retiree healthcare plan and into a defined contribution vehicle (a VEBA) which does not include a City contribution. See “FEDERATED HEALTHCARE PLAN—Contributions—*General*” in Appendix B.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2020 and 2019 was \$17,270,097 and \$16,189,970, respectively. The Airport’s total payroll for the fiscal years ended June 30, 2020 and 2019 was \$22,288,349 and \$20,872,191, respectively. Table 18 below shows the Airport and its employees’ contribution rates (which are the same as City employees’ contribution rates) to the Federated Plan for fiscal years 2018-2019, 2019-2020, and 2020-2021 and are based on the actuarial valuations performed as of June 30, 2017, June 30, 2018, and June 30, 2019, respectively, for the Federated Plan.

**Table 18**  
**Airport and Airport Employee Contribution Rates**  
**Federated Plan**

Pay Period	Airport's Contribution Rate (% of covered payroll)		Employees' Contribution Rate (% of payroll)	
	Defined Benefits Pension	Postemployment Healthcare Plan	Defined Benefits Pension	Postemployment Healthcare Plan
07/01/18 through 06/30/19				
Tier 1	18.61% <sup>(6)</sup>	*	6.81%	7.50%
Tier 1 Rehire <sup>(1)</sup>	18.61% <sup>(6)</sup>	*	9.81% <sup>(7)</sup>	7.50%
Tier 1 Classic <sup>(2)</sup>	18.61% <sup>(6)</sup>	*	8.27% <sup>(7)</sup>	0.00%
Tier 2 <sup>(3)</sup>	8.28%	*	8.28%	7.50%
Tier 2B <sup>(4)(5)</sup>	8.28%	*	8.28%	0.00%
07/01/19 through 06/30/20				
Tier 1	19.34%	*	7.06%	7.50%
Tier 1 Rehire	19.34%	*	10.06% <sup>(7)</sup>	7.50%
Tier 1 Classic	19.34%	*	8.35% <sup>(7)</sup>	0.00%
Tier 2	8.33%	*	8.33%	7.50%
Tier 2B	8.33%	*	8.33%	0.00%
As of 06/30/20				
Tier 1	19.82%	*	7.22%	7.50%
Tier 1 Rehire	19.82%	*	10.22%	7.50%
Tier 1 Classic	19.82%	*	8.33%	0.00%
Tier 2	7.92%	*	7.92%	7.50%
Tier 2B	7.92%	*	7.92%	0.00%

<sup>(1)</sup> Tier 1 Rehire consists of former employees rehired on or after September 30, 2012 through June 17, 2017.

<sup>(2)</sup> Tier 1 Classic consists of employees with "Classic" membership with CalPERS or a reciprocal agency hired on or after September 30, 2012, but before September 27, 2013, and those employees with "Classic" membership with CalPERS or a reciprocal agency hired on or after September 27, 2013.

<sup>(3)</sup> Tier 2 consists of employees hired, rehired, or reinstated on or after September 30, 2012, but before September 27, 2013.

<sup>(4)</sup> Tier 2B consists of employees hired, rehired, or reinstated on or after September 27, 2013 and who have not met the City's eligibility requirements for retiree healthcare.

<sup>(5)</sup> Per the City's agreement with the bargaining units for the members in the Federated Plan, the City, including the Airport Department, agreed to pay the portion of the Federated Healthcare Plan's unfunded liability that the new employee in Tier 2B and the City would have paid if the employee had been eligible for participation in the Federated Healthcare Plan for retirees.

<sup>(6)</sup> Excludes unfunded liability/prior cost service.

<sup>(7)</sup> Includes special UAL amount.

\* Amount determined as a flat dollar amount and not a rate of pay. In February 2018, the Board of Administration of the FCERS approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with fiscal year 2018-19. The City's contribution for FCERS Postemployment Healthcare Plan during fiscal year 2019-20 of contributions that covered Tier 1 and Tier 2 in the amount of \$21,246,777 was for the City as a whole. The Airport's contributions paid during fiscal year 2019-20 were \$1,183,200. The Airport's contributions paid during fiscal year 2018-19 were \$1,872,043.

Source: Norman Y. Mineta San José International Airport Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.

In fiscal year 2006-07 and fiscal year 2007-08, the City engaged in a process to determine whether to implement a policy to fully pre-fund the ARC as calculated under GASB Statement No. 45 for each of the Healthcare Plans. The City implemented GASB Statement No. 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year for both Pension Plans.

In June 2015, the GASB issued Statement No. 75, which replaces the requirements of GASB Statement No. 45 and GASB Statement No. 57, for OPEB. GASB Statement No. 75 addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows/inflows of resources, and expenses/expenditures. The City implemented GASB Statement No. 75 in fiscal year 2017-2018. Because GASB Statements No. 74 and 75 have been implemented, the ARC formerly required under GASB Statements No. 43 and 45 is no longer applicable to OPEB plans such as the Healthcare Plans. See “RETIREMENT PLANS IN GENERAL—Overview—*Implementation of Certain Accounting Changes Relating to Retirement Plans*” in Appendix B.

With the implementation of Measure F, member contributions are fixed as a percentage of pay, and the City’s contribution toward the explicit subsidy (premium subsidy) is an ADC. The City has an option to limit its ADC to a fixed percentage of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan. The Plan Actuary commenced calculating the ADC for the Federated Healthcare Plan in fiscal year 2018-2019. See “FEDERATED HEALTHCARE PLAN—Contributions—*General*” in Appendix B.

The following table sets forth the three-year trend information for the Airport’s contributions made toward the health and dental components of the Federated Plan:

<b>Table 19</b> <b>Airport Contributions and Liability</b> <b>Federated Plan – Postemployment Healthcare Plan</b>	
Fiscal Year ended June 30,	Actual Contributions <sup>(1)</sup>
2018	\$1,753,603
2019	\$1,872,043
2020	\$1,183,200

<sup>(1)</sup> Actual retirement contributions are inclusive of the normal cost and the amortized payment of the unfunded actuarial liability as set by the Board of the Federated City Employees Retirement System.  
*Source:* Norman Y. Mineta San José International Airport Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.

## Insurance and Self-Insurance Programs

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

**Citywide Insurances.** The City self-insures for liability (other than for the Airport and the San José-Santa Clara Regional Wastewater Facility), personal injury, and workers’ compensation. The City currently maintains an all-risk property insurance policy with coverage for property owned by the City, including the Airport. This policy also provides coverage for boiler and machinery exposures and loss due to business interruption resulting from a covered risk or flood. The City generally does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided in Table 20.

The City’s workers’ compensation claims are administered by third party administrator Intercare Holdings Services, Inc. (“Intercare”). Every year, the City reviews a five-year forecast for workers’

compensation expenditures based on the prior year payout. Based on this review, the City’s budget for fiscal year 2019-2020 was \$21,000,500 and the budget for fiscal year 2020-2021 is \$20,257,000.

The City entered a three-year agreement with Intercare beginning July 1, 2019, to provide comprehensive workers’ compensation services including claims administration services, bill review, utilization review, medical case management, and other ancillary services at a total compensation not to exceed \$15,963,931 based on an estimated caseload of 2,330 to 2,850 claims. As of June 30, 2020, the open claims inventory handled by Intercare was 2,520.

For the policy period of October 22, 2020, to October 22, 2021, the City purchased liability insurance covering cyber risks to complement the City’s cybersecurity efforts. For the policy period of October 1, 2020 to October 1, 2021, 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.

**Table 20**  
**City of San José**  
**Summary of Citywide Property Insurance Coverage**  
**(For Policy Period October 1, 2020 to October 1, 2021)**

	<b>Limits</b>	<b>Deductible</b>
	<b>Per Occurrence<sup>(1)</sup></b>	<b>Per Occurrence<sup>(2)</sup></b>
Property <sup>(3)</sup>	\$1,000,000,000	\$100,000
Business Interruption	300,000,000	\$100,000
Flood Locations – Low Hazard <sup>(4)</sup>	\$100,000,000 Annual Aggregate	\$100,000 per Location
Flood Zones (Other) <sup>(5)(6)</sup>	\$10,000,000 Annual Aggregate	\$500,000 per Location

<sup>(1)</sup> Other sub-limits apply.

<sup>(2)</sup> Other deductibles apply.

<sup>(3)</sup> Covers “Certified Act of Terrorism” under the Terrorism Risk Insurance Act of 2002, as amended.

<sup>(4)</sup> Refers to Flood Locations – Low Hazard as defined in the City’s insurance policy.

<sup>(5)</sup> The Airport and the McEnery Convention Center are subject to a \$10,000,000 per Location deductible for flood.

<sup>(6)</sup> The San José-Santa Clara Regional Wastewater Facility is subject to a \$5,000,000 per Location deductible for flood.

*Source:* City of San José, Finance Department – Risk & Insurance Management.

To mitigate the impact of reduction to the base flood coverage from \$25,000,000 to \$10,000,000, the City has obtained an excess policy for locations in high and moderate hazard flood zones. The excess policy provides \$15,000,000 in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurers share the financing of losses on a 50/50 basis.

Unemployment Insurance. The City self-insures to the limits required by State statute. The City budgets for each year's anticipated unemployment insurance claims. By policy, the City typically funds a reserve that equates to one year of average claims.

Due to furloughs instituted in response to the COVID-19 pandemic, and a continued increase in claims, the City has temporarily liquidated the reserves in order to pay for claims in fiscal year 2020-2021. Once the City determines the increase to the contribution rates required to fund the claims for fiscal year 2020-2021, a timeline for rebuilding the reserves will be determined.

### ***Airport Coverages.***

Liability Coverages. The City has an airport general liability policy covering the Airport, which provides 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 limit of \$200 million each occurrence and in the annual aggregate with respect to war liability.

In addition, the airport general liability policy provides excess auto liability coverage with a limit of \$5 million in excess of the underlying limit of \$1 million, which is provided by a separate automobile policy issued to provide coverage for the off-premise operations of scheduled Airport vehicles including shuttle bus fleets with a limit of \$1 million per occurrence, combined single limit for bodily injury and property damage and subject to a \$250,000 per accident retention. Physical damage coverage was available for the Airport shuttle bus fleet and is subject to a \$10,000 comprehensive and \$10,000 collision deductible. As part of general support services, the City charges the Airport for the cost of the liability and physical damage coverages.

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

Workers' Compensation Reserve. The Airport participates in the City's self-insurance program for workers' compensation. See "Insurance and Self-Insurance Programs—*Citywide Insurances*" above. The Airport's workers' compensation program is accounted for on a separate contribution basis under which workers' compensation claims and reserves are maintained in Airport funds, separate from the City's General Fund. Estimated workers' compensation liabilities are determined using actuarial methods or other estimating techniques. As of June 30, 2020, the Airport's liability for workers' compensation was approximately \$2.7 million.

### ***Airport Coverages for Phase 1 of the Airport Development Program.***

Airport Owner-Controlled Insurance Program — North Concourse Project. On March 31, 2004, the City bound certain liability insurance coverages for the major components of the North Concourse Project through an owner controlled insurance program ("OCIP") with American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC, formerly known as Chartis Insurance. 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.

The City was required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of \$3.6 million with an additional \$300,000 available in a cash working fund. The claims loss reserve fund was available to AIG to pay claims within the City's deductible, subject to an



aggregate maximum loss exposure within coverage limit of \$3.9 million. The full amount of the claims loss reserve was deposited with AIG and was recorded under advances and deposits in the accompanying statement of net position. The North Concourse Project was completed in the fall of 2008 and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project were completed in fiscal year 2018-19. AIG returned the balance of the reserve fund to the Airport in the amount of \$831,000. The balance of the North Concourse reserve fund reached \$0 as of June 30, 2019.

Airport Owner-Controlled Insurance Program - Terminal Area Improvement Program. On March 15, 2007, the City bound certain liability insurance coverages for the major components of the Terminal Area Improvement Program through another OCIP procured through AIG (the “TAIP OCIP”). The specific coverages, limits, and deductibles for the TAIP OCIP are outlined in Table 21 below.

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

<u>Coverages</u>	<u>Limit</u>	<u>Deductible Per Occurrence</u>
General Liability	\$2,000,000 per Occurrence \$4,000,000 Aggregate	\$250,000
Workers’ Compensation	Statutory	\$250,000
Employers’ Liability	\$1,000,000 per Accident	\$250,000
Excess Liability	\$200,000,000	None

*Source: City of San José, Finance Department – Risk & Insurance Management.*

The terms of the TAIP OCIP require the City to fund a claims loss reserve with AIG in the amount of \$8.9 million. The claims loss reserve fund is available to AIG 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 AIG in fiscal year 2008-09 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 AIG, a total amount of \$2,236,241 has been returned to the Airport. The balance of the claims loss reserve fund as of June 30, 2020 is \$1,390,575.

The City was obligated to maintain the TAIP OCIP through final acceptance of the Terminal Area Improvement Program, pursuant to the terms of its design-build contract with Hensel Phelps. The term of the TAIP OCIP expired on June 30, 2011. All work covered under the contract with Hensel Phelps has been completed and accepted. AIG 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 TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2020 and 2019 were as follows:

**Table 22**  
**City of San José**  
**Airport Owner-Controlled Insurance Program – Terminal Area Improvement Program**  
**Summary of Claims Reserve Fund Activity**

<b>Coverages</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
Beginning Balance	\$1,980,719	\$1,460,181
Interest Earned	36,924	24,651
Reserve Returned	(543,033)	(57,222)
Losses Paid	(14,429)	(37,035)
Ending Balance	\$1,460,181	\$1,390,575

*Source:* Norman Y. Mineta San José International Airport Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.

### LITIGATION AND POTENTIAL CLAIMS

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

**FAA Audit.** 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 2012-13. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-15 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 2015-16.

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.

**Potential Claim from FAA Regarding Reuse of Guadalupe Gardens.** In early 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and the FAA grant agreements consequently required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office ("ADO") approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA contends that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

The City believes that it has viable defenses to any potential claim by the FAA with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens. However, the City cannot predict the final outcome of any such potential claim by the FAA.

**Federal Aviation Administration Inquiry Regarding Chick-fil-A.** The City Council approved a Chick-fil-A subconcession at the Airport on March 6, 2018, as part of its approval of the Fourth Amendment to the Host Food and Beverage Agreement. Chick-fil-A does not have a direct contractual relationship with the City. Rather, Host operates the Chick-fil-A concept at the Airport as a licensee. On April 9, 2019, the City Council approved an amendment to the Host Food and Beverage Agreement that extended the termination date from June 30, 2026 to June 30, 2028. However, the City Council limited the additional two-year extension term only to those Airport concession locations operated by Host that are open 7-days each week. All owned and licensed Chick-fil-A locations, including the Airport location, are closed on Sundays. The City Council approved this limitation after hearing concerns from community members that the owners of Chick-fil-A have made donations to and supported certain organizations that oppose equal rights and protections for the LGBTQ+ communities. The City Council also directed Airport staff to display the Rainbow and Transgender flags at the Airport terminals to show the City's support for those communities.

On January 22, 2020, the Director of Aviation received a Notice of Investigation from the FAA

Office of Civil Rights. The FAA is investigating a complaint received by the FAA that alleges discrimination against Chick-fil-A, “because of the expression of religious beliefs by the owner of the company.” The complainant, whose identity has been withheld by the FAA, contends that the City has discriminated against Chick-fil-A for its “perceived religious and ideological convictions” and that this “discrimination” is in violation of federal law. The complainant is requesting that the FAA withhold further grant funding to the City pending its investigation.

The City responded to the FAA Notice of Investigation by letter dated May 21, 2020. In addition to responding to specific questions from the FAA regarding this matter, the City requested the FAA to find that there is no basis for the complaint and to close its investigation. To date, the City has received no further correspondence from the FAA regarding the complaint or any potential FAA enforcement action. The City believes that it has viable defenses to any potential enforcement action by the FAA with regard to this complaint. However, the City cannot predict the final outcome of any such potential enforcement action by the FAA.

**Federal Aviation Administration Inquiry Regarding Encampments in Guadalupe Gardens.**

On February 1, 2021, the Director of Aviation received a letter from the FAA Western-Pacific Region Office of Airports regarding encampments of homeless persons in the Guadalupe Gardens. As noted above under “LITIGATION AND POTENTIAL CLAIMS—Potential Claim from FAA Regarding Reuse of Guadalupe Gardens”, the Guadalupe Gardens is approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and these FAA grants include certain restrictions (“Grant Assurances”) on the City’s use of the Guadalupe Gardens properties.

In its letter, the FAA asserts that the presence of encampments of homeless persons in the Guadalupe Gardens is: (a) inconsistent with the Grant Assurances that were a condition of the FAA grants that the City received to acquire the Guadalupe Gardens properties; and (b) contrary to the City’s Airport Noise Compatibility Plan (“ANCP”), both of which prohibit transient and permanent residential uses in the Guadalupe Gardens. The FAA has requested that the City formulate a Corrective Action Plan to remove and relocate the encampments of homeless persons from the Guadalupe Gardens and submit the Corrective Action Plan to the FAA by March 3, 2021.

The City does not dispute that encampments of homeless persons in the Guadalupe Gardens is a use of the Guadalupe Gardens properties that is incompatible with the FAA Grant Assurances and with the City’s ANCP. The City has formulated a Corrective Action Plan to relocate the encampments of homeless persons to an alternative site, and the City plans to submit the Corrective Action Plan to the FAA on or before March 3, 2021. [Update to be provided regarding the status of the Corrective Action Plan submission prior to POS posting]. The City anticipates that it will engage in further discussions with the FAA to reach concurrence in regard to the timing of the relocation of the encampments of homeless persons. However, the City cannot predict the actual timing of the encampments relocation or the final resolution of this matter with the FAA.

**APPENDIX B**

**THE CITY OF SAN JOSE FEDERATED RETIREMENT PLAN**

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## INTRODUCTION TO APPENDIX B

This Appendix B provides investors with information concerning the Retirement Plans (as defined below) for the City of San José (the “**City**”). Investors are advised to read the entire Official Statement, including this Appendix B, to obtain information essential to making an informed investment decision.

The Retirement Plans have required that the following statements in this paragraph be included in this Official Statement: The information contained in this Official Statement concerning the Federated City Employees Retirement System (the “**Federated Plan**”) and Police and Fire Department Retirement Plan (“**Police and Fire Plan**” and together with the Federated Plan, the “**Retirement Plans**”) is derived in part from, among other sources, public information provided by the Retirement Plans and its independent accountants, actuaries and investment advisors. The Retirement Plans have not reviewed this Official Statement or approved its distribution, and no inference is intended or should be drawn that the Retirement Plans have reviewed or approved the distribution of this Official Statement or the issuance of the Series 2021 Bonds. The statements made in this Official Statement are solely the responsibility of the City.

The Norman Y. Mineta San José International Airport (the “**Airport**”) pays a pro rata fee to the City for Airport firefighting and police services that includes contributions paid to the Police and Fire Plan for pension and postemployment healthcare benefits. The Airport does not contribute directly to the Police and Fire Plan. The City does not believe that the Airport’s contributions for such benefits will materially adversely affect the Airport’s ability to pay debt service on the Series 2021 Bonds. Accordingly, with exception of certain general information relating to the Police and Fire Plan that is intended to provide background information relating to such plan, the discussion of the Retirement Plans in this Appendix B is limited to the Federated Plan. For a description of the methodology employed by the City for allocating pension and healthcare related contributions and liability to the Airport, including changes to such methodology commencing in Fiscal Year 2019-2020, please see APPENDIX D—“AUDITED FINANCIAL STATEMENTS OF THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT FOR FISCAL YEAR ENDED JUNE 30, 2020,” Notes to Financial Statements, Note 1(m) and (n).

When used in this Appendix B and in any continuing disclosure made by the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” and “intend,” and similar expressions identify “forward looking statements.” 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 also subject to such risks and uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. As described in “IMPACTS OF THE COVID-19 PANDEMIC – General” and elsewhere in the forepart of this Official Statement, the COVID-19 outbreak and resulting social and business restrictions have severely disrupted, and continue to disrupt, the economies of the United States and foreign countries. This disruption has led to volatility in the securities markets. Such volatility may affect the investment performance of the Retirement Plans in the future and in turn result in increases in required contributions to the Retirement Plans in the future. Historical information set forth in this Appendix B is not intended to be predictive of future results, there are likely to be differences between forecasts and actual results, and those differences may be material. This Appendix B speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice.

This Appendix B summarizes portions of the following documents relating to the Federated Plan:

- the City’s Basic Financial Statements for the Fiscal Year Ended June 30, 2020 included in the City’s Comprehensive Annual Financial Report (“**City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020**”),

- the City of San José Federated City Employees’ Retirement System Actuarial Valuation Report as of June 30, 2020 (the “**Federated 2020 Pension Plan Actuarial Report**”),
- the City of San José Federated Postemployment Healthcare Plan Actuarial Valuation Funding Report as of June 30, 2020 (the “**Federated 2020 Healthcare Plan Actuarial Report**”), and
- the Federated City Employees’ Retirement System Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2019 and June 30, 2020 (the “**Federated 2020 CAFR**”).

In addition, certain other documents relevant to the Federated Plan are referenced or described in this Appendix B. The summary of the documents listed above and such other documents in this Appendix B do not purport to be comprehensive or definitive. All references in this Official Statement to such documents are qualified in their entirety by reference to such documents.

In instances where information relating to the Federated Plan in this Appendix B is available from a comprehensive annual financial report and an actuarial report, the information in this Appendix B has been derived from such comprehensive annual financial report. In some instances, there may be differences in such information because the comprehensive annual financial reports are based on a valuation one year prior to the measurement date that is used in the actuarial reports rolled forward using roll-forward procedures. However, the City does not believe that such differences are material.

Copies of documents referred to in this Appendix B are available from the Finance Department – Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, California 95113; Phone (408) 535-7010; email: [debt.management@sanjoseca.gov](mailto:debt.management@sanjoseca.gov).

The City maintains a number of websites, including respective websites of the Retirement Plans. However, the information presented on such websites is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2021 Bonds.

## RETIREMENT PLANS IN GENERAL

### Overview

**General.** All regular full-time employees of the City and certain part-time employees, with the exception of certain unrepresented employees, participate in one of the two Retirement Plans established pursuant to the City Charter: the Federated Plan for non-sworn employees, and the Police and Fire Plan for sworn employees. The City does not participate in the Federal Social Security System.

Each Retirement Plan consists of a single-employer tax-qualified defined benefit pension plan and a postemployment healthcare plan. The single-employer tax-qualified defined benefit pension plans offered under the Federated Plan and the Police and Fire Pension Plan are referred to in this Appendix B as, the “**Federated Pension Plan**,” and the “**Police and Fire Pension Plan**,” respectively; and collectively, the “**Pension Plans**.” The postemployment healthcare plan offered under the Federated Plan is referred to in this Appendix B as the “**Federated Healthcare Plan**.” The respective postemployment healthcare plans offered for sworn police and fire personnel are referred to collectively as the “**Police and Fire Healthcare Plan**” and, together with the Federated Healthcare Plan, the “**Healthcare Plans**.”

Each Retirement Plan is administered by its own Board of Administration (each, a “**Board**” and collectively, the “**Boards**”), and day-to-day operations are carried out by the City’s Office of Retirement



Services staff under the oversight by the Boards. The Pension Plans offer a monthly pension benefit based on salary and length of service and, depending on the tier, provide either fixed or index-based cost of living increases. The Healthcare Plans pay all, or a portion of, health and dental insurance premiums for eligible retirees and their survivors and dependents. The Healthcare Plans consist of trusts (herein referred to as the Federated 115 Trust, the Police 115 Trust and the Fire 115 Trust and, collectively, the “**Section 115 Trusts**”) formed under Section 115 of the Internal Revenue Code (the “**Code**”) to supplement accounts previously established by the City under Section 401(h) of the Code (collectively, the “**401(h) accounts**” and each, a “**401(h) account**”). A single 401(h) account was established for each of the Federated Healthcare Plan and the Police and Fire Healthcare Plan. The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. See “FEDERATED HEALTHCARE PLAN – Establishment of Federated 115 Trust; Internal Revenue Code Limitations” for a discussion regarding the Section 115 Trust for the Federated Healthcare Plan.

Participation by covered employees in the Pension Plans is mandatory, except for employees excluded under the City Charter as described below in “RETIREMENT PLANS IN GENERAL – Governance” and executive management and professional staff hired after February 2013 who can make an irrevocable election into a 401(a) retirement plan in lieu of the defined benefit retirement plans. For those employees who participate in the Pension Plans, participation in the Healthcare Plans is mandatory, except for (i) Federated members hired or rehired after the dates specified in Table B-1 or who elected to opt-in to the VEBA, and (ii) Police and Fire members hired or rehired after certain specified dates or who elected to opt-in to the VEBA. See “CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS – Implementation of Measure F and Settlement Frameworks – VEBA Establishment” for a discussion of the establishment of the VEBAs.

To fund such healthcare and retirement benefits, the objective of the Retirement Plans is to meet their respective obligations through investment income and contributions. The City and its covered employees make regular contributions to the Retirement Plans. Contributions to the Pension Plans by the City and covered employees are actuarially determined. The San José Municipal Code (the “**Municipal Code**”) specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City. Contributions to the Healthcare Plans by the City are actuarially determined while contributions by employees are determined based on rates established by the Municipal Code and the Settlement Frameworks (as hereinafter defined).

See “FEDERATED PENSION PLAN –Contributions” and “FEDERATED HEALTHCARE PLAN – Contributions” for a discussion of historical and projected contributions to the Federated Pension Plan and the Federated Healthcare Plan, respectively.

***Implementation of Certain Accounting Changes Relating to Retirement Plans.*** In June 2012, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25 (“**GASB Statement No. 67**”) and Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (“**GASB Statement No. 68**”), which address the accounting and financial reporting requirements for pensions. The provisions of GASB Statements No. 67 and 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. They also provide for comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and the pension expense and related deferred outflows/inflows of resources disclosures. The City implemented GASB Statements No. 67 and 68 in fiscal years 2013-2014 and 2014-2015, respectively. Contemporaneous with the implementation of GASB Statement No. 68, the City implemented GASB Statement No. 71, *Pension Transition for*

*Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, which resolves transition issues in GASB Statement No. 68.*

In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (“**GASB Statement No. 74**”). This statement replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended (“**GASB Statement No. 43**”), and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, GASB Statement No. 43, and GASB Statement No. 50, Pension Disclosures. The City implemented GASB Statement No. 74 in fiscal year 2016-2017.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“**GASB Statement No. 75**”). This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended (“**GASB Statement No. 45**”), and Statement No. 57, for OPEB. GASB Statement No. 75 addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows/inflows of resources, and expenses/expenditures. The City implemented GASB Statement No. 75 in fiscal year 2017-2018. Because GASB Statements No. 74 and 75 have been implemented, the annual required contribution formerly required under GASB Statements No. 43 and 45 is no longer applicable to OPEB plans such as the Healthcare Plans.

**Plan Actuary.** Each Retirement Plan separately retains Cheiron, Inc. as actuary (the “**Plan Actuary**”) to calculate and value current and future benefits, contribution rates, assets, liabilities, and other necessary information. The Plan Actuary provides annual valuation reports for each Retirement Plan and contributes to each Retirement Plan’s Comprehensive Annual Financial Report.

## **Governance**

Each Retirement Plan is governed by its own independent Board. The Retirement Plans are administered as entities separate from the City and for the benefit of the members of the Retirement Plans and their beneficiaries. The City Charter provides that the City Council shall establish by ordinance one or more retirement boards to administer the Retirement Plans in accordance with the fiduciary duties and obligations established by law, the City Charter, and as further prescribed by the Municipal Code. Additionally, the City Charter specifies that the term of membership, qualifications of the members and the size of each retirement board shall be prescribed by ordinance and that the members of each Board shall be appointed and removed by the City Council in a manner prescribed by ordinance.

The Board of the Police and Fire Plan consists of nine-members (the “**Police and Fire Board**”) appointed by the City Council. The Police and Fire Board’s membership is composed of: two City employees, one employed in the Police Department and one employed in the Fire Department, each recommended through an election of the employees of the respective departments who are members of the Police and Fire Plan; two retired Police and Fire Plan members, one retired from the Police Department and one retired from the Fire Department; and five public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the five public members is subject to interview and the recommendation of the Police and Fire Board.

The Board of the Federated Plan (the “**Federated Board**”) consists of seven members appointed by the City Council. The Federated Board’s membership is composed of: two City employees recommended through an election of the members; a retired Federated Plan member; and four public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the four public members is subject to the recommendation of the Federated Board.

Members of both Boards serve four-year terms and may only be removed for cause as defined under the Municipal Code. Retired members on both Boards may not serve more than two consecutive terms unless no other retired member is recommended.

Each Board is authorized to perform the functions necessary to carry out the operation of the Retirement Plans, consistent with their fiduciary duties to the respective Retirement Plan. Under the California Constitution and the Municipal Code, Retirement Plan assets may only be used to provide benefits to plan participants and their beneficiaries and defraying reasonable costs of administration. The Boards are empowered to make certain decisions regarding investment of funds, management of assets, disbursement of benefits, hiring of legal counsel and financial advisors. Under the City Charter, each Board is required to adopt a budget approved by the City Council covering the entire aggregate expense of administration of the respective Retirement Plan.

The Office of Retirement Services is administered by its Chief Executive Officer. Both the Chief Executive Officer and Chief Investment Officer for the Retirement Plans are employees of the City who are retained by and serve at the pleasure of the Boards. The Chief Executive Officer has appointing authority over the other staff in the Office of Retirement Services. The Charter excludes the Chief Executive Officer, Chief Investment Officer and the other investment professional staff within the Office of Retirement Services from participating in the City’s Retirement Plans.

### **Internal Revenue Code Limitations on Pension Payments**

The Retirement Plans are tax qualified plans and are subject to the Code requirements. The Code places limits on the amount of compensation on which a pension may be calculated (\$290,000 for 2021) for employees who are members of the Retirement Plans. Members of the Retirement Plans who became members before January 1, 1996 are not subject to the foregoing limit. Additionally, the Code caps the annual maximum pension payment that is subject to periodic adjustment based on a consumer price index. For 2021, the maximum annual payment is \$230,000; however, the maximum amount is adjusted downward for certain employees, including for non-public safety employees who retire before the age of 62, depending on the employee’s age at retirement.

The Office of Retirement Services conformed benefit payments to certain retirees within the Federated Plan to the applicable Code limits as of July 1, 2015 after becoming aware of pension overpayments to such retirees. The Federated Plan submitted an invoice to the City during Fiscal Year 2015-2016 for \$882,007, being the total prior pension overpayments plus interest, and subsequently filed a lawsuit against the City for the amounts claimed in the invoice. The City and the Federated Plan thereafter entered into a settlement under which the overpayment amount of \$866,000 as of June 2016 was included as an actuarial loss in the calculation of the Federated Plan’s unfunded actuarial accrued liability, and as a result, paid by the City through its employer contributions and earnings on contributions over the amortization period set by the Federated Board in the ordinary course of the Board’s determination of the City’s required employer contribution.

Exceeding the maximum benefit payment limits places a pension plan at risk of receiving unfavorable tax treatment, which in turn, could subject the pension plan’s income to the payment of income

taxes that would reduce the amount available for retirement benefits. The Federated Plan took steps to voluntarily correct the overpayment errors under Internal Revenue Service (“**IRS**”) guidance and preserve the tax-qualified status of the Federated Plan. However, the City has not independently verified whether the Federated Plan’s corrective actions are sufficient under the Code or current IRS guidance.

On November 30, 2016, certain retired members and beneficiaries of the Federated Plan as well as an association representing a group of retired or to be retired Federated Plan members and beneficiaries (the “**Claimants**”), filed a claim against the City and the Federated Plan Board and have since filed a lawsuit against the City and the Board. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Section 415 of the Code (“**Section 415**”). The lawsuit alleges that the City failed to provide the plaintiffs with their fully-earned vested retirement pension benefits as a result of the application of Section 415 limitations. The lawsuit further alleges that the City should have established a separate plan as allowed under Section 415 or should have taken other lawful action as appropriate to pay the plaintiffs with the amount of the compensation that would exceed the Section 415 limitations. The City has accepted the tendered defense of the Board and subsequently filed a motion for summary judgment that is pending before the court. The City is unable to state the potential exposure for damages in such action.

### **2019 Grand Jury Report on Unfunded Pension Liabilities**

On June 19, 2019, the 2018-2019 Santa Clara County Civil Grand Jury (the “**Grand Jury**”) released publicly its final report entitled, “SAN JOSE – UNFUNDED PENSION LIABILITIES – A Growing Concern” (the “**Grand Jury Report**”). Under the California Constitution and Penal Code, the Grand Jury, a body composed of volunteer citizens, may at its discretion investigate the operations of cities within the County, including the City, and make such recommendations as it sees fit. However, the Grand Jury’s recommendations are not binding on the City or the Boards.

In the Grand Jury Report, the Grand Jury made six findings with respect to the Pension Plans and provided seven recommendations for consideration by the City and the Boards. The Grand Jury requested responses from the City and each of the Boards, to selected findings and recommendations in accordance with the Penal Code. The City and the Boards submitted their respective responses in September 2019. In their responses, the City and the Boards disagreed with certain of the findings and recommendations for various reasons, including that certain of the recommendations were legally impossible to implement by the City and/or the Boards. To date, only some of the accepted recommendations have been implemented by the City and the Boards, as applicable.

A copy of the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: [https://www.sccourt.org/documents/San%20Jos%C3%A9%20-%20Unfunded%20Pension%20Liabilities%20-%20Rev.%2006.19.19\\_Signed.pdf](https://www.sccourt.org/documents/San%20Jos%C3%A9%20-%20Unfunded%20Pension%20Liabilities%20-%20Rev.%2006.19.19_Signed.pdf). A copy of the City’s responses to the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: [http://www.sccourt.org/court\\_divisions/civil/cgj/2019/Responses/City%20of%20San%20Jose%2009.23.19.pdf](http://www.sccourt.org/court_divisions/civil/cgj/2019/Responses/City%20of%20San%20Jose%2009.23.19.pdf). A copy of the joint responses by the Boards to the Grand Jury Report can be accessed on the website of the Santa Clara County Superior Court at: [http://www.sccourt.org/court\\_divisions/civil/cgj/2019/Responses/Federated%20City%20Retirement%20System.pdf](http://www.sccourt.org/court_divisions/civil/cgj/2019/Responses/Federated%20City%20Retirement%20System.pdf). The foregoing websites are referenced for informational purposes only and none are incorporated into this Appendix B by reference. The City and the Underwriters make no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

## Retirement Stakeholder Solutions Working Group

In November 2019, the City formed the Retirement Stakeholder Solutions Working Group (the “**Working Group**”) with the stated purpose of developing a shared understanding of the issues facing the City's retirement systems and to collaboratively develop a list of recommendations to be presented to City Council for review and consideration. The Working Group is comprised of representatives from a range of active and retired stakeholder groups and meets on a monthly basis. These groups represent active City bargaining groups, Federated and Police and Fire retirees, community groups, City Council, two members of each Retirement Board and City staff. The Working Group is exploring various options to fund its pension obligations, including dedicated revenue streams, changes to amortization methodology, and the issuance of pension obligation bonds by the City to refund all or a portion of the City's unfunded accrued pension liabilities. The Working Group plans to present its findings and recommendations to the City Council at a study session to be held in April 2021.

### APPENDIX B DEFINITIONS

The following terms are used in this Appendix B:

**Actuarial Liability (“AL”):** That portion of the present value of future benefits not provided for by future Normal Costs. The Actuarial Liability can be thought of as the present value of benefits attributed to employees' past service. It is used in the actuarial valuation as a funding target. This measure is not appropriate for assessing the sufficiency of plan assets to settle the plan's benefit obligations on a risk free basis because actual events and plan experience may deviate from the assumptions used in the actuarial liability calculations.

**Actuarial Value of Assets:** The value of cash, investments, and other property of the applicable plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market value of assets to dampen the impact on contributions.

**Actuarially Determined Contribution (“ADC”):** The payment to a pension plan as determined by the actuary using a contribution allocation procedure. It may or may not be the actual amount contributed to a pension plan. A contribution allocation procedure typically uses an actuarial cost method, an asset valuation method, and an amortization method to develop the Actuarially Determined Contribution. Under the contribution allocation procedure employed by the Retirement Plans, there are two components to the contribution: (i) the Normal Cost (including administrative expenses), and (ii) an amortization payment on the Unfunded Actuarial Liability.

**Amortization Payment:** The portion of the contribution for pension or OPEB benefits that is designed to pay interest and principal on the UAL in a given number of years.

**Entry Age Normal Actuarial Cost Method:** A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual's date of entry into the plan to the individual's assumed cessation of employment.

**Fiduciary Net Position:** The fair or market value of assets in the pension plan trust or healthcare plan trust.

**Funded Ratio:** Either the Market Value of Assets or Actuarial Value of Assets divided by the AL. This ratio is not appropriate for assessing the sufficiency of plan assets to cover the costs of settling the

plan's benefit obligations on a risk free basis because actual events and plan experience may deviate from the assumptions used in the actuarial calculations.

**Market Value of Assets:** The market value of assets is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of assets is adjusted for accruals at the end of each fiscal year and is reported in the Comprehensive Annual Financial Report of the plan.

**Net OPEB Liability:** The liability reported by the City for the Federated Healthcare Plan on its statement of net position. It is calculated as the Total OPEB Liability less the Fiduciary Net Position.

**Net Pension Liability:** The liability reported by the City for the Federated Pension Plan on its statement of net position. It is calculated as the Total Pension Liability less the Fiduciary Net Position.

**Normal Cost:** Normal Cost is the portion of the contribution that is expected to cover the present value of benefits that are attributable to current service by covered employees under the actuarial cost method adopted by the applicable plan.

**Other Postemployment Benefits ("OPEB"):** Certain benefits provided after the employees' services have ended. OPEB includes postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately or provided through a defined benefit pension plan. OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received.

**Smoothing:** When measuring assets for determining contributions, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates.

**Total OPEB Liability:** The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements No. 74 and 75 for plans providing OPEB to more than 100 employees. The Total OPEB Liability is the AL calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

**Total Pension Liability:** The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements No. 67 and 68. The Total Pension Liability is the AL calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

**Unfunded Actuarial Liability ("UAL"):** The UAL is the excess of the AL over the Actuarial Value of Assets. The UAL typically results from gains and losses recognized as a result of investment returns that differ from the discount rate and changes in actuarial assumptions, benefit improvements and other experiences that differ from those anticipated by the actuarial assumptions. The purpose of the UAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Retirement Plans compared to the funding target (i.e., the AL) and the additional contributions needed to achieve the funding target. The funding status is typically expressed as the ratio of the Actuarial Value of Assets to the AL. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAL.

For a description of assumptions and methods employed for purposes of the actuarial valuations of the Federated Pension Plan and Federated Healthcare Plan, please see "FEDERATED PENSION PLAN –

Actuarial Assumptions” and “FEDERATED HEALTHCARE PLAN –Actuarial Assumptions,” respectively.

## CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS

### Overview

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act (“**Measure B**”). Among other changes, Measure B amended the City Charter to: (1) increase pension contribution requirements for then current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for then current employees subject to IRS approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the COLA if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within each Retirement Plan that had provided supplemental pension benefits to retirees under certain circumstances; (6) codify in the City Charter contribution requirements for then 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 each Retirement Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Measure B was subsequently the subject of various legal challenges. In November 2016, the voters approved the Alternative Pension Reform Act (“**Measure F**”) that the City Council placed on the ballot as a result of settlement frameworks entered into with the City’s bargaining groups related to Measure B. The City Council adopted ordinances to implement the terms of the settlement frameworks and Measure F in February and May 2017. The City also approved a settlement in November 2017 in connection with a lawsuit brought by individual retirees and a retiree association. The legal challenges to Measure B have been resolved as described below. Subsequent claims for attorneys’ fees related to the settlement of the Measure B litigation brought by bargaining units against the City have also been settled and, to the knowledge of the City, no claims for attorneys’ fees relating to such litigation remain outstanding.

### Measure B - Settlements

Settlement of the legal challenges brought in connection with Measure B are discussed below.

**Settlement Frameworks.** In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement related to Measure B (“**Public Safety Settlement Framework**”) with the San José Police Officers Association and San José Fire Fighters, International Association of Firefighters, Local 230. On December 15, 2015 and January 12, 2016, the City and the bargaining units representing employees in the Federated Plan agreed to a Federated Alternative Pension Reform Settlement Framework agreement related to Measure B (the “**Federated Settlement Framework**”). The terms of the Federated Settlement Framework also applied to unrepresented employees, including unrepresented management and executive employees.

The Public Safety Settlement Framework and the Federated Settlement Framework (together, the “**Settlement Frameworks**”) include, among other things: (i) revised Tier 2 pension benefits that increased pension benefits for Tier 2 employees while preserving the 50/50 cost sharing between the City and Tier 2 employees; (ii) closed the defined benefit retiree healthcare benefit under the Healthcare Plans to new employees, as well as agreement on a new lowest cost medical plan associated with retiree healthcare; (iii) allowed Tier 1 and some Tier 2 employees to opt out of the applicable Healthcare Plan to a Voluntary Employee Benefit Association (“**VEBA**”) for retiree healthcare subject to legal and IRS approval (since received); (iv) allowed Tier 1 employees who terminated employment with the City and either subsequently

returned, or that return in the future, to return as Tier 1 employees; and (v) continued the elimination of the Supplemental Retiree Benefit Reserve (“SRBR”). In the Settlement Frameworks, the City also agreed that a ballot measure regarding the Settlement Frameworks would be placed on the November 2016 election. The City submitted the approval of the Settlement Frameworks to voters in the City through Measure F on the November 2016 election, as described below.

The Settlement Frameworks also contemplated that the City and the respective bargaining units within each Retirement Plan would enter into retirement memorandums of agreement (“MOA”) memorializing the terms of the Settlement Frameworks, with each such MOA having an expiration date of June 30, 2025. The City and such bargaining units have agreed upon the forms of the MOAs, but have not entered into any MOAs to date. The City believes that the terms of the Settlement Frameworks are binding upon the City, the members of the Retirement Plans, and the Retirement Plans notwithstanding MOAs not having been entered into to date.

**Measure F – Passage.** The City and its eleven bargaining units reached agreement on the provisions of Measure F to amend the City Charter to supersede the provisions implemented by Measure B consistent with the provisions agreed to in the Settlement Frameworks. On November 8, 2016, the voters approved Measure F. Measure F included, among other things: a prohibition on any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closure of the defined benefit retiree healthcare plan; and a prohibition on retroactive defined retirement benefit enhancements.

**San José Retired Employees Association Litigation Settlement.** In July 2014, the Retirees’ Association, along with four individually named retirees, filed, and subsequently served, a verified complaint against the City in the Santa Clara County Superior Court. The complaint alleged that the City changed the basic retiree healthcare benefit to a new plan that “fundamentally alters” the nature and quality of the benefit provided to retirees, because the plan has increased co-pays and deductibles. The complaint further alleged that the affected retirees had a vested right to the plan in existence when they were employed by the City, and to the premium amount paid by the City for their healthcare benefit. The action sought monetary damages for the increase in co-pays, deductibles and premium payments made by the affected retirees, as well as injunctive and writ relief prohibiting the City from continuing to provide the new health benefit to retirees.

On November 7, 2017, the City Council approved a settlement agreement (the “**Retirees’ Association Settlement Agreement**”) with the Retirees’ Association and the individual plaintiffs. The Retirees’ Association Settlement Agreement provided for the dismissal of the respective appeals in the Measure B litigation by the Retirees’ Association and the City, the dismissal by the Retirees’ Association of its stayed lawsuit with prejudice and the dismissal of the stayed lawsuit by the individual plaintiffs without prejudice.

The Retirees’ Association Settlement Agreement also included the following terms, among others:

- provides for the implementation of a new lowest cost healthcare plan for retirees who are members of the Healthcare Plans and additionally provides that the lowest cost plan for current and future retirees will be permanently set such that it is neither higher nor lower than the “Silver” level as specified in the Patient Protection and Affordable Care Act (“ACA”) in effect as of July 2015;
- specifies that the healthcare plan must provide at least 70% but no more than 79% of the then current ACA “Silver” definition;



- continues the elimination of the SRBR and, in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;
- creates a health-in-lieu premium credit option so that retirees can choose to receive 25% of the monthly premium of the lowest priced healthcare and dental plan (that cannot be taken in cash) in lieu of receiving healthcare coverage; and
- reimburses specific retirees (i.e., those earning a pension of \$54,000 or less in 2016, and who were enrolled in pre-Medicare health plan between January 1, 2013 and December 31, 2016) for a portion of their additional contributions towards retiree medical premiums up to a maximum total amount of \$1.25 million.

The Retirees’ Association Settlement Agreement excludes the settlement of claims related to the payment of pensions in excess of limits established under the Code. For more information regarding such limits, please see “RETIREMENT PLANS IN GENERAL – Internal Revenue Code Limitations on Pension Payments.”

### **Implementation of Measure F and Settlement Frameworks**

The City Council adopted Ordinance No. 29879 on February 14, 2017, amending the Municipal Code to reflect the terms of Measure F and the Public Safety Settlement Framework. Such changes to the Municipal Code became effective thirty days after February 14, 2017. The City Council adopted Ordinance No. 29904 on May 16, 2017, amending the Municipal Code to reflect the terms of Measure F and the Federated Settlement Framework. Such changes to the Municipal Code became effective thirty days after May 16, 2017. Most of the terms of Measure F and the Settlement Frameworks were implemented on June 18, 2017, being the first pay period of fiscal year 2017-2018.

Subsequent ordinances amending the Municipal Code to implement the terms of Measure F and the Settlement Frameworks have since been adopted by the City Council. As implementation issues arise, minor modifications to the Retirement Plans in the Municipal Code have been made to address these issues. In October 2017, to address various implementation issues, the City Council and the bargaining units entered into side letters amending the terms of the Settlement Agreements and the City Council approved ordinances further amending the terms of both Retirement Plans and the VEBA provisions. The City and the bargaining units also agreed to the terms and methodology for the amortization costs associated with reclassifying Tier 2 employees with previous Tier 1 service.

Previously, employees who separated from City service as Tier 1 employees, but were rehired or reinstated after the implementation of Tier 2, would be placed into Tier 2. The Settlement Frameworks included a provision that these employees would be reclassified as Tier 1, however, they would split the costs of the reclassification of their Tier 2 service on a 1:1 basis with the City. The employees’ portion of liability for reclassifications costs are paid over individually determined amortization periods and includes payment of interest set by the Boards. The side letter agreements with the bargaining units were agreed to in June 2018, and the Municipal Code amendments were approved by the City Council in December 2018. In June 2020, the City and the bargaining units agreed that the City will pay future interest costs on the UAL attributable to Tier 1 Rehire employees effective September 2020. Tier 1 Rehire employees will continue to be responsible for any interest accrued prior to the effective date of such agreement.

***VEBA Establishment.*** Measure F provides for the closure of the Healthcare Plans to Tier 2 employees of the Retirement Plans and Tier 1 Classic members of the Federated Plan. The Settlement

Frameworks allowed Tier 1 members of the Federated Plan (with the exception of Tier 1 Classic members hired on or after September 27, 2013), Tier 2A members of the Federated Plan, and Tier 1 members of the Police and Fire Plan to make a one-time irrevocable election to remain in the defined benefit postemployment Healthcare Plan or opt into a defined contribution VEBA for employees of the respective Retirement Plan. Unrepresented Tier 1 and Tier 2 members of the Healthcare Plans were eligible to opt into a VEBA, but are not eligible to make ongoing contributions to the applicable VEBA. The City does not make contributions to the VEBAs. The VEBAs are not subject to the jurisdiction of the Boards and are instead administered by a five-member advisory committee, of which one member is appointed by the City Manager and four members are appointed by the City Council.

The Settlement Frameworks also provided that an amount estimated to be equal to the members' retiree healthcare contributions without interest would be transferred from the applicable Section 115 Trust to their VEBA accounts (see "FEDERATED HEALTHCARE PLAN – Establishment of Federated 115 Trust; Internal Revenue Code Limitations" for a discussion regarding such trusts). For members who opted out of the applicable Healthcare Plan into a VEBA, an amount estimated to be equal to the member's prior contributions to such Healthcare Plan, without interest, was required to be contributed to the member's VEBA account from the applicable Section 115 Trust. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through the applicable Healthcare Plan until the member is eligible for Medicare or obtains alternative employment with healthcare coverage after exhausting all funds in their individual VEBA account. A VEBA member with at least five years of service may be eligible to purchase into the applicable Healthcare Plan at the retiree rate and not the blended rate with active employees. No amounts attributable to City contributions to the Healthcare Plans have been transferred to VEBA accounts.

***VEBA Election and Postretirement Healthcare Contribution Transfer.*** At the time the Settlement Frameworks were executed, the City contemplated seeking IRS approval of the establishment of the VEBA accounts, the opt-in by employees who are members of the Healthcare Plans, and the transfer of Section 115 Trust funds to the applicable VEBA. The IRS reviewed the issues related to the VEBA establishment, employee opt-in, and transfer of funds under separate administrative processes.

Consistent with the terms of the Settlement Frameworks, as more fully described in "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS – Implementation of Measure F and Settlement Frameworks – VEBA Establishment," the City established the Federated VEBA Health Savings Plan (the "**Federated VEBA**") for eligible members of the Federated Healthcare Plan, and the Police and Fire VEBA Health Savings Plan (the "**Police and Fire VEBA**" and together with the Federated VEBA, the "**VEBAs**") for eligible members of the Police and Fire Healthcare Plan in fiscal year 2017-2018.

With the implementation of Measure F and establishment of the Police and Fire VEBA, Tier 2 members of the Police and Fire Plan were automatically placed into the Police and Fire VEBA. The City Manager on August 2, 2017, exercised discretion provided under the Municipal Code to terminate the Police and Fire Plan Tier 2 members' participation in the Police and Fire Healthcare Plan. On August 3, 2017, the Police and Fire Board took action to terminate the Police and Fire Healthcare Plan for Tier 2 Police and Fire members effective July 30, 2017. After July 30, 2017, the Police and Fire Plan Tier 2 members no longer make contributions to the Police and Fire Healthcare Plan.

In November 2017, the IRS and City entered into a Closing Agreement whereby Tier 1 members of both the Police and Fire Healthcare Plan and the Federated Healthcare Plan, and Tier 2A members of Federated Healthcare Plan, were eligible for an irrevocable opt-out of the applicable Healthcare Plan into the VEBAs. The transfer of their retiree healthcare contributions (medical and dental) from the applicable

Healthcare Plan to their individual VEBA accounts remained subject to further IRS approval. The VEBA opt-in election period commenced on October 18, 2017, and ended on December 15, 2017.

In February 2018, the IRS issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from both of the Healthcare Plans for those employees of the Healthcare Plans opting into the VEBAs and in March 2018, the retiree healthcare contributions of members of the Healthcare Plan who opted into the VEBAs were transferred from the applicable Healthcare Plan into their individual VEBA accounts. See “FEDERATED HEALTHCARE PLAN – General” for a description of the number of Federated Healthcare Plan members that opted into the VEBAs and the amounts transferred from the Federated Healthcare Plan to its VEBA. The IRS also approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the applicable Healthcare Plan to their individual VEBA accounts.

### **Retirement Plan Tiers**

As a result of the Settlement Frameworks and implementation of Measure F, members of each Retirement Plan are now categorized into membership categories based on when the member entered the respective Retirement Plan and whether certain prior service requirements are met.

Following the passage of Measure B, but prior to the Settlement Frameworks, the Federated Plan included Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C had the same reduced pension benefits as compared to Tier 1. Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013, and they were not eligible for the defined benefit retiree health care benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid had those employees been eligible. Tier 2C had retiree dental benefits but no retiree medical benefits. Tier 2C included employees who were previously Tier 1 members that separated from City service and returned on or after September 30, 2012, but before June 18, 2017. The Settlement Frameworks provided that all previous Tier 1 employees who were placed in Tier 2 would be classified as Tier 1. As a result, employees in Tier 2C have subsequently been moved to Tier 1.

The Police and Fire Plan had Tier 1 and Tier 2 for both Police and Fire Plan members with reduced pension benefits for the Tier 2 Police and Fire Plan members as compared to the Tier 1 members, and until July 30, 2017, Tier 1 and Tier 2 members of the Police and Fire Plan had the same retiree healthcare (medical and dental benefits).

The membership categories for the Federated Plan are summarized in the following table.

**Table B-1  
Federated Plan  
Membership Tiers**

<b>Tier</b>	<b>Hire Date</b>	<b>Pension</b>	<b>Defined Benefit Retiree Healthcare (Medical/Dental)</b>
<b>Tier 1</b>	<ul style="list-style-type: none"> <li>On or before September 29, 2012</li> <li>Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions</li> </ul>	Tier 1	Medical/Dental <sup>(2)(4)</sup>
<b>Tier 1 Rehire</b>	<ul style="list-style-type: none"> <li>Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017</li> </ul>	Tier 1 <sup>(1)</sup>	Medical/Dental <sup>(2)(4)(5)</sup>
<b>Tier 1 Classic</b>	<ul style="list-style-type: none"> <li>“Classic” membership with California Public Employees’ Retirement System (“CalPERS”)/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013</li> <li>“Classic” membership with CalPERS/reciprocal agency hired on or after September 27, 2013</li> </ul>	Tier 1 <sup>(6)</sup>	Medical/Dental
<b>Tier 2 (or Tier 2A)</b>	<ul style="list-style-type: none"> <li>Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013</li> </ul>	Tier 2	Medical/Dental <sup>(2)(4)</sup>
<b>Tier 2B</b>	<ul style="list-style-type: none"> <li>Hired/rehired/reinstated on or after September 27, 2013 and have not met City’s eligibility for retiree healthcare</li> </ul>	Tier 2	Not Eligible <sup>(3)(4)</sup>

<sup>(1)</sup> Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

<sup>(2)</sup> Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated VEBA. Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

<sup>(3)</sup> Employees in these tiers were mandatorily placed into the Federated VEBA.

<sup>(4)</sup> Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.

<sup>(5)</sup> All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.

<sup>(6)</sup> Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the “Classic” tier regardless of start date.

*Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.*

## SUMMARY OF FEDERATED PLAN

### Membership

Table B-2 shows the change in total membership in the Federated Pension Plan and Federated Healthcare Plan from June 30, 2019 to June 30, 2020. As of June 30, 2020, the ratio of retired and vested terminated members to active members within the Federated Plan was approximately 1.62 to 1. The Plan Actuary has indicated that the Federated Plan ratio appears to have stabilized after the increase following the recession, but there is no indication yet of a return to a lower ratio. The Plan Actuary further notes that because there are more retired and vested terminated members to be supported by each active member, future contributions may vary more significantly year-to-year due in part to increased sensitivity to investment gains and losses.

Below is a summary of the membership within the Federated Plan as of June 30, 2020:

- For the Federated Pension Plan, 70.8% of total members were in Tier 1, and 29.2% of total members were in Tier 2;
- For the Federated Pension Plan, 40.8% of active members were Tier 1, and 59.2% of active members were Tier 2; and
- For the Federated Healthcare Plan, 98.6% of total members eligible for full retiree medical benefits were in Tier 1 and 1.4% were in Tier 2.

**Table B-2  
Federated Plan  
Membership**

	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>% Change</b>
Federated Pension Plan			
Retirees & beneficiaries receiving benefits <sup>(1)</sup>	4,359	4,441	1.9%
Terminated vested members not yet receiving benefits	1,535	1,614	5.1
Active members	3,617	3,742	3.5
Total	<b>9,511</b>	<b>9,797</b>	<b>3.0</b>
Federated Healthcare Plan <sup>(3)</sup>			
Retirees & beneficiaries receiving benefits <sup>(2)</sup>	3,654	3,733	2.2
Terminated vested members not yet receiving benefits	165	156	(5.5)
Active members	1,582	1,445	(8.5)
Total <sup>(1)</sup>	<b>5,401</b>	<b>5,334</b>	<b>(1.2)</b>

<sup>(1)</sup> The combined domestic relations orders are not included in the count above as their benefit is included in the member count.

<sup>(2)</sup> Payees that have health and/or dental coverage.

<sup>(3)</sup> Eligible for full retiree medical benefits.

Source: Federated 2020 CAFR.

## Summary of Historical and Projected Contributions

**Forward Looking Statements.** Investors are cautioned that the UAL, the Funded Ratio, and the calculations of Normal Cost as reported by the Federated Plan and the resulting pension and healthcare contributions are “forward looking” information prepared by the Federated Pension Plan for its own purposes. Such “forward looking” information reflects the judgment of the Federated Board and the Plan Actuary as to the assets which the Federated Pension Plan will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, existing retired employees, and their beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the Federated Pension Plan. The actuarial methods and assumptions could be changed by the Federated Board at any time. Such changes could cause the City’s actual obligations to the Federated Pension Plan to be higher or lower than those projected by the Plan Actuary in any particular year.

**Historical and Projected Contributions.** Contributions to the Federated Pension Plan are actuarially determined. The Municipal Code specifies the portion of the actuarially determined contribution paid by employees and the remaining portion is paid by the City.

With respect to the Federated Healthcare Plan, contributions by the City are actuarially determined and contributions by employees are made at rates established by the Municipal Code and the Settlement Frameworks. See “FEDERATED PENSION PLAN – Contributions” and “FEDERATED HEALTHCARE PLAN –Contributions.”

The City’s contributions to the Federated Pension Plan and Federated Healthcare Plan for Fiscal Year 2020-21 and the previous 10 fiscal years are shown in Table B-3a. As shown in Table B-3a, the City’s annual dollar contributions to the Federated Pension Plan and Federated Healthcare Plan have increased significantly since 2011, primarily due to losses recognized as a result of actual investment returns below the discount rate and assumption changes. The City’s contributions to the Federated Pension Plan and Federated Healthcare Plan for Fiscal Year 2020-2021 represent approximately 4.4% of City’s adopted budget for all City funds for such fiscal year.

<b>Table B-3a Federated Plan Historical Contributions</b>	
<b>Fiscal Year Ended June 30</b>	<b>Total Contribution</b>
2011	\$ 76,326,000
2012	112,916,000
2013	124,360,000
2014	126,842,000
2015	141,710,000
2016	159,921,000
2017	170,388,000
2018	189,167,000
2019	199,416,000
2020	207,860,000
2021	212,877,000

*Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.*

In January 2021, as directed by the Federated Plan, the Plan Actuary provided five-year budget projections for the City's contributions for the Federated Plans based on the June 30, 2020 actuarial valuations. The projections assume that all valuation assumptions were exactly met since June 30, 2020, and are exactly met each and every year for the projection period. In reality, actual experience will deviate from the assumptions. If all assumptions are met, contributions equal to the Normal Cost plus interest on the UAL are needed to prevent UAL from growing as a dollar amount.

The actuarially determined projections of the City's contributions to the Federated Plan for fiscal years 2021-2022 through 2025-26 are shown in Table B-3b. The City's actual contributions will depend on various factors, including the actual returns of the Federated Plan over the course of this five-year projection period.

**Table B-3b**  
**Federated Plan**  
**Projected City Contributions**  
*(in millions)*

<b>Fiscal Year Ended June 30</b>	<b>Federated Payroll</b>	<b>Federated Pension Plan Contribution</b>	<b>Pension Rate</b>	<b>Federated Healthcare Plan Contribution</b>	<b>Healthcare Rate</b>	<b>Total Contribution</b>	<b>Total Rate</b>
2022	\$ 351.8	\$ 206.0	58.56%	\$ 19.9	5.67%	\$ 226.0	64.23%
2023	362.4	212.8	58.72	19.8	5.47	232.6	64.18
2024	373.2	219.8	58.89	20.7	5.54	240.5	64.43
2025	384.4	226.6	58.94	20.9	5.44	247.5	64.39
2026	396.0	232.5	58.73	21.1	5.34	253.7	64.07

*Source: Cheiron 5-Year Budget Projections for Federated Plan, January 13, 2021.*

The Plan Actuary also prepared 's twenty-year projections of the City's contributions to the Federated Plan. See "FEDERATED PENSION PLAN –Contributions."

***Federated Pension Plan Risks.*** According to the Plan Actuary, the fundamental risk to the Federated Pension Plan is that contributions needed to pay benefits become unaffordable. The Plan Actuary further notes that there are a number of factors that could lead to contributions becoming unaffordable, the Plan Actuary believes the primary risks for the Federated Pension Plan are investment risk, interest rate risk, and assumption change risk. The following discussion is only a summary of the risks identified by the Plan Actuary in the Federated 2020 Pension Plan Actuarial Report. For a further discussion of such risks see the Federated 2020 Pension Plan Actuarial Report.

***Investment Risk.*** Investment risk is the potential for investment returns to be different than expected. Lower investment returns than anticipated will increase the UAL thereby resulting in higher contributions in the future unless other gains offset such losses. The potential volatility of future investment returns is determined by the allocation of assets and the affordability of the investment risk is determined by the amount of assets invested relative to the size of the City. Losses recognized as a result of actual investment returns below the discount rate have been a significant contributor to the growth of UAL of the Federated Pension Plan.

***Interest Rate Risk.*** Interest rate risk is the potential for interest rates to be different than expected. For public plans like the Federated Pension Plan, short-term fluctuations in interest rates have little or no effect as the plan's liability is usually measured based on the expected return on assets. Longer-term trends in interest rates, however, can have a powerful effect. As interest rates

have declined, pension plans have faced the choice of maintaining the same level of risk and reduce the expected rate of return or maintain the same expected rate of return and take on additional investment risk or some combination of the two.

*Assumption Change Risk.* Assumption change risk is the potential for the environment to change such that future valuation assumptions are different than the current assumptions. Assumption rate risk is an extension of the other risks described above, but rather than capturing the risk as it is experienced, it captures the cost of recognizing a change in the environment when the current assumption is no longer reasonable. Since 2010, there have been substantial changes in actuarial assumptions with respect to the Federated Pension Plan that have caused the UAL of the Federated Pension Plan to increase. Most of the changes are due to the reduction in the discount rate for the Federated Pension Plan.

In addition, in the Federated 2020 Pension Plan Actuarial Report, the Plan Actuary notes that the future financial condition of a mature plan is more sensitive to each of the risks described above when compared to less mature plans. The Plan Actuary identified the support ratio and leverage ratios as two measures of the maturity of a plan, as follows:

*Support Ratio.* The support ratio is the ratio of number of inactive members (those receiving benefits or entitled to a deferred benefit) to the number of active employees. The Plan Actuary notes the support ratio of the Federated Pension Plan has increased dramatically from approximately 0.50 in 2001 (in the 25<sup>th</sup> to 50<sup>th</sup> percentile of support ratios for plans in the Public Plans Database) to approximately 1.60 in 2020 (in 75<sup>th</sup> to 95<sup>th</sup> percentile of support ratios for plans in the Public Plans Database).

*Leverage Ratios.* Leverage or volatility ratios measure the size of the plan compared to its revenue base more directly. Such ratios include the asset leverage ratio and actuarial liability ratio. The Plan Actuary notes that the leverage ratios for the Federated Pension Plan are higher than most plans, indicating that the Federated Pension Plan is much more sensitive to risk than most plans.

For additional information regarding the contributions to the Federated Pension Plan and the Federated Healthcare Plan, please see “FEDERATED PENSION PLAN –Contributions” and “FEDERATED HEALTHCARE PLAN –Contributions,” respectively. For the Federated Healthcare Plan, the projections of the Plan Actuary include changes to the benefits offered to active employees as described in “CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS.”

## **FEDERATED PENSION PLAN**

The Federated Pension Plan offers service retirement, disability retirement, survivor, and death benefits for members and their beneficiaries. The benefits available under the Federated Pension Plan accrue throughout the time an employee engages in covered work for the City. Even though the benefits accrue during employment, certain age and service requirements must be attained to generate a retirement or other benefit upon retirement or termination of City employment. If met, an employee may elect to receive a monthly pension benefit, calculated by taking into account years of service, final compensation, and in certain instances, age at retirement.

The terms of the final benefit calculation and subsequent cost of living increases, if any, during retirement depends on the employee’s membership tier within the Federated Pension Plan. The pension benefits for employees in Tier 2 differ substantially from the Tier 1, as shown in Table B-4. In addition, the contribution rates for Tier 2 members are calculated based on a 50/50 split of all costs, including UAL.



Members in Tier 1 of Federated Pension Plan share a portion of the Normal Cost, but generally do not contribute towards UAL costs. The Plan Actuary expects that as more employees join Tier 2 and contributions are made to pay down the UAL, the funding level of the Federated Pension Plan will generally increase and the contribution rates of the City will decrease over time.

Table B-4 below provides a general description of service retirement pension benefit formulas (excluding early retirement) for each Tier in the Federated Pension Plan as of June 30, 2020. For more additional information regarding such formulas, please see in APPENDIX D –“AUDITED FINANCIAL STATEMENTS OF THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT FOR FISCAL YEAR ENDED JUNE 30, 2020,” Notes to Financial Statements, Note 7, and Title 3 of the Municipal Code.

**Table B-4**  
**Federated Plan Service Pension Formulas**

	<b>Normal Retirement Age</b>	<b>Minimum Vesting Service<sup>(1)</sup></b>	<b>Pension Allowance</b>	<b>Final Compensation</b>
<b>Tier 1</b>	<ul style="list-style-type: none"> <li>• 55 with 5 years service</li> <li>• 30 years service at any age</li> </ul>	5 years of service	<ul style="list-style-type: none"> <li>• 2.5% x years of service x final compensation (75% max)</li> </ul>	Average monthly base pay in highest one year compensation <sup>(2)</sup>
<b>Tier 2</b>	<ul style="list-style-type: none"> <li>• 62 with 5 years of Federated Plan covered service</li> <li>• 55 with 5 years of Federated Plan covered service with reduction by a factor of 5% per year prior to age 62 prorated to closest month</li> </ul>	5 years of Federated Plan covered City service	<ul style="list-style-type: none"> <li>• 2.0% x years of service x final compensation (70% max)</li> </ul>	Average monthly (or biweekly) base pay in highest consecutive three year compensation <sup>(3)</sup>

<sup>(1)</sup> Terminated employees with less than minimum vesting service who are not employed by a reciprocal agency must withdraw all contributions from the plan.

<sup>(2)</sup> For separations that take place prior to July 1, 2001, final compensation is the highest average monthly base pay in highest consecutive three year compensation.

<sup>(3)</sup> Excludes premium pay or additional compensation.

Source: Federated 2020 CAFR.

## **Funding Status**

**General.** The funding objective for the Federated Pension Plan is to meet long-term benefit obligations through contributions and investment income. Following is a summary of the funded status of the Federated Pension Plan on an actuarial and financial statement basis.

**Actuarial Funded Status.** The Federated 2020 Pension Plan Actuarial Report is the most recent actuarial valuation available for the Federated Pension Plan as of the date of this Official Statement. The following information is derived primarily from such report. To determine on-going funding requirements for pension benefits, most pension plans utilize an actuarial value of pension assets that differs from the market value of those assets. The actuarial value of pension assets is based on smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions. The market value represents the value of the pension assets if they were liquidated on the valuation date. For a further description of the

methodology used by the Federated Pension Plan for valuing pension plan assets, please see “FEDERATED PENSION PLAN – Actuarial Assumptions.” Table B-5a and Table B-5b show the Market Value of Assets and Actuarial Value of Assets of the Federated Pension Plan. Table B-5a also shows the actuarially determined value of all current and future benefits to be paid by the Federate Pension Plan (the “**Total Actuarial Liability**”). If all assumptions are met, the Plan Actuary expects contribution rates of the Federated Pension Plan to increase in the future as the deferred asset losses from previous years are recognized in the Actuarial Value of Assets. The Market Value of Assets, Actuarial Value of Assets and Total Actuarial Liability are intended to be used to assess contributions for an ongoing pension plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the obligations of a pension plan, like the Federated Pension Plan, on a risk free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial valuations and such deviations may be material.

**Table B-5a**  
**Federated Pension Plan**  
**Assets & Liabilities**  
**(in millions)**

	June 30, 2019	June 30, 2020	% Change
Total Actuarial Liability	\$ 4,201	\$ 4,401	4.8%
Market Value Assets	2,132	2,208	3.6
Actuarial Value Assets	2,229	2,301	3.3
Unfunded Actuarial Liability <sup>(1)</sup>	2,069	2,193	6.0
Unfunded Actuarial Liability <sup>(2) (3)</sup>	1,972	2,100	6.5
Funded Ratio – Market Value	50.8%	50.2%	(1.2)
Funded Ratio – Actuarial Value	53.1%	52.3%	(1.4)

<sup>(1)</sup> UAL amount based on Market Value of Assets, which is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

<sup>(2)</sup> UAL amount based on Actuarial Value of Assets, which is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date (6.750% for fiscal years 2019-2020 and 2018-2019, and 6.875% for fiscal years 2017-2018 and 2016-2017) over a five-year period.

<sup>(3)</sup> Increase from June 30, 2019 to June 30, 2020 is primarily due to losses recognized as a result of actual investment returns below the discount rate (contributing approximately \$68 million to the increase), liability losses (contributing approximately \$44 million to the increase), changes in assumptions including a decrease in the discount rate to the current 6.625% (contributing approximately \$37 million to the increase), offset by contributions in excess of the Normal Cost plus interest in the UAL (reducing the UAL by approximately \$21 million). See “FEDERATED PENSION PLAN – Funding Status” below for a discussion of the funding status of the Federated Pension Plan.

Source: Federated 2020 Pension Plan Actuarial Report.

**Table B-5b**  
**Federated Pension Plan**  
**Market and Actuarial Value of Assets**  
*(in thousands)*

	<b>June 30, 2019</b>	<b>June 30, 2020</b>
Market Value, Beginning of Year	\$ 2,069,333	\$ 2,132,152
Contributions		
Member	22,606	25,082
City	173,006	181,327
Total	195,612	206,409
Net Investment Earnings <sup>(1)</sup>	76,855	90,909
Benefit Payments	(205,066)	(216,728)
Administrative Expenses	(4,582)	(4,725)
<b>Market Value, End of Year</b>	<b>\$ 2,132,152</b>	<b>\$ 2,208,017</b>
Actuarial Value of Assets	\$ 2,228,802	\$ 2,301,469

<sup>(1)</sup> Gross investment earnings less investment expenses.

Source: Federated 2020 CAFR for Market Value of Assets; Federated 2020 Pension Plan Actuarial Report for Actuarial Value of Assets.

Table B-6 shows the historical dollar amount of the UAL and the Funded Ratio for the Federated Pension Plan as of June 30, 2010 through June 30, 2020 calculated using the actuarial (smoothed) value of assets. See “FEDERATED PENSION PLAN –Actuarial Assumptions – Smoothing Methodology” for a description of the smoothing methodologies employed for the Federated Pension Plan. As shown in Table B-6, the UAL of the Federated Pension Plan increased approximately \$1.3 billion from approximately \$781 million as of the June 30, 2010 valuation date to approximately \$2.1 billion as of the June 30, 2020 valuation date, an increase of 169%.

According to the Plan Actuary, the increase over the past 10 fiscal years in the UAL of the Federated Pension Plan is due primarily to the following:

- Unfavorable investment returns on the actuarial (smoothed) value of assets in 9 of the previous 10 years (resulting in an increase in the UAL of approximately \$575 million over the last 10 years notwithstanding positive investment returns in seven of such years);
- Changes in actuarial assumptions primarily relating to the reduction in the discount rate (resulting in an increase in the UAL for the Federated Pension Plan of approximately \$679 million over the last 10 years);
- Contributions consistently less than the Normal Cost plus interest on the UAL until fiscal years 2018-2019 and 2019-2020 (resulting in an increase in the UAL of approximately \$86 million over the last 10 years); and
- Actuarial gains and losses on the Actuarial Liability (resulting in an increase in the UAL of approximately \$6 million over the last 10 years).

In November 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2020 Pension Plan Actuarial Report, which included a reduction in the discount rate from 6.75% to 6.625%. The changes in assumptions increased the UAL of the Federated Pension Plan by approximately

\$37 million. See “FEDERATED PENSION PLAN – Actuarial Assumptions.” The UAL of the Federated Pension Plan also increased due to investment returns being lower than the assumed investment rate. Although the Federated Plan had a positive investment return for fiscal year 2019-2020, the unfavorable investment returns increased the UAL by approximately \$68 million.

As shown in Table B-6, the Federated Pension Plan’s UAL was 615% of total covered annual payroll as of the June 30, 2020 valuation date of the Federated 2020 Pension Plan Actuarial Report. As a result, to fully fund the UAL of the Federated Pension Plan contributions would need to exceed 6 times the covered payroll for fiscal year 2019-2020.

**Table B-6**  
**Federated Pension Plan**  
**Schedule of Pension Funding Progress**  
*(in thousands)*

<b>Valuation Date (June 30)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Liability</b>	<b>UAL</b>	<b>Funded Ratio<sup>(1)</sup></b>	<b>Covered Payroll</b>	<b>UAL as % of Covered Payroll<sup>(1)</sup></b>
2010	\$ 1,729,413	\$ 2,510,358	\$ 780,945	69%	\$ 300,811	260%
2011	1,788,660	2,770,227	981,567	65	228,936	429
2012	1,762,973	2,841,000	1,078,027	62	225,859	477
2013	1,783,270	3,013,763	1,230,493	59	225,779	545
2014	1,911,773	3,235,065	1,323,292	59	234,677	564
2015	2,004,481	3,569,898	1,565,417	56	251,430	623
2016	2,034,741	3,786,730	1,751,989	54	266,823	657
2017	2,101,435	3,923,966	1,822,531	54	287,339	634
2018	2,179,488	4,100,821	1,921,333	53	298,985	643
2019	2,228,802	4,200,708	1,971,906	53	313,310	629
2020	2,301,469	4,401,083	2,099,614	52	341,552	615

<sup>(1)</sup> Rounded to the nearest whole percent.

Source: Federated 2020 Pension Plan Actuarial Report.

**Net Pension Liability.** For purposes of financial reporting, the City is required under GASB Statement No. 68 to calculate and disclose the Net Pension Liability of the Federated Pension Plan. The Net Pension Liability is the difference between the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated using methods and assumptions known as the “Total Pension Liability” and the fair market value of the pension plan’s assets known as the “Fiduciary Net Position.” For purposes of its financial statements, the City calculates the Net Pension Liability of the Pension Plans using a measurement date that is one fiscal year prior to the Net Pension Liability measurement date used for the Retirement Plans’ financial statements.

Table B-7 presents the funded status of the Federated Pension Plan calculated in accordance with the assumptions and methodology set forth in GASB Statement No. 68 as of the June 30, 2019 and the June 30, 2020 measurement dates. The Total Pension Liability of Federated Pension Plan as of June 30, 2019 and June 30, 2020 shown in Table B-7 is based on results of an actuarial valuation date of June 30, 2018 and June 30, 2019, respectively, and rolled-forward to June 30, 2019 and 2020 using standard roll forward procedures.

**Table B-7**  
**Federated Pension Plan**  
**Components of Net Pension Liability**  
*(in thousands)*

	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>% Change</b>
Total pension liability	\$ 4,229,613	\$ 4,323,370	2.2%
Plan fiduciary net position	2,132,152	2,208,017	3.6
Net pension liability	\$ 2,097,461	\$ 2,115,353	0.9
Plan fiduciary net position as a percentage of the total pension liability	50.4%	51.1%	1.4%

*Source: Federated 2020 CAFR.*

## Actuarial Assumptions

**General.** Annually, actuarial valuations are prepared to measure the financial position of the Federated Pension Plan to determine the amounts to be contributed to the plan by active members and the City. The Plan Actuary employs a variety of actuarial methods and assumptions in these calculations. To prepare the actuarial valuations, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and investment returns), and decrement assumptions (including employee turnover, mortality and retirement rates) to produce the necessary information. Experience studies are performed by the Plan Actuary periodically to determine appropriate revisions to the actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future. In 2019, the Federated Board adopted certain economic and demographic changes based on an experience study covering a period from 2015 to 2019 performed by the Plan Actuary. The Plan Actuary determined that the assumption changes in 2019 decreased the UAL of the Federated Plan by \$2.9 million or 0.1% of the Actuarial Liability. Table B-8 below summarizes actuarial assumptions employed by the Plan Actuary in the Federated 2020 Pension Plan Actuarial Report.

**Table B-8**  
**Federated Pension Plan**  
**Actuarial Assumptions**

Valuation Date	June 30, 2020
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Amortization payment growth rate	2.75% compounded annually
Asset valuation method	5-year smoothing of return
Actuarial Assumptions:	
Discount Rate	6.625%
Wage inflation <sup>(1)</sup>	3.00% compounded annually
Cost-of-Living Adjustments <sup>(2)</sup>	Tier 1-3.0% per year; Tier 2-1.25% - 2.0% per year depending on years of service

<sup>(1)</sup> Additional merit salary increases of 0.10% to 3.75% based on a participant's years of service are also assumed.

<sup>(2)</sup> Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation.

For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.25% to 2.0% depending on service.

*Source: Federated 2020 Pension Plan Actuarial Report.*

The Federated 2020 Pension Plan Actuarial Report is the most recently available actuarial valuation of the Federated Pension Plan. Please see Tables B-5a and B-6 above for a summary of certain of the conclusions set forth in the Federated 2020 Pension Plan Actuarial Report.

***Actuarial Funding Method.*** The Federated Pension Plan uses the individual Entry Age Normal Actuarial Cost Method. Under this method, the Normal Cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed termination of employment.

***Amortization Method and Period.*** The Tier 1 UAL for the Federated Pension Plan as of June 30, 2009 is amortized over a 30-year closed period, and changes in the Tier 1 UAL are amortized over 20-year closed periods beginning with the valuation period in which they arise. Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. For members who were reclassified under Measure F from Tier 2 to Tier 1, a portion of the increase in liability for the reclassification is to be paid by members. Rehired members who were reclassified pay an additional contribution rate of 3.0 percent of payroll until the amount they owe has been paid off. All Classic members pay an additional contribution rate based on a 20-year amortization of the increase in liability for Classic members who were reclassified from Tier 2 to Tier 1 under Measure F.

The Tier 2 UAL for the Federated Pension Plan as of June 30, 2017, is amortized over a closed 10-year period. Future Tier 2 actuarial gains and losses, assumption changes, and plan changes will be amortized over 10-year periods beginning with the valuation date in which they first arise.

Amortization payments for the Federated Pension Plan are scheduled to increase 2.75% each year while aggregate payroll is expected to grow 3.00% each year. As a result, contributions to the Federated Pension Plan are expected to become a slightly smaller percentage of combined Tier 1 and Tier 2 payroll each year.

***Smoothing Methodology.*** When measuring assets, the Federated Pension Plan "smooths" gains and losses to reduce the volatility of contribution rates over a five-year period to reduce the impact of short-term investment volatility on employer contribution rates. If in the one-year period prior to the annual actuarial valuation, the actual net investment return on the Market Value of Assets of the Federated Pension Plan is lower or higher than the actuarial assumed net rate of return, then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. As a result, smoothed assets of the Federated Plan will be lower or higher than the plan's Market Value of Assets depending upon whether the remaining amount to be smoothed is a net gain or a net loss.

***Actuarially Assumed Investment Rates of Return.*** The net rate of return assumed by the Federated Pension Plan represents the long-term expected rate of return on the plan's investments net of investment expenses. In November 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2020 Pension Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate, from 6.75% to 6.625%. Table B-9 shows the historical discount rates for the Federated Pension Plan from the June 30, 2011 valuation through the June 30, 2020 valuation.

**Table B-9**  
**Federated Pension Plan**  
**Historical Discount Rates**

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
7.50%	7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.750%	6.750%	6.625%

*Source: Federated 2020 Pension Plan Actuarial Report.*

## Contributions

**General.** Annual contributions to the Federated Pension Plan by the City and employees are amounts actuarially determined to be sufficient to provide adequate assets to pay benefits when due. When the Federated Board approves contribution rates and amounts, such rates and amounts become the legally required contribution rates and amounts of the City and employees for the fiscal year beginning one year after the valuation date. There are two components to the annual City and employee contributions: (i) the Normal Cost (including administrative expenses); and (ii) the UAL contribution. Annual contributions are based upon actuarial calculations that take into consideration a number of economic and demographic assumptions, including assumed investment earnings on the assets of the Pension Plans that are used to pay benefits. For a description of the assumptions utilized in the actuarial valuations for the Federated Pension Plan, please see “FEDERATED PENSION PLAN–Actuarial Assumptions.”

**Funding Policy.** The Federated Pension Plan employs a “floor funding method” for setting the City’s funding policy contribution amount for Tier 1 for the Normal Cost portion (which includes administrative expenses). Under such method, beginning in fiscal year 2016-2017, the City’s Normal Cost contribution is the greater of: (1) the dollar amount recommended by the Plan Actuary in the annual valuation report and approved by the Federated Board (adjusted for time of contribution) or, (2) the dollar amount determined by applying the Normal Cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year if actual payroll exceeds the actuarial payroll. The portion of the City’s contribution relating to the UAL is set at the dollar amount recommended by the Plan Actuary and adopted by the Federated Board in the annual actuarial valuation.

The Federated Pension Plan does not employ a “floor funding method” for determining the City’s contribution for Tier 2 members. The City’s Federated Pension Plan Tier 2 contribution is based on the contribution rate determined by the Plan Actuary and approved by the Federated Board multiplied by the actual Tier 2 member payroll.

The required contributions as determined by the Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City may elect to prefund all or part of its total required contributions to the Federated Pension Plan at the beginning of each fiscal year. The prefunded annual contributions are made on the basis of estimated bi-weekly payroll in the actuarial valuation for the fiscal year and may be increased at the end of the fiscal year based on actual bi-weekly payroll. The amount of the prefunded annual contribution is the actuarial equivalent of contributions made regularly over the course of a year as established by the Federated Board. To the extent contributions are made after the beginning of the fiscal year, the amounts are adjusted for interest. To determine the City’s “prefunded” annual contribution amount, the Federated Board, based on the advice of the Plan Actuary and outside investment consultants, sets an interest discount rate to be applied by the Plan Actuary to the required contributions to account for the fact that contributions are made and invested at the beginning of the year instead of made throughout the year and invested thereafter by the Federated Pension Plan. The Federated Board has implemented an “incremental reduction approach” to set the interest discount rate in a given year. The approach applies the discount rate for the year of the contribution reduced incrementally based on certain broad economic and market benchmarks. This approach is intended to incentivize the City

to prefund contributions to the Federated Pension Plan when market valuations may be lower and an economic cycle may be in early stages of expansion and disincentivize for prefunding contributions when market valuations and/or economic expansions may exceed historic patterns.

The City prefunded its contributions for Tier 1 employees under the Pension Plans for fiscal year 2020-2021 with funds on hand and proceeds of tax and revenue anticipation notes in the aggregate principal amount of \$130,000,000 issued in July 2020. The projected contributions set forth in this Appendix B do not take into account the prefunding of the City's contributions for fiscal year 2020-2021 or any future fiscal years.

**Historical City and Employee Contributions.** Table B-10 shows the City's actuarially determined annual contribution and actual contribution to the Federated Pension Plan for fiscal years 2014-2015 through fiscal year 2019-2020.

<b>Table B-10</b> <b>Federated Pension Plan</b> <b>Schedule of City Contributions</b> <i>(in thousands)</i>						
	<b>2014- 2015</b>	<b>2015- 2016<sup>(1)</sup></b>	<b>2016- 2017</b>	<b>2017- 2018</b>	<b>2018- 2019</b>	<b>2019- 2020</b>
Actuarially Determined Contribution	\$ 114,751	\$ 129,456	\$ 138,483	\$ 156,770	\$ 173,006	\$ 181,327
Actual Contribution	114,751	124,723	138,483	156,770	173,006	181,327
<b>Contribution Deficiency (excess)</b>	<b>\$ 0</b>	<b>\$ 4,733</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

<sup>(1)</sup> Contributions for fiscal year 2013-2014 included \$4.7 million that should have been credited to the Federated Healthcare Plan, and such error was corrected in fiscal year 2015-2016.

Source: City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020.

The member contribution rate for Tier 1 of the Federated Pension Plan is a proportion (3/11ths) of the Normal Cost (including administrative expenses, but excluding reciprocity) with the remaining 8/11ths of the Normal Cost allocated to the City. In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Normal Cost (i.e., the cost of funding reciprocity with other California pension plans), plus an amortization payment on the UAL. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service. The Federated Board set a contribution rate of 3.0% of pay that applies to each such individual member until such member has paid off their individual UAL amount for reclassification. For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member. The member and City contribution rates each cannot be less than 50% of the Normal Cost rate. According to the Plan Actuary, the most significant portion of the City's contribution to the Federated Pension Plan is the portion of the contribution attributable to the UAL for Tier 1, which is substantially attributable to members who no longer work for the City.

Table B-11a below summarizes the pension contribution rates for employee members of the Federated Plan for fiscal year 2020-2021 and fiscal year 2021-2022. The Federated Board has not yet adopted a resolution imposing the contribution rates for fiscal year 2021-2022 on the City and plan members. For fiscal year 2021-2022, the Plan Actuary projects payroll to total \$132.7 million for Tier 1 and \$214.6 million for Tier 2.



**Table B-11a  
Federated Pension Plan  
Member Contribution Rates**

	2020-21			2021-2022		
	Basic	COLA	Total	Basic	COLA	Total
<b><u>Tier 1</u></b>						
Total Member Normal Cost/Admin Rate <sup>(1)</sup>	5.15%	2.07%	7.22%	5.25%	2.14%	7.39%
<b><u>Tier 2</u></b>						
Member Normal Cost/Admin Rate <sup>(2)</sup>	6.60%	1.08%	7.68%	6.66%	1.12%	7.78%
Member UAL Rate <sup>(3)</sup>	0.15	0.09	0.24	0.26	0.13	0.39
<b>Total Member Rate</b>	<b>6.75%</b>	<b>1.17%</b>	<b>7.92%</b>	<b>6.92%</b>	<b>1.25%</b>	<b>8.17%</b>

<sup>(1)</sup> Determined by dividing the total Normal Cost plus assumed administrative expenses determined by the Plan Actuary by the payroll expected for members active on the valuation date.

<sup>(2)</sup> Excludes additional reclassified rate (UAL) for Classic and Reclassified Tier 1 Members. According to the Plan Actuary, the increase in the Tier 1 member contribution rate for fiscal year 2020-2021 is primarily due to the discount rate change.

<sup>(3)</sup> Determined by dividing the UAL payment by total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

Source: Resolution No. 9094 of the Federated Board, approved by the Federated Board on May 21, 2020; Resolution No. 9095 of the Federated Board, approved by the Federated Board on May 21, 2020; Federated 2020 Pension Plan Actuarial Report.

Table B-11b shows the City's contribution in dollars for the Federated Pension Plan for fiscal year 2019-2020, as adopted by the Federated Board, and fiscal year 2020-2021, as determined by the Plan Actuary and set forth in the Federated 2020 Pension Plan Actuarial Report. Because Tier 1 is closed, the City's total Normal Cost contribution for Tier 1 is expected to decrease over time as active Tier 1 members decrease. The portion of the City's contribution rate attributable to the UAL for Tier 1 members is not expected to decrease as Tier 1 members retire or otherwise leave the system, because the City is responsible for all such contributions. The contributions set forth in Table B-11b assume the City makes such contributions in installments throughout the year.

**Table B-11b  
Federated Pension Plan  
City Contribution Amounts  
(in thousands)  
(throughout the year)**

	2020-2021			2021-2022		
	Basic	COLA	Total	Basic	COLA	Total
<b><u>Tier 1</u></b>						
City Normal Cost/Admin <sup>(1)</sup>	\$ 20,062	\$ 8,099	\$ 28,161	\$ 19,736	\$ 8,056	\$ 27,792
City UAL Cost <sup>(2)(3)</sup>	77,179	71,281	148,460	84,804	75,890	160,694
<b>Total City Contribution</b>	<b>\$ 97,241</b>	<b>\$ 79,380</b>	<b>\$ 176,621</b>	<b>\$ 104,540</b>	<b>\$ 83,946</b>	<b>\$ 188,486</b>
<b><u>Tier 2</u></b>						
<b>Total City Contribution <sup>(4)</sup></b>	<b>\$ 12,193</b>	<b>\$ 2,114</b>	<b>\$ 14,307</b>	<b>\$ 14,847</b>	<b>\$ 2,682</b>	<b>\$ 17,529</b>

<sup>(1)</sup> Includes the reciprocity rate for the prefunding of the liability for reciprocal benefits with certain other California public pension plans. The Plan Actuary reports that the decrease in the City's Normal Cost Tier 1 contribution in fiscal year 2021-2022 is due to the decline in Tier 1 active members.

<sup>(2)</sup> Includes the deficiency rate for the amortization of the funding deficiency and the golden handshake rate for the cost for funding additional benefits granted in the past to certain retiring employees.

<sup>(4)</sup> The Plan Actuary reports that the increase in the City's total contribution for Tier 2 is due primarily to the growth in Tier 2 membership.

Source: Resolution No. 9094 of the Federated Board, approved by the Federated Board on May 21, 2020; Resolution No. 9095 of the Federated Board, approved by the Federated Board on May 21, 2020; Federated 2020 Pension Plan Actuarial Report.

**Projected City Contributions.** Table B-12 provides 20-year projections of City contributions calculated by the Plan Actuary for the Federated Pension Plan assuming such contributions are made by the middle of the year.

**Table B-12**  
**20-Year Projections of Pension Contributions**  
*(in thousands)*  
*(middle of the year)*

<b>Fiscal Year Ended June 30</b>	<b>Projected City Contribution Amount</b>	<b>Projected Total Contribution Rate (% of Payroll)</b>
2022	\$ 206,015,000	58.56%
2023	212,762,000	58.72
2024	219,787,000	58.89
2025	226,590,000	58.94
2026	232,536,000	58.73
2027	237,757,000	58.30
2028	243,224,000	57.90
2029	248,302,000	57.39
2030	254,238,000	57.05
2031	260,401,000	56.73
2032	259,264,000	54.84
2033	265,843,000	54.59
2034	262,535,000	52.34
2035	259,432,000	50.22
2036	269,526,000	50.65
2037	277,362,000	50.61
2038	246,674,000	43.70
2039	244,361,000	42.02
2040	236,386,000	39.47
2041	119,561,000	19.38

*Source: Chevron 5-Year Budget Projections for Federated Plan January 15, 2021.*

For the Federated Pension Plan, the 20-year projections show contribution rates increasing slightly for the next few years due to recognition of recent losses recognized as a result of investment returns below the discount rate. Thereafter, the City's contribution rate is projected to gradually decrease through 2037. The gradual decrease in the City contribution rate is driven by the gradual decrease in the Normal Cost rate as Tier 2 becomes a greater proportion of the active membership and the gradual decrease in the UAL rate as payroll is expected to grow slightly faster than amortization payments. According to the Plan Actuary, if all assumptions are met, the Federated Pension Plan will reach a funded status of 84% by 2035.

It is certain that not all assumptions will be exactly met each and every year. In the Federated 2020 Pension Plan Actuarial Report, the Plan Actuary notes that there is a significant level of uncertainty in projections of the future, the largest source of which is the projection of investment returns. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates. See "SUMMARY OF FEDERATED PLAN – Summary of Historical and Projected Contributions – Plan Risks."

## Investments

The State Constitution and the Municipal Code provide that the Federated Board has exclusive control over the investment of the assets of the Federated Pension Plan. The Municipal Code also specifies that the Federated Board is to manage the investments for the purpose of providing benefits to its members and beneficiaries, maintaining the actuarial soundness of the Federated Pension Plan, and defraying reasonable expenses of administering the plan. The Federated Board has retained investment consultants to advise it.

Table B-13 shows the historical annual returns for the Federated Pension Plan at the identified interval as reported by the Federated Pension Plan's investment consultant in its quarterly report for the period ending September 30, 2020.

<b>Table B-13</b> <b>Federated Pension Plan</b> <b>Historical Investment Performance</b> <b>(As of September 30, 2020)</b>	
<b>Measurement Period</b>	<b>Rate of Return<sup>(1)</sup></b>
Since Inception	6.7%
10 Years	5.4
5 Years	6.4
3 Years	5.6
1 Year	9.9

<sup>(1)</sup> The returns for certain investments (fixed income, private debt and real assets) are gross of fees through June 2015 and net of fees thereafter.  
<sup>(2)</sup> Net of fees.  
<sup>(3)</sup> Measurement Period Beginning January 1994.  
*Source: Meketa Investment Group Federated Pension Plan Quarterly Review September 30, 2020.*

Annually, the Federated Board receives projections from its investment consultants for the expected net rates of return based on approved target asset allocations. Investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the Federated Pension Plan. The Federated Board, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with its diversification goals and risk tolerance.

On March 27, 2020, the Federated Board, updated its investment asset allocations to increase the allocation of growth assets in an effort to balance potential increased return expectations going forward with the investment risk tolerance of the City after assessing the impact of COVID-19 on plan assets at such time, potential effects on the City, and fiscal and monetary stimulus. On May 7, 2020, the Federated Board adopted its revised Investment Policy Statement (the “**Investment Policy Statement**”), which further updated asset allocation targets. Table B-14 shows such asset allocation targets. Asset allocation targets represent the ultimate allocation goal of the Federated Pension Plan. However, during periods of allocation transition, asset allocation target objectives may not be achieved. The Federated Pension Plan is in the process of transitioning the asset allocations to new asset allocation targets in shown in Table B-14. Changes to the allocations of illiquid asset classes may take several quarters to implement.

**Table B-14**  
**Federated Pension Plan**  
**Target Asset Allocations**

<b>Asset Class</b>	<b>Target %</b>
<b>Growth</b>	<b>75</b>
Public Equity	49
Private Markets	21
Private Equity	8
Venture/Growth Capital	4
Private Debt	3
Growth Real Estate	3
Private Real Assets	3
Emerging Markets Bonds	3
High Yield Bonds	2
<b>Low Beta</b>	<b>8</b>
Market Neutral Strategies	3
Bonds (Immunized Cash Flows)	5
<b>Other</b>	<b>17</b>
Core Real Estate	5
Long-Term Government Bonds	2
Investment Grade Bonds	8
TIPS	2
<i>10-Year Expected Return <sup>(1)</sup></i>	<i>6.9</i>
<i>20-Year Expected Return <sup>(1)</sup></i>	<i>7.8</i>
<i>Standard Deviation <sup>(1)</sup></i>	<i>13.6</i>
<sup>(1)</sup> Neither the City nor the Underwriters can provide any assurance that actual returns will not be less than those expected by the respective Board.	
Source: Federated City Employees' Retirement System Investment Policy Statement, Approved by the Federated Board on April 16, 2020.	

For a description of the types of investments in each asset class identified in Table B-14, please see the Investment Policy Statement. A copy of the Investment Policy Statement may be found at [http://www.sjretirement.com/Uploads/Fed/200518\\_May%202020%20IPS%20Fed.pdf](http://www.sjretirement.com/Uploads/Fed/200518_May%202020%20IPS%20Fed.pdf). Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. Neither the City nor the Underwriters make any representation as to the accuracy or completeness of any of the information on such website. See also the Federated 2020 CAFR.

## **FEDERATED HEALTHCARE PLAN**

### **General**

The Federated Healthcare Plan provides eligible retirees, their dependents, and survivors with health and dental benefits. For health benefits, the Federated Healthcare Plan pays that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for active City employees. If the retiree elects a medical plan that is not the lowest priced plan, the eligible retiree or survivor pays the difference between the portion paid by the Federated Healthcare Plan and that charged by the medical care provider. In the case of dental benefits, the Federated Healthcare Plan pays the entire premium. Retired members of the Federated Healthcare Plan eligible for medical and/or dental benefits may elect annually not to receive benefits for the plan year and participate in the in-lieu credit program, providing a credit equal to 25% of the lowest cost plan for that year which may be applied to member premiums in future years.

As described in “CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS,” the Federated Healthcare Plan is closed to new members. Generally, members of the Federated Plan that were hired before July 2013 and did not elect to opt into the VEBA are eligible for defined benefit retiree healthcare benefits from the Federated Healthcare Plan. Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provided through the Federated Healthcare Plan until the member is eligible for Medicare after exhausting all funds in their individual VEBA account.

The contributions for the members who opted into the VEBA and opted out of the Federated Healthcare Plan were transferred to the VEBA for the Federated Healthcare Plan in March 2018. As of June 30, 2020, approximately \$13.53 million in contributions had been transferred to the VEBA. Eligible employees who are rehired by the City during calendar years 2018 through 2022 may opt into the VEBA for the Federated Healthcare Plan if they were not employed during the initial opt-in period and transfer the retiree healthcare contributions from the Federated Healthcare Plan to its VEBA account. The financial reporting, disclosure, and accounting for costs and obligations related to the Federated Healthcare Plan are consistent with the requirements of GASB Statement No. 74 and GASB Statement No. 75. The Federated Healthcare Plan provides financial reporting according to the requirements of GASB Statement No. 74. The City provides financial reporting, disclosure, and accounting for costs and obligations related to the Federated Healthcare Plan according to the requirements of GASB Statement No. 75. GASB Statement No. 74 and GASB Statement No. 75 require the liability for OPEB obligations, known as the Net OPEB Liability, and an OPEB expense to be recognized in the financial statements of the Federated Healthcare Plan and the City. OPEB expense under GASB Statement No. 74 and GASB Statement No. 75 recognizes deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period. See “RETIREMENT PLANS IN GENERAL – Implementation of Certain Accounting Changes Relating to Retirement Plans.”

### **Establishment of Federated 115 Trust; Internal Revenue Code Limitations**

The Section 401(h) of the Code permits a pension plan to provide retiree healthcare benefits under certain conditions, including when: (1) a separate account (i.e., a 401(h) account) is maintained for the healthcare benefits; and (2) the healthcare benefits are subordinate to the pension benefits. Under IRS regulations, subordination means that the contributions for healthcare benefits do not exceed 25% of the aggregate contributions excluding contributions to fund past service credits. Exceeding the subordination limit puts a pension plan at risk of losing its tax-exempt status, which in turn, would subject the pension plan's income to the payment of income tax and reduce the assets available for the payment of benefits.

To avoid exceeding the subordination limit for the 401(h) accounts held in the Federated Pension Plan, the City Council enacted an ordinance to establish a separate trust under Section 115 of the Code for the Federated Plan effective June 2011 (the “**Federated 115 Trust**”). The Federated Board serves as the board of trustees for the Federated 115 Trust. The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019, leaving only the Federated 115 Trust in the Healthcare Plan. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Assets in other trusts established under Section 115 of the Code are not available to satisfy liabilities of the Federated 115 Trust, and vice versa.

The Federated Board received a private letter ruling from the IRS on the tax-exempt status of the Federated 115 Trusts. Additionally, on August 6, 2013, in response to the City’s request, the IRS issued a private letter ruling indicating that employee contributions into the Federated 115 Trust may be made as employer contributions and therefore are excludable from the employee’s gross income and are not subject to income or other employment taxes. Employee contributions to the Federated 115 Trust commenced on December 22, 2013.

The Federated Board has been advised that the contributions made to the Federated 115 Trust must be treated as non-refundable in order to maintain the tax-exempt status of the Federated 115 Trust. The Federated Plan permits employee pension and retiree healthcare contributions held in the 401(h) accounts to be refunded. To date, retiree healthcare contributions have been refunded from the pension fund of the Federated Pension Plan, not the 401(h) account therein. Employees are only eligible to receive the portion of their retiree healthcare contributions that were made to the 401(h) account before January 1, 2014. After such date, all employee contributions were placed into the Federated 115 trust. Employees have to take a return of contributions from the pension and retiree healthcare plans in order to receive the amount that they previously contributed into the 401(h) account.

## **Funding Status**

**General.** Following is a summary of the funded status of the Federated Healthcare Plan on an actuarial and financial statement basis.

**Actuarial Funded Status.** The Federated 2020 Healthcare Plan Actuarial Report is the most recent actuarial valuation available for the Federated Healthcare Plan as of the date of this Official Statement. The following information is derived primarily from such report.

Tables B-15 and B-16 show the Market Value of Assets, the Actuarial Value of Assets and Total Actuarial Liability of the Federated Healthcare Plan. Actuarial valuations of a plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about claim costs, health care trend rates and dependent coverage elections. These measures, including the UAL and funded ratio as described in this Appendix B, are intended to be used to assess contribution amounts for an ongoing other post-employment benefits plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the obligations of the Federated Healthcare Plan on a risk-free basis, because actual events and plan experience may deviate from the assumptions used in the actuarial calculations and such deviations may be material.

**Table B-15**  
**Federated Healthcare Plan**  
**Assets and Liabilities**  
**(in thousands)**

	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>% Change</b>
Total Actuarial Liability	\$ 631,752	\$ 650,419	3.0%
Market Value Assets	294,489	303,313	3.0
Explicit Subsidy Unfunded Actuarial Liability	246,326	255,764	3.8
Explicit Subsidy Funded Percentage	54.5%	54.3%	(0.4)
Total Unfunded Actuarial Liability <sup>(1)</sup>	\$ 337,263	\$ 347,106	2.9
Total Funded Percentage	46.6%	46.6%	0.0

<sup>(1)</sup>According to the Plan Actuary, the net increase in the UAL is due to (i) assumption changes primarily relating to plan election assumptions and the decrease in the discount rate from 6.75% to 6.25% (resulting in an increase of approximately \$35.5 million), and investment experience and VEBA transfers (resulting in an increase of approximately \$17.7 million), offset by (ii) liability experience primarily driven by decreases in the Medicare eligible premium rates offset by demographic experience (resulting in a decrease of approximately \$32.9 million), and contributions in excess of the amount needed to pay the normal cost and interest on the UAL (resulting in a decrease of approximately \$10.9 million).

Source: Federated 2020 Healthcare Plan Actuarial Report.

**Table B-16**  
**Federated Healthcare Plan**  
**Market Value of Assets**  
**(in thousands)**

	<b>2018-2019</b>	<b>2019-2020</b>
Market Value, Beginning of Year	\$ 277,257	\$ 294,488
Contributions		
Member	10,578	10,692
City	22,328	21,790
Implicit Subsidy	4,082	4,743
Total	\$ 36,988	\$ 37,225
Net Investment Earnings <sup>(1)</sup>	9,472	3,075
Benefit Payments <sup>(2)</sup>	(28,826)	(30,779)
Admin Expense	(384)	(686)
VEBA Transfer	(19)	(13)
<b>Market Value, End of Year</b>	<b>\$ 294,488</b>	<b>\$ 303,310</b>

<sup>(1)</sup> Gross investment earnings less investment expenses.

<sup>(2)</sup> Includes both explicit and implicit subsidies. The implicit subsidy is shown as both a contribution and a payment from the plan, but it is not actually contributed to the trust or paid from the trust. It is paid by the City as a part of active health plan premiums.

Source: Federated 2020 CAFR.

In the Federated 2020 Healthcare Plan Actuarial Report, the Plan Actuary further notes that if all assumptions are met in the future, including an expected return of 6.25% each year, the funded percentage for the explicit subsidy is expected to exceed 100% by 2038.

The 401(h) account for the Federated Healthcare Plan was depleted in fiscal year 2018-2019 as a result of Federated Healthcare Plan contributions having been made solely to the Federated 115 Trust while at the same time benefits having been paid only from the Federated Healthcare Plan 401(h) account. All Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. The expected investment returns for the Federated Healthcare Plan will be based solely on the investment policy of the Section 115 Trust.

Table B-17 shows the UAL and Funded Ratio of the Federated Healthcare Plan from fiscal year 2011-2012 through fiscal year 2019-2020. As shown in Table B-17, the UAL of the Federated Healthcare Plan decreased approximately \$663 million from approximately \$1 billion as of the June 30, 2011 valuation date to approximately \$347 million as of the June 30, 2020 valuation date, a decrease of 66%. The Plan Actuary further reports that, excluding the portion of the UAL relating to the implicit subsidy, the UAL decreased approximately \$357 million from approximately \$613 million as of the June 30, 2011 valuation date to approximately \$255 million as of the June 30, 2020 valuation date, a decrease of 58%.

According to the Plan Actuary, the decrease over the past 10 fiscal years in the UAL of the Federated Healthcare Plan, excluding the portion thereof relating to the implicit subsidy, is due to a combination of a reduction in the Actuarial Liability of \$189 million and an increase in assets of \$168 million. The Plan Actuary reports that the reduction in Actuarial Liability was primarily due to plan changes and favorable medical cost trend experience. The increase in the assets has been primarily attributable to contributions. In the future, growth in assets will become more dependent on investment returns as benefit payments grow to equal or exceed contributions. See “FEDERATED HEALTHCARE PLAN – Contributions – General” for a discussion regarding the implicit subsidy.

In December 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2020 Healthcare Plan Actuarial Report, which included a reduction in the discount rate from 6.75% to 6.25%.

**Table B-17**  
**Federated Healthcare Plan**  
**Schedule of OPEB Funding Progress**  
*(in thousands)*

<b>Valuation Date (June 30)</b>	<b>Market Value of Assets</b>	<b>Actuarial Liability</b>	<b>UAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAL as % of Covered Payroll</b>
2011	\$ 135,454	\$ 1,145,360	\$1,009,906	12%	\$ 228,936	441%
2012	137,798	1,096,620	958,822	13	225,859	425
2013	157,695	870,872	713,177	18	226,098	315
2014	199,776	729,406	529,630	27	234,677	226
2015	209,761	817,673	607,912	26	251,430	242
2016	225,845	764,261	538,416	30	266,823	202
2017	248,583	630,452	381,869	39	287,339	133
2018	277,256	650,114	372,858	43	298,985	125
2019	294,489	631,752	337,263	47	299,002	113
2020	303,313	650,419	347,106	47	322,850	108

*Source: Federated 2020 Healthcare Plan Actuarial Report.*



As shown in Table B-17, the Federated Healthcare Plan's UAL was 108% of total covered annual payroll as of the June 30, 2020 valuation date of the Federated 2020 Healthcare Plan Actuarial Report. As a result, to fully fund the UAL of the Federated Healthcare Plan contributions would need to exceed 1.08 times the covered payroll for fiscal year 2019-2020.

**Net OPEB Liability.** For purposes of financial reporting, GASB Statements No. 74 and 75 require the Federated Healthcare Plan and the City, respectively, to report Net OPEB Liability in their respective financial statements. Net OPEB Liability is measured as the Total OPEB Liability less the OPEB plan fiduciary net position. The City's financial statements calculate Net OPEB Liability using a measurement date that is one year prior to the measurement date used for the Plans financial statements. As a result, the financial statements of the Federated Plan show Net OPEB Liability one year later in date.

Table B-18 sets forth the Total OPEB Liability as of June 30, 2019 and June 30, 2020 based on results of an actuarial valuation date of June 30, 2018 and June 30, 2019, respectively, rolled-forward to June 30, 2019 and June 30, 2020, respectively, using generally accepted actuarial procedures.

**Table B-18**  
**Federated Healthcare Plan**  
**Components of Net OPEB Liability**  
**(in thousands)**

	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>% Change</u>
Total OPEB Liability	\$ 672,193	\$ 649,866	(3.3%)
Plan fiduciary net position	(294,488)	(303,310)	3.0%
Net OPEB Liability	\$ 377,705	\$ 346,556	(8.2%)
Plan fiduciary net position as a percentage of the Total OPEB Liability	43.8%	46.7%	6.6%

*Source: Federated 2020 CAFR.*

*[Remainder of page intentionally left blank]*

## Actuarial Assumptions

Actuarial assumptions used for the valuations for the health and dental benefits provided by the Federated Healthcare Plan are generally the same as are used for the valuations of the Federated Pension Plan. In addition to such assumptions, the Plan Actuary employs assumptions with respect to future healthcare utilization and inflation. See “FEDERATED PENSION PLAN – Actuarial Assumptions.”

Table B-19 summarizes the actuarial valuation methods and assumptions employed by the Plan Actuary in the Federated 2020 Healthcare Plan Actuarial Report.

<b>Table B-19</b> <b>Federated Healthcare Plan</b> <b>Healthcare Actuarial Assumptions</b>	
Valuation Date	June 30, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed, layers
Amortization period	20 Years -3 year phase in and out
Asset valuation method <sup>(1)</sup>	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	3.00%
Discount Rate	6.25%
<sup>(1)</sup> The market value of assets means the actual value of assets, and not the smoothed value, is used. <i>Source: Federated 2020 Healthcare Plan Actuarial Report.</i>	

The net rate of return assumed by the Federated Healthcare Plan represents the long-term expected rate of return on the plan’s investments net of investment expenses. In December 2020, the Federated Board adopted changes to the economic assumptions for the Federated 2020 Healthcare Plan Actuarial Report, which included a reduction in the assumed net rate of return, or discount rate, from 6.75% to 6.25%. Table B-20 shows the historical discount rates for the Federated Healthcare Plan from the June 30, 2011 valuation through the June 30, 2020 valuation.

<b>Table B-20</b> <b>Federated Healthcare Plan</b> <b>Historical Discount Rates</b>									
<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
7.50%	7.50%	7.25%	7.00%	7.00%	6.875%	6.875%	6.75%	6.75%	6.25%
<i>Source: Federated 2020 Healthcare Plan Actuarial Report.</i>									

## Contributions

**General.** The annual contribution costs for the benefits of the Federated Healthcare Plan are allocated to both the City and the active employee members. Historically, member and City contributions to the Federated Healthcare Plan were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions by the City and the participating employees to the Federated

Healthcare Plan were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution for the retiree health and dental benefits provided by the Federated Healthcare Plan as calculated pursuant to GASB Statements No. 43 and 45 as then in effect. However, the contribution rates for the City and members of the Federated Healthcare Plan were capped before the full annual required contribution was reached.

With the implementation of Measure F, member contributions are fixed as a percentage of pay, and the City's contribution toward the explicit subsidy (premium subsidy) is an Actuarially Determined Contribution. The City has an option to limit its Actuarially Determined Contribution to a fixed percentage of the payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan. The Plan Actuary commenced calculating the Actuarially Determined Contribution for the Federated Healthcare Plan in fiscal year 2018-2019. See "CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS" for a discussion of Measure F.

In the Federated 2020 Healthcare Plan Actuarial Report, the Plan Actuary indicates that because new entrants to the Federated Healthcare Plan are only entitled to catastrophic disability benefits and do not contribute to the Federated Healthcare Plan, member contributions are expected to decline as current active members eligible for full benefits retire or otherwise leave active employment with the City. Because member contributions pay all of the Normal Cost plus a portion of the UAL, the City's Actuarially Determined Contribution is expected to increase slightly as the member contributions decrease.

The City pays the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees. The liabilities for the implicit subsidy have been included in the GASB Statements No. 74 and 75 disclosure calculations reported in the financial statements of the Federated Healthcare Plan and the City. The implicit subsidy is included in the actuarial valuations of the Federated Healthcare Plan. The implicit subsidy is shown in such statements as both a contribution and payment from the Federated Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Federated Healthcare Plan. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The Plan Actuary separately calculates the total UAL, being the aggregate UAL for both implicit and explicit subsidies, and the UAL for only the explicit subsidy. The UAL for the explicit subsidy is used to calculate the City's Actuarially Determined Contribution to the Federated 115 Trust.

Effective March 25, 2018, the Tier 1 and Tier 2 members in the Federated Healthcare Plan who opted to remain in the Federated Healthcare Plan contribute 7.5% of pay. The City continued to pay the phased-in contribution rate until the beginning of fiscal year 2018-2019. Currently, the City makes the Actuarially Determined Contribution determined by the Federated Board subject to a cap of 14% of payroll of all active members eligible for full benefits or catastrophic disability benefits under the Federated Healthcare Plan, not just active members of the Federated Healthcare Plan. For purposes of calculating the City's contribution to the explicit subsidy UAL, the UAL as of June 30, 2017, is amortized as a level dollar amount over a closed 20-year period. All future UAL amortization bases will be amortized over 20-year periods with a 3-year phase-in and phase-out.

**Historical City and Member Contributions.** Table B-21 shows the components of the Actuarially Determined Contribution for the Federated Healthcare Plan for fiscal years 2020-2021 and 2021-2022. The Federated Board has not yet adopted a resolution imposing the contribution rates for fiscal year 2021-2022 on the City and plan members.

<b>Table B-21</b> <b>Federated Healthcare Plan</b> <b>Actuarially Determined Contribution</b> <b>Explicit Subsidy Only</b> <i>(in thousands)</i>			
	<b>2020-2021</b>	<b>2021-2022</b>	<b>% Change</b>
Normal Cost	\$ 5,805	\$5,815	0.2%
UAL Payment	24,500	23,197	(5.3)
Total Contribution	\$30,305	\$29,012	(4.3)
Projected Member Contributions	9,356	9,076	(3.0)
City ADC Amount	\$ 20,949	\$19,936	(4.8)
Projected Total Payroll	\$ 307,972	\$ 332,536	8.0
City ADC Percentage	6.8%	6.0%	(11.8)

*Source: Resolution No. 9094 of the Federated Board, approved by the Federated Board on May 21, 2020; Resolution No. 9095 of the Federated Board, approved by the Federated Board on May 21, 2020; Federated 2020 Healthcare Plan Actuarial Report.*

**Projected City Contributions.** In January 2021, as directed by the Federated Plan, the Plan Actuary provided five-year budget projections for the City's contributions for the Federated Healthcare Plan based on the Federated 2020 Healthcare Plan Actuarial Report. The projections assume that all valuation assumptions were exactly met since June 30, 2020, and are exactly met each and every year for the projection period. Such projections together with a projection of OPEB payroll are summarized in the following table. According to the Plan Actuary, City contributions to the Federated Healthcare Plan are expected to increase in the future as members retire or otherwise leave the plan.

<b>Table B-22</b> <b>Federated Healthcare Plan</b> <b>5-Year Projections of Contributions</b> <i>(in thousands)</i> <b>(Throughout the Year)</b>				
<b>Fiscal Year Ended June 30</b>	<b>Full Benefit Payroll</b>	<b>Total Payroll</b>	<b>Estimated City Contribution Cap</b>	<b>Actuarially Determined Contribution</b>
2022	\$ 121.0	\$ 351.8	\$ 46.6	\$ 19.9
2023	111.8	362.4	48.0	19.8
2024	103.3	373.2	49.4	20.7
2025	95.0	384.4	50.9	20.9
2026	87.1	396.0	52.4	21.1

*Source: Cheiron 5-Year Budget Projections for Federated Plan, January 13, 2021.*

The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. According to the Plan Actuary, City contributions for the Federated Healthcare Plan represent payments solely toward the

UAL, as member contributions are sufficient to cover Normal Costs during this period. According to the Plan Actuary, if all assumptions are met in the future, including an expected return of 6.25% each year, the funded percentage for the explicit subsidy is expected to exceed 100% by 2038. It is certain that not all assumptions will be exactly met each and every year. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates.

## Investments

The Federated Healthcare Plan is funded through the Federated 115 Trust as the 401(h) account within the Federated Pension Plan was depleted in 2018-2019. As a result, all Federated Healthcare Plan benefits are now paid from the Federated 115 Trust. Table B-23 shows the historical annual returns net of fees for the Federate Section 115 Trust at the identified interval as reported by the investment consultants of the Federated Healthcare Plan in the quarterly report for the period ending September 30, 2020.

**Table B-23**  
**Federated 115 Trust**  
**Historical Investment Performance**  
**(As of September 30, 2020)**

Measurement Period	Net Rate of Return
Since Inception <sup>(1)</sup>	4.5%
10 Years	-
5 Years	5.4
3 Years	3.8
1 Year	5.6

<sup>(1)</sup> Measurement Period Beginning July 2011.

Source: Meketa Investment Group Federated Retiree Healthcare 115 Trust Quarterly Review September 30, 2020.

The most recent target allocations for the Federated 115 Trust are shown in the following table.

**Table B-24**  
**Federated 115 Trust**  
**Target Asset Allocation**

Asset Class	Target %
<b>Growth</b>	<b>56</b>
US Equity	28
Developed Market Equity (non-US)	13
Emerging Market Equity	15
<b>Zero Beta</b>	<b>29</b>
Short-Term Investment-Grade Bonds	29
<b>Other</b>	<b>15</b>
Core Real Estate	10
Commodities	5
20-Year Expected Return <sup>(1)</sup>	6.8
Standard Deviation <sup>(1)</sup>	11.8

<sup>(1)</sup> Neither the City nor the Underwriters can provide any assurance that actual returns will not be less than those expected by the respective Board.

Source: Meketa Investment Group San Jose Federated City Employees' Health Care 115 Asset Allocation Review and Risk Analysis, Asset Allocation Approved by the Federated Board on September 20, 2018.

For a description of the types of investments in each asset class for the target asset allocations identified in Table B-24, please see the Federated City Employees' Retirement System Investment Policy Statement, Approved by the Federated Board on April 18, 2019, at <https://sjrs.legistar.com/MeetingDetail.aspx?ID=687980&GUID=C9713B0A-A68F-4035-A4EF-2DF78A9B363C&Search=>. Reference to the foregoing website is provided solely for informational purposes and is not incorporated herein by this reference. Neither the City nor the Underwriters make any representation as to the accuracy or completeness of any of the information on such website.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT

#### DEFINITIONS

*The following are definitions of certain terms used in this Official Statement, including in the summaries of the Master Trust Agreement and the Twelfth Supplemental Trust Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of the Master Trust Agreement and the Twelfth Supplemental Trust Agreement.*

##### Accreted Value

“Accreted Value” means, with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Agreement as the amount representing the initial principal amount of such Capital Appreciation Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date (plus, if such calculation is between compounding dates, the amount of interest accumulated at the original offering yield of the Capital Appreciation Bond from the most recent compounding date) as determined in accordance with the provisions of the Supplemental Agreement authorizing the issuance of such Capital Appreciation Bonds.

##### Act

“Act” means Section 9110 of the Aviation Safety and Capacity Expansion Act of 1990 (codified at 49 U.S.C. App. 1513(e)), as amended or any successor or similar federal statute.

##### Additional Bonds

“Additional Bonds” means Bonds issued pursuant to the Master Trust Agreement with a parity claim with Bonds previously issued thereunder as to General Airport Revenues.

##### Allocated General Airport Revenues

“Allocated General Airport Revenues” has the meaning set forth under “SECURITY FOR THE BONDS — Flow of Funds — Surplus Revenue Fund — Rate Stabilization Fund” in the forepart of this Official Statement.

##### Annual Debt Service

See definition of “Debt Service.”

##### Available PFC Revenues

“Available PFC Revenues” means PFC Revenues made available to pay Debt Service in any period as described under “SECURITY FOR THE BONDS — Other Available Funds, CFC Revenues and Available PFC Revenues” in the forepart of this Official Statement.

##### Balloon Bond

“Balloon Bond” means any Bond (including commercial paper notes and bond anticipation notes), 25% or more of the principal of which matures or is payable on the same date and

which is not required by the instrument pursuant to which such Bond was incurred, to be amortized by payment or redemption prior to such date.

#### Beneficial Owner

“Beneficial Owner” means the Person who has an ownership interest in any Bond which is held in custodial deposit by DTC and registered in the name of Cede & Co., the nominee of DTC, or by any other institution designated to act as depository or nominee pursuant to the Master Trust Agreement.

#### Bond Counsel

“Bond Counsel” means a counsel of recognized national standing in the field of law relating to municipal bonds and the exemption from federal income taxation of interest thereon, appointed and paid by the City.

#### Bondholder; Bondowner, Owner

“Bondholder,” “Bondowner” or “Owner” means any person who shall be the registered owner of any Outstanding Bond.

#### Bonds

“Bonds” means all of the bonds authorized by, and at any time Outstanding pursuant to, the Master Trust Agreement or any Supplemental Agreement, including any Additional Bonds authorized by, and at any time Outstanding pursuant to, the Master Trust Agreement and any Supplemental Agreement, but not including Subordinate Obligations.

#### Book-Entry Bonds

“Book-Entry Bonds” means Bonds issued under the book-entry system pursuant to the Master Trust Agreement.

#### Business Day

“Business Day” means any day other than a Saturday, Sunday or day upon which banks in San Francisco, California, or New York, New York are authorized or required to be closed.

#### Capital Appreciation Bonds

“Capital Appreciation Bonds” means Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Agreement and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically shall be Capital Appreciation Bonds until the conversion date and from and after such conversion date shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

#### CFC Law

“CFC Law” means Sections 50474.1, 50474.21 and 50474.3, collectively, of the California Government Code, as amended, and Ordinance No. 26063 adopted by the Council on March 7,



2000 and codified as Part 6 of Chapter 25.08 of the San José Municipal Code, as amended, or any successor legislation.

#### CFC Revenues

“CFC Revenues” means all amounts received by the City from the payment of any customer facilities fees or charges and customer transportation fees or charges by customers of automobile rental companies, including but not limited to fees or charges pursuant to certain sections of the CFC Law. CFC Revenues also include all interest, profits or other income derived from the deposit or investment of any CFC Revenues.

#### Code

“Code” means the Internal Revenue Code of 1986, as amended, and any successor to the Code.

#### Continuing Disclosure Agreement

“Continuing Disclosure Agreement” means, with regard to any Bonds, the agreement signed by the City and acknowledged by the Trustee on the date such Bonds are issued in form and substance satisfactory to the purchaser of such Bonds, pursuant to the requirements of Securities and Exchange Commission Rule 15c2-12.

#### Current Interest Bonds

“Current Interest Bonds” means Bonds interest on which is payable at least annually pursuant to the Supplemental Agreement under which they are issued.

#### Debt Service; Annual Debt Service; Maximum Annual Debt Service

“Debt Service” means for any specified period the sum of (1) 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 the payment of interest on such Bonds, and (2) the Principal Installments payable on any then Outstanding Bonds. For the purpose of determining Debt Service on any Bonds, the following shall apply:

To determine the interest payable on Variable Rate Bonds, the interest rate used shall be (except to the extent that either subsection (2) relating to Hedged Bonds or subsection (4) relating to Balloon Bonds applies), at the option of the City either (a) for purposes of the calculations required by the rate maintenance covenant (see “SECURITY FOR THE BONDS—Rate Maintenance Covenant” in the forepart of this Official Statement), the actual interest rates which were in effect for the relevant period of calculation, or (b), for all other purposes, the current average annual fixed rate of interest on securities of similar quality, subject to similar federal and state income tax treatment and having a similar maturity date, all as certified by a Financial Advisor, plus 25 basis points (0.25%). With respect to any Guaranteed Obligations, Debt Service shall include the Guaranteed Obligation Requirements, if any.

With respect to any Hedged Bonds, the interest on such Hedged Bonds during the term of any Qualified Hedge and for so long as the related Qualified Hedge Provider has not defaulted on its payment obligations thereunder, shall be calculated by adding (a) the amount of interest payable by the City on such Hedged Bonds pursuant to their terms, and (b) the amount of payments payable by the City under the related Qualified Hedge, and subtracting (c) the amount of payments payable to the City under

the Qualified Hedge by the Qualified Hedge Provider at the rate specified in the related Qualified Hedge; provided, however, that to the extent that the related Qualified Hedge Provider is in default under the Qualified Hedge, the amount of interest payable by the City on the related Hedged Bonds shall be the interest calculated as if such Qualified Hedge had not been executed. In determining the amount of payments by or receipts of the City under a Qualified Hedge for any future period that are not fixed throughout the term thereof (i.e., which are variable), such payments or receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

For the purpose of calculating the Debt Service on Balloon Bonds which do not constitute Short-Term Obligations excluded from the calculation of Debt Service pursuant to clause (6) below, such Balloon Bonds shall be treated as if the principal amount thereof were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of 25 years (provided, however, that the full principal amount of such Balloon Bonds shall be included in making such calculation if such principal amount is due within one year of the date such calculation is being made); and, if interest accrues under such Balloon Bonds at other than a fixed rate, the interest rate used for such computation shall be the rate at which the City could borrow (as of the time of calculation) for such period, as certified by a certificate of a Financial Advisor delivered to the City. With respect to any Guaranteed Obligations, Debt Service shall include the Guaranteed Obligation Requirements, if any.

The principal of and interest on Bonds, Guaranteed Obligation Requirements and payments under a Qualified Hedge shall be excluded from the determination of Debt Service to the extent that the same were or are expected to be paid with amounts on deposit on the date of calculation (or Bond proceeds to be deposited on the date of issuance of proposed Bonds) in a fund under the Master Trust Agreement or any Supplemental Agreement.

For purposes of computing the Debt Service of Paired Obligation Bonds, the applicable rate of interest payable thereon shall be the net interest rate payable pursuant to the offsetting indices.

For purposes of calculating the Debt Service of Short-Term Obligations which are or will be payable only from General Airport Revenues of the Fiscal Year in which such Short-Term Obligations are incurred, such Short-Term Obligations shall be disregarded and shall not be included in calculating Debt Service.

Notes which are issued in anticipation of the receipt of grants shall not be included in calculating Debt Service.

If any of the Bonds are, or upon issuance will be, Bonds for which the City is entitled to receive payments from the federal government (including, without limitation, subsidy or tax credit payments on account of the issuance of Bonds pursuant to federal legislation, including legislation that may amend, reinstate or is otherwise similar to the federal American Recovery and Reinvestment Act of 2009), as evidenced by an Opinion of Counsel delivered at the time of issuance of such Bonds, the Bonds shall be treated as bearing an interest rate equal to the rate of interest borne by the Bonds for the period of determination reduced by the federal payments which the City expects to receive for such period, provided the City irrevocably pledges such amounts to the repayment of the Bonds in a Written Statement of the City and, to the maximum extent allowable by law, directs that such federal payments be deposited directly with the Trustee for the payment of interest on Bonds pursuant to this Master Agreement.

“Annual Debt Service” means the Debt Service for the Fiscal Year to which reference is made less the Available PFC Revenues for such Fiscal Year.

“Maximum Annual Debt Service” means the largest Annual Debt Service amount for a Fiscal Year ending after the date of calculation.

#### Designated Debt

“Designated Debt” means a specific indebtedness, designated by the City, in which such debt shall be offset with a Qualified Hedge, such specific indebtedness to include all or any part of a series of Bonds.

#### Enterprise

“Enterprise” means the airport enterprise owned and operated by the City, now located partially within and partially without the City, including runways, taxiways, landing pads, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated by the City in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions and improvements thereto, to the fullest extent permitted by the Charter and the Law. The term “Enterprise”, unless otherwise specifically limited in any Supplemental Agreement, shall also include all other airports, airfields, landing places, heliports or places for the take-off and landing of aircraft, and all airport facilities appurtenant thereto, wheresoever situated, hereafter owned or operated by the City.

#### Event of Default

“Event of Default” means an event of that name described under “Events of Default” below.

#### Federal Securities

“Federal Securities” means any of the investments described in subsections (1), (2), (3), (4) or (11) of the definition of Permitted Investments below.

#### Financial Advisor

“Financial Advisor” means an investment banking or financial advisory firm, commercial bank, or any other Person who or which is retained by the City for the purpose of passing on questions relating to the availability and terms of specified types of Bonds, is actively engaged in and, in the good faith opinion of the City, has a favorable reputation for skill and experience in, underwriting or providing financial advisory services in respect of similar types of securities, and possesses any legally required registrations or credentials.

#### Fiscal Year

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or such other fiscal year as may be adopted by the Council for the City.

## General Account

“General Account” means the General Account within the Bond Reserve Fund.

## General Airport Revenues

“General Airport Revenues” means all revenues, income, receipts and moneys derived by the City from the operation of the Enterprise, including (i) income derived from landing fees and the sale or use of airplane fuel, (ii) all other rents and charges made to or for the account of airplanes making use of the Enterprise, (iii) receipts from agriculture, automobile service stations and automobile parking on airport land, (iv) proceeds of loss of use or business interruption insurance, and (v) all receipts from leases and concessions, including rents, percentages of income or receipts for business conducted on any property in the Enterprise or from services performed by the City in connection with or incidental to the operation of the Enterprise, but excluding –

(1) any money received by or for the account of the City from the levy or collection of taxes,

(2) moneys received from the State of California and the United States of America to the extent required to be deposited in restricted funds and/or used for purposes inconsistent with their use as General Airport Revenues under the terms of the Master Trust Agreement,

(3) lease deposits and security deposits,

(4) moneys required to be paid to the State of California and the United States of America pursuant to agreements with the City,

(5) moneys received from insurance proceeds or settlements (except as otherwise provided in the Master Trust Agreement) or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Enterprise,

(6) proceeds from Bonds or Subordinate Obligations issued by the City or proceeds from loans, indebtedness or other obligations entered into by the City,

(7) moneys or securities received by the City as gifts or grants, to the extent the use of such moneys or securities is restricted by the donor or grantor to purposes inconsistent with their use as General Airport Revenues under the terms of the Master Trust Agreement,

(8) CFC Revenues,

(9) PFC Revenues,

(10) Special Facility Revenues,

(11) Unrealized Items,

(12) Qualified Hedge Termination Payments, and

(13) Cargo facility charges or similar fees imposed on any of cargo operators, cargo facilities or cargo parcels.

“General Airport Revenues” also includes all interest, profits or other income derived from the deposit or investment of any moneys in the General Revenue Fund or any account therein except as otherwise provided under the Master Trust Agreement.

#### Guaranteed Obligation Requirements

“Guaranteed Obligation Requirements” means, with respect to any Guaranteed Obligations pertaining to any series of Bonds, for purposes of any calculation for the Fiscal Year in which such calculation is made and for each subsequent Fiscal Year, the amount required to be paid by the City to the Qualified Bank during such Fiscal Year (whether by reason of scheduled payments, payments required to be made at the option or demand of the Qualified Bank, or otherwise) as compensation (to the extent not taken into account in Maintenance and Operation Costs of the Enterprise) or reimbursement in accordance with the terms of the Letter of Credit Agreement, if on or prior to the date of calculation, the Letter of Credit shall have been drawn upon in whole or in part to pay the principal of and/or interest on the Guaranteed Obligations and such draw shall not have been reimbursed. In such case the repayment obligations under the Letter of Credit Agreement shall be on a parity with all Outstanding Bonds.

#### Guaranteed Obligations

“Guaranteed Obligations” means Bonds becoming due on one fixed maturity date, the payment of which is additionally secured by a Letter of Credit issued by a Qualified Bank pursuant to a Letter of Credit Agreement. Nothing prevents any series of Bonds from having two or more maturities of Guaranteed Obligations if the Guaranteed Obligations are not stated to mature in consecutive annual installments.

#### Hedged Bonds

“Hedged Bonds” means Bonds for which the City shall have entered into a Qualified Hedge.

#### Independent Certified Public Accountant

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom –

- (1) is in fact independent and not under domination of the City;
- (2) does not have any substantial interest, direct or indirect, with the City; and
- (3) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

#### Investment Agreement

“Investment Agreement” means:

- (1) an uncollateralized investment agreement that is provided by (i) a domestic FDIC-insured commercial bank or a US branch of a foreign bank, rated at least “Aa2” by Moody’s and “AA” by Standard & Poor’s; (ii) a domestic insurance company rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s; (iii) a domestic structured investment company approved by each Municipal Bond Insurer and rated “Aaa” by Moody’s and “AAA” by Standard

& Poor's; or (iv) a guaranteed corporation or a monoline financial guaranty insurance company approved by each Municipal Bond Insurer, provided that the long-term debt or claims-paying ability rating of the company or the guarantor is "Aaa" by Moody's and "AAA" by Standard & Poor's; and

(2) a collateralized investment agreement that is provided by (i) a registered broker/dealer subject to SPIC jurisdiction rated "A1" or better by Moody's and "A+" or better by Standard & Poor's; (ii) a domestic FDIC-insured commercial bank or a US branch of a foreign bank, rated at least "A1" by Moody's and "A+" by Standard & Poor's; (iii) a domestic insurance company rated at least "A1" by Moody's and "A+" by Standard & Poor's; (iv) a domestic structured investment company approved by each Municipal Bond Insurer and rated "Aaa" by Moody's and "AAA" by Standard & Poor's; or (v) a guaranteed corporation or a monoline financial guaranty insurance company approved by each Municipal Bond Insurer, provided that the long-term debt or claims-paying ability rating of the company or the guarantor is "Aaa" by Moody's and "AAA" by Standard & Poor's.

Notwithstanding the foregoing, both that certain Series 2007 Collateralized Investment Agreement, dated as of September 13, 2007, by and between the Trustee and Citigroup Global Markets Inc., and that certain Series 2004 Collateralized Investment Agreement, dated as of September 13, 2007, by and between the Trustee and Citigroup Global Markets Inc., shall be Investment Agreements under the Master Trust Agreement.

#### Law

"Law" means the City of San José Airport Revenue Bond Law (Chapter 4.38 of the San José Municipal Code).

#### Letter of Credit

"Letter of Credit" means an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit or other similar credit arrangement issued by a Qualified Bank to secure payment of Guaranteed Obligations or Variable Rate Bonds.

#### Letter of Credit Agreement

"Letter of Credit Agreement" means an agreement between the City and a Qualified Bank pursuant to which such Qualified Bank agrees to issue a Letter of Credit and which sets forth the repayment obligation of the City to such Qualified Bank on account of any draw under the Letter of Credit, which agreement shall be authorized by the City in a Supplemental Agreement. Said Supplemental Agreement shall also authorize the issuance or remarketing of the Guaranteed Obligations or Variable Rate Bonds secured by such Letter of Credit.

#### Maintenance and Operation Costs of the Enterprise

"Maintenance and Operation Costs of the Enterprise" means the costs of maintaining and operating the Enterprise, calculated on sound accounting principles, including (among other things) salaries and wages, benefits, fees for services, costs of materials, supplies and fuel, expenses of management, repairs and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and amounts for administration, overhead, insurance, taxes (if any), letter of credit fees, broker-dealer fees, auction agent fees, trustee fees, bond administration expenses, arbitrage rebate calculation and payment requirements and other similar costs, but excluding in all cases depreciation and

obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, costs of capital additions, replacements, betterments, extensions or improvements to the Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, Qualified Hedge Termination Payments, Unrealized Items, costs associated with any Special Facility otherwise paid pursuant to a Special Facility Agreement, and charges for the payment of principal and interest on any indebtedness heretofore or hereafter issued for airport purposes.

#### Maximum Annual Debt Service

See definition of “Debt Service.”

#### Minimum Sinking Fund Account Payments

“Minimum Sinking Fund Account Payments” means the aggregate amounts required by the Master Trust Agreement and any Supplemental Agreement to be deposited in Sinking Fund Accounts for the payment of Term Bonds.

#### Municipal Bond Insurer

“Municipal Bond Insurer” means any insurance company or companies which has or have issued a policy of municipal bond insurance insuring payment of the principal of and interest on any of the Bonds of any series and are designated as such in a Supplemental Agreement providing for the issuance or sale of the Bonds of such series.

#### Net General Airport Revenues

“Net General Airport Revenues” means General Airport Revenues less all Maintenance and Operation Costs of the Enterprise, but not including such Maintenance and Operation Costs as may be paid by the City from available moneys other than General Airport Revenues.

#### Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the City) retained by the City and who is acceptable to the Trustee.

#### Other Available Funds

“Other Available Funds” means amounts (other than General Airport Revenues or PFC Revenues) made available to pay Debt Service in any period as described under “SECURITY FOR THE BONDS – Other Available Funds, CFC Revenues and Available PFC Revenues” in the forepart of this Official Statement.

#### Outstanding

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to certain exceptions) all Bonds theretofore executed, issued and delivered by the City under the Master Trust Agreement except --

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which funds or securities in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Master Trust Agreement satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to the Master Trust Agreement.

For purposes of this definition, Bonds the principal of or interest on which has been paid by a Municipal Bond Insurer shall not be deemed paid by or on behalf of the City, shall not be defeased and shall remain Outstanding under the Master Trust Agreement until paid by the City.

For purposes of determining the percentage of consenting Owners of Capital Appreciation Bonds required by the Master Trust Agreement on any date, the Outstanding aggregate principal amount of Capital Appreciation Bonds shall be equal to the Accreted Value of such Capital Appreciation Bonds on such date.

#### Outstanding Subordinate Notes

“Outstanding Subordinate Notes” means the City’s outstanding San José International Airport Subordinated Commercial Paper Notes, Series A, B and C and any other Subordinated Commercial Paper Notes that are issued and Outstanding from time to time.

#### Paired Obligation Bonds

“Paired Obligation Bonds” means Bonds issued by the City which consist of an arrangement in which two inversely related Variable Rate Bonds are issued with interest based on off-setting indices or other mechanism resulting in a combined payment which is economically equivalent to a fixed rate.

#### Payment Date

“Payment Date” means any interest, or interest and principal, payment date on which payment of the Principal Installments of or interest on the Bonds is due.

#### Permitted Investments

“Permitted Investments” means any of the following, unless provided otherwise in a Supplemental Agreement with regard to a series of Additional Bonds, but only to the extent then permitted by the City’s Investment Policy, as amended from time to time by the Council:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described under subsection (2) below).

(2) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.



(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America:

- (i) U.S. Export-Import Bank (Eximbank);
- (ii) Farmers Home Administration (FmHA);
- (iii) Federal Financing Bank;
- (iv) Federal Housing Administration Debentures (FHA);
- (v) General Services Administration;
- (vi) Government National Mortgage Association (GNMA or “Ginnie Mae”);
- (vii) U.S. Maritime Administration; and
- (viii) U.S. Department of Housing and Urban Development (HUD).

(4) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies:

- (i) Federal Home Loan Bank System;
- (ii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”);
- (iii) Federal National Mortgage Association (FNMA or “Fannie Mae”);
- (iv) Student Loan Marketing Association (SLMA or “Sallie Mae”);
- (v) Resolution Funding Corp. (REFCORP) obligations; and
- (vi) Farm Credit System.

(5) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and rated “AAAm-G,” “AAA-m” or better by Standard & Poor’s Corporation (and the equivalent by Moody’s), and including funds for which the Trustee and its affiliates provide investment advisory or other management services.

(6) Certificates of deposit secured at all times by collateral described in subsections (2) or (3) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Bondholders must have a perfected first security interest in the collateral.

(7) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(8) Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1” or better by Standard & Poor’s.

(9) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.

(11) Pre-refunded Municipal Obligations;

(12) The Local Agency Investment Fund of the State of California;

(13) Investment Agreements; and

(14) Repurchase Agreements.

### Person

"Person" means a corporation, firm, other body corporate (including, without limitation, the United States of America, the State of California, or any other body corporate and politic other than the City), partnership, limited liability company, association, or individual, and also includes an executor, administrator, trustee, receiver, or other representative appointed according to law.

### PFC Revenues

"PFC Revenues" means passenger facility charges collected by the City pursuant to the Act and the Regulations, as amended from time to time, and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

### Pre-refunded Municipal Obligations

"Pre-refunded Municipal Obligations" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(1) which are rated, based on an irrevocable escrow account or fund, in the highest rating category by at least two Rating Agencies; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described under paragraph (2) of the definition of Permitted Investments, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

### Principal Installment

“Principal Installment” means, with respect to any Bond, the amount of principal or Accreted Value payable on a Payment Date, whether by reason of the maturity of a Bond or the mandatory redemption thereof from Minimum Sinking Fund Account Payments.

### Project

“Project” means any additions, enlargements, betterments, extensions and other improvements or expenditures to or related to, and the equipping of, the Enterprise, including, without limitation, the acquisition of land therefor, passenger terminal facilities and related aircraft aprons, automobile parking, runways, utility plants and systems, terminal roadway systems, other transportation systems, rental car facilities, parking facilities and systems related thereto, landscaping, noise control improvements or expenditures (including such expenditures on private property) and related facilities, all as authorized in and described by the Master Trust Agreement or any Supplemental Agreement.

### Qualified Bank

“Qualified Bank” means a state or national bank or trust company or savings and loan association or a foreign bank with a domestic branch or agency which is organized and in good standing under the laws of the United States or any state thereof or any foreign country, which is legally authorized to provide a Letter of Credit with respect to Guaranteed Obligations.

### Qualified Hedge

“Qualified Hedge” means any financial arrangement (including any option obtained by the City to enter into such arrangement in the future) between the City and a Qualified Hedge Provider (a) which provides that each of the parties shall pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or variable rate or measured against some other rate) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement), including a swap, cap, floor or collar; (b) which provides that if such amount is to be paid before it is deemed to have accrued, the amount paid shall reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid after it is deemed to have accrued shall reflect the time value of such funds; (c) which provides that payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one shall pay to the other any net amount due under such arrangement, (d) which relates to Designated Debt consisting of all or part of a particular series of Bonds; (e) the provider of which is a Qualified Hedge Provider or has been a Qualified Hedge Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service is being made; (f) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (g) which has been designated in writing to the Trustee by the City as a Qualified Hedge with respect to such Bonds.

### Qualified Hedge Provider

“Qualified Hedge Provider” means a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Hedge are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations are rated in either of the two highest rating categories by at least two Rating Agencies, or the equivalent thereto in the case of any successor thereto.

### Qualified Hedge Termination Payment

“Qualified Hedge Termination Payment” means an amount payable by the City or a Qualified Hedge Provider, in accordance with a Qualified Hedge, to compensate the other party to the Qualified Hedge for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Hedge.

### Qualified Independent Airport Consultant

“Qualified Independent Airport Consultant” means a person or a firm who or which engages in the business of advising the management of airports concerning the operation and financing of airports, including consultation and advice with respect to leases and agreements with airline companies and concessionaires of all types and character, and also including advice and consultation generally concerning the use and operation of airports, and which person or firm, by reason of his or its knowledge and experience, has acquired a reputation as a recognized airport consultant. Such Qualified Independent Airport Consultant may include a person or firm rendering professional engineering or accounting services in addition to his or its occupation as an airport consultant and may include any person or firm regularly employed by the City as an airport consultant to the City.

### Qualified Reserve Facility

“Qualified Reserve Facility” means (i) a surety bond or similar instrument issued by a Municipal Bond Insurer, obligations insured by which have a rating of “AAA” (or the equivalent) by at least two Rating Agencies (one of which must be Moody’s) on the date the Qualified Reserve Facility is issued, or (ii) a Letter of Credit 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.

### Rating Agency

“Rating Agency” or “Rating Agencies” means Moody’s Investors Service Inc., Standard & Poor’s Rating Service, Fitch, Inc. or any other nationally recognized securities rating agency providing a rating on the Bonds.

### Regularly Scheduled Hedge Payments

“Regularly Scheduled Hedge Payments” means the regularly scheduled payments under the terms of a Qualified Hedge which are due absent any termination, default or dispute in connection with such Qualified Hedge.

### Regulations

“Regulations” means the regulations promulgated under and pursuant to the Act including 14 CFR Part 158, and also means the terms of any written notification approving the City’s use of PFC Revenues given by the Administrator of the Federal Aviation Administration pursuant to said regulations.

### Repurchase Agreement

“Repurchase Agreement” means a repurchase agreement with

- (1) a primary dealer on the Federal Reserve reporting dealer list which is rated “A” or better by Standard & Poor’s and Moody’s; or
- (2) a bank rated “A” or better by Standard & Poor’s and Moody’s; or
- (3) a domestic structured investment company approved by each Municipal Bond Insurer and rated “Aaa” by Moody’s and “AAA” by Standard and Poor’s; or
- (4) a guaranteed corporation or a monoline financial guaranty insurance company approved by each Municipal Bond Insurer, provided that the long-term debt or claims-paying ability rating of the company or the guarantor is “Aaa” by Moody’s and “AAA” by Standard & Poor’s,

that require the delivery of investments described in clauses (2), (3), (4)(i), (4)(ii), (4)(iii) or (4)(vi) of the definition of Permitted Investments. Such collateral must be delivered to the City, the Trustee (if the Trustee is not supplying the collateral) or a third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before or simultaneously with payment (perfection by possession of certificated securities). Such collateral must be valued weekly, marked-to-market at current market price plus accrued interest. The value of such collateral must equal 104% of the amount of cash transferred by the City or the Trustee to the counterparty under the repurchase agreement, plus accrued interest. If the value of such collateral is at any time below 104% of the value of the cash transferred by the City or the Trustee, then additional cash and/or acceptable collateral must be provided. Notwithstanding the foregoing, if the securities provided as collateral are investments described in clauses (4)(i), (4)(ii), (4)(iii) or (4)(vi) of the definition of Permitted Investments, then the value of such collateral must equal 105%.

### Required Reserve

“Required Reserve” means, with respect to any series of Bonds, the amount required to be maintained in the reserve fund, if any, for such series of Bonds pursuant to the Supplemental Agreement authorizing the issuance of such series of Bonds. The Required Reserve for the Series 2014 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2017 Bonds (to the extent any remain outstanding after the issuance of the Series 2021C Bonds), the Series 2021A Bonds and the Series 2021B Bonds (the “Existing General Account Bonds”), and any Additional Bonds issued on a parity therewith and secured by the General Account within the Bond Reserve Fund, shall be the lesser of (i) the Maximum Annual Debt Service on all Existing General Account Bonds and such Additional Bonds, or (ii) the amount permitted to be held in the General Account within the Bond Reserve Fund by the arbitrage bond regulations issued by the United States Department of the Treasury under Section 148 of the Code, as such regulations are, at the time, applicable and in effect; provided, however, that any Required Reserve may be provided in whole or in part by one or more Qualified Reserve Facilities.

### Rolling Coverage Amount

“Rolling Coverage Amount” means the uncommitted amounts in the Maintenance and Operation Fund or the General Revenue Fund, in an amount not to exceed 25% of Annual Debt Service in

any Fiscal Year, that are available to pay Maintenance and Operation Costs of the Enterprise or Debt Service on Bonds and that are designated as the Rolling Coverage Amount by the City.

#### Serial Bonds

“Serial Bonds” means Bonds designated as Serial Bonds in the Supplemental Agreement providing for the issuance of such series and for which no Minimum Sinking Fund Account Payments are provided.

#### Short-Term Obligations

“Short-Term Obligations” means bonds, notes or other evidences of indebtedness that have a claim on the General Airport Revenues and a total maturity of not more than 12 months.

#### Sinking Fund Account

“Sinking Fund Account” means any special account or accounts established by the Master Trust Agreement or any Supplemental Agreement for the payment of Term Bonds.

#### Special Facility

“Special Facility” means buildings and facilities incident or related to the Enterprise, which are designated as Special Facilities pursuant to a Special Facility Agreement subject to the provisions of the Master Trust Agreement. See “Special Facilities” below.

#### Special Facility Agreement

“Special Facility Agreement” has the meaning specified under “Special Facilities” below.

#### Special Facility Revenues

“Special Facility Revenues” means revenues with respect to any Special Facility to the extent they are excluded from General Airport Revenues as provided in a Special Facility Agreement.

#### Subordinate Obligations

“Subordinate Obligations” means bonds, notes or other evidences of indebtedness which have a claim on the General Airport Revenues that is subordinate to the claim of the Bonds.

#### Supplemental Agreement

“Supplemental Agreement” means any trust agreement then in full force and effect which has been duly approved, executed and delivered by the City and the Trustee under and in conformity with the Law, and which is amendatory of or supplemental to the Master Trust Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized thereunder.

#### Term Bonds

“Term Bonds” means Bonds designated as Term Bonds in the Supplemental Agreement providing for the issuance of such series that are payable at or before their specified maturity date or dates from Minimum Sinking Fund Account Payments established for that purpose and that are calculated to retire such Bonds on or before their specified maturity date or dates.

### Trustee

“Trustee” means The Bank of New York Mellon Trust Company, N.A., appointed as Trustee pursuant to the Master Trust Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place.

### Unrealized Items

“Unrealized Items” mean, with respect to the calculation of Maintenance and Operation Costs of the Enterprise or General Airport Revenues for any period, any revenues or expenses recognized in accordance with generally accepted accounting principles which are due to unrealized gains or losses caused by marking assets or liabilities of the Enterprise to market.

### Variable Rate Bonds

“Variable Rate Bonds” means Bonds which bear interest at a variable rate of interest.

### Yield

“Yield” shall have the meaning ascribed to such term by the Code.

## **THE MASTER TRUST AGREEMENT**

*The following is a summary of certain provisions of the Master Trust Agreement, as amended by the Twelfth Supplemental Trust Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of the Master Trust Agreement.*

### **Pledge of Revenues**

All of the General Airport Revenues are irrevocably pledged to the payment of the Maintenance and Operation Costs of the Enterprise and to the principal of and interest on the Bonds, and the General Airport Revenues may not be used for any other purpose while any of the Bonds remain Outstanding; except that the General Airport Revenues may be used for such purposes as are expressly permitted by the Master Trust Agreement. Said pledge shall constitute a lien on the General Airport Revenues for the payment of the Maintenance and Operation Costs of the Enterprise and the Bonds in accordance with the terms of the Master Trust Agreement, which lien shall be prior to any other lien or claim against the General Airport Revenues.

The City covenants and agrees that all General Airport Revenues will be received and held by the City in trust as provided by the Master Trust Agreement and will be accounted for through the General Revenue Fund. All such General Airport Revenues, whether held as trustee by the City or deposited with the Trustee, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth as provided by the Master Trust Agreement, and shall be accounted for separate and apart from all other moneys, funds, accounts or other resources of the City. All General Airport Revenues at any time paid into the General Revenue Fund shall be held by the City in trust for the benefit of the Owners at any time of the Bonds issued under the Master Trust Agreement and entitled to be paid therewith, and the City shall have no beneficial right or interest in any of such moneys, except only as in the Master Trust Agreement provided. All General Airport Revenues deposited with the Trustee shall be held, disbursed, allocated and applied as provided in the Master Trust Agreement by the Trustee.

## **Liability of City Limited to General Airport Revenues and Other Available Funds**

Notwithstanding anything in the Master Trust Agreement to the contrary, the City shall not be required to advance any moneys derived from the proceeds of any taxes collected in the City, or from any source of income other than the General Airport Revenues and certain Other Available Funds pledged to the payment of any Bonds under the Master Trust Agreement and the Other Available Funds and Available PFC Revenues made available therefor, for the payment of the principal of or interest on such Bonds, for the maintenance and operation of the Enterprise, for the performance of any covenants or for the payment of any obligations, including indemnification. The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The Bonds shall be revenue bonds, payable exclusively from the General Airport Revenues, Other Available Funds and Available PFC Revenues, as in the Master Trust Agreement provided. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or their interest. The Owners of the Bonds shall never have the right to compel the exercise of the taxing power of the City or the forfeiture of any property of the City. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof shall not be a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or upon any of its income, receipts or revenues except the amounts pledged to the payment thereof as provided in the Master Trust Agreement.

## **Issuance of Bonds under the Master Trust Agreement**

Bonds may be issued from time to time under the Master Trust Agreement, the Charter and the Law for any airport purpose, including for the purpose of financing and refinancing the acquisition, construction, expansion, improvement of one or more Projects and the Enterprise. The aggregate principal amount of Bonds which may be issued is not limited (subject, however, to the right of the City to limit or restrict the aggregate principal amount of Bonds which may at any time be issued and Outstanding) and may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, all issued and to be issued pursuant to the Master Trust Agreement and the Law, subject to certain limitations (see “SECURITY FOR THE BONDS—Additional Series of Bonds” in the forepart of this Official Statement). The Master Trust Agreement constitutes a continuing agreement with the Owners of all of the Bonds issued or to be issued and Outstanding thereunder to secure the full and final payment of the principal of and the premiums, if any, and the interest on all Bonds, subject to the covenants, agreements, provisions and conditions therein contained.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the Master Trust Agreement, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same series and maturity, for a like aggregate principal amount. The Trustee shall require the payment by any Bondowner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. No transfer of Bonds shall be required to be made by the Trustee after the fifteenth day of the month next preceding each Payment Date.

Exchange of Bonds. Bonds may be exchanged at the principal corporate trust office of the Trustee in San Francisco, California, for a like aggregate principal amount of Bonds of other authorized denominations of the same series and maturity. The Trustee shall require the payment by the



Bondowner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No exchange of Bonds shall be required to be made by the Trustee after the fifteenth day of the month next preceding each Payment Date.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated (except that such number may be preceded by a distinguishing prefix), but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver a new Bond in lieu of and in substitution for the Bond so lost, destroyed or stolen (except that such number may be preceded by a distinguishing prefix). The City may require payment of a sum not exceeding the actual cost of preparing each new Bond and of the expenses which may be incurred by the City and the Trustee in the premises. Neither the City nor the Trustee shall be required to treat both the original Bond and any duplicate Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued or for the purpose of determining any percentage of Bonds Outstanding, but both the original and duplicate Bond shall be treated as one and the same.

### **Proceedings for the Issuance of Series of Additional Bonds**

Whenever the City shall determine to issue a series of Additional Bonds, the City shall authorize, and cause to be executed and delivered a Supplemental Agreement providing for the issuance of such series of Additional Bonds, setting forth the terms of such Additional Bonds in a new appendix to the Master Trust Agreement. Such Supplemental Agreement may also provide that the proceeds, funds and accounts relating to such Additional Bonds may be invested in investments other than those set forth in the definition of Permitted Investments.

None of the limitations or restrictions on the issuance of Additional Bonds set forth in the Master Trust Agreement are applicable to any series of Additional Bonds which are to be issued solely for the purpose of refunding and retiring all of the Bonds issued and then Outstanding, and nothing in the Master Trust Agreement limits the issuance of any Additional Bonds if, after the issuance and delivery of such Additional Bonds, none of the Bonds theretofore authorized will be Outstanding or the City shall have discharged the entire indebtedness on all such Bonds Outstanding in one of the ways authorized by the Master Trust Agreement.

### **Qualified Hedges**

The obligation of the City to make Regularly Scheduled Hedge Payments under a Qualified Hedge with respect to a series of Bonds may be on a parity with the obligation of the City to make payments with respect to such series of Bonds and other Bonds issued on a parity with such Bonds, except as otherwise provided by a Supplemental Agreement and in the Master Trust Agreement with respect to any Qualified Hedge Termination Payments. The City may provide in any Supplemental Agreement that Regularly Scheduled Hedge Payments under a Qualified Hedge shall be secured by a pledge of or lien on the General Airport Revenues on a parity with the Bonds of such series and all other Bonds on a parity therewith, regardless of the principal amount, if any, of the Bonds of such series remaining Outstanding. In the event that a Qualified Hedge Termination Payment or any other amounts other than as described in the preceding two sentences are due and payable by the City under a Qualified Hedge, the obligation of the City to pay such Qualified Hedge Termination Payment and any such other

amounts shall be subordinate to all other obligations payable from the General Airport Revenues, unless otherwise specified in a Supplemental Agreement.

### **Special Facilities**

Anything in the Master Trust Agreement to the contrary notwithstanding, the City may enter into contracts, leases, subleases or other agreements pursuant to which the City or the other parties to such agreements will agree to construct or cause to be constructed a Special Facility on land constituting part of the Enterprise or will agree to acquire or construct a Special Facility on land not then constituting part of the Enterprise (which land if not then owned or leased by the City may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure or other facility (including the site thereof) for a Special Facility (a "Special Facility Agreement") under the following conditions:

- (1) No Special Facility may be constructed or acquired and subject to a Special Facility Agreement under the provisions of the Master Trust Agreement summarized under this heading if the result of the use or occupation of such Special Facility under the Special Facility Agreement would result in a reduction of Net General Airport Revenues and Other Available Funds below the minimum amount of Net General Airport Revenues and Other Available Funds covenanted to be produced and maintained in accordance with the Master Trust Agreement as determined by a certificate of the Director of Finance; and
- (2) Any financing for the Special Facility shall be secured as provided in the Special Facility Agreement and shall not be secured by or payable from the General Airport Revenues or any of the funds or accounts held under the Master Trust Agreement. The Special Facility Agreement may provide the terms and conditions under which any revenues of the Special Facility will become General Airport Revenues.

### **Certain Covenants of the City**

Payment of Principal and Interest. The City will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of every Bond, in strict conformity with the terms of the Bonds and of the Master Trust Agreement, but solely from the General Airport Revenues and certain Other Available Funds pledged to the payment of said Bonds and any additional Other Available Funds made available for the payment of Debt Service.

Against Encumbrances. Subject to any rights of the United States of America or the State of California, except as expressly authorized under the Master Trust Agreement, the City will not mortgage or otherwise encumber, pledge or place any charge upon the Enterprise or any part thereof, or upon any General Airport Revenues, or issue any bonds or obligations payable from such revenues, prior to or on a parity with the Bonds (except as provided under the Master Trust Agreement), provided that Letter of Credit Agreements entered into in connection with Guaranteed Obligations or Variable Rate Bonds and any Regularly Scheduled Hedge Payments may be payable on a parity with the Bonds.

Nothing in the Master Trust Agreement shall prevent the City from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from General Airport Revenues after and subordinate to the payment of the principal of and interest on the Bonds, or (2) are payable from moneys which are not General Airport Revenues.

Sale or Other Disposition of Property. The City will not sell or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of any General Airport Revenues except as expressly permitted under the Master Trust Agreement. The City will not enter into any lease or agreement which impairs the operation of the Enterprise or impedes the rights of the Owners of the Bonds with respect to the General Airport Revenues or the operation of the Enterprise, but the City may enter into any lease or agreement concerning all or any part of the Enterprise for airport or non-airport uses if such lease or agreement will not impair the operation of the Enterprise or impede the rights of the Owners of the Bonds with respect to the General Airport Revenues or the operation of the Enterprise.

Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has worn out, may be sold if such sale (together with all other sales theretofore made in the calendar year in which such sale is described in this paragraph) will not reduce annual General Airport Revenues in an amount which would cause the City to be unable to comply with the provisions described earlier in the Official Statement under “SECURITY FOR THE BONDS – Rate Maintenance Covenant” and if all of the net proceeds of such sale (less any amounts payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) are deposited in the General Revenue Fund.

The City has reserved the right to sell all or a portion of the Enterprise, and to enter into and execute agreements for and to complete such sale, but subject to the following specific conditions, which are conditions precedent to such sale:

(1) The City shall be in compliance with all covenants set forth in the Master Trust Agreement, and in all Supplemental Agreements theretofore executed and delivered by the City.

(2) The Council shall have determined by resolution that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used (i) for the redemption of Bonds, or (ii) for the making of additions or improvements to or extensions of the Enterprise.

(3) If the City shall have determined that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the redemption of Bonds, such proceeds of the sale shall be deposited with the Trustee, and the following conditions shall have been satisfied:

(i) The Council shall have authorized and caused to be executed and delivered a Supplemental Agreement providing for the redemption of the maximum principal amount of Bonds which can be redeemed from such proceeds of such sale, or, in the event that no Bonds are subject to redemption on the next succeeding interest payment date, directing the Trustee (A) to hold such proceeds in trust, (B) to invest such proceeds in the investments permitted in the Master Trust Agreement until any such Bonds shall become redeemable, subject to any restrictions imposed by the Master Trust Agreement, (C) to deposit the interest and income on such proceeds in the General Revenue Fund as such interest and income is received, and (D) to use such proceeds to redeem Bonds in the amount and manner specified in the Master Trust Agreement and any Supplemental Agreement on the first interest payment date on which the Bonds can be redeemed; and a certified copy of such Supplemental Agreement shall have been filed with the Trustee.

(ii) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until such Bonds become redeemable, the City shall have filed with the Trustee a written report of an independent certified public accountant stating (A) the amount of proceeds to be deposited with the Trustee from such sale, (B) an estimate of the total amount of Bonds and the amount of such Bonds of each maturity which could be redeemed from such proceeds on the first interest payment date on which such Bonds are redeemable, and (C) the estimated annual interest and income to be earned on such proceeds while held and invested by the Trustee. Such interest and income on such proceeds upon receipt by the Trustee shall be deposited in the General Revenue Fund and shall be treated as General Airport Revenues for all purposes of the Master Trust Agreement, including determining whether the City is in compliance with the covenant described earlier in the Official Statement under “SECURITY FOR THE BONDS — Rate Maintenance Covenant.”

(iii) If such proceeds of such sale are to be immediately used to redeem Bonds, the Net General Airport Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the adoption by the Council of the resolution authorizing such sale, less a deduction for the portion of such Net General Airport Revenues attributable to the portion of the Enterprise to be sold, all as shown by a certificate or opinion of an independent certified public accountant or a written report of a Qualified Independent Airport Consultant, shall be at least equal to 125% of Maximum Annual Debt Service for Bonds to be Outstanding following the redemption of Bonds from the proceeds of such sale.

(iv) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until such Bonds become redeemable, the Net General Airport Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of adoption by the Council of the resolution authorizing such sale, less a deduction for the portion of such Net General Airport Revenues attributable to the portion of the Enterprise to be sold, plus an allowance for the estimated annual interest or income to be earned on the invested proceeds of such sale while held and invested by the Trustee, all as shown by a certificate or opinion of an independent certified public accountant or a written report of a Qualified Independent Airport Consultant, shall be at least equal to 125% of Maximum Annual Debt Service on Bonds Outstanding at the time of such sale.

If the City shall have determined that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the making of additions or improvements to or extensions of the Enterprise, such proceeds of the sale shall be deposited by the Director of Finance in a special fund in trust to be used for the making of additions or improvements to or extensions of the Enterprise, and there shall have been filed with the Trustee a certificate of the City to the effect that, after such sale and application of funds, the General Airport Revenues will be sufficient to allow the City to continue to be in compliance with the covenant described earlier in the Official Statement under “SECURITY FOR THE BONDS — Rate Maintenance Covenant.”

Notwithstanding any other provision of the Master Trust Agreement, the City shall be permitted to sell or transfer the Enterprise in its entirety to another public agency with (i) the consent of each Municipal Bond Insurer which insures the Outstanding Bonds, (ii) the consent of a majority in aggregate principal amount of Outstanding Bonds not insured by a Municipal Bond Insurer, (iii) the delivery to the Trustee of an opinion of Bond Counsel to the effect that such sale or transfer will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds, (iv) the delivery to the Trustee of a confirmation from each Rating Agency then rating the Bonds that such sale or transfer will not adversely affect the rating on the Bonds, and (v) the full and

complete assumption by such public agency of the obligations of the City under the Master Trust Agreement and under the Bonds.

Maintenance and Operation of Enterprise. The City will maintain and preserve the Enterprise in good repair and working order at all times from the General Airport Revenues available for such purposes, in conformity with standards customarily followed in the aviation industry for airports of like size and character. The City will not take any action or omit to take any action that would cause the Federal Aviation Administration, the Department of Transportation or any other state or federal agency to suspend or to revoke the City's operating certificates for the Enterprise. The City will at all times use reasonable efforts to keep the Enterprise open for take-offs and landings.

Liens and Claims. Subject to any rights of the United States of America or the State of California, the City shall keep the Enterprise and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to the Master Trust Agreement may at all times be maintained and preserved, and the City shall keep the Enterprise and the General Airport Revenues free from any liability which, in the judgment of the Trustee (and its determination thereof shall be final), might hamper the City in conducting its business or operating the Enterprise.

Insurance. The City shall procure or cause to be procured, and maintain or cause to be maintained, at all times while any of the Bonds are Outstanding, insurance on the Enterprise against such risks (including accident to or destruction of the Enterprise) as are usually insured against in connection with similar enterprises. Any proceeds of any such insurance shall be used as set forth in the Master Trust Agreement.

The City may adopt alternative risk-management programs to insure against any of the risks required to be insured against under the Master Trust Agreement, including a program of self-insurance, in whole or in part. Any such alternative risk management program must be approved as reasonable and appropriate by a risk management consultant designated by the City, who may be an employee of the City. The approval of the risk management consultant shall be in the form of a report on the nature of the program and the adequacy of its funding which shall be prepared and filed with the Trustee within 90 days of implementation of such program and thereafter annually no later than 90 days following the renewal of the City's insurance policies in each year in which such program is in effect.

The City will deliver to the Trustee no later than 90 days following the date of renewal of the City's insurance policies in each year a schedule, in such detail as the Trustee in its discretion may request, setting forth specified information on the insurance policies then in force. Each such insurance policy shall require that the Trustee be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby.

Books and Accounts; Financial Statements; Reporting and Notice Requirements. The City will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours and under reasonable conditions.

The City will prepare and file with the Trustee annually within six months after the close of each Fiscal Year so long as any of the Bonds are Outstanding:

(1) financial statements of the Enterprise for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles applied on a consistent basis from year to year, including a balance sheet (which shall include a statement showing the balances in each fund required to be established under the provisions of the Master Trust Agreement), statement of income, statement of retained earnings, and statement of changes in financial position, including separate accounts as required pursuant to generally accepted accounting principles for CFC Revenues, PFC Revenues, Other Available Funds and Available PFC Revenues, which financial statements shall be examined by and include the certificate or opinion of an independent certified public accountant, such certificate or opinion to include a statement as to the manner and extent to which the City has complied with the provisions of the Master Trust Agreement as it relates to said financial statements;

(2) a general statement of the physical condition of the Enterprise; and

(3) a statement as to all insurance carried by the City on the Enterprise as of the end of such Fiscal Year, including a brief description of the amount and coverage of each insurance policy and the name of the insuring company.

The City will furnish a copy of the aforesaid statements to any Bondowner upon request, and will furnish to the Trustee such reasonable number of copies thereof (not exceeding 100 copies) as may be required by the Trustee for distribution to investment bankers, security dealers and others interested in the Bonds and to the Owners of Bonds requesting copies thereof. The Trustee shall not be required to incur any nonreimbursable expenses in making such distribution.

City Budgets. The City shall prepare and adopt an annual budget for the Enterprise for each Fiscal Year setting forth in reasonable detail the General Airport Revenues and Other Available Funds anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year. The City shall supply to the Trustee and to any Bondowners who shall so request in writing a copy of the annual budget for the Fiscal Year covered by such budget. Such budget shall be open for inspection by any Owner during normal business hours. If the City shall at any time adopt a revised annual budget for the Enterprise, the City shall supply a copy to the Trustee and to any Bondowner who shall so request in writing.

Maintenance of General Airport Revenues. The City will promptly collect all rents and charges due for the occupancy or use of the Enterprise, if any, as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The City will at all times maintain and vigorously enforce all of its rights under any leases or other contracts relating to any part of the Enterprise, if any.

Payment of Taxes, Etc. The City will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the City on account of the Enterprise, if any, or any portion thereof or upon any General Airport Revenues and which, if unpaid, might impair the security of any Bonds, when the same shall become due, but nothing contained in the Master Trust Agreement shall require the City to pay any such tax, assessment or charge so long as it shall in good faith contest the validity thereof.

Eminent Domain Proceeds. If all or any part of the Enterprise shall be taken by or under threat of eminent domain proceedings, the net proceeds realized by the City therefrom (excluding any portion thereof payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) shall be deposited

by the Director of Finance in a special fund in trust and applied and disbursed by the Director of Finance subject to the following conditions:

(1) If such proceeds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Bonds, together with all of the interest due or to become due thereon and any redemption premiums, so as to enable the City to retire all of the Bonds then Outstanding, either by redemption at the then-current redemption prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, the Director of Finance shall transfer such moneys to the Trustee who shall apply such moneys to such retirement and to the payment of such interest. The balance of such moneys, if any shall be transferred back to the City and shall be available for use by the City for any lawful purpose.

(2) If such proceeds are insufficient to provide the moneys required for the purposes set forth in the foregoing subsection (1), the Council shall by resolution determine to apply such proceeds for one of the following purposes, subject to the conditions hereinafter in this subsection (2) set forth:

(a) The City may determine to apply such proceeds to the purchase or redemption of Bonds then Outstanding on the dates and at the prices the Bond are subject to redemption. In that event, the Director of Finance shall transfer such proceeds to the Trustee who shall apply such proceeds to the redemption or purchase of Bonds of each series then Outstanding as set forth in a Written Request of the City.

(b) The City may determine to apply such proceeds to the cost of additions or improvements to or extensions of the Enterprise, if (A) the City first secures and files with the Trustee a written certificate of a Qualified Independent Airport Consultant showing (i) the annual losses, if any, in General Airport Revenues, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, improvements or extensions then proposed to be acquired by the City from such proceeds, and (iii) an estimate of the additional amount of General Airport Revenues to be derived from such additions, improvements or extensions; and (B) such written report concludes that such additional amounts of General Airport Revenues will sufficiently offset the loss of General Airport Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the Master Trust Agreement will not be substantially impaired. The conclusion of the Qualified Airport Consultant accepted by the City shall be final and conclusive. The City shall then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written certificate. Payments for such construction shall be made by the City from such proceeds. Any balance of such proceeds not required by the City for the purposes aforesaid shall be deposited in the General Revenue Fund.

(3) If such eminent domain proceedings have had no material effect upon the General Airport Revenues and the security of the Bonds, and a Qualified Independent Airport Consultant so concludes in a written certificate filed with the Trustee, and the Municipal Bond Insurers concur in writing, the Trustee may so determine. Such determination by the Trustee shall be final and conclusive, and, upon notice thereof, the City may determine to apply such proceeds to the costs of additions or improvements to or extensions of the Enterprise, or may deposit such proceeds in the General Revenue Fund as deemed appropriate by the Director of Finance.

Observance of Laws and Regulations. The City shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree,

direction or requirement now in force or hereafter enacted, adopted or entered by any competent governmental authority or agency applicable or with respect to or affecting the Enterprise; subject to the City's right to contest the applicability or validity thereof as further described in the Master Trust Agreement.

Prosecution and Defense of Suits. The City shall promptly from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Enterprise hereafter developing, and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purposes and, to the extent permitted by law, shall indemnify and save the Trustee and every Bondowner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City shall defend against every suit, action or proceeding at any time brought against the Trustee or any Bondowner upon any claim arising out of the receipt, application or disbursement of any General Airport Revenues or involving the rights and duties of the Trustee or the rights of any Bondowner under the Master Trust Agreement; provided, that the Trustee or any Bondowner at its or his election may appear in and defend any such suit, action or proceeding. The City shall, to the extent permitted by law, indemnify and hold harmless the Trustee and the Bondowners against any and all liability claimed or asserted by any person arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Bondowners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a defendant by reason of his ownership of Bonds. The City, to the extent permitted by law, shall promptly reimburse any Bondowner in the full amount of any attorneys' fees or other expenses which he may incur in litigation or otherwise in order to enforce his rights under the Master Trust Agreement or the Bonds, provided that such litigation shall be concluded favorably to such Bondowner's contentions therein. Notwithstanding any contrary provision in the Master Trust Agreement, this covenant shall remain in full force and effect, even though all indebtedness and obligations issued under the Master Trust Agreement may have been fully paid and satisfied, until the City shall have been dissolved.

Tax Covenants. The City will take no action that would cause the interest on the Tax-Exempt Bonds to be included in federal gross income and the non-preference status of such interest for federal alternative minimum income tax purposes with respect to Tax-Exempt Bonds that are not "qualified private activity bonds" under the Code. To that end, and without limiting the scope of the foregoing, the City will comply with any tax certificates or agreements entered into in connection with the issuance of any Tax-Exempt Bonds. To the extent necessary or desirable to maintain the exclusion of interest on the Tax-Exempt Bonds from federal gross income, the City may direct the Trustee to invest any funds held under the Master Trust Agreement or any Supplemental Agreement in yield-restricted investments.

Governmental Approvals. The City will perform (or cause to be performed) any construction, reconstructions and restorations of, improvements, betterments and extensions to, and equipments and furnishings of, and will operate and maintain (or cause to be operated and maintained) the Enterprise at standards required in order that the same may continue to be approved by the proper and competent authority or authorities of the United States of America for the landing and taking off of aircraft operating in scheduled service, and as a terminal point for the receipt and dispatch of passengers, property and mail by aircraft.

Compliance With Terms of Grants-in-Aid. The City shall comply with the requirements of any grants-in-aid received by the City.



## **Investment of Moneys**

All moneys held by the City or the Trustee in the Funds and accounts established or continued under the Master Trust Agreement shall be held in time or demand deposits (including certificates of deposit) in any bank or trust company (including the Trustee) authorized to accept deposits of 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 Trustee, as the case may be. Moneys in the Bond Reserve Fund may be deposited or invested in time or demand deposits or Permitted Investments which mature not more than five years from the date of investment; provided, however, that any Permitted Investment with a nominal term greater than five years but which permits withdrawal of the entire principal amount of such investment at par, without penalty and at such times as shall be required under the Master Trust Agreement, shall be deemed to have a maturity for purposes of this sentence of the first such permitted withdrawal date. For the purpose of determining the amount of money in the Bond Reserve Fund, all investments of moneys therein shall be valued annually, or more frequently upon Written Request of the City, not to exceed semiannually (or any other frequency agreed upon by the City and the Trustee), at face value if such investments mature within twelve months from the date of valuation, and if such investments mature more than twelve months after the date of valuation, at the price at which such investments are redeemable by the holder at the holder's option, if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such investments minus the amortization of any premium or plus the amortization of any discount, or (ii) market value of such investments; provided that, prior to making any transfers to the Interest Fund, pursuant to the Master Trust Agreement, or to the General Revenue Fund of amounts on deposit in an account within the Bond Reserve Fund in excess of the Required Reserve, the Trustee shall (i) submit the calculations it used to determine the value of investments held in the Bond Reserve Fund to the City and (ii) obtain written approval of such calculations from the City.

The Trustee may sell or present for redemption any obligations so purchased by it whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle any of the moneys held by it pursuant to the Master Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys belonging to each fund or account established pursuant to the Master Trust Agreement and held by it.

Unless otherwise provided in a Supplemental Agreement, (i) investment earnings on amounts in each of the accounts within each Improvement Fund shall be retained in said accounts and funds, and (ii) investment earnings on amounts in the General Revenue Fund and all accounts therein shall be deposited in the General Revenue Fund.

## **Events of Default; Acceleration; Waiver of Default**

If one or more of the following events (each an "Event of Default") shall happen, that is to say--

(1) if default shall be made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or if default shall be made in the redemption or payment at maturity from any Sinking Fund Account of any Term Bonds in the amounts and at the times provided therefor;

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(3) if default shall be made by the City in the observance of any of the other covenants, agreements or conditions on its part in the Master Trust Agreement or in the Bonds contained, and such default shall have continued for a period of sixty days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee or by a Municipal Bond Insurer, or to the City and the Trustee by the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(4) if the City shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in every such case, the Owner of any Bond at the time Outstanding shall be entitled to proceed to protect and enforce the rights vested in such Owner by the Master Trust Agreement by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Master Trust Agreement, or in aid of the exercise of any power granted in the Master Trust Agreement, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Master Trust Agreement or by law; provided, however, that no such Bondowner shall have the right to institute any such judicial proceeding unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least ten per cent (10%) in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee to exercise the powers granted in the Master Trust Agreement or to institute such action, suit or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate principal amount of the Bonds Outstanding. The provisions of the Master Trust Agreement shall constitute a contract with the Owners of the Bonds, and, subject to the foregoing sentence, such contract and duties of the City and of the Council members, officers and employees thereof shall be enforceable by any Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondowners, the City and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Notwithstanding any other provision of the Master Trust Agreement, an Event of Default with respect to the payment of or the performance of a covenant or the satisfaction of any other condition or requirement with respect to any Subordinate Obligation shall not be deemed, in and of itself, an Event of Default with respect to the Bonds unless such Event of Default is also an Event of Default with respect to such Bonds.

Nothing in the Master Trust Agreement or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and the interest (and premium, if any) on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, or upon call for redemption, as provided in the Master Trust Agreement, but only out of the General Airport Revenues and other funds and accounts pledged in the Master Trust Agreement for such payments and any Other Available Funds, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default or breach of duty or contract by any Bondowner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on the subsequent default or breach. No delay or omission of the Trustee or of any Owner of any of the Bonds to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by applicable law or the Master Trust Agreement to the Trustee or to the Owners of Bonds may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners of Bonds.

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Master Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated (notwithstanding any conditions upon the bringing of any such action, suit or proceeding set forth above) and the Trustee is appointed (and the successive respective Owners of the Bonds issued under the Master Trust Agreement, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and in behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Remedies Not Exclusive. No remedy conferred in the Master Trust Agreement upon or reserved to the Trustee or to the Owners of Bonds is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Trust Agreement or now or hereafter existing, at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

## **The Trustee**

So long as there is no Event of Default, the City may remove the Trustee by giving written notice to such Trustee and by giving Bondowners notice by mail, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company which singly or together with its corporate parent, shall have a combined capital and surplus of at least fifty million dollars (\$50,000,000), and shall be subject to supervision or examination by federal or state authority.

The Trustee may at any time resign by giving written notice of resignation to the City and the Bondholders as provided in the Master Trust Agreement. Upon receiving such notice of resignation or upon removal of the Trustee, the City is required to appoint a successor trustee within 60 days in accordance with the Master Trust Agreement.

The Trustee may be removed at any time, at the request of the Municipal Bond Insurers insuring a majority in principal amount, including any Accreted Value, of Bonds Outstanding under the Master Trust Agreement, for any breach of the trust by the Trustee set forth in the Master Trust Agreement. No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Municipal Bond Insurers insuring a majority in principal amount, including any Accreted Value, of the Bonds Outstanding under the Master Trust Agreement, shall be appointed.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Master Trust Agreement and no implied covenants or duties shall be read into the Master Trust Agreement against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Master Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee shall not be required to inquire into or take notice, or be deemed to have notice, or any Event of Default under the Master Trust Agreement or any other event which, with the passage of time, the giving of notice or both, would constitute an Event of Default unless the Trustee shall have actual knowledge or be specifically notified in writing of such Event of Default or event by the City or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the City, or any other party to the transaction contemplated in the Master Trust Agreement, of any of the terms, conditions, covenants or agreements herein or any of the documents executed in connection with the Bonds.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding or any remedy available to the Trustee, or the exercise of any trust or power conferred upon the Trustee, under the Master Trust Agreement. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Trust Agreement at the request, order or direction of any of the Owners or the City unless such Owners or the City shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the fees, costs, expenses and liabilities (including reasonable attorneys' fees) which may be incurred by the Trustee.

No provision of the Master Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

### **Modification of Trust Agreement**

Modification without Consent of Bondholders. The Master Trust Agreement, any Supplemental Agreement and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Agreement which shall become binding upon execution and delivery by the parties thereto, without the consent of any Bondowners or any Municipal Bond Insurer, but only to the extent permitted by law and only for any one or more of the following purposes –

(1) to add to the covenants and agreements of the City in the Master Trust Agreement contained other covenants and agreements thereafter to be observed or to surrender any right or power reserved to or conferred upon the City;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Master Trust Agreement or in regard to questions arising under the Master Trust Agreement, as the City may deem necessary or desirable and not inconsistent with the Master Trust Agreement, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(3) to provide for the issuance of Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of the Master Trust Agreement and any applicable Supplemental Agreement; and

(4) to amend provisions of the Master Trust Agreement relating to the Surplus Revenue Fund.

Modification with Consent of Bondholders. Subject to the limitations imposed under any Supplemental Agreement providing for the issuance of Subordinate Obligations, the Master Trust Agreement, any Supplemental Agreement, and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may be modified or amended at any time by a Supplemental Agreement which shall become binding when the written consents of (i) a majority, of the Owners in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Master Trust Agreement, and (ii) each Municipal Bond Insurer insuring such Bonds (so long as such Municipal Bond Insurer is not in default under the policy of municipal bond insurance issued by it in connection with any series of Bonds) shall have been filed with the Trustee (provided, that no such Municipal Bond Insurer shall unreasonably withhold consent to such modification or amendment).

Subject to the limitations imposed under any Supplemental Agreement providing for the issuance of Subordinate Obligations, the Master Trust Agreement and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Agreement which shall become binding when the written consents of each Municipal Bond Insurer insuring such Bonds shall have been filed with the Trustee, following prior written notification thereof to Rating Agencies, provided that at such time the payment of the principal of and interest on all Bonds Outstanding shall be insured by a policy or policies of municipal bond insurance issued by a Municipal Bond Insurer or Insurers.

No such modification or amendment shall (A) extend the fixed maturities of the Bonds, or extend the time for making any Minimum Sinking Fund Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, or (B) reduce the aforesaid percentage of Owners of such Bonds whose consent is required for the execution of any amendment or modification of the Master Trust Agreement, or (C) modify any of the rights or obligations of the Trustee without its written consent thereto.

The Council may at any time authorize and cause to be executed and delivered a Supplemental Agreement amending the provisions of the Bonds, the Master Trust Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Master Trust Agreement. A copy of such Supplemental Agreement, together with a request to Bondowners and to each Municipal Bond Insurer for their consent thereto, shall be mailed by the City to each Owner of Bonds and to each Municipal Bond Insurer, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as described below. Notice of the authorization, execution and delivery of such Supplemental Agreement (stating that a copy thereof is available for inspection at the principal office of the Trustee) shall be mailed to each Bondowner.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Trustee the required written consents of the Owners of the Bonds and of each Municipal Bond Insurer, as described above, and a notice shall have been mailed. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Master Trust Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice described below has been given.

After the Owners of the required percentage of Bonds and each Municipal Bond Insurer shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Bondowners in the manner provided and the notice of authorization, execution and delivery thereof, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and each Municipal Bond Insurer and will be effective as described above (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). The Supplemental Agreement shall become effective upon the execution and delivery thereof.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondowners upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Any proceedings whereby the consent of the Owners is to be obtained at a time when all Outstanding Bonds are Book-Entry Bonds, the Trustee shall establish a record date upon which any action shall become effective pursuant to such consent under the Master Trust Agreement. The Trustee shall give notice of such record date to all Owners not less than 15 calendar days in advance of such record date, to the extent possible.

### **Discharge of the Master Trust Agreement**

If the City shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways--

(1) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all such Bonds Outstanding, as and when the same become due and payable (but this clause shall not include Bonds the principal of or interest on which has been paid by a Municipal Bond Insurer until said principal and interest shall have been paid by the City); or

(2) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit with the Trustee for the payment of Debt Service on such Bonds, including any reserve funds, is fully sufficient to pay or redeem all such Bonds Outstanding, including all principal, interest and redemption premiums, if any; or

(3) by delivering to the Trustee, for cancellation by it, all such Bonds Outstanding;  
or

(4) by depositing with the Trustee, in trust, Federal Securities in such amount which, in the determination of an independent certified public accountant, who shall certify such determination to the Trustee, shall, together with the income or increment to accrue thereon and any other moneys of the

City made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all such Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the City shall also pay or cause to be paid all other sums payable by the City, then and in that case, at the election of the City (evidenced by a certificate of the City signifying its intention to pay and discharge all such indebtedness and that the Master Trust Agreement and all other obligations of the City under the Master Trust Agreement with respect to such Bonds shall cease and terminate, which shall be filed with the Trustee), and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the General Airport Revenues and other funds provided for in the Master Trust Agreement and all other obligations of the City under the Master Trust Agreement with respect to such Bonds shall cease, terminate and be completely discharged, and the Owners of such Bonds not so surrendered and paid shall thereafter be entitled to payment only out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment; subject, however, to the provisions of the Master Trust Agreement. The discharge of the obligations of the City under the Master Trust Agreement shall be without prejudice to the rights of the Trustee to charge for and be reimbursed by the City for any expenditures which it may thereafter incur in connection herewith.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or Federal Securities in the necessary amount to pay or redeem any Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Master Trust Agreement provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Bonds shall cease, determine and be completely discharged and the Owners thereof shall thereafter be entitled only to payment out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Master Trust Agreement.

Payment of Bonds after Discharge of Master Trust Agreement. Any moneys deposited with the Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Master Trust Agreement) shall then be repaid to the City, and the Owners of such Bonds shall thereafter be entitled to look only to the City for payment thereof, and all liability of the Trustee with respect to such moneys shall thereupon cease. In such event, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be general creditors of the City for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the City (without interest thereon).

## THE TWELFTH SUPPLEMENTAL TRUST AGREEMENT

*The following is a summary of certain provisions of the Twelfth Supplemental Trust Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of the Twelfth Supplemental Trust Agreement.*

### Terms of the Series 2021 Bonds

The Twelfth Supplemental Trust Agreement sets forth the terms of the Series 2021A Bonds, the Series 2021B Bonds, and the Series 2021C Bonds (collectively, the “Series 2021 Bonds”), most of which are described earlier in the Official Statement under “DESCRIPTION OF THE SERIES 2021 BONDS.”

### Establishment of Funds

The proceeds from the sale of the Series 2021 Bonds are to be deposited into certain of the funds and accounts as set forth in the front part of this Official Statement under “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF PROCEEDS.”

Certain funds and accounts relevant to the Series 2021 Bonds are established under the Twelfth Supplemental Trust Agreement as follows:

2021A Costs of Issuance Fund for the deposit of proceeds from the sale of the Series 2021A Bonds to pay the costs of issuing the Series 2021A Bonds.

2021B Costs of Issuance Fund for the deposit of proceeds from the sale of the Series 2021B Bonds to pay the costs of issuing the Series 2021B Bonds.

2021C Costs of Issuance Fund for the deposit of proceeds from the sale of the Series 2021C Bonds to pay the costs of issuing the Series 2021C Bonds.

2021A Interest Account within the Interest Fund, for the deposit of such amounts as are necessary to make the required payments of interest on the Series 2021A Bonds on each Payment Date.

2021B Interest Account within the Interest Fund, for the deposit of such amounts as are necessary to make the required payments of interest on the Series 2021B Bonds on each Payment Date.

2021C Interest Account within the Interest Fund, for the deposit of such amounts as are necessary to make the required payments of interest on the Series 2021C Bonds on each Payment Date.

2021A Principal Account within the Principal Fund, for the deposit of such amounts as are necessary to make the required payments of principal, if any, of the Series 2021A Bonds on each Payment Date.

2021B Principal Account within the Principal Fund, for the deposit of such amounts as are necessary to make the required payments of principal, if any, of the Series 2021B Bonds on each Payment Date.

2021C Principal Account within the Principal Fund, for the deposit of such amounts as are necessary to make the required payments of principal, if any, of the Series 2021C Bonds on each Payment Date.



2021A Redemption Fund for the deposit of proceeds for the purpose of redeeming the bonds to be refunded by the 2021A Bonds on the date of delivery of the 2021A Bonds, as directed in writing by the City.

2021B Redemption Fund for the deposit of proceeds for the purpose of redeeming the bonds to be refunded by the 2021B Bonds on the date of delivery of the 2021B Bonds, as directed in writing by the City.

2021C Redemption Fund for the deposit of proceeds for the purpose of redeeming the Outstanding City of San José Airport Revenue Bonds, Series 2011B (Taxable), which are to be refunded by the 2021C Bonds on the date of delivery of the 2021C Bonds, as directed in writing by the City.

2021A Rebate Fund for the deposit of proceeds received from the City for purposes of ultimate rebate to the United States, all as more particularly described in the Tax Certificate related to the 2021A Bonds.

2021B Rebate Fund for the deposit of proceeds received from the City for purposes of ultimate rebate to the United States, all as more particularly described in the Tax Certificate related to the 2021B Bonds.

2021C Reserve Account within the Bond Reserve Fund, for the deposit of proceeds from the sale of the Series 2021C Bonds to secure the repayment of such Series 2021C Bonds and any Additional Bonds for which the 2021C Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds, as set forth in the front part of this Official Statement under “SECURITY FOR THE BONDS—Bond Reserve Fund.”

## **APPENDIX D**

### **AUDITED FINANCIAL STATEMENTS OF THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT FOR FISCAL YEAR ENDED JUNE 30, 2020**

## APPENDIX E

### PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

City Council  
City of San José  
San José, California

City of San José  
Airport Revenue Refunding Bonds  
Series 2021A (AMT), Series 2021B (Non-AMT), and Series 2021C (Taxable)  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of San José, California (the “Issuer”), in connection with the issuance by the Issuer of \$\_\_\_\_\_ aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2021A (AMT) (the “Series 2021A Bonds”), \$\_\_\_\_\_ aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2021B (Non-AMT) (the “Series 2021B Bonds” and, together with the Series 2021A Bonds, the “Tax-Exempt Bonds”), and \$\_\_\_\_\_ aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2021C (Taxable) (the “Series 2021C Bonds” and, together with the Tax-Exempt Bonds, the “Bonds”) issued pursuant to Sections 200 and 1220 of the Charter and Chapter 4.38 of the San José Municipal Code (collectively, the “Law”), the Twenty-First Supplemental Resolution No. \_\_\_\_\_ adopted by the Council on [March 9, 2021] (the “Resolution”), and a Master Trust Agreement, dated as of July 1, 2001, between the Issuer and The Bank of New York Mellon Trust Company, N.A., formerly known as BNY Western Trust Company (the “Trustee”), as previously supplemented and amended, and as supplemented and amended by the Twelfth Supplemental Trust Agreement, dated as of April 1, 2021 (the “Twelfth Supplemental Trust Agreement”), between the Issuer and the Trustee (collectively, the “Trust Agreement”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Law, the Resolution, the Trust Agreement, the Tax Certificate, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Issuer, the Trustee and the purchasers of the Bonds (the “Underwriters”), certificates of the Issuer, the Trustee, the Underwriters and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of

all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the General Airport Revenues, certain Other Available Funds and certain other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.
3. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the Issuer or the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
4. Interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "1986 Code"), except that no opinion is expressed as to the status of interest on any Series 2021A Bond for any period that such Series 2021A Bond is held by a "substantial user" of the facilities refinanced by the proceeds of the Series 2021A Bonds, or by a "related person" within the meaning of Section 147(a) of the Code. We observe, however, that interest on the Series 2021A Bonds is a specific preference item for purposes of the federal alternative minimum tax. We are further of the opinion that interest on the Series 2021B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series

2021C Bonds is not excluded from gross income for federal income taxes purposes under Section 103 of the 1986 Code. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of San José, California (the “City”) in connection with the issuance of \$\_\_\_\_\_ City of San José Airport Revenue Refunding Bonds, Series 2021A (the “Series 2021A Bonds”), \$\_\_\_\_\_ City of San José Airport Revenue Refunding Bonds, Series 2021B (the “Series 2021B Bonds”), \$\_\_\_\_\_ City of San José Airport Revenue Refunding Bonds, and Series 2021C (the “Series 2021C Bonds” and, together with the Series 2021A Bonds and the Series 2021B Bonds, the “Series 2021 Bonds”). The Series 2021 Bonds are being issued pursuant to a Master Trust Agreement, dated as of July 1, 2001, between the City and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company, as trustee (the “Trustee”), as supplemented by a First Supplemental Trust Agreement, dated as of July 1, 2001, by a Second Supplemental Trust Agreement, dated as of December 1, 2002, by a Third Supplemental Trust Agreement, dated as of June 1, 2004, by a Fourth Supplemental Trust Agreement, dated as of June 1, 2004, by a Fifth Supplemental Trust Agreement, dated as of September 1, 2007, by a Sixth Supplemental Trust Agreement, dated as of May 1, 2009, by a Seventh Supplemental Trust Agreement, dated as of July 1, 2011, by an Eighth Supplemental Trust Agreement, dated as of December 1, 2011, by a Ninth Supplemental Trust Agreement, dated as of November 1, 2012, by a Tenth Supplemental Trust Agreement, dated as of October 1, 2014 (the “Tenth Supplemental Trust Agreement”), by an Eleventh Supplemental Trust Agreement, dated as of April 1, 2017 (the “Eleventh Supplemental Trust Agreement”), and by a Twelfth Supplemental Trust Agreement, dated as of April 1, 2021 (the “Twelfth Supplemental Trust Agreement” and, collectively, the “Master Trust Agreement”), each by and between the City and the Trustee. The City covenants and agrees as follows:

Section 1. ***Purpose of the Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and Beneficial Owners of the Series 2021 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the “SEC”) Rule 15c2-12(b)(5).

Section 2. ***Definitions.*** In addition to the definitions set forth in the Master Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2021 Bonds (including persons holding Series 2021 Bonds through nominees, depositories or other intermediaries).

“*Dissemination Agent*” means the City of San José, California, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Financial Obligation*” shall mean, for purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities

Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“*Holder*” shall mean the person in whose name any Series 2021 Bonds shall be registered.

“*Listed Events*” means any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Participating Underwriters*” means any of the original underwriters of the Series 2021 Bonds required to comply with the Rule in connection with the offering of the Series 2021 Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State*” means the State of California.

### Section 3. ***Provision of Annual Reports.***

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which shall be March 31 of each year, so long as the City's fiscal year ends on June 30), commencing with the report for the 2020-21 fiscal year (which is due not later than March 31, 2022), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Series 2021 Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City) file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. ***Content of Annual Reports.*** The Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Airport for the prior 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 as further modified according to applicable State law. If the Airport's audited financial statements are not available by the

time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the City for the Airport, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(b) To the extent not included in the audited financial statements of the Airport, the Annual Report shall also include the following:

(i) Historical financial information of the type shown in Table 4 of the Official Statement, entitled “Airport Revenue Bonds Debt Service Requirements” (required only to the extent there are changes);

(ii) Historical operating information of the type shown in Table 3 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Airlines Serving the Airport as of December 31, 2020” for the prior fiscal year;

(iii) Historical operating information of the type shown in Table 4 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Historical Passenger Enplanements Fiscal Years ended June 30”;

(iv) Historical operating information of the type shown in Table 7 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Enplaned Commercial Passengers by Airline Fiscal Years Ended June 30”;

(v) Historical operating information of the type shown in Table 8 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Historical Gross Landed Weight (in thousand pounds) Fiscal Years Ended June 30”;

(vi) Historical operating information of the type shown in Table 9 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Historical Aircraft Operations Fiscal Years Ended June 30”;

(vii) Historical financial information of the type shown in Table 11 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Summary of Operating Revenues and Maintenance and Operation Expenses Fiscal Years Ended June 30”; and

(viii) Historical financial information of the type shown in Table 13 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Historical Bond Debt Service Coverage Fiscal Years Ended June 30”.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been made available to the public on the MSRB's website. The City shall clearly identify each such other document so included by reference.

(c) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.



Section 5.        ***Reporting of Significant Events.***

(a)        The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2021 Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (i)        Principal and interest payment delinquencies;
- (ii)        Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii)        Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv)        Substitution of credit or liquidity providers, or their failure to perform;
- (v)        Adverse tax opinions with respect to tax status of the Series 2021 Bonds or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi)        Tender offers;
- (vii)        Defeasances;
- (viii)        Rating changes;
- (ix)        Bankruptcy, insolvency, receivership or similar event of the obligated person; or
- (x)        Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b)        The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2021 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i)        Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2021 Bonds or other material events affecting the tax status of the Series 2021 Bonds;
- (ii)        Modifications to rights of Holders;
- (iii)        Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution, or sale of property securing repayment of the Series 2021 Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) Appointment of a successor or additional trustee or the change of name of a trustee; or

(viii) Incurrence of a Financial Obligation of the City, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall determine if such event would be material under applicable federal securities laws.

(d) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of such occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2021 Bonds pursuant to the Master Trust Agreement.

(e) The City intends to comply with respect to the Listed Events described in Section 5(a)(x) and Section 5(b)(viii), and the definition of “Financial Obligation” in Section 2, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Commission in its Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

Section 6. ***Format for Filings with MSRB.*** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. ***Termination of Reporting Obligation.*** The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2021 Bonds, or upon delivery to the City or the Dissemination Agent (if other than the City) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Series 2021 Bonds, the City shall give notice of such termination in a filing with the MSRB.

Section 8. ***Dissemination Agent.*** From time to time, the City may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If

at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent. The initial Dissemination Agent shall be the City. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice, report or other document prepared by the City pursuant to this Disclosure Certificate. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the City.

Section 9. ***Amendment Waiver.*** Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) of (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2021 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2021 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2021 Bonds in the same manner as provided in the Master Trust Agreement for amendments to the Master Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2021 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. ***Additional Information.*** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

Section 11. ***Default.*** In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Series 2021 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent (if other than the City), as the case may be, to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in

the Superior Court of the State of California in and for the County of Santa Clara or in the U.S. District Court in or nearest to such County. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Master Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

[Remainder of Page Intentionally Left Blank]

Section 12. ***Beneficiaries.*** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2021 Bonds, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2021

CITY OF SAN JOSE, CALIFORNIA

By: \_\_\_\_\_  
Authorized Representative

APPROVED AS TO FORM:

NORA FRIMANN, CITY ATTORNEY

By: \_\_\_\_\_  
Authorized Representative

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of San José

Name of Bond Issue: \$\_\_\_\_\_ City of San José Airport Revenue Refunding Bonds,  
Series 2021A, \$\_\_\_\_\_ City of San José Airport Revenue  
Refunding Bonds, Series 2021B, and \$\_\_\_\_\_ City of San José  
Airport Revenue Refunding Bonds, Series 2021C

Date of Issuance: \_\_\_\_\_, 2021

Name of Obligated Person: City of San José

NOTICE IS HEREBY GIVEN that the City of San José (the “City”) has not provided an Annual Report with respect to the above-named Series 2021A Bonds, Series 2021B Bonds, and Series 2021C Bonds as required by Section 3 of the Continuing Disclosure Certificate dated \_\_\_\_\_, 2021. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated:

CITY OF SAN JOSE

By: [to be signed only if filed]  
Authorized Representative

cc: City of San José  
200 E. Santa Clara St., 13th Floor Tower  
San José, CA 95113-1905  
Attn: Debt Management  
debt.management@sanjoseca.gov

## **APPENDIX G**

### **SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT**

The following is a summary of certain provisions of the Airline-Airport Lease and Operating Agreement (the “Airline Lease Agreement”) for the Norman Y. Mineta San José International Airport (the “Airport”). The following summary is qualified in its entirety by reference to the Airline Lease Agreement, a copy of which can be obtained from the City of San José.

#### **Definitions**

##### Affiliate

“Affiliate” shall mean a Passenger Carrier that meets the requirements of the Airline Lease Agreement described under the caption “Signatory Airlines, Non-Signatory Airlines and Affiliates.”

##### Air Carrier

“Air Carrier” shall mean a Cargo Carrier or a Passenger Carrier.

##### Airfield

“Airfield” shall mean those portions of the Airport, including the Terminal Aircraft Aprons and the Cargo Aircraft Aprons, provided for the landing, taking off, and taxiing of aircraft, including without limitation approach and turning zones, clear zones, aviation or other easements, runways, a fully integrated taxiway system, runway and taxiway lights, and other appurtenances related to the aeronautical use of the Airport, including any airfield property purchased for noise or other environmental mitigation purposes, all as shown on the Exhibits to the Airline Lease Agreement.

##### Airfield Cost and Revenue Center

“Airfield Cost and Revenue Center” shall include all Debt Service, all direct and indirect Operating Expenses, all Renewal and Replacement Costs and all Revenues attributable to the Airfield.

##### Airline Premises

“Airline Premises” shall mean those areas in the Terminal assigned to the Signatory Airline as Exclusive Use Premises, Preferential Use Premises and Common Use Premises.

##### Airline Rented Space

“Airline Rented Space” shall mean any space in the Terminal that is rented by Passenger Carriers on an exclusive, preferential or common use basis, except for FIS Facilities.

##### Airport-Airline Affairs Committee (“AAAC”)

“Airport-Airline Affairs Committee” or “AAAC” shall mean collectively the authorized representatives of each Signatory Airline that shall meet from time to time with representatives of the City to receive information and provide input from the Signatory Airlines with regard to selected operational and development matters at the Airport.

### Amortization Amount

“Amortization Amount” shall mean, with respect to a capital project to be paid or financed with internal airport cash (as opposed to bonds), an amount based on the economic life of the project and calculated using an interest rate set to equal comparable published average borrowing costs for debt financings by comparable public entities during the calendar year when such project is first financed by the City.

### Arriving Domestic Passengers

“Arriving Domestic Passengers” shall mean passengers arriving at the Airport on domestic flights or international flights who are not required to use FIS Facilities.

### Bad Debt

“Bad Debt” shall mean a monetary amount owed to the City by a Passenger Carrier or a Cargo Carrier or any contractor working for a Passenger Carrier or a Cargo Carrier at the Airport that, after commercially reasonable collection efforts, is unlikely to be paid as it is beyond the collectible period as set by City policy.

### Bad Debt Recovery

“Bad Debt Recovery” shall mean the recapture of Bad Debt that has previously been allocated to a Cost and Revenue Center.

### Baggage Claim Areas

“Baggage Claim Areas” shall mean those areas at the Airport sufficient to accommodate the equipment that delivers luggage from inbound aircraft to arriving passengers through and including baggage claim devices and non-public conveyance equipment, as well as proximate circulation space.

### Baggage Make-up Areas

“Baggage Make-up Areas” shall mean those areas at the Airport sufficient to accommodate the equipment that delivers luggage from passenger check-in areas through and including checked bag security screening conveyors, baggage make-up devices and interline belts, as well as proximate circulation space.

### Bond Reserve Fund

“Bond Reserve Fund” shall mean the fund created under the Master Trust Agreement and each account therein.

### Capital Expenditure

“Capital Expenditure” shall mean an expenditure made to acquire, purchase or construct a single capital item or project for the purpose(s) of improving, maintaining or developing the Airport and shall include expenses incurred for acquisition, development, study, analysis, review, design, or capital planning efforts.



### Cargo Aircraft Aprons

“Cargo Aircraft Aprons” shall mean those areas of the Airport that are primarily designated for the parking of cargo aircraft and support vehicles and the loading and unloading of cargo aircraft.

### Cargo Carrier

“Cargo Carrier” shall mean a carrier certificated by the Secretary of the U.S. Department of Transportation as a Cargo Carrier under 49 U.S.C. § 41103.

### Chargeable Landings

“Chargeable Landings” shall mean all Revenue Landings and Non-Revenue Landings except for those Non-Revenue Landings which are of an emergency nature.

### City

“City” shall mean the City of San José and the person, division, department, bureau, or agency as may from time to time be expressly designated by the City to exercise functions equivalent or similar to those now exercised by the City with respect to rights and obligations of City under the Airline Lease Agreement.

### Common Use Premises

“Common Use Premises” shall mean those areas of the Airport, including without limitation Common Use Gates, Common Use Ticket Counters, Common Use Skycap Positions and baggage areas, not assigned on a preferential use basis (excluding Public Space) but rather used in common by the Signatory Airline and one or more other Passenger Carriers.

### Cost and Revenue Centers

“Cost and Revenue Centers” shall mean those areas or functional activities of the Airport used for the purposes of accounting for Revenues, Capital Expenditures, Operating Expenses, Renewal and Replacement Costs and Debt Service.

### Coverage Amount

“Coverage Amount” shall mean: (i) with respect to any Debt Service on bonds, an amount equal to twenty-five percent (25%) of such Debt Service, and (ii) with respect to Debt Service on subordinated indebtedness, an amount equal to the amount by which the Revenues available to pay such subordinated indebtedness are required to exceed the Debt Service on such subordinated indebtedness pursuant to the applicable subordinated financing agreement.

### Customer Facility Charges (“CFCs”)

“Customer Facility Charges” or “CFCs” shall mean the fees authorized by California Government Code §§ 50474.1, 50474.21 and 50474.3, as such statutes currently exist or may be amended during the Term of the Airline Lease Agreement.

#### Date of Beneficial Occupancy (“DBO”)

“Date of Beneficial Occupancy” or “DBO” shall mean the date when a project or phased component of a project has been completed and the Director determines that it is available for use by Passenger Carriers or Cargo Carriers.

#### Debt Service

“Debt Service” shall mean, with respect to outstanding bonds and subordinated indebtedness, any principal, interest, premium, and any other fee or amount (including, without limitation, credit enhancement or liquidity costs, payments with respect to interest rate swaps or other hedging agreements, remarketing and broker-dealer fees, payments required to be made to the United States Treasury for arbitrage rebates, and trustee or other fiduciary fees) either paid or accrued for such bonds and subordinated indebtedness, exclusive of amounts funded by PFCs, CFCs, federal grants or other forms of financial assistance; provided, however, that the amounts of Debt Service funded by CFCs, federal grants or other forms of financial assistance shall be included in determining the amount of Debt Service and the Coverage Amount for purposes of the provisions of the Airline Lease Agreement summarized under the caption “Rentals, Fees and Charges—*Extraordinary Coverage Protection*.”

#### Deplaned Passenger

“Deplaned Passenger” shall mean any passenger disembarking an aircraft, including any such passenger that shall subsequently board another aircraft of the same or a different Passenger Carrier or the same aircraft previously operating under a different flight number.

#### Director

“Director” shall mean the Director of Aviation of the City and shall include such person or persons as may from time to time be authorized in writing by the City or by the Director or applicable law to act for the Director with respect to any or all matters pertaining to the Airline Lease Agreement.

#### Enplaned Passenger

“Enplaned Passenger” shall mean any passenger boarding an aircraft, including any such passenger that previously disembarked from another aircraft of the same or a different Passenger Carrier or from the same aircraft previously operating under a different flight number.

#### Exclusive Use Premises

“Exclusive Use Premises” shall mean any office space, storage area, VIP Lounge, employee break room or other area of the Terminal designated by the City for exclusive use by the Signatory Airline.

#### FAA

“FAA” shall mean the Federal Aviation Administration or its authorized successor(s).

#### FIS Facilities

“FIS Facilities” shall mean the federal inspection services facilities designated by the City pursuant to the Airline Lease Agreement, wherever located in the Terminal, including the sterile corridors connecting any such facilities to International Gates.

### Fiscal Year

“Fiscal Year” shall mean the annual accounting period of the City for its general accounting purposes which, at the time of entering into the Airline Lease Agreement, is the period of twelve (12) consecutive months ending with the last day of June of any year.

### Gates

“Gates” shall mean those portions of the Terminal individually comprised of a passenger loading bridge, if any, and a passenger holdroom, as well as the ramp parking position adjacent to the Gate.

### Hardstand

“Hardstand” shall mean a paved area on the Airfield reinforced for heavy aircraft parking that may be utilized as a ground boarding aircraft parking spot.

### International Gate

“International Gate” shall mean any Gate with direct passenger access to FIS Facilities.

### Landing Fee

“Landing Fee” shall mean the landing fee effective July 1st of each Fiscal Year as determined according to the methods set forth in the Airline Lease Agreement.

### Majority In Interest (“MII”)

“Majority In Interest” or “MII” for the Airfield Cost and Revenue Center shall mean such group of Signatory Airlines representing at least fifty percent (50%) of the Signatory Airlines and who together have paid at least fifty percent (50%) of the total Landing Fees paid by Signatory Airlines during the immediately preceding Fiscal Year. MII for the Terminal Cost and Revenue Center shall mean such group of Signatory Airlines representing at least fifty percent (50%) of the Signatory Airlines and who together have (a) paid at least fifty percent (50%) of the total Signatory Airline Terminal Rents for the immediately preceding Fiscal Year and (b) carried at least fifty percent (50%) of the Enplaned Passengers in the immediately preceding Fiscal Year.

### Master Trust Agreement

“Master Trust Agreement” shall mean the Master Trust Agreement which was made and entered into as of July 1, 2001 by and between the City and Bank of New York Trust Company, N.A. (successor to BNY Western Trust Company), as Trustee, as it may be amended, supplemented or restated from time to time.

### Maximum Gross Landed Weight

“Maximum Gross Landed Weight” shall mean the highest maximum gross certificated landing weight for the aircraft model operated at the Airport by the Signatory Airline as listed in the manufacturer's Characteristics or Planning Manual. If the manufacturer's Characteristics or Planning Manual is not available, the FAA Type Certificate Data Sheet will be used. The Airport may annually review and update the highest maximum gross landing weight based on any changes to the Characteristics or Planning Manual, or the FAA Type Certificate Data Sheet, as applicable.

### Net Remaining Revenues

“Net Remaining Revenues” shall mean, for a given Fiscal Year, the amount equal to Revenues less Operating Expenses, less Debt Service, less the Amortization Amount, less the changes in the Coverage Amount, less other required fund deposits or payments pursuant to the Master Trust Agreement (including required renewal and replacement expenditures and subordinated indebtedness, if any), calculated after completing annual adjustments-to-actual for such Fiscal Year in accordance with the provisions of the Airline Lease Agreement.

### New Terminal Project

“New Terminal Project” shall mean the terminal expansion project adding a maximum of approximately 500,000 square feet to the terminal space at the Airport, which will be connected to the current Terminal B and will include 12 or 13 new gates to provide a total of 40 gates at the Airport, as further described in Exhibit J to the Airline Lease Agreement.

### Non-Signatory Airline

“Non-Signatory Airline” shall mean any Passenger Carrier that has not entered into an Airline-Airport Lease and Operating Agreement, substantially similar to the Airline Lease Agreement, with the City.

### Non-Signatory Operating Agreement

“Non-Signatory Operating Agreement” shall mean the agreement executed by the City and any Non-Signatory Airline pertaining to such Non-Signatory Airline’s operations and use of certain facilities at the Airport.

### Non-Revenue Landings

“Non-Revenue Landings” shall mean any aircraft landed by an airline at the Airport for a flight for which such airline receives no revenue, including without limitation emergency flights that shall include any flight that after having taken off from the Airport and without making a landing at any other airport returns to land at the Airport because of meteorological conditions, mechanical or operating causes, or any other reason of emergency or precaution.

### Operating Expenses

“Operating Expenses” shall mean the current expenses, paid or accrued, of operation, maintenance, and ordinary current repairs of the Airport (calculated in accordance with sound accounting principles) and shall include, but not be limited to, insurance premiums, reserves and estimated costs; salaries and wages; benefits; fees for services; costs of materials, supplies and fuel; overhead; letter of credit fees; broker-dealer fees; auction agent fees; trustee fees; bond administration expenses; arbitrage rebate calculation and payment requirements and other similar costs; administrative expenses of the City relating solely to the Airport, including engineering, architectural, legal, consultants, and accounting fees and expenses; and other reasonable current expenses calculated in accordance with sound accounting principles as provided above. Operating Expenses shall not include depreciation and obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, costs of capital additions, replacements, betterments, extensions or improvements to the Airport (which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation), charges for the payment of principal and interest on any indebtedness heretofore or

hereafter issued for Airport purposes, or any operating expenses of special purpose facilities buildings where the lessees thereof are obligated to pay such operating expenses.

#### Passenger Carrier

“Passenger Carrier” shall mean a Passenger Carrier certificated by the Secretary of the United States Department of Transportation under 49 U.S.C. § 41102.

#### Passenger Facility Charges (“PFCs”)

“Passenger Facility Charges” or “PFCs” shall mean the fees authorized by 49 U.S.C. § 40117 and regulated by 14 CFR Part 158 as such statute and regulations currently exist or as they may be amended during the Term of the Airline Lease Agreement.

#### Period of Use

“Period of Use” for a Scheduled Operation means the period of time that an airline is authorized to use a Gate for a scheduled arrival and/or departure pursuant to the Rules and Regulations.

#### Preferential Use of a Gate

“Preferential Use” of a Gate means scheduling preference, over similar operations by another Scheduled Airline, given to a Signatory Passenger Carrier for the use of a Gate during applicable Periods of Use for its Scheduled Operations. Notwithstanding the previous sentence, the Signatory Airline will not have a scheduling preference under the provisions described under the caption “Lease of Premises—*Assignment and Use of Gates*” with respect to any operation of the Signatory Airline that occurs at the Airport pursuant to a published schedule unless the schedule for such Signatory Airline is made available to the City by Signatory Airline within the time limits required for a Scheduled Operation.

#### Preferential Use of a Ticket Counter

“Preferential Use” of a Ticket Counter means scheduling preference over similar operations by another Scheduled Airline given to a Signatory Passenger Carrier for the use of a Ticket Counter during applicable Periods of Use for its Scheduled Operations.

#### Preferential Use Premises

“Preferential Use Premises” shall mean those portions of the Terminal and Terminal Aircraft Aprons to which Airline shall have priority of use over other Passenger Carriers, subject to the provisions of the Airline Lease Agreement.

#### Projected Landed Weight

“Projected Landed Weight” shall mean the aggregate Maximum Gross Landed Weight for all aircraft carrying passengers or cargo in commercial service that are expected to land at the Airport during the year.

#### Public Space

“Public Space” shall mean all utility rooms, ductways, janitorial rooms and closets, stairways, hallways, elevators, escalators, entrance-ways, public lobbies and areas, public toilet areas and

other areas used for the operation, maintenance or security of the Terminal, even if used solely by the City.

#### Renewal and Replacement Costs

“Renewal and Replacement Costs” shall mean the costs for the renewal and replacement of existing facilities at the Airport in accordance with the Master Trust Agreement. This amount shall not exceed \$10,000,000 annually, in the aggregate, for the Terminal and Airfield, excluding any costs funded with PFCs, CFCs, federal grants and other forms of financial assistance as well as the local share, if any, of projects funded with PFCs, CFCs, federal grants and other forms of financial assistance.

#### Rentable Terminal Space

“Rentable Terminal Space” shall mean the number of square feet of space in the Terminal that is rentable to tenants, excluding (a) office and administrative space used by the City (including City contractor space), (b) space in the basement of the Terminals, (c) the FIS Facilities and the Baggage Claim Area serving international Scheduled Operations, (d) security checkpoints and other space used by federal agencies for which the City receives no rent, (e) the military lounge and (f) temporary concessions space.

#### Requesting Airline

“Requesting Airline” means a Scheduled Airline without adequate Gate access desirous of operating from the Airport.

#### Revenue Landing

“Revenue Landing” shall mean a landing of any aircraft by an airline at the Airport for which such airline receives revenue.

#### Revenues

“Revenues” shall mean income, revenues, receipts and moneys accrued by the City in accordance with generally accepted accounting practices, including investment earnings, from or in connection with the ownership or operation of the Airport or any part thereof or the leasing or use thereof and Landing Fees paid by Cargo Carriers, but excluding: (i) any money received by or for the account of the City from the levy or collection of taxes; (ii) moneys received from the State of California or the United States of America to the extent required to be deposited in restricted funds and used for purposes inconsistent with their use as "General Airport Revenues" under the terms of the Master Trust Agreement; (iii) lease deposits and security deposits; (iv) moneys required to be paid to the State of California or the United States of America pursuant to agreements with the City; (v) moneys received from insurance proceeds or settlements or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Airport; (vi) proceeds from bonds or subordinated indebtedness issued by the City or proceeds from loans, indebtedness or other obligations entered into by the City; (vii) moneys or securities received by the City as gifts or grants, to the extent the use of such moneys or securities is restricted by the donor or grantor to purposes inconsistent with their use as "General Airport Revenues" under the terms of the Master Trust Agreement; (viii) CFC revenues; (ix) PFC revenues; (x) any revenues from special purpose facilities; (xi) unrealized items; (xii) qualified hedge termination payments; (xiii) any revenues from the City's commercial development of the land depicted as for commercial development in an Exhibit to the Airline Lease Agreement; and (xiv) cargo facility charges or similar fees imposed on any cargo operators, cargo facilities or cargo parcels (other than Landing Fees paid by Cargo Carriers).

### Rules and Regulations

“Rules and Regulations” shall mean Airport’s Rules and Regulations governing the conduct of operations at the Airport as well as the City’s Terminal Resource Use, Assignment and Scheduling Procedures, as such Rules and Regulations and the City’s Terminal Resource Use, Assignment and Scheduling Procedures currently exist or as they may be amended or supplemented during the term of the Airline Lease Agreement.

### Scheduled Airline

“Scheduled Airline” shall mean a Passenger Carrier performing Scheduled Operations at the Airport.

### Scheduled Operation

“Scheduled Operation” shall mean a Scheduled Airline’s operation (arrival or departure) that occurs pursuant to a schedule that is published in the Official Airline Guide (“OAG”) or any successor publication so long as such schedule is made available to the City at least forty-five (45) days prior to the commencement or rescheduling of the operation.

### Scheduled Seats

“Scheduled Seats” means the average daily number of outbound seats on a Passenger Carrier’s Scheduled Operations for the preceding twelve (12) month period of October through September (including nine (9) months of actual data for October through June and three (3) months of forecast data for July through September), to be computed by dividing total outbound seats for a Passenger Carrier’s Scheduled Operations for those twelve (12) months by three-hundred and sixty-five (365).

### Signatory Airline

“Signatory Airline” shall mean (a) a Passenger Carrier that has executed an agreement with the City substantially similar to the Airline Lease Agreement and pays to the City at least \$500,000 per year in Terminal Rents and other charges due for its use of the Terminal, excluding PFC payments or (b) a Cargo Carrier that has executed an Airline-Airport Cargo Operating Agreement. A Passenger Carrier cannot become a Signatory Airline within three (3) years of the expiration of the Airline Lease Agreement, except that new entrants to the Airport that have not operated at the Airport at any other time during the Term may become a Signatory Airline at any time.

### Signatory Passenger Carrier

“Signatory Passenger Carrier” shall mean a Passenger Carrier that is a Signatory Airline.

### Skycap Positions

“Skycap Positions” shall mean areas designated by the Airport on the Terminal departure curb for the passenger and baggage check-in process.

### Ten-Year Lookback

“Ten-Year Lookback” shall mean the one-time credit given to Signatory Passenger Carriers with respect to Terminal Rents paid under the 2007 Airline-Airport Lease and Operating Agreement, as set forth in an Exhibit to the Airline Lease Agreement.

## Term

“Term” shall mean the period of time during which the Signatory Airline’s activities at the Airport shall be governed by the Airline Lease Agreement. Said Term shall begin on the Effective Date (as set forth in the Airline Lease Agreement), and, except as otherwise set forth in the Airline Lease Agreement, terminate on the termination date set forth the Airline Lease Agreement.

## Terminal

“Terminal” shall mean the passenger terminal buildings as set forth in an exhibit to the Airline Lease Agreement.

## Terminal Aircraft Aprons

“Terminal Aircraft Aprons” shall mean those areas of the Airport that are primarily designated for the parking of passenger aircraft and support vehicles and the loading and unloading of passenger aircraft.

## Terminal Cost and Revenue Center

“Terminal Cost and Revenue Center” shall include all Debt Service; all direct, indirect and general administrative Operating Expenses; Renewal and Replacement Costs; and all Revenues attributable to the Terminal.

## Terminal Rents

“Terminal Rents” shall mean the rents effective July 1st of each Fiscal Year as determined according to the methods described under the caption “Rentals, Fees and Charges—*Terminal Rents*.”

## Ticket Counter

“Ticket Counter” shall mean those areas made available by the Airport for ticketing passengers and receiving baggage. Each Ticket Counter shall consist of one (1) counter capable of processing two (2) passengers simultaneously.

## Turn

“Turn” shall mean the arrival and subsequent departure of an aircraft at a Gate at the Airport for any reason, including any tow to or from a Gate.

## VIP Lounge

“VIP Lounge” shall mean those Exclusive Use Premises used by the Signatory Airline to provide premium services to its passengers.

## **Term of Lease**

The Airline Lease Agreement became effective on July 1, 2019 and will terminate on June 30, 2029, unless canceled soon as provided by its terms.



Any airline that holds over beyond the specified expiration date of the Airline Lease Agreement is deemed a month to month tenant, and each holdover airline is to be required to pay a 25% premium on all rates and charges established by the Airline Lease Agreement.

The Term of the Airline Lease Agreement may be extended for two (2) consecutive five-year renewal periods by the mutual written agreement of Signatory Airline and the City; provided, however, that the Term of the Airline Lease Agreement may only be so extended with the approval of both a Majority In Interest for the Airfield Cost and Revenue Center and the Director.

### **Signatory Airlines, Non-Signatory Airlines and Affiliates**

Any Passenger Carrier that has executed an agreement with the City substantially similar to the Airline Lease Agreement and pays to the City at least \$500,000 per year in Terminal Rents and other charges due for its use of the Terminal, excluding PFC payments or (b) a Cargo Carrier that has executed an Airline-Airport Cargo Operating Agreement is defined as a “Signatory Airline” under the Airline Lease Agreement. A Passenger Carrier cannot become a Signatory Airline within three (3) years of the expiration of the Airline Lease Agreement, except that new entrants to the Airport that have not operated at the Airport at any other time during the Term may become a Signatory Airline at any time.

Any Passenger Carrier that does not qualify as a Signatory Airline but does execute a Non-Signatory Operating Agreement is defined as a “Non-Signatory Airline” under the Airline Lease Agreement. Non-Signatory Airlines are required to pay a 25% premium on all rates and charges established by the Airline Lease Agreement.

A Signatory Airline may designate another Passenger Carrier as an “Affiliate” provided that each such designated Passenger Carrier is (a) flying in or out of the Airport solely for the benefit of a Signatory Airline and providing transportation of property or passengers for the Signatory Airline under the name of the Signatory Airline, (ii) if flying under its own name, not selling any seats in its own name and all seats are being sold in the name of the Signatory Airline, or (iii) a wholly-owned subsidiary of the Signatory Airline or the Signatory Airline’s parent company, and (b) is a party to a Non-Signatory Operating Agreement with the City. For so long as the designating airline is a Signatory Airline and for so long as the conditions of the Airline Lease Agreement are satisfied, an Affiliate will be treated as if it were the Signatory Airline for the purposes of the assignment and use of gates and ticket counters, the assessment of rates and charges and the approval of Capital Expenditures by the City.

Each Signatory Airline is to be responsible for the actions and obligations of each of its Affiliates. Each Signatory Airline also is to be responsible for ensuring that each of its Affiliates complies with all terms and conditions of the Airline Lease Agreement to the same extent that the Signatory Airline is responsible for compliance, and the Signatory Airline is to be the financial guarantor of all amounts owed to the City by each of the Signatory Airline’s Affiliates.

The designation of an Affiliate is to be effective for so long as the conditions for designating the Affiliate continue to be satisfied or until a Signatory Airline withdraws its designation of the Affiliate by submitting a withdrawal of designation form to the City.

### **Lease of Premises**

The City leases terminal space under the Airline Lease Agreement on various bases, including on an exclusive use basis, a preferential use basis and a common use basis.

Each Signatory Airline is to have preferential use of certain Preferential Use Premises, including Gates, Ticket Counters and Skycap Positions, during the Term of the Airline Lease Agreement. Signatory Airlines also are to be entitled to the exclusive use of certain Exclusive Use Premises, such as office spaces, storage areas and VIP Lounges. Finally, Signatory Airlines are to be entitled to use Common Use Premises, which consist of certain areas of the Airport (excluding Public Spaces) that are to be used in common by the airlines and that are not assigned on a preferential use basis or an exclusive use basis.

### ***Assignment and Use of Gates***

The Airline Lease Agreement provides that all Gates within the Terminal shall be for either Common Use or Preferential Use and that no Gates will be for Exclusive Use.

Effective as of August 1, 2019 and August 1 of each year thereafter during the term of the Airline Lease Agreement, the Director is to have sole discretion to determine the total number of Gates to be reserved for use as Common Use Gates for one year beginning the following February 1 (after taking into consideration any recommendations by the Resource Management Advisory Committee (“RMAC”)); provided, however, that all International Gates (including the new International Gates to become available in the New Terminal Project) shall be and remain Common Use Gates throughout the term of the Airline Lease Agreement (except as provided in paragraph (f) below); and further provided that when making annual determinations under the Airline Lease Agreement the Director will not in any single year increase the total number of Common Use Gates which are not International Gates by more than two (2) from what the Director had determined the total number of such Common Use Gates to be for the immediately preceding year under the provisions described under this caption, except that the Director will always have discretion to determine that at least three (3) Gates other than International Gates will be reserved for use as Common Use Gates; and further provided that no more than twenty percent (20%), rounding to the nearest whole number, of all Gates which are not International Gates may be designated as Common Use Gates.

All remaining Gates available for use on February 1 of each year will be offered by the City to the Signatory Passenger Carriers for use as Preferential Use Gates to be allocated in accordance with the provisions of the Airline Lease Agreement.

The Airline Lease Agreement provides that, as of August 1, 2019 and August 1 of each year thereafter, the City is to apply the following methodology to determine the total number of Gates that will be offered to each Signatory Passenger Carrier for preferential use for one year beginning the following February 1:

(a) The City shall first divide the number of Scheduled Seats for the Signatory Airline by the total number of Scheduled Seats for all Signatory Passenger Carriers to determine the Signatory Airline’s percentage share of all scheduled seats (the “Scheduled Seats Percentage”).

(b) The City shall then calculate the number of Preferential Use Gates to be offered to the Signatory Airline by multiplying the Signatory Airline’s Scheduled Seats Percentage by the total number of gates to be made available for Preferential Use, rounding the product to the nearest whole number.

(c) If as a result of rounding, the total number of Preferential Use Gates to be offered to all Signatory Passenger Carriers is less than the total number of Gates available for Preferential Use, the City shall offer additional Preferential Use Gates to Signatory Passenger Carriers based on the unrounded results of the computations described above. The unallocated Preferential Use Gates shall be offered in priority order by first increasing by one (1) the number of Preferential Use Gates to be offered to the

Signatory Passenger Carrier whose unrounded product is nearest to 0.5 without equaling or exceeding 0.5 and next proceeding to increase by one (1) the number of Preferential Use Gates to be offered to the Signatory Passenger Carrier whose unrounded product is second nearest to 0.5 without equaling or exceeding 0.5 and so on until the total number of Preferential Use Gates to be made available to all Signatory Passenger Carriers by the City is reached.

(d) If as a result of rounding, the total number of Preferential Use Gates to be offered to all Signatory Passenger Carriers exceeds the total number of Gates available for Preferential Use, the City shall reduce the number of calculated Preferential Use Gates to be offered to Signatory Passenger Carriers based on the unrounded results of the computations described above. The number of over-allocated Preferential Use Gates shall be reduced in priority order by first reducing by one (1) the number of allocated Preferential Use Gates to the Signatory Passenger Carrier whose unrounded product is nearest to 0.5 without being less than 0.5 and next proceeding to reduce by one (1) the number of Preferential Use Gates to be offered to the Signatory Passenger Carrier whose unrounded product is second nearest to 0.5 without being less than 0.5 and so on until the total number of Preferential Use Gates to be made available to all Signatory Passenger Carriers by the City is reached.

(e) If any Signatory Passenger Carrier does not accept assignment of a Preferential Use Gate, such Preferential Use Gate shall be designated as a Common Use Gate.

(f) The City may elect to reassign any Common Use Gate, including Preferential Use Gates not accepted by a Signatory Passenger Carrier and International Gates, to any other Signatory Passenger Carrier for Preferential Use, at the City's sole discretion. The City may revoke a reassignment of an International Gate if that International Gate subsequently is needed to accommodate arriving international passengers.

(g) If a Preferential Use Gate is designated as a Common Use Gate and is not reassigned to a Signatory Passenger Carrier for preferential use, the costs that would otherwise have been assigned to such Gate for rate-setting purposes shall be evenly redistributed among all of the other rented passenger holdroom space; provided, however, that any Common Use Gate charges paid to the City for the use of such Gate shall be credited against such redistributed costs.

(h) The City shall in its reasonable discretion determine the locations of any Preferential Use Gates to be offered to the Signatory Airline, after consultation with the Signatory Airline and taking into consideration the desirability of assigning contiguous Gates for Preferential Use by any given Signatory Passenger Carrier and its Affiliates, if any, and minimizing the frequency of changes in the locations of Preferential Use Gates as well as any recommendations by the RMAC.

(i) No later than August 1<sup>st</sup> of each year during the Term, the City shall provide written notice to all Signatory Passenger Carriers of its annual determination with respect to Preferential Use Gates and shall offer each Signatory Airline the opportunity to be assigned the number of Preferential Use Gates indicated by the calculations described above. Each Signatory Airline shall provide written notice to the City by September 15<sup>th</sup> of each year during the Term if it wishes to reject any or all of that number of Gates offered by the City for Preferential Use.

(j) If the numbers or locations of Preferential Use Gates offered to the Signatory Airlines are changed during the Term for any reason other than a year-to-year decrease in the number of a Signatory Airline's Scheduled Seats, the Signatory Airline may, upon thirty (30) days' written notice to the City, terminate its rights to those portions of the Exclusive Use Premises that are no longer proximate to the Preferential Use Gates offered to the Signatory Airline. Upon the Signatory Airline's request, the City shall use commercially reasonable efforts to provide the Signatory Airline with substitute Exclusive Use

Premises more proximate to newly assigned Preferential Use Gates assigned to the Signatory Airline for the remaining Term. In such a situation, the reasonable costs of relocating the Preferential Use Gates assigned to the Signatory Airline or any Signatory Passenger Carrier plus the reasonable costs of the Signatory Airline's or each Signatory Passenger Carrier's tenant improvements at the substitute Exclusive Use Premises when constructed with the City's consent shall be paid by the City and included in the rate base.

(k) If the number of Preferential Use Gates offered to the Signatory Airline is reduced during the Term as the result of a year-to-year decrease in the Signatory Airline's Scheduled Seats Percentage, the City may, upon thirty (30) days' written notice to the Signatory Airline, terminate the Signatory Airline's rights to use those portions of the Exclusive Use Premises that are no longer proximate to the Preferential Use Gates offered to the Signatory Airline and that are no longer necessary, in the Director's reasonable discretion, to support the Signatory Airline's operations at the Signatory Airline's remaining Preferential Use Gates. The City shall pay the Signatory Airline for the unamortized costs, if any, of tenant improvements made by the Signatory Airline in any such Exclusive Use Premises terminated by the City, for the remaining useful life of such improvements or through the remainder of the Term (whichever is shorter), subject to rate recovery.

#### ***Assignment and Use of Ticket Counters***

The Airline Lease Agreement provides that all Ticket Counters within the Terminal will be for either common use or preferential use and that no Ticket Counters will be for exclusive use. The Director shall have sole discretion to determine the total number of Ticket Counters to be reserved for use as Common Use Ticket Counters for one year beginning the following February 1<sup>st</sup> (after taking into consideration any recommendations by the RMAC). All remaining Ticket Counters available for use on February 1<sup>st</sup> of each year will be offered by the City to the Signatory Passenger Carriers for use as Preferential Use Ticket Counters.

The Airline Lease Agreement provides that, as of August 1, 2019 and August 1<sup>st</sup> of each year thereafter, the City will apply the following methodology to determine the total number of Ticket Counters that will be offered to each Signatory Passenger Carrier for preferential use for one year beginning the following February 1<sup>st</sup> if, but only if, (a) the City has determined that the number or locations of Ticket Counters to be reserved for use as Common Use Ticket Counters should be changed for that year or (b) a Signatory Passenger Carrier requests additional Preferential Use Ticket Counters that would be available to such Signatory Passenger Carrier if the City made a redetermination of Ticket Counter assignments:

(a) The City shall allocate two (2) Ticket Counters for the Signatory Airline's first Preferential Use Gate, and the City shall allocate one (1) additional Ticket Counter, if available, for each two (2) additional Preferential Use Gate granted to a Signatory Airline under the Airline Lease Agreement. The Signatory Airline's total number of Ticket Counters shall be limited to no more than thirty percent (30%) of all Ticket Counters in any ticket lobby, provided that the Director shall have sole discretion to waive this limit. This same method shall be applied to all Signatory Passenger Carriers.

(b) If additional Preferential Use Ticket Counters remain available after the allocation for all Signatory Passenger Carriers that is detailed above, a Signatory Airline shall be entitled to one (1) additional Preferential Use Ticket Counter for each unallocated Preferential Use Gate that the Signatory Airline is entitled to accept, regardless of whether the Signatory Airline accepts the allocation of any such Preferential Use Gate under the Airline Lease Agreement.

(c) If the total number of Preferential Use Ticket Counters to be offered to all Signatory Passenger Carriers exceeds the total number of Ticket Counters available for Preferential Use, the City shall reduce the number of calculated Preferential Use Ticket Counters to match the available Preferential Use Ticket Counters. The allocation of the over-allocated Preferential Use Ticket Counters shall be reduced accordingly based on the over-allocation process for Preferential Use Gates until the total number of Preferential Use Ticket Counters offered to all Signatory Passenger Carriers by the City matches the total number of Preferential Use Ticket Counters that are available.

(d) If any Signatory Airline does not accept assignment of a Preferential Use Ticket Counter, such Preferential Use Ticket Counter shall be designated as a Common Use Ticket Counter. The City may elect to reassign any Common Use Ticket Counter, including Preferential Use Ticket Counters not accepted by a Signatory Passenger Carrier to any other Signatory Passenger Carrier for Preferential Use, at the City's sole discretion.

(e) If a Preferential Use Ticket Counter is designated as a Common Use Ticket Counter and is not reassigned to a Signatory Passenger Carrier for Preferential Use, the costs that would otherwise have been assigned to such Ticket Counter for rate-setting purposes will be evenly redistributed among all of the other rented Group A Ticket Counter space (as defined in the Airline Lease Agreement); provided, however, that any Common Use Ticket Counter charges paid to the City for use of such Ticket Counter shall be credited against such redistributed costs.

(f) The City shall in its reasonable discretion determine the locations of any Preferential Use Ticket Counters to be offered to the Signatory Airlines, after taking into consideration the desirability of assigning contiguous Ticket Counters for Preferential Use by any given Signatory Passenger Carrier and minimizing the frequency of changes in the locations of Preferential Use Ticket Counters as well as any recommendations by the RMAC.

(g) No later than August 1<sup>st</sup> of each year during the Term, the City shall provide written notice to all Signatory Passenger Carriers of its annual determination with respect to Preferential Use Ticket Counters and shall offer each Signatory Airline the opportunity to be assigned the number of Preferential Use Ticket Counters indicated by the calculations described above. Airline shall provide written notice to the City no later than September 15<sup>th</sup> of each year during the Term if it wishes to reject any or all of that number of Ticket Counters offered by the City for Preferential Use.

### ***Assignment and Use of Skycap Positions***

Each fiscal year during the Term, the Director is to assign skycap positions (areas designated for curbside check in) to each Signatory Passenger Carrier in approximately the same proportions as Ticket Counters have been assigned, and Preferential Use Skycap Positions and Common Use Skycap Positions shall be assigned by the Director in approximately the same proportions as Preferential Use and Common Use Ticket Counters have been assigned. Before assigning Skycap Positions, the Director is to ask the RMAC for a recommendation with respect to the assignments, but the final determination with respect to the assignment of Skycap Positions is to be made by the Director in the Director's reasonable discretion.

If a Skycap Position is not assigned to any Signatory Passenger Carrier, the costs that would otherwise have been assigned to such Skycap Position for rate-setting purposes shall be evenly distributed among all of the other Skycap Positions.

### ***Use of Preferential Use Premises by Other Airlines***

The Airline Lease Agreement provides that the City may authorize the use of Preferential Use Premises by airlines other than the Signatory Airlines to which they are assigned, and each Signatory Airline is required, in the event a Requesting Airline is unable to obtain necessary facilities to operate at the Airport, to accommodate the Requesting Airline at the Signatory Airline's Preferential Use Gate or Preferential Use Ticket Counter so long as the Preferential Use Gate or Preferential Use Ticket Counter is not being used by the Signatory Airline during the Period of Use for a Scheduled Operation.

In the event of any such accommodation, the Requesting Airline is to pay the City the same charges for the use of the Gate or Ticket Counter that it would have paid for a Common Use Gate or Common Use Ticket Counter, and the City is to provide a credit to the accommodating Signatory Airline for the full amount of any such payment. In addition, the Requesting Airline is to pay all reasonable towing, Remain Overnight fees and other cost-recovery charges related to the accommodations that are assessed to the accommodating Signatory Airline. If an arrival or departure of a Signatory Airline that would have utilized one of the Signatory Airline's Preferential Use Gates is early or late and the Signatory Airline is prevented from utilizing any of its Preferential Use Gates because they are already being utilized by Requesting Airlines, the City shall, whenever possible, accommodate the Signatory Airline's arrival or departure on a Common Use Gate at no additional charge to the Signatory Airline for its use of the Common Use Gate, and the Signatory Airline shall continue to be entitled to the credit with regard to the accommodated operation at its Preferential Use Gate as described below. If a departure of a Signatory Airline that would have utilized one of the Signatory Airline's Preferential Use Ticket Counters is early or late and the Signatory Airline is prevented from utilizing any of its Preferential Use Ticket Counters because they are already being utilized by Requesting Airlines, the City shall, whenever possible, accommodate the Signatory Airline's departure on a Common Use Ticket Counter at no additional charge to the Signatory Airline for its use of the Common Use Ticket Counter, and the Signatory Airline shall continue to be entitled to the credit with regard to the accommodated operation at its Preferential Use Ticket Counter as described below.

As a condition of accommodation on a Signatory Airline's Preferential Use Gate or Preferential Use Ticket Counter, the Airline Lease Agreement provides that the Requesting Airline must execute the Airline Lease Agreement or a Non-Signatory Operating Agreement through which the Requesting Airline is bound by insurance and indemnification obligations that are substantially similar to the insurance and indemnification obligations in the Airline Lease Agreement. Those obligations shall inure to the benefit of the accommodating Signatory Airline as a third-party beneficiary during any period of accommodation, and the accommodating Signatory Airline shall not be required to accommodate a Requesting Airline at its Preferential Use Gates or Preferential Use Ticket Counters if the Requesting Airline's insurance and indemnification obligations are not satisfied. The Requesting Airline shall have no right to use any of the accommodating Signatory Airline's proprietary equipment and may not alter any millwork in the accommodating Airline's Preferential Use Gates.

### **Reallocation of Leased Premises**

From time to time during the Term, part or all of any Airline Premises may be required (a) for implementation of improvements at the Airport, (b) for accommodation of the traveling public, or (c) in order to maximize the use of the Terminal and related facilities by Passenger Carriers and other tenants, lessees, permittees and users thereof. In said event, the City shall consult with all affected Signatory Airlines and provide sixty (60) days' advance written notice of the Director's decision regarding such reallocation and of the schedule for implementation of such reallocation. The Director and the Signatory Airline may agree to reasonable extensions of time necessary to accommodate said reallocation. The Signatory Airline is required to comply with any reasonable reallocation requirements. In any such

reallocation, the actual, reasonable requirements of the Signatory Airline for terminal space to accommodate its operations at the Airport are to be given consideration.

All moving costs resulting from the relocation of a Signatory Airline in a City-imposed reallocation of space, as well as the costs of tenant improvements to the new space necessary to make such new space comparable to the space being vacated are to be funded by the City, subject to rate recovery under the Airline Lease Agreement. With respect to any Signatory Airline trade fixture and other movable property, if removal from the existing premises and reinstallation at the Signatory Airline's new premises is possible and not unreasonable, the Signatory Airline shall not be entitled to a new fixture or to new property. Notwithstanding any provisions described in this section to the contrary, the Signatory Airline shall not be entitled to reimbursement for relocation of or within Common Use Premises.

### **Rentals, Fees and Charges**

Under the Airline Lease Agreement, Signatory Airlines pay Landing Fees as well as Terminal Rents.

***Landing Fees.*** Landing Fees are determined by calculating the Airfield Revenue Requirement for the Airport (as described below) and dividing the Airfield Revenue Requirement by the Projected Landed Weight. This calculation yields a Landing Fee that will be expressed in dollars and cents per one thousand pounds of landed weight. Landing Fees will be levied upon airlines based on the aggregate Maximum Gross Landed Weight of all Chargeable Landings for aircraft operated by such airlines that land at the Airport during the year.

The Airfield Revenue Requirement that is used to determine Landing Fees is computed by taking the sum of the following budgetary items for each Fiscal Year: (a) Debt Service allocable to Airfield capital projects funded from bonds or subordinated indebtedness; (b) the Coverage Amount applicable to the Debt Service allocable to Airfield capital projects funded from bonds or subordinated indebtedness; (c) annual Operating Expenses allocable to the Airfield; (d) the portion of the total deposits needed to replenish the Bond Reserve Fund to required levels times a fraction, the numerator of which is the total amount of net bond proceeds allocable to the Airfield and the denominator of which is the total amount of net bond proceeds; and (e) the share of annual Renewal and Replacement Costs allocable to the Airfield. The following items are then subtracted from this sum: (a) the Revenues (as described below) that are accrued by the City for the use of the Airfield (excluding Landing Fees charged to Passenger Carriers and Cargo Carriers at the Airport but including Landing Fee premiums payable by Non-Signatory Airlines and Revenues accrued from parking fees at Common Use Gates); (b) Bad Debt allocable to the Airfield; (c) Bad Debt Recovery allocable to the Airfield; and (d) the Coverage Amount applicable to the Debt Service allocable to Airfield capital projects funded from bonds or subordinated indebtedness for the immediately preceding fiscal year. Then, landing fee true-ups for the preceding Fiscal Year are added or subtracted to the total to arrive at the Airfield Revenue Requirement.

***Terminal Rents.*** Terminal Rents are determined by calculating the Airline Terminal Revenue Requirement (as described below), and then distributing the aggregate Airline Terminal Revenue Requirement into three cost assignment groups for (a) ticket counters, holdrooms, skycap positions, and VIP rooms (collectively, "Group A"), (b) baggage claim and other offices (collectively "Group B"), and (c) baggage make-up, operations and storage (collectively, "Group C") to determine the square foot costs for each of these areas. The Airline Lease Agreement provides that differential rates shall apply to these different types of space provided that the sums of the amounts applicable to the different cost centers equal the total Airline Terminal Revenue Requirement; the costs assigned to the rented space within each

of these groups shall bear the following relativities to each other on a square foot basis: (a) 1.00 for Group A, (b) 0.80 for Group B and (c) 0.50 for Group C.

The Airline Terminal Revenue Requirement that is used to determine Terminal Rents is computed by taking the sum of the following budgetary items for each Fiscal Year: (a) Debt Service allocable to Terminal capital projects funded from bonds or subordinated indebtedness; (b) the Coverage Amount applicable to the Debt Service amount allocable to Terminal capital projects funded from bonds or subordinated indebtedness; (c) the annual Operating Expenses allocable to the Terminal; (d) the amount equal to the total deposits needed to replenish the Bond Reserve Fund to required levels times a fraction, the numerator of which is the total amount of net bond proceeds allocable to the Terminal and the denominator of which is the total amount of net bond proceeds; and (e) the share of annual Renewal and Replacement Costs allocable to the Terminal. The Coverage Amount applicable to the Debt Service allocable to Terminal capital projects funded from bonds or subordinated indebtedness for the immediately preceding fiscal year, and the amounts, if any, paid to the City to lease or use space in the basement of the Terminals, are then subtracted from this sum. The City will then divide that sum by the total amount of Rentable Terminal Space and multiply the resulting quotient by the total square feet of Airline Rented Space at the Airport, and then add any Bad Debt and subtract any Bad Debt Recovery allocable to the Terminal, yielding the Airline Terminal Revenue Requirement to be met by all Airlines.

*Charges for Use of Gates.* The Airline Lease Agreement provides that the City will calculate the Gate Revenue Requirement applicable to each Gate by multiplying the total square footage of all holdrooms associated with all Common Use and Preferential Use Gates by the per-square foot cost for Group A space, then adding any costs and subtracting any credit provided as described under the caption “Lease of Premises—*Use of Preferential Use Premises by Other Airlines*,” and finally dividing that product by the total number of active Gates (Gates that are neither active Common Use Gates nor assigned for Preferential use will not be included in the active Gate figure). Charges for Preferential Use Gates will be levied on a per-gate basis. The City will calculate the rate for use of Common Use Gates by multiplying the Gate Revenue Requirement by the total number of Common Use Gates, subtracting any fees paid for the use of Hardstands, and then dividing that amount by the estimated total number of Turns on all Common Use Gates during the Fiscal Year. Common Use Gate charges will be levied upon the Signatory Airline on the basis of the total number of Turns, if any, it makes at Common Use Gates and Hardstands during the Fiscal Year. The rate for Preferential Use Gates will equal the Gate Revenue Requirement. Preferential Gate use charges will be levied upon the Signatory Airline on the basis of the total number of Preferential Use Gates assigned to the Signatory Airline for the Fiscal Year. The Airline Lease Agreement also provides for the City to levy aircraft parking charges in an amount determined by City Council resolution for parking at a Common Use Gate for longer than the minimum periods established by the City Council.

*Charges for Use of Ticket Counters.* The Airline Lease Agreement provides that the City will calculate the Ticket Counter Revenue Requirement applicable to each Ticket Counter by multiplying the total square footage of all Ticket Counters (both Common Use and Preferential Use and including space of Skycap Positions and ticket counter queuing space) by the per-square foot cost for Group A space, then adding any costs and subtracting any credits provided for by the Airline Lease Agreement, and finally dividing that product by the total number of active Ticket Counters (Ticket Counters that are neither reserved for Common Use nor assigned for Preferential Use will not be included in the active Ticket Counter figure). The City will calculate the rate for use of Common Use Ticket Counters by multiplying the Ticket Counter Revenue Requirement by the total number of active Common Use Ticket Counters and then dividing that product by the total number of hours of use of all Common Use Ticket Counters during the Fiscal Year. Common Use Ticket Counter charges will be levied upon the Signatory Airline on the basis of the total number of hours of use it makes of Common Use Ticket Counters during the Fiscal Year (any portion of any hour shall be rounded up). The rate for use of Preferential Use Ticket



Counters will equal the Ticket Counter Revenue Requirement. Preferential Ticket Counter charges will be levied upon the Signatory Airline on the basis of the total number of Preferential Use Ticket Counters assigned to Airline for the Fiscal Year.

*Charges for Use of Baggage Areas.*

Baggage Make-up Charges. The Airline Lease Agreement provides that the City will calculate the revenue requirement applicable to Baggage Make-up Areas by multiplying the square footage of all Baggage Make-up Areas by the per-square foot cost for Group C space. The City will allocate 20% of that revenue requirement equally among all of all Passenger Carriers, and the City will divide the remaining 80% by the total number of passengers enplaned during the fiscal year to determine the baggage make-up charge per Enplaned Passenger. Each airline will pay for the use of Baggage Make-up Areas by paying (a) its share of the 20% revenue requirement plus (b) the product of the total number of passengers it enplanes during the Fiscal Year times the per-passenger baggage make-up charge.

Domestic Baggage Claim Charges. The Airline Lease Agreement provides that the City will calculate the revenue requirement applicable to Baggage Claim Areas serving Arriving Domestic Passengers by multiplying the total square footage of these Baggage Claim Areas by the per-square foot cost for the Group B space. The City will allocate 20% of this revenue requirement equally among all Passenger Carriers with Arriving Domestic Passengers, and the City will divide the remaining 80% by the total number of Arriving Domestic Passengers during the fiscal year to determine the domestic baggage claim charge per Deplaned Passenger. Each airline will pay for the use of Baggage Claim Areas by paying (a) its share of the 20% revenue requirement plus (b) the product of the total number of Arriving Domestic Passengers it deplanes during the Fiscal Year times the per-passenger domestic baggage claim charge.

*Charges for Use of Exclusive Use Premises.* The City is to calculate the annual rental rate for the use of office space, VIP Lounges and other Exclusive Use Premises by multiplying the square footage of such space by the per-square foot cost for the Group A, Group B or Group C space, as applicable. Charges for the use of such Exclusive Use Premises are to be levied upon each airline on a fee per square foot basis.

*Charges for Use of the FIS Facility and International Baggage Claim Area.* The City is to levy charges for the FIS Facility and the Baggage Claim Area serving international Scheduled Operations as determined by the City Council and as amended from time to time.

*Charges for Use of Storage Space.* The annual rental rate for the use of storage space is to equal the per-square foot cost for Group C space. Charges are to be levied on the basis of the total square footage of such space assigned to each airline.

*Adjustments.* The Airline Lease Agreement provides that the Terminal Rents and the Landing Fees identified above will be established and may be adjusted annually after consultation with the Signatory Airlines. The City has the right to make more frequent adjustments if it appears to the City, on the basis of information it is able to accumulate during the course of a Fiscal Year during the Term, that the budgeted Airfield or Terminal costs or projected landed aircraft weight or rented Terminal space the City used in calculating the Landing Fees or Terminal Rents will likely vary by more than 10% from actual results or if changes in Landing Fees or Terminal Rents are required by the terms and conditions of the Master Trust Agreement or any subordinated financing agreement. Adjustments also may be made if necessary to satisfy coverage requirements as described below under “Extraordinary Coverage Protection.”

***Non-Signatory Premium.*** The Airline Lease Agreement requires the City to charge Non-Signatory Airlines a 25% premium on all rates and charges set forth in the Airline Lease Agreement. Pursuant to a City ordinance, airlines that do not sign either a Signatory or a Non-Signatory Agreement will pay a 30% premium on all rates and charges set forth in the Airline Lease Agreement.

***Handling Agreements.*** In the event that a Signatory Airline agrees to ground handle any portion of the operations of another Passenger Carrier, the Airline Lease Agreement provides that the Signatory Airline shall provide advance written notice of such proposed activities to the City, and the Signatory Airline shall pay 10% of its gross revenue from any ground handling agreement (other than a ground handling agreement with an Affiliate of the Signatory Airline) to the City. Notwithstanding the foregoing, a Signatory Airline shall not ground handle any Passenger Carrier which does not have the consent of the City to operate at the Airport.

***Revenue-Sharing.*** In any fiscal year in which there are Net Remaining Revenues generated at the Airport and all requirements (including the minimum rate covenant requirement) of the Master Trust Agreement and any subordinated financing agreement have been satisfied, the Airline Lease Agreement provides that the Net Remaining Revenues will be divided between the City and all Signatory Passenger Carriers as follows: Until the first Fiscal Year after the DBO of the New Terminal Project, the first \$4,000,000 shall be retained by the City and the balance of Net Remaining Revenues, if any, shall be divided 60% to the Signatory Passenger Carriers and 40% to the City. In Fiscal Years beginning after the DBO of the New Terminal Project, the first \$2,000,000 shall be retained by the City and the balance of Net Remaining Revenues, if any, shall be divided 60% to the Signatory Passenger Carriers and 40% to the City. In all Fiscal Years, each Signatory Passenger Carrier's share of the balance of the Net Remaining Revenues shall be a function of its proportionate share of total Enplaned Passengers for all Signatory Passenger Carriers for that Fiscal Year. The City's share of any Net Remaining Revenues shall be retained by the Airport in a discretionary fund to be used by the City for any lawful Airport purpose.

***Rate Stabilization Fund and Ten-Year Lookback Distributions.*** The Airline Lease Agreement provides that the City shall distribute the entire balance remaining in the rate stabilization fund created under the 2007 Airline-Airport Lease and Operating Agreement (the "2007 Agreement") among all the Signatory Airlines under the 2007 Agreement in proportion to each such Signatory Passenger Carrier's share, if any, of Enplaned Passengers for all Signatory Airlines for Fiscal Year 2015, and shall distribute any credits arising from the Ten-Year Lookback among all of the Signatory Airlines to the 2007 Agreement, all as shown in an exhibit attached to the Airline Lease Agreement. As a condition of distribution of the Rate Stabilization Fund balance and the Ten-Year Lookback credits, the Signatory Airline shall execute the Airline Lease Agreement or a Non-Signatory Operating Agreement, as applicable. Any amount remaining in the Rate Stabilization Fund or the Ten-Year Lookback after the distribution described in in this section shall be retained by the Airport in a discretionary fund to be used by the City for any lawful Airport purpose.

***Extraordinary Coverage Protection.*** The airlines acknowledge in the Airline Lease Agreement that in order to satisfy the Coverage Amount for Debt Service on bonds and subordinated indebtedness, each airline will be required to make extraordinary coverage protection payments in addition to Landing Fees and Terminal Rents otherwise established by the Airline Lease Agreement in any Fiscal Year in which the amount of Revenues less Operating Expenses is projected to be less than the amount required by the minimum rate covenant requirement set forth in the Master Trust Agreement, as such rate covenant may be amended, supplemented or restated from time to time. Any amounts that must be collected for any such extraordinary coverage protection payments shall be allocated to the Airfield Revenue Requirement or the Airline Terminal Revenue Requirement. Should extraordinary coverage protection payments be made in any given Fiscal Year, the City shall in subsequent Fiscal Years refund to the airline its proportionate share of such payments as soon as there are sufficient Net Remaining Revenues

available under the Airline Lease Agreement to first allow the City to retain \$4,000,000 (until the first Fiscal Year after the DBO of the New Terminal Project) or \$2,000,000 (in Fiscal Years beginning after the DBO of the New Terminal Project), as described under the caption “Rentals, Fees and Charges—*Revenue-Sharing*.” The refund of extraordinary coverage protection payments shall occur before the remaining balance of Net Remaining Revenue, if any, is divided 60% to the Signatory Passenger Carriers and 40% to the City in accordance with the provisions described under the caption “Rentals, Fees and Charges—*Revenue-Sharing*.”

***Air Service Incentive Programs.*** Subject to applicable federal laws and policies, and in order to enhance existing air service or attract new air service to the Airport, the City reserves the right in the Airline Lease Agreement to maintain, adopt and implement one or more air service incentive programs. Each air service incentive program, if implemented, shall be offered to all eligible Air Carriers on a nondiscriminatory basis.

***Commercial Development Revenues.*** Twenty percent (20%) of the net revenues from the City’s commercial development of the land depicted as for commercial development in an Exhibit to the Airline Lease Agreement shall be used by the City, after consultation with AAAC, to offset charges to the Airfield and Terminal for capital costs, with ten percent (10%) of such net revenues allocated to the Airfield and the remaining ten percent (10%) of such net revenues allocated to the Terminal. The remaining eighty percent (80%) of the net revenues from the City’s commercial developments shall be retained by the Airport in a discretionary fund to be used by the City for any lawful Airport purpose.

## **Security for Performance**

Subject to the provisions of the Airline Lease Agreement described below, the City shall not require a Signatory Airline under the Airline Lease Agreement to provide Contract Security (as defined below) if such Signatory Airline was also a Signatory Airline under the 2007 Agreement and has not been defaulted by the City after any applicable notice and cure period under that 2007 Agreement for failure to make timely payments due to the City during the preceding thirty-six (36) months. The City may, in the Director's discretion, choose not to require a Signatory Airline under the Airline Lease Agreement to provide Contract Security under if such Signatory Airline was not a Signatory Airline under the 2007 Agreement and such new Signatory Airline (a) has not in the past failed to make timely payments, if any, due to the City, and (b) demonstrates to the Director’s satisfaction that it has an established track record of making timely payments to at least three (3) other large-hub or medium-hub airports (selected at the discretion of the Director) during at least the preceding thirty-six (36) months and has not been defaulted for untimely payment at any such airports during the preceding thirty-six (36) months.

Except as provided in the preceding paragraph, each airline must provide the City with an irrevocable letter of credit, or other security reasonably acceptable to the City in the City’s sole discretion (“Contract Security”), in an amount equal to the estimate of two months’ rentals, fees and charges payable by each airline (excluding PFCs) to guarantee the faithful performance of each airline’s obligations under the Airline Lease Agreement and the payment of all rentals, fees and charges due thereunder. The Director may adjust such Contract Security requirement from time to time upon a determination that an additional amount is warranted to protect the City and the Airport. In the event the City is required to draw down or collect against an airline’s Contract Security for any reason, the airline shall, within ten (10) business days after the City's written notice to the airline of such draw down or collection, take such action as may be necessary to replenish the existing Contract Security to its original amount (two months' estimated rentals, fees, and charges) or to provide additional or supplemental Contract Security from another source so that the aggregate of all letters of credit is equal to two months' estimated rentals, fees, and charges payable by the airline pursuant to the Airline Lease Agreement. The

failure to replenish the security within 30 days after written notice to the airline shall constitute a default under the Airline Lease Agreement.

Even if an airline has previously been relieved of its obligation to provide Contract Security by reason of the provisions described in the first paragraph of this section, the City shall require such airline to provide Contract Security if the airline commits an act of default described in the Airline Lease Agreement after any applicable notice and cure period by reason of its failure to timely make full payment of all rentals, fees, and charges due hereunder. In such event, the airline shall, within ten (10) days from its receipt of written notice of default, provide Contract Security to the City in such form and amounts, and subject to such terms and conditions, as are specified in the Airline Lease Agreement.

In its Non-Signatory Operating Agreements, the City shall require all Non-Signatory Airlines to provide Contract Security to the City in such form and amounts, and subject to such terms and conditions, as are specified in the Airline Lease Agreement.

### **City Indirect Overhead**

Because the operation and management of the Airport is supported by a number of City departments, employees and resources that are not directly charged to the Airport operating budget, the City allocates a percentage of its total indirect overhead expenses to the Airport operating budget. In no event will the indirect overhead expenses of the City allocated to the Airport's operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the Term.

### **Capital Expenditures**

In general, the Airline Lease Agreement provides that the Capital Expenditures to be paid for or financed with Revenues are subject to review by the Signatory Airlines. Unless a Capital Expenditure is excluded from Signatory Airline review as provided below, the City shall notify each Signatory Airline in writing of its intent to undertake a Capital Expenditure. Within 20 days after the delivery of such notification, a Signatory Airline may request in writing a meeting with the City and all Signatory Airlines for the purpose of discussing the proposed Capital Expenditure(s). Should such a request be made, the City shall meet collectively with the Signatory Airlines within 60 days of the City's original notice, and the City will consider the comments and recommendations of the Signatory Airlines with respect to proposed Capital Expenditure(s). Unless Signatory Airlines that constitute a Majority in Interest or "MII" (as defined below) for the Airfield Cost and Revenue Center or the Terminal Cost and Revenue Center shall issue written disapprovals for a particular Capital Expenditure in the applicable cost and revenue center requiring MII consideration within 30 days of the date of the City's meeting with the Signatory Airlines, the City may proceed with that Capital Expenditure. If Signatory Airlines that constitute an MII disapprove of a proposed Capital Expenditure subject to MII consideration, the City shall defer the project for one year. The City will be entitled, however, to move forward with any disapproved Capital Expenditure after the one-year waiting period (or earlier if the disapproval is reversed by an MII at any time).

The City is entitled to proceed with certain Capital Expenditures that are to be paid for or financed with Revenues under the Airline Lease Agreement without consideration by the Signatory Airlines. These Capital Expenditures are:

(a) New development, planning or expansion projects in the Airfield or Terminal Cost and Revenue Centers that have a project cost, net of any PFCs, CFCs, federal grants, and other forms of financial assistance, of less than \$10 million (the City shall not unreasonably segment these development, planning or expansion projects for the purpose of avoiding the \$10 million threshold);

- (b) The New Terminal Project;
- (c) Projects required by the FAA, U.S. Department of Transportation, Transportation Security Administration or a similar government authority, other than the City, having jurisdiction over the Airport;
- (d) Projects to repair casualty damage to Airport property that must be rebuilt or replaced in order for the City to meet its obligations under the Airline Lease Agreement, the Master Trust Agreement, or agreements with other lessees at the Airport;
- (e) Projects undertaken in Cost and Revenue Centers other than the Airfield Cost and Revenue Center and the Terminal Cost and Revenue Center;
- (f) Reasonable repairs, rebuilding, improvements or additions, including associated costs, necessary to comply with the Airline Lease Agreement or applicable law or to settle lawful claims, satisfy judgments or comply with judicial orders against the City by reason of its ownership, operation, maintenance or use of the Airport;
- (g) Expenditures of an emergency nature which, if not made within 48 hours, would result in the closing of any portion of the Airport;
- (h) Projects funded directly or indirectly by PFCs, CFCs, federal grants, or other forms of financial assistance;
- (i) Projects that are undertaken to satisfy the increased requirements of any Signatory Airline so long as such Signatory Airline agrees to pay all increased rentals, fees, and charges that are sufficient to cover the annual Debt Service and Operating Expenses associated with the projects; and
- (j) Projects related to special purpose facilities for which the user agrees to pay or reimburse the Airport.

Under the Airline Lease Agreement, the City agrees to consult with the AAAC during the programming, design, and construction phases of the New Terminal Project; provided, however, that City retains sole discretion to make all final decisions with respect to the financing, programming, design, and construction phases of the New Terminal Project. The City does not intend to proceed to construct the New Terminal Project unless, in the City's sole discretion, the increase in terminal capacity to be achieved by the New Terminal Project continues to be needed. To provide Signatory Airlines with an opportunity to share their then-current views and information about the continuing need for the New Terminal Project, City agrees to consult with the AAAC at least ninety (90) days before the City issues a Request for Proposals ("RFP") for the construction of the terminal expansion in the New Terminal Project. Before electing to proceed with the New Terminal Project, the City agrees to give due consideration to whatever information the AAAC provides with respect certain factors enumerated in the Airline Lease Agreement. After completing its consultation with the AAAC, and having given due consideration to the information provided by the AAAC, the City may proceed with the New Terminal Project if the City determines, in its sole discretion, that the New Terminal Project continues to be needed and can be financed on reasonable terms.

If, after completing its consultation with the AAAC described in the preceding paragraph, the City determines that the New Terminal Project should be deferred for more than three (3) years, the City shall provide the AAAC with another opportunity to consult with the City at least ninety (90) days before City issues an RFP for the construction of the terminal expansion in the New Terminal Project unless the

City and Signatory Airlines constituting an MII have agreed upon a revised schedule for the completion of the New Terminal Project. The City shall consult with the AAAC in developing an activation plan for the relocation of Passenger Carriers throughout the Terminal during construction and when the New Terminal Project is completed.

To the full extent permitted by law and subject to the provisions of the Airline Lease Agreement, the City agrees to use all PFC funds collected by the City that are not, as of the effective date of the Airline Lease Agreement, already committed to PFC-eligible projects through applications approved by the FAA, and including PFC funds collected by the City in the event that Congress authorizes an increase in the current maximum PFC of \$4.50 per passenger, for one or more of the following, as reasonably determined by the City and without regard to any priority: (a) to fund the New Terminal Project on a pay-go basis or through PFC-backed bonds to the extent the New Terminal Project is PFC eligible; and (b) to retain the PFC funds for future use on PFC-eligible projects approved by the FAA.

### **Damage and Destruction and Force Majeure**

If the Airline Premises are partially damaged by fire, flood, windstorm, earthquake, or other casualty but said damage shall not render the Airline Premises untenable for its intended use as reasonably determined by the City, the Airline Lease Agreement provides for no abatement or reduction in the rates and charges otherwise payable by the Signatory Airline, so long as Debt Service payments allocable to such partially damaged Airline Premises are required; and (1) the portion of the Airline Premises so damaged are promptly repaired, rebuilt, or restored by the City with such changes, alterations, and modifications as may be agreed upon by the City and the Signatory Airline as shall not impair the character of the Airline Premises; and (2) the City has applied any net proceeds received by City under insurance policies as necessary to cover such losses, after payment by the City of any expenses of obtaining or recovering such net proceeds. In the event that such net insurance proceeds are insufficient to pay in full the costs of such repair, rebuilding, or restoration, the City will endeavor to arrange financing through the issuance of financing or other means and complete such repair, rebuilding, or restoration.

If the Airline Premises are substantially or completely damaged or destroyed by fire, flood, windstorm, earthquake, or other casualty and said damage or destruction renders the Airline Premises untenable for its intended use as reasonably determined by the City, the Airline Lease Agreement provides that the City shall make an equitable and proportional abatement or reduction in the rates and charges payable by the Signatory Airline, based on the degree to which the portion of the Airline Premises rendered untenable is related to the total Airline Premises, until such time as the affected Airline Premises are restored for the Signatory Airline's use; and (1) the portion of the Airline Premises so damaged are promptly repaired, rebuilt, or restored by the City with such changes, alterations, and modifications as may be agreed upon by the City and the Signatory Airline; and (2) the City has applied any net proceeds received by City under insurance policies as necessary to cover such losses, after payment by the City of any expenses of obtaining or recovering such net proceeds. In the event that such net insurance proceeds are insufficient to pay in full the costs of such repair, rebuilding, or restoration, the City will endeavor to arrange financing through the issuance of financing or other means and complete such repair, rebuilding, or restoration.

In the event that Airline Premises are damaged or destroyed as the result of the negligence or willful act or omission of the Signatory Airline, its employees, its agents, or licensees, the Airline Lease Agreement provides that there shall be no abatement of rent during the repair or replacement of said Airline Premises. To the extent that the costs of repairs exceed the amount of any insurance proceeds received by the City by reason of such damage or destruction, the responsible airline shall pay the amount of such additional costs to the City.

The Airline Lease Agreement provides that, except as otherwise expressly provided in the Airline Lease Agreement, neither the City nor the Signatory Airline shall be deemed to be in default if either party is prevented from performing any of the obligations, other than the payment of rentals, fees, and charges, by reason of strikes, boycotts, labor disputes, epidemics, embargoes, shortages of energy or materials, acts of God, terrorism, acts of the public enemy, weather conditions, riots, rebellion, or sabotage, or any other circumstances for which it is not responsible or which are not within its control.

### **Indemnification, Insurance and Public Liability**

The Airline Lease Agreement provides that the Signatory Airlines will indemnify the City for all claims, liability, expenses, losses, costs, fines and damages and causes of action of every kind and character arising out of or incident to or in connection with the performance of the Signatory Airlines under the Airline Lease Agreement, a Signatory Airline's use and occupancy of the Airline Premises under the Airline Lease Agreement, a Signatory Airline's negligent acts, omissions or operations under the Airline Lease Agreement or the performance, non-performance or purported performance of a Signatory Airline or any breach of the terms of the Airline Lease Agreement. The Airline Lease Agreement provides, however, that this indemnification will not apply when the applicable claim, liability, expense, loss, cost, fine, damage or cause of action is caused by the negligence of the agents, employees, contractors, officers or boards of the City (but only to the extent of the portion of the claim, liability, expense, loss, cost, fine, damage or cause of action caused by such negligence).

The Airline Lease Agreement requires each of the Signatory Airlines to maintain insurance in full force and effect as specified below: (a) aircraft liability insurance with coverage of \$100,000,000 combined single limit for bodily injury and property damage; (b) \$50,000,000 war and named perils coverage for bodily injury and property damage, each occurrence and annual aggregate (or the U.S. government equivalent); (c) worker's compensation and employers' liability insurance written in accordance with the laws of the State of California with \$1,000,000 in employer's liability coverage; (d) commercial business auto insurance with a minimum limit of not less than \$1,000,000 combined single limit for bodily injury and property damage; and (e) property insurance in an amount equal to "Value of Airline Improvements and Betterments" during the course of construction and after completion, which coverage shall include replacement value, covering airline improvements and betterments, for fire and extended coverage, including sprinkler leakage, vandalism and malicious mischief, and debris removal.

Each insurance policy shall be endorsed to state that coverage shall not be suspended, voided, canceled or reduced in limits except after 30 days' prior written notice has been given to the City by the insurer or, if the insurer will not provide such notice, by the Signatory Airline; provided, however, that the notice period for war and named perils insurance may be seven days or such lesser period as may be customarily available.

The City has retained the right at any time to review the coverage, form and amount of the insurance required under the Airline Lease Agreement and to require each airline to obtain insurance sufficient in coverage, form and amount to provide adequate protection for the City and/or for members of the public.

Under the terms of the Airline Lease Agreement, the City and the airlines agree to have all property insurance carried with respect to the Airport endorsed with a clause that waives all rights of subrogation that the insurer of one party may have against the other party, and the City and the airlines will employ diligent efforts to cause their insurance companies to endorse the affected property insurance policies with a waiver of subrogation clause.

## **Relation to Master Trust Agreement**

The Airline Lease Agreement provides that it is expressly subject and subordinate to (a) the Master Trust Agreement and (b) any bond resolution, trust agreement, indenture or other financing agreement providing for or authorizing the issuance by the City of subordinated indebtedness, including an agreement related to the security or credit enhancement for the subordinated indebtedness, as each may be supplemented or amended from time to time (a “Subordinated Financing Agreement”).

In the event that the City intends to amend or supplement the Master Trust Agreement or any Subordinated Financing Agreement in a manner that would materially alter the terms and provisions of the Airline Lease Agreement or materially impact the levels of rentals, fees and charges paid by a Signatory Airline, City shall notify each Signatory Airline in advance.

## **Default and Termination**

Upon the occurrence of any of the following events, subject to applicable notice and cure periods, the Airline Lease Agreement provides that the City may terminate the Airline Lease Agreement, may reenter the Airline Premises and remove all Signatory Airline persons and property and may relet the Airline Premises:

(a) The conduct of any business or performance by the Signatory Airline of any acts at the Airport not specifically authorized under the Airline Lease Agreement or by any other agreements between the City and the Signatory Airline, and said business or acts do not cease within 30 days of receipt of the City’s written notice to cease said business or acts.

(b) The failure to cure a default in the performance of any of the terms, covenants, and conditions required in the Airline Lease Agreement (except insurance requirements and payment of rentals, fees, and charges) within 30 days of receipt of written notice by the City to do so; or if by reason of the nature of such default, the same cannot be remedied within 30 days following receipt by a Signatory Airline of written demand from the City to do so, the Signatory Airline fails to commence the remedying of such default within said 30 days following such written notice, or having so commenced, shall fail thereafter to continue with diligence the curing thereof. The Airline Lease Agreement provides that the Signatory Airline shall have the burden of proof to demonstrate (i) that the default cannot be cured within 30 days, and (ii) that it is proceeding with diligence to cure said default and that such default will be cured within a reasonable period of time.

(c) The failure by the Signatory Airline to pay any part of the rentals, fees, and charges due under the Airline Lease Agreement and the continued failure to pay said amounts in full within 30 days of the City’s written notice of payments past due; provided, however, if a dispute arises between the City and the Signatory Airline with respect to any obligation or alleged obligation of the Signatory Airline to make payments to the City, payments under protest by the Signatory Airline of the amount due shall not waive any of the Signatory Airline’s rights to contest the validity or amount of such payment.

(d) The failure by the Signatory Airline to provide and keep in force insurance coverage in accordance with the Airline Lease Agreement.

(e) The appointment of a trustee, custodian, or receiver of all or a substantial portion of a Signatory Airline’s assets.

(f) The divestiture of a Signatory Airline’s estate in the Airline Lease Agreement by operation of law, by dissolution or by liquidation (not including a merger or sale of assets).



(g) The abandonment by the Signatory Airline of the Airline Premises, or its conduct of business at the Airport; and, in this connection, suspension of operations for a period of 60 days will be considered abandonment in the absence of a labor dispute or other governmental action in which the Signatory Airline is directly involved.

(h) The failure by the Signatory Airline to remit PFCs in accordance with the Airline Lease Agreement.

In the event that the City relets the Airline Premises, rentals, fees, and charges received by the City from such reletting shall be applied: (i) to the payment of any indebtedness, other than rentals, fees, and charges due under the Airline Lease Agreement, from the Signatory Airline to City; (ii) to the payment of any cost of such reletting; and (iii) to the payment of rentals, fees, and charges due and unpaid under the Airline Lease Agreement. The residue, if any, shall be held by the City and applied in payment of future rentals, fees, and charges as the same may become due and payable the Airline Lease Agreement. If that portion of such rentals, fees, and charges received from such reletting and applied to the payment of rentals, fees, and charges under the Airline Lease Agreement is less than the rentals, fees, and charges as would have been payable during applicable periods by the Signatory Airline under the Airline Lease Agreement, then the Signatory Airline shall pay such deficiency to the City whenever rentals, fees or charges are due to the City under the Airline Lease Agreement. The Signatory Airline shall also pay to the City, as soon as ascertained, any reasonable costs and expenses incurred by the City in such reletting not covered by the rentals, fees, and charges received from such reletting.

### **Remedies Following Bankruptcy**

Notwithstanding any other default provisions in the Airline Lease Agreement, upon the filing by or against a Signatory Airline of any proceeding under Federal bankruptcy laws, the Airline Lease Agreement provides that it shall automatically terminate (unless such termination is affirmatively waived at the time of the filing or subsequently by the City) in addition to other remedies provided under provisions of the Federal Bankruptcy Rules and Regulations and Federal Judgeship Act of 1984, as such may be subsequently amended, supplemented, or replaced. Notwithstanding the foregoing, the City shall be entitled to waive the automatic termination provision mentioned above in writing. In the event that the City waives the automatic termination requirement, the City shall not be obligated to perform under the terms of the Airline Lease Agreement so long as any proceeding under Federal bankruptcy laws remains outstanding. Any waiver by City of the automatic termination provision is not to be construed to be a waiver of any subsequent automatic termination.

### **Assignment and Subletting by Signatory Airline**

No Signatory Airline may assign or transfer the Airline Lease Agreement or any interest therein nor sublet the whole or any portion of the Signatory Airline's premises without first obtaining the City's written consent. The Airline Lease Agreement also provides that neither the Airline Lease Agreement nor any interest thereunder shall be assignable or transferable by operation of law or by any process or proceeding of any court or otherwise without the consent of the City, which consent shall not be unreasonably withheld.

Notwithstanding the foregoing, a Signatory Airline shall have the right, without first obtaining the City's written consent, to assign or transfer the Airline Lease Agreement to (a) an entity controlling, controlled by or under common control with the Signatory Airline or (b) a successor by merger, consolidation or acquisition to all or substantially all of the assets of the Signatory Airline, provided that such successor shall provide to the City, within thirty (30) days after the effective date of such merger, consolidation, or acquisition, written confirmation (in form and substance reasonably satisfactory to City)

that such successor-in-interest has assumed all of the Signatory Airline's obligations under the Airline Lease Agreement.

The City in its sole discretion may terminate the Airline Lease Agreement upon 30 days' written notice in the event the Signatory Airline, directly or indirectly, assigns, sells, hypothecates or otherwise transfers the Airline Lease Agreement or any portion of the Signatory Airline's Premises in contravention of the Airline Lease Agreement, without the prior written consent of the City.

The provisions described in this section shall not apply to any valid assumption or assignment of the Airline Lease Agreement, the Airline Premises, or any part thereof, by a trustee, or by the Signatory Airline as a debtor-in-possession under Section 365 of the United States Bankruptcy Code of 1978, as amended, if adequate assurance of future performance under said Section 365 is to be provided, in writing, as a condition of the assumption or assignment of the Airline Lease Agreement.

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## APPENDIX H

### PROVISIONS FOR THE BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

**Introduction.** The information in this Appendix H concerning The Depository Trust Company (“DTC”), Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream Banking”) (DTC, Euroclear and Clearstream Banking together, the “Clearing Systems”), and DTC’s book-entry-only system has been provided by DTC, Euroclear and Clearstream Banking for use in disclosure documents such as this Official Statement.

DTC will act as the securities depository for the Series 2021 Bonds. Euroclear and Clearstream Banking are participants of DTC and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders.

The information set forth below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect and the City of San José (the “City”) expressly disclaims any responsibility to update this Official Statement to reflect any such changes. The information herein concerning the Clearing Systems has been obtained from sources that the City believes to be reliable, but neither the City nor the Underwriters takes any responsibility for the accuracy or completeness of the information set forth herein. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The City will have no responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Series 2021 Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

**Book Entry-Only System.** DTC will act as securities depository for the Series 2021 Bonds. The Series 2021 Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2021 Bond certificate will be issued for each maturity of the Series 2021 Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect

Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org); nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Series 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2021 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2021 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2021 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2021 Bonds, except in the event that use of the book-entry system for the Series 2021 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2021 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2021 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2021 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2021 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2021 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2021 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Series 2021 Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2021 Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2021 Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2021 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2021 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and

corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the 2021 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE CITY, THE UNDERWRITERS OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the City, the Airport, the Underwriters or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2021 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Series 2021 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2021 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2021 Bond certificates will be printed and delivered to DTC.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Neither the City nor the Trustee will have any responsibility or obligation to Participants or the persons for whom they act as nominees with respect to the Series 2021 Bonds for the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of principal or interest on the Series 2021 Bonds, any notice that is permitted or required to be given to Registered Owners under the Master Trust Agreement (except such notices as shall be required to be given by the City to the Trustee or to DTC), the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Series 2021 Bonds, or any consent given or other action taken by DTC as the Registered Owner (through its partnership nominee). The City and the Trustee may treat and consider Cede & Co., in whose name each Series 2021 Bond is registered on the Bond Register, as the holder and absolute owner of such Series 2021 Bond for all purposes, except as provided in the Master Trust Agreement. For the purposes of this Official Statement, the term "Beneficial Owner" includes the person for whom the Participant acquires an interest in the Series 2021 Bonds.

If the City is unable to retain a qualified successor to DTC or the City has determined that DTC or its successor is no longer able to carry out its functions as a depository or that it is no longer desirable to use a depository, the City will be required to deliver a written request to the Trustee, together with a supply of definitive Series 2021 Bonds in certificated form, to issue Series 2021 Bonds in any authorized denomination. Thereafter, the principal of the Series 2021 Bonds shall be in lawful money of the United States upon due presentment and surrender thereof at the principal office of the Trustee, interest on the Series 2021 Bonds will be payable by check mailed to the persons in whose names such Series 2021 Bonds are registered, at the address appearing upon the registration books on the 15th day of the month next preceding an interest payment date, and the Series 2021 Bonds will be transferable as provided in the Master Trust Agreement.

### **Discontinuation of Book-Entry-Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Series 2021 Bonds, the provisions of the Master Trust Agreement relating to place of payment, transfer and exchange of the Series 2021 Bonds, regulations with respect to exchanges and transfers, bond register, Series 2021 Bonds mutilated, destroyed or stolen, and evidence of signatures of bond owners and ownership of Series 2021 Bonds will govern the payment, registration, transfer, exchange and replacement of the Series 2021 Bonds. Interested persons should contact the City for further information regarding such provisions of the Master Trust Agreement.

### **Euroclear and Clearstream Banking.**

Euroclear and Clearstream Banking have advised the City as follows:

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures. Any Series 2021 Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, for the account of its participants, including but not limited to Euroclear and Clearstream Banking. If the investors are participants in Clearstream Banking and Euroclear in Europe, or indirectly through organizations that are participants in the Clearing Systems, Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories. In all cases, the record holder of the Series 2021 Bonds will be DTC's nominee and not Euroclear or Clearstream Banking. The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day

for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

The City will not impose any fees in respect of holding the Series 2021 Bonds; however, holders of book-entry interests in the Series 2021 Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement. Interests in the Series 2021 Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Series 2021 Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable thereto and applicable to DTC. Book-entry interests in the Series 2021 Bonds will be credited by DTC to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Series 2021 Bonds against payment (value as on the date of delivery of the Series 2021 Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Series 2021 Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Series 2021 Bonds following confirmation of receipt of payment to the City on the date of delivery of the Series 2021 Bonds.

Secondary Market Trading. Secondary market trades in the Series 2021 Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream Banking or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Series 2021 Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Book-entry interests in the Series 2021 Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Series 2021 Bonds between Euroclear or Clearstream Banking and DTC shall be effected in accordance with procedures established for this purpose by Euroclear, Clearstream Banking and DTC.

### **Special Timing Considerations**

Investors should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Series 2021 Bonds through Euroclear or Clearstream Banking on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream Banking and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Series 2021 Bonds, or to receive or make a payment or delivery of Series 2021 Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream Banking is used, or Brussels if Euroclear is used.

### **Clearing Information**

The City and the Underwriters expect that the Series 2021 Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream Banking. [The international securities identification number, common code and/or CUSIP number for the Series 2021 Bonds are set out on the inside cover page of this Official Statement.]

### **Limitations**

For so long as the Series 2021 Bonds are registered in the name of DTC or its nominee, Cede & Co., the City and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2021 Bonds for all purposes, including payments, notices and voting. So long as Cede & Co. is the registered owner of the Series 2021 Bonds, references in this Official Statement to registered owners of the Series 2021 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2021 Bonds.

Because DTC is treated as the owner of the Series 2021 Bonds for substantially all purposes, Beneficial Owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of Beneficial Owners is unknown to the City or DTC, it may be difficult to transmit information of potential interest to Beneficial Owners in an effective and timely manner. Beneficial Owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the Series 2021 Bonds that may be transmitted by or through DTC.

The City will have no responsibility or obligation with respect to:

- the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any Beneficial Ownership interest in any Series 2021 Bonds;
- the delivery to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the Trustee, of any notice with respect to any Series 2021 Bonds including, without limitation, any notice of redemption with respect to any Series 2021 Bonds;
- the payment to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the Trustee, of any amount with respect to the principal of, premium, if any, or interest on, any Series 2021 Bonds; or
- any consent given by DTC or its nominee as registered owner.



Prior to any discontinuation of the book entry only system hereinabove described, the City and the Trustee may treat Cede & Co. (or such other nominee of DTC) as, and deem Cede & Co. (or such other nominee) to be, the absolute registered owner of the Series 2021 Bonds for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the Series 2021 Bonds;
- giving notices of redemption and other matters with respect to the Series 2021 Bonds;
- registering transfers with respect to the Series 2021 Bonds; and
- the selection of Series 2021 Bonds for redemption.

### **General**

None of Euroclear, Clearstream Banking or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither the City, the Underwriters nor any of their agents will have any responsibility for the performance by Euroclear, Clearstream Banking or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

**APPENDIX I**  
**[SUMMARY OF PLANNING SCENARIO]**