



SFO

San Francisco International Airport

**Official Statement**

**Airport Commission**

**City and County of San Francisco**

**San Francisco International Airport**

**Second Series Revenue Refunding Bonds**

**Series 2009D**

SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE REFUNDING BONDS SERIES 2009D





Rental Car Facility

Boarding Area "G"

International Terminal

International Garage "G"

Bart Station

Boarding Area "A"

International Garage "A"

AirTrain System

Elevated Roadways

Highway 101

In the opinion of Orrick, Herrington & Sutcliffe LLP and Quateman LLP, Co-Bond Counsel to the Commission, 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 Series 2009D 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 2009D Bond for any period that such Series 2009D Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2009D Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986. In the further opinion of Co-Bond Counsel, interest on the Series 2009D Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel are also of the opinion that interest on the Series 2009D Bonds is exempt from State of California personal income taxes. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009D Bonds. See "TAX MATTERS."

**\$88,190,000**  
**AIRPORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**  
**SAN FRANCISCO INTERNATIONAL AIRPORT**  
**SECOND SERIES REVENUE REFUNDING BONDS**  
**SERIES 2009D**  
**(Non-AMT/Private Activity)**

**Dated: Date of Delivery**

**Due: As shown on the inside cover**

The Airport Commission (the "Commission") of the City and County of San Francisco (the "City") will issue \$88,190,000 principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009D (the "Series 2009D Bonds") pursuant to Commission Resolution No. 91-0210, adopted on December 3, 1991 (the "1991 Resolution"), as amended and supplemented (the "1991 Master Resolution"). The Series 2009D Bonds will mature on the date and bear interest at the rate shown on the inside cover, and will be issued in a Term Rate Mode with an initial fixed-term Interest Period ending on the date shown on the inside cover. The Series 2009D Bonds will be subject to mandatory tender by the Owners thereof for purchase by the Commission on the date shown on the inside cover. See "DESCRIPTION OF THE SERIES 2009D BONDS." Interest on the Series 2009D Bonds is payable on May 1 and November 1 of each year, commencing May 1, 2010, and on the day following the expiration of the initial fixed-term Interest Period shown on the inside cover. The San Francisco International Airport (the "Airport") is a department of the City. The Commission is responsible for the operation and management of the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT."

Proceeds of the Series 2009D Bonds will be used, together with other available moneys, to (i) refund all of the Commission's outstanding San Francisco International Airport Second Series Revenue Notes, Series 2008B (the "Series 2008B Notes"), which are subject to mandatory tender by the Owners thereof for purchase by the Commission on December 1, 2009, (ii) fund a deposit into the Reserve Fund, and (iii) pay certain costs of issuance associated with the Series 2009D Bonds. See "REFUNDING PLAN."

The Series 2009D Bonds will be issued as parity Bonds pursuant to the 1991 Master Resolution, and together with all Bonds issued thereunder are equally secured by a pledge of, lien on and security interest in the Net Revenues (as defined herein) of the Airport.

The Series 2009D Bonds will be issued only as fully registered securities, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial ownership interests in the Series 2009D Bonds will be made in book-entry form only, in Authorized Denominations of \$5,000 and any integral multiple thereof. Purchasers of beneficial ownership interests will not receive certificates representing their interests in the Series 2009D Bonds. So long as Cede & Co. is the registered owner of the Series 2009D Bonds, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners of the Series 2009D Bonds. See APPENDIX B—"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM." The Bank of New York Mellon Trust Company, N.A. has been appointed by the Commission to act as Trustee for the Bonds.

**The Series 2009D Bonds are *not* subject to optional and mandatory redemption during the initial fixed-term Interest Period.**

**The Series 2009D Bonds are subject to mandatory tender by the Owners thereof for purchase by the Commission on the date set forth on the inside cover at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. If for any reason the Commission is unable to pay the Purchase Price of the Series 2009D Bonds upon the mandatory tender thereof, the Series 2009D Bonds will be subject to mandatory redemption on such date at a redemption price equal to the principal amount thereof plus accrued interest thereon. There will be no credit or liquidity facility in place to pay the Purchase Price of the Series 2009D Bonds upon the mandatory tender thereof or to pay the principal thereof and interest thereon upon the mandatory redemption thereof. See "CERTAIN RISK FACTORS—Airport Market Access." Payment of the principal portion of the Purchase Price of the Series 2009D Bonds is *not* secured by a pledge or lien on Net Revenues, but rather is payable solely from remarketing proceeds, if any. Payment of the principal of and interest on the Series 2009D Bonds upon the mandatory redemption thereof, however, is secured by a pledge of and lien on Net Revenues. Any failure of the Commission to pay the Series 2009D Bonds upon the mandatory redemption thereof will constitute an Event of Default under the 1991 Master Resolution.**

THE SERIES 2009D BONDS ARE SPECIAL OBLIGATIONS OF THE COMMISSION, PAYABLE AS TO PRINCIPAL, REDEMPTION PRICE AND INTEREST, BUT NOT PURCHASE PRICE, SOLELY OUT OF, AND SECURED BY A PLEDGE OF AND LIEN ON, THE NET REVENUES OF THE AIRPORT AND THE FUNDS AND ACCOUNTS PROVIDED FOR IN THE 1991 MASTER RESOLUTION. NEITHER THE CREDIT NOR TAXING POWER OF THE CITY AND COUNTY OF SAN FRANCISCO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, PURCHASE PRICE OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2009D BONDS. NO HOLDER OF A SERIES 2009D BOND SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE CITY AND COUNTY OF SAN FRANCISCO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE SERIES 2009D BONDS OR THE INTEREST THEREON. THE COMMISSION HAS NO TAXING POWER WHATSOEVER.

This Official Statement does not describe the terms of any subsequent interest rate period or periods or any other Mode other than the initial Term Rate Mode for the Series 2009D Bonds, which terms would be set forth in a separate offering document with respect thereto.

This cover page contains certain information for general reference only. It is *not* a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

*The Series 2009D Bonds are offered when, as and if issued by the Commission and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Quateman LLP, Los Angeles, California, Co-Bond Counsel to the Commission, and certain other conditions. Certain legal matters will be passed upon for the Commission by the City Attorney and by Lofton & Jennings, San Francisco, California, Disclosure Counsel and for the Underwriter by its counsel Hawkins Delafield & Wood LLP, San Francisco, California. It is expected that the Series 2009D Bonds will be delivered through the facilities of DTC on or about November 4, 2009, in New York, New York against payment therefor.*

**Merrill Lynch & Co.**

Dated: October 20, 2009

**\$88,190,000**  
**AIRPORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**  
**SAN FRANCISCO INTERNATIONAL AIRPORT**  
**SECOND SERIES REVENUE REFUNDING BONDS**  
**SERIES 2009D**  
**(Non-AMT/Private Activity)**

**MATURITY SCHEDULE**

<u>Maturity (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield<sup>(1)</sup></u>	<u>End of Initial Interest Period</u>	<u>Mandatory Tender Date<sup>(2)</sup></u>	<u>CUSIP<sup>(3)</sup> (79765A) Y75</u>
2029	\$88,190,000	2.25%	2.25%	December 3, 2012	December 4, 2012	

<sup>(1)</sup> Initial reoffering yields were provided by the Underwriter.

<sup>(2)</sup> The Series 2009D Bonds will be subject to mandatory tender by the Owners thereof for purchase by the Commission on such date. If for any reason the Commission is unable to pay the Purchase Price of the Series 2009D Bonds on the mandatory tender date, the Series 2009D Bonds will be subject to mandatory redemption on such date by the Commission at a redemption price equal to the principal amount thereon plus accrued interest thereon.

<sup>(3)</sup> Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither of the Commission nor the Underwriter take any responsibility for the accuracy of such CUSIP numbers.

**CITY AND COUNTY OF SAN FRANCISCO**

Gavin Newsom, *Mayor*

Dennis J. Herrera, *City Attorney*  
Benjamin Rosenfield, *Controller*  
José Cisneros, *Treasurer*

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Eleanor Johns

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Bevan Dufty, <i>District 8</i>	John Avalos, <i>District 11</i>

**CONSULTANTS AND ADVISORS**

TRUSTEE

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

CO-FINANCIAL ADVISORS

Public Financial Management, Inc.  
San Francisco, California

Backstrom McCarley Berry & Co., LLC  
San Francisco, California

Robert Kuo Consulting, LLC  
San Francisco, California

Castleton Partners, LLC  
New York, New York

CO-BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

Quateman LLP  
Los Angeles, California

DISCLOSURE COUNSEL

Lofton & Jennings  
San Francisco, California

AUDITOR

KPMG LLP  
San Francisco, California

VERIFICATION AGENT

Grant Thornton LLP  
Minneapolis, Minnesota

No broker, dealer, salesperson or any other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2009D Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the City and County of San Francisco, the Commission or the Underwriter. This Official Statement does not constitute an offer to sell, or the solicitation from any person of an offer to buy, nor shall there be any sale of the Series 2009D Bonds by any person in any jurisdiction where such offer, solicitation or sale would be unlawful. The information contained herein has been obtained from officers, employees and records of the Commission and from other sources believed to be reliable. The information set forth herein is subject to change without notice. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Such risks and uncertainties include, among others, changes in domestic and international political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, population changes, financial conditions of individual air carriers and the airline industry, technological change, changes in the tourism industry, changes at other San Francisco Bay Area airports, seismic events, international agreements or regulations governing air travel, and various other events, conditions and circumstances, many of which are beyond the control of the Commission. These forward-looking statements speak only as of the date of this Official Statement. The Commission disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Commission’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Series 2009D Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Series 2009D Bonds have not been registered or qualified under the securities laws of any state.

The Commission and the City each maintain a website. Unless specifically indicated otherwise, the information presented on those websites is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Series 2009D Bonds.

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**\$88,190,000**  
**AIRPORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**  
**SAN FRANCISCO INTERNATIONAL AIRPORT**  
**SECOND SERIES REVENUE REFUNDING BONDS**  
**SERIES 2009D**  
**(Non-AMT/Private Activity)**

**INTRODUCTION**

*This Official Statement does not describe the terms of any subsequent interest rate period or periods or any other Mode other than the initial Term Rate Mode for the Series 2009D Bonds, which terms would be set forth in a separate offering document with respect thereto.*

This Official Statement is furnished in connection with the offering by the Airport Commission of the City and County of San Francisco (the "Commission") of \$88,190,000 aggregate principal amount of its Second Series Revenue Refunding Bonds, Series 2009D (the "Series 2009D Bonds"). All capitalized terms used in this Official Statement, including on the cover page hereof, and not herein defined shall have the meanings given such terms in the 1991 Master Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions."

The Series 2009D Bonds are authorized under Resolution No. 91-0210, adopted by the Commission on December 3, 1991 (the "1991 Resolution"), as supplemented and amended by, among other resolutions, Resolution No. 98-0114, adopted by the Commission on May 19, 1998, Resolution No. 02-0010, adopted by the Commission on January 8, 2002, Resolution No. 03-2220, adopted by the Commission on October 21, 2003, Resolution No. 04-0220 adopted by the Commission on November 2, 2004 and Resolution No. 05-0183, adopted by the Commission on October 11, 2005, as amended. The 1991 Resolution as supplemented and amended, is referred to as the "1991 Master Resolution." The Bank of New York Mellon Trust Company, N.A. has been appointed by the Commission to act as trustee and paying agent (the "Trustee") for the Series 2009D Bonds. The Series 2009D Bonds, together with all Bonds issued and to be issued pursuant to the 1991 Master Resolution, are referred to as the "Bonds." For a summary of Outstanding Bonds of the Commission, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Currently Outstanding Bonds."

The proceeds of the Series 2009D Bonds will be used, together with other available moneys, to (i) refund all of the \$88,190,000 outstanding principal amount of the Commission's San Francisco International Airport Second Series Revenue Notes, Series 2008B (the "Series 2008B Notes"), which are subject to mandatory tender by the Owners thereof for purchase by the Commission on December 1, 2009, (ii) fund a deposit into the Reserve Fund, and (iii) pay certain costs of issuance associated with the Series 2009D Bonds. See "REFUNDING PLAN—Series 2009D Bonds."

The Series 2009D Bonds will mature on the dates and bear interest at the rates shown on the inside cover.

The Commission expects to issue additional Bonds from time to time to finance and refinance Airport capital improvements, including, without limitation, the Commission's San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009C (the "Series 2009C Bonds") that are expected to be issued on or about November 3, 2009 to refund some portion of the Commission's Second Series Revenue Notes, Series 2008A and Issue 32H, 34C and 34E Bonds that were the subject of an Invitation to Tender Bonds dated September 18, 2009; the Commission's San Francisco International Airport Second Series Revenue Bonds, Series 2009E (the "Series 2009E Bonds") that are expected to be issued on or about November 18, 2009 to finance a portion of the costs to renovate Terminal 2 and Boarding Area D at the Airport; the Commission's San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009F (the "Series 2009F Bonds") that are expected to be issued in December 2009 to refund certain outstanding Bonds of the Commission; and the Issue 35 Bonds (described herein). See "REFUNDING PLAN" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Current and Future Financings." The Commission has covenanted in the 1991 Master Resolution not to issue any bonds with a pledge of or a lien on Net Revenues senior to that of the Bonds.

The payment of principal and redemption price (but not the Purchase Price) of and interest on the Series 2009D Bonds will be secured by a pledge of, lien on and security interest in Net Revenues of the San Francisco International Airport (the "Airport") which are equal to and on a parity with those securing the prior issues of Bonds and any additional Bonds issued under the 1991 Master Resolution. See "SECURITY FOR THE SERIES 2009D BONDS" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Currently Outstanding Bonds."

The Series 2009D Bonds will be subject to mandatory tender by the Owners thereof for purchase by the Commission on the date shown on the inside cover at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. *If for any reason the Commission is unable to pay the Purchase Price of the Series 2009D Bonds upon mandatory tender thereof, the Series 2009D Bonds will be subject to mandatory redemption on such date at a redemption price equal to the principal amount thereof plus accrued interest thereon. There will be no credit or liquidity facility in place to pay the Purchase Price of the Series 2009D Bonds upon the mandatory tender thereof or to pay the principal thereof and interest thereon upon the mandatory redemption thereof. See "CERTAIN RISK FACTORS—Airport Market Access."* **Payment of the principal portion of the Purchase Price of the Series 2009D Bonds upon mandatory tender is not secured by a pledge of or lien on Net Revenues, but rather is payable solely from remarketing proceeds, if any. Payment of the principal of and interest on the Series 2009D Bonds upon the mandatory redemption thereof, however, is secured by a pledge of and lien on Net Revenues.** Any failure of the Commission to pay any of the Series 2009D Bonds upon the mandatory redemption thereof will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Events of Default" and "—Remedies Upon Default."

The Airport is a department of the City and County of San Francisco (the "City"). The Commission is responsible for the operation and management of the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT."

For a discussion of certain risk factors associated with an investment in the Series 2009D Bonds, see "CERTAIN RISK FACTORS."

This Official Statement, including the Appendices hereto, contains brief descriptions or summaries of, among other things, the Series 2009D Bonds, the 1991 Master Resolution, the Interest Rate Swap Agreements, the Escrow Agreement, the Continuing Disclosure Certificate of the Commission, the Settlement Agreement and the Lease Agreements, by and among the Commission and certain airline tenants of the Airport. Any description or summary in this Official Statement of any such document is qualified in its entirety by reference to each such document.

## REFUNDING PLAN

### Overview

The Series 2009D Bonds are being issued to refund the Series 2008B Notes. The Commission is taking advantage of opportunities presented by the American Recovery and Reinvestment Act of 2009 ("ARRA") that permits state and local government issuers, such as the Commission, to refund, until December 31, 2010, certain of their outstanding bonds the interest on which is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, with bonds the interest on which *is not* a specific preference item for such purposes, thereby resulting in debt service savings in issuing the Series 2009D Bonds.

### Series 2009D Bonds

The Commission will apply proceeds from the sale of the Series 2009D Bonds, together with certain other available moneys, to establish an irrevocable escrow to refund all of the Series 2008B Notes on December 1, 2009, the date on which the Series 2008B Notes are subject to mandatory tender for purchase by the Commission.

The Series 2008B Notes were issued to provide funds to purchase all of the then outstanding \$79,720,000 outstanding principal amount of Issue 37B Bonds for deposit into a trust account (the "Issue 37B Bonds Trust Account") held by The Bank of New York Mellon Trust Company, N.A., as trust bank (the "Trust Bank"), pursuant to the terms and conditions of a Trust Agreement, dated as of December 1, 2008 by and between the Commission, as trustor and beneficiary, and the Trust Bank. Pursuant to such Trust Agreement, the Commission makes payments of

principal and interest on the Issue 37B Trust Bonds to the Trust Bank and receives the same amount back from the Trust Bank, as the beneficiary of the Issue 37B Bonds Trust Account.

The Commission has the option in the future to either (i) cancel the Issue 37B Bonds or (ii) remarket the Issue 37B Bonds out of the Issue 37B Bonds Trust Account to investors in a new interest rate Mode. Any such remarketing would be subject, among other things, to compliance with the conditions of the 1991 Master Resolution for conversion of the Issue 37B Bonds to a new interest rate Mode. Any such remarketing would, in effect, constitute a new issue, and would be subject to the same covenants and agreements of the Commission that apply to its Outstanding Bonds.

In connection with the issuance of the Issue 37B Bonds, the Commission entered into an interest rate swap agreement (the "Issue 37B Swap Agreement") pursuant to which the Commission receives payments from Merrill Lynch Capital Services, Inc. ("Merrill") at a variable rate and the Commission makes payments to Merrill at a fixed rate per annum. For a summary of the Interest Rate Swap Policy adopted by the Commission and the outstanding Swap Agreements of the Commission, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps." Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") and Merrill are both affiliated and wholly-owned indirect subsidiaries of Bank of America Corporation.

The proceeds of the Series 2009D Bonds will be deposited with The Bank of New York Trust Company, N.A., as escrow agent (the "Escrow Agent") pursuant to an Escrow Agreement dated as of November 1, 2009 (the "Escrow Agreement"), by and between the Commission and the Escrow Agent.

The Commission will apply proceeds from the sale of the Series 2009D Bonds to refund the Series 2008B Notes described below.

**Airport Commission  
City and County of San Francisco, California  
San Francisco International Airport  
Second Series Revenue Refunding Bonds**

**\$88,190,000 Series 2008B Notes (AMT)  
Dated Date: December 17, 2008  
Maturity Date: May 1, 2029**

<u>Mandatory Tender Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Purchase Price</u>	<u>CUSIP (79765A)†</u>
December 1, 2009	\$88,190,000	3.00%	100%	X68

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Proceeds of the Series 2009D Bonds, together with certain other available moneys, including amounts currently held pursuant to the 1991 Master Resolution, will be held by the Escrow Agent and invested in noncallable Government Obligations (as described in the 1991 Master Resolution), the principal of and interest on which, when received, will be sufficient to pay the Purchase Price of, and interest on the Series 2008B Notes upon mandatory tender thereof. See also "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

**Additional Notes or Bonds**

The Commission expects to issue additional Bonds, including Refunding Bonds, in Fiscal Year 2009-10 for the purpose of refunding certain currently Outstanding Bonds of the Commission and to finance Airport capital improvements. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Current and Future Financings."

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds from the sale of the Series 2009D Bonds. See also “REFUNDING PLAN.”

SOURCES OF FUNDS:	
Principal Amount of Series 2009D Bonds .....	\$88,190,000.00
Series 2008B Notes Reserve Account.....	8,819,000.00
Other Funds of the Airport <sup>(1)</sup> .....	<u>3,228,113.33</u>
TOTAL.....	\$100,237,113.33
USES OF FUNDS:	
Deposit to Escrow Fund <sup>(2)</sup> .....	\$90,718,113.33
Deposit to Series 2009D Reserve Account.....	8,819,000.00
Costs of Issuance <sup>(3)</sup> .....	436,666.82
Underwriter’s Fee.....	<u>263,333.18</u>
TOTAL.....	\$100,237,113.33

- (1) Includes proceeds from the issuance of Commercial Paper, and amounts released from the Interest and Reserve Accounts related to the Series 2008B Notes.
- (2) Represents proceeds of the Series 2009D Bonds that will be used to refund the Series 2008B Notes. See “REFUNDING PLAN—SERIES 2009D Bonds.”
- (3) Includes fees and costs of Co-Bond Counsel, Disclosure Counsel, the Co-Financial Advisors, the Verification Agent, the Escrow Agent and the Trustee, printing costs, rating agency fees and other miscellaneous costs of issuance with respect to the Series 2009D Bonds.

## DESCRIPTION OF THE SERIES 2009D BONDS

### General

The Series 2009D Bonds will be dated the date of delivery and will bear interest during the initial fixed-rate term Interest Period at the rate shown on the inside cover of this Official Statement. The Series 2009D Bonds will be subject to mandatory tender by the Owners thereof for purchase by the Commission on the date shown on the inside cover at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. ***If for any reason the Commission is unable to purchase any of the Series 2009D Bonds upon mandatory tender, such Series 2009D Bonds will be subject to mandatory redemption by the Commission on such date at the principal amount thereof plus accrued interest thereon. There will be no credit or liquidity facility in place to pay the Series 2009D Bonds upon the mandatory tender or mandatory redemption thereof. See “CERTAIN RISK FACTORS—Airport Market Access.”*** Any failure of the Commission to pay any of the Series 2009D Bonds upon the mandatory redemption thereof will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Events of Default” and “—Remedies Upon Default.”

Interest on the Series 2009D Bonds will be payable on May 1 and November 1, of each year, commencing May 1, 2010 and on the day following the expiration of the initial fixed-term Interest Period shown on the inside cover (each an “Interest Payment Date”). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Series 2009D Bonds will be issued as fully registered securities without coupons, and will be registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York. Beneficial ownership interests in the Series 2009D Bonds will be available in book-entry form only, in Authorized Denominations of \$5,000 and any integral multiple thereof. Purchasers of beneficial ownership interests in the Series 2009D Bonds (“Beneficial Owners”) will not receive certificates representing their interests in the Series 2009D Bonds purchased. While held in book-entry only form, all payments of principal and interest will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series 2009D Bonds. Payments to Beneficial Owners are the sole responsibility of DTC and its Participants. See APPENDIX B—“INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

## **No Optional or Mandatory Redemption During Initial Fixed-Term Interest Period**

The Series 2009D Bonds are *not* subject to optional or mandatory redemption during the initial fixed-term Interest Period.

## **Transfer and Exchange**

The Series 2009D Bonds will be issued only as fully registered securities, with the privilege of transfer or exchange for the Series 2009D Bonds of an equal or aggregate principal amount of the Series 2009D Bonds, interest rate and maturity date in Authorized Denominations as set forth in the 1991 Master Resolution. All such transfers and exchanges shall be without charge to the owner, with the exception of any taxes, fees or other governmental charges that are required to be paid to the Trustee as a condition to transfer or exchange. While the Series 2009D Bonds are in book-entry only form, beneficial ownership interests in the Series 2009D Bonds may only be transferred through Direct Participants and Indirect Participants as described in APPENDIX B—"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

## **SECURITY FOR THE SERIES 2009D BONDS**

### **Authority for Issuance**

The Series 2009D Bonds are being issued under the authority of, and in compliance with, the Charter of the City and County of San Francisco (the "Charter"), the 1991 Master Resolution, and the statutes of the State of California (the "State") as made applicable pursuant to the Charter.

### **Source of Payment; Pledge of Net Revenues**

The Series 2009D Bonds, together with all Bonds issued and to be issued pursuant to the 1991 Master Resolution, are referred to as the "Bonds." The 1991 Master Resolution constitutes a contract between the Commission and the registered owners of the Bonds under which the Commission has irrevocably pledged Net Revenues of the Airport to the payment of the principal of and interest on the Bonds. Net Revenues are defined as the Revenues derived by the Commission from the operation of the Airport, less all Operation and Maintenance Expenses. The payment of the principal of and interest on the Series 2009D Bonds are secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing all previously issued Bonds and any additional Bonds issued under the 1991 Master Resolution.

"Revenues" are defined in the 1991 Master Resolution to include all revenues earned by the Commission with respect to the Airport, as determined in accordance with generally accepted accounting principles. Revenues do not include: (a) investment income from moneys in (i) the Construction Fund, or (ii) the Debt Service Fund which constitute capitalized interest, or (iii) the Reserve Fund if and to the extent there is any deficiency therein; (b) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds; (c) Special Facility Revenues and any income realized from the investment thereof; (d) any passenger facility or similar charge levied by or on behalf of the Commission unless designated as Revenues by the Commission; (e) grants-in-aid, donations and bequests; (f) insurance proceeds; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property in the City. **The Commission has no taxing power whatsoever.**

"Operation and Maintenance Expenses" are defined in the 1991 Master Resolution to include all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest on the Bonds; (b) any allowance for depreciation of the Airport; (c) any expense which is or will be paid or reimbursed from any source that is not Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments; (f) any costs for capital additions, replacements or improvements to the Airport which, under generally accepted accounting principles, are properly chargeable to a

capital account or reserve for depreciation; and (g) any losses from the sale, abandonment or other disposition of any Airport properties.

**The Series 2009D Bonds are subject to mandatory tender by the Owners thereof for purchase by the Commission on the date set forth on the inside cover at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. If for any reason the Commission is unable to pay the Purchase Price of the Series 2009D Bonds upon the mandatory tender thereof, the Series 2009D Bonds will be subject to mandatory redemption on such date at a redemption price equal to the principal amount thereof plus accrued interest thereon. There will be no credit or liquidity facility in place to pay the Purchase Price of the Series 2009D Bonds upon the mandatory tender thereof, or to pay the principal thereof and interest thereon upon the mandatory redemption thereof. See “CERTAIN RISK FACTORS–Airport Market Access.” Payment of the principal portion of the Purchase Price of the Series 2009D Bonds is *not* secured by a pledge of or lien on Net Revenues, but rather is payable solely from remarketing proceeds, if any. Payment of the principal of and interest on the Series 2009D Bonds upon the mandatory redemption thereof, however, *is* secured by a pledge of and lien on Net Revenues. Any failure of the Commission to pay the Series 2009D Bonds upon the mandatory redemption thereof will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Events of Default” and “–Remedies Upon Default.”**

THE SERIES 2009D BONDS ARE SPECIAL OBLIGATIONS OF THE COMMISSION, PAYABLE AS TO PRINCIPAL, REDEMPTION PRICE AND INTEREST, BUT NOT PURCHASE PRICE, SOLELY OUT OF, AND SECURED BY A PLEDGE OF AND LIEN ON, THE NET REVENUES OF THE AIRPORT AND THE FUNDS AND ACCOUNTS PROVIDED FOR IN THE 1991 MASTER RESOLUTION. NEITHER THE CREDIT NOR TAXING POWER OF THE CITY AND COUNTY OF SAN FRANCISCO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, PURCHASE PRICE OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2009D BONDS. NO OWNER OF A SERIES 2009D BOND SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE CITY AND COUNTY OF SAN FRANCISCO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE SERIES 2009D BONDS OR THE INTEREST THEREON. THE COMMISSION HAS NO TAXING POWER WHATSOEVER.

Pursuant to Section 5450 of the California Government Code, the pledge of, lien on and security interest in Net Revenues and certain other funds granted by the 1991 Master Resolution is valid and binding in accordance with the terms thereof from the time of issuance of the Series 2009D Bonds; the Net Revenues and such other funds shall be immediately subject to such pledge; and such pledge shall constitute a lien and security interest which shall immediately attach to such Net Revenues and other funds and shall be effective, binding and enforceable against the Commission, its successors, creditors, and all others asserting rights therein to the extent set forth and in accordance with the terms of the 1991 Master Resolution irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or other further act. Such pledge, lien and security interest are not subject to the provisions of Article 9 of the California Uniform Commercial Code.

The term “Revenues” as defined in the 1991 Master Resolution does not include any passenger facility charge (“PFC”) or similar charge levied by or on behalf of the Commission against passengers, *unless* all or a portion thereof are designated as such by the Commission by resolution. In 2001, the Commission first received approval from the Federal Aviation Administration (“FAA”) to collect and use a PFC in an amount not to exceed at any time \$4.50 per enplaning passenger through January 1, 2004 (as extended). Pursuant to a second application, the Commission’s authorization to collect a PFC was extended to November 1, 2008 to finance certain eligible projects. The Commission received approval from the FAA of a third PFC application, as amended, extending the PFC collection period through January 1, 2017. For additional information regarding the PFC, see “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.”

The amounts of PFC collections designated as “Revenues” under the 1991 Master Resolution and applied to pay debt service on the Bonds since Fiscal Year 2002-03 are described under “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.” The Commission expects to continue to designate a portion of PFCs as Revenues in each Fiscal Year during which such PFC collections are collected and authorized to be applied

to pay debt service on Bonds. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.”

### **Rate Covenant**

The Commission has covenanted that it shall establish and at all times maintain rates, rentals, charges and fees for the use of the Airport and for services rendered by the Commission so that:

(a) Net Revenues in each Fiscal Year will be at least sufficient (i) to make all required debt service payments and deposits in such Fiscal Year with respect to the Bonds, any Subordinate Bonds and any general obligation bonds issued by the City for the benefit of the Airport, and (ii) to make all payments required to be made to the City; and

(b) Net Revenues, together with any Transfer from the Contingency Account to the Revenues Account, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year. See “–Contingency Account.”

In the event that Net Revenues for any Fiscal Year are less than the amount specified in clause (b) above, but the Commission has promptly taken all lawful measures to revise its schedule of rentals, rates, fees and charges as necessary to increase Net Revenues, together with any Transfer, to the amount specified, such deficiency will not constitute an Event of Default under the 1991 Master Resolution. Nevertheless, if, after taking such measures, Net Revenues in the next succeeding Fiscal Year are less than the amount specified in clause (b) above, such deficiency in Net Revenues will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Certain Covenants–*Rate Covenant*.”

The term “Net Revenues” is defined in the 1991 Master Resolution as Revenues less Operation and Maintenance Expenses. Operation and Maintenance Expenses are defined to exclude, among other things, “any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenues.”

### **Contingency Account**

The 1991 Master Resolution creates a Contingency Account within the Airport Revenue Fund held by the Treasurer of the City. Moneys in the Contingency Account may be applied upon the direction of the Commission to the payment of principal, interest, Purchase Price or premium payments on the Bonds, payment of Operation and Maintenance Expenses, and payment of costs related to any additions, improvements, repairs, renewals or replacements to the Airport, in each case only if and to the extent that moneys otherwise available to make such payments are insufficient therefor.

As of June 30, 2009, the balance in the Contingency Account available for transfer, as described below, was not less than \$92.7 million, which was equal to approximately 28.5% of Maximum Annual Debt Service on the Bonds as of that date.

Moneys in the Contingency Account are deposited in the Revenues Account as of the last Business Day of each Fiscal Year, and thereby applied to satisfy the coverage requirement under the rate covenant contained in the 1991 Master Resolution, unless and to the extent the Commission shall otherwise direct. See “SECURITY FOR THE SERIES 2009D BONDS–Rate Covenant.” On the first Business Day of the following Fiscal Year, the deposited amount (or such lesser amount if the Commission so determines) is deposited back into the Contingency Account from the Revenues Account. The Commission is not obligated to replenish the Contingency Account in the event amounts are withdrawn therefrom.

If the Commission withdraws funds from the Contingency Account for any purpose during any Fiscal Year and does not replenish the amounts withdrawn, such failure to replenish the Contingency Account may have an adverse effect on the calculation of debt service coverage for such Fiscal Year and subsequent Fiscal Years pursuant to the rate covenant in the 1991 Master Resolution.

## Flow of Funds

The application of Revenues of the Airport is governed by relevant provisions of the Charter and of the 1991 Master Resolution. Under the Charter, the gross revenue of the Commission is to be deposited in a special fund in the City Treasury designated as the “Airport Revenue Fund.” These moneys are required to be held separate and apart from all other funds of the City and are required to be applied as follows:

*First*, to pay Airport Operation and Maintenance Expenses;

*Second*, to make required payments to pension and compensation funds and reserves therefor;

*Third*, to pay the principal of, interest on, and other required payments to secure revenue bonds;

*Fourth*, to pay principal of and interest on general obligation bonds of the City issued for Airport purposes (there are no general obligation bonds outstanding for Airport purposes);

*Fifth*, to pay for necessary reconstruction and replacement of Airport facilities;

*Sixth*, to acquire real property for the construction or improvement of Airport facilities;

*Seventh*, to repay to the City’s General Fund any sums paid from tax moneys for principal of and interest on any general obligation bonds previously issued by the City for Airport purposes; and

*Eighth*, for any other lawful purpose of the Commission, including without limitation transfer to the City’s General Fund on an annual basis of up to 25% of the non-airline revenues as a return upon the City’s investment in the Airport. However, the Lease Agreements further limit payments from the Airport Revenue Fund into the General Fund of the City to the greater of (i) 15% of “Concessions Revenues” (as defined in the Lease Agreements) and (ii) \$5 million per year. The Settlement Agreement provides that this Annual Service Payment to the City includes the total transfer to the City’s General Fund contemplated by this Charter provision.

The 1991 Master Resolution establishes the following accounts within the Airport Revenue Fund: the Revenues Account, the Operation and Maintenance Account, the Revenue Bond Account, the General Obligation Bond Account, the General Purpose Account, and the Contingency Account. Under the 1991 Master Resolution, all Revenues are required to be set aside and deposited by the Treasurer in the Revenues Account as received. Each month, moneys in the Revenues Account are set aside and applied as follows:

*First*: to the Operation and Maintenance Account, the amount required to pay Airport Operation and Maintenance Expenses;

*Second*: to the Revenue Bond Account, the amount required to make all payments and deposits required in that month for the Bonds and any Subordinate Bonds, including amounts necessary to make any parity Swap Payments to a Swap Counterparty (see “REFUNDING PLAN–Series 2009D Bonds” and “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps”);

*Third*: to the General Obligation Bond Account, the amount required to pay the principal of and interest on general obligation bonds of the City issued for Airport purposes (there are no general obligation bonds outstanding for Airport purposes);

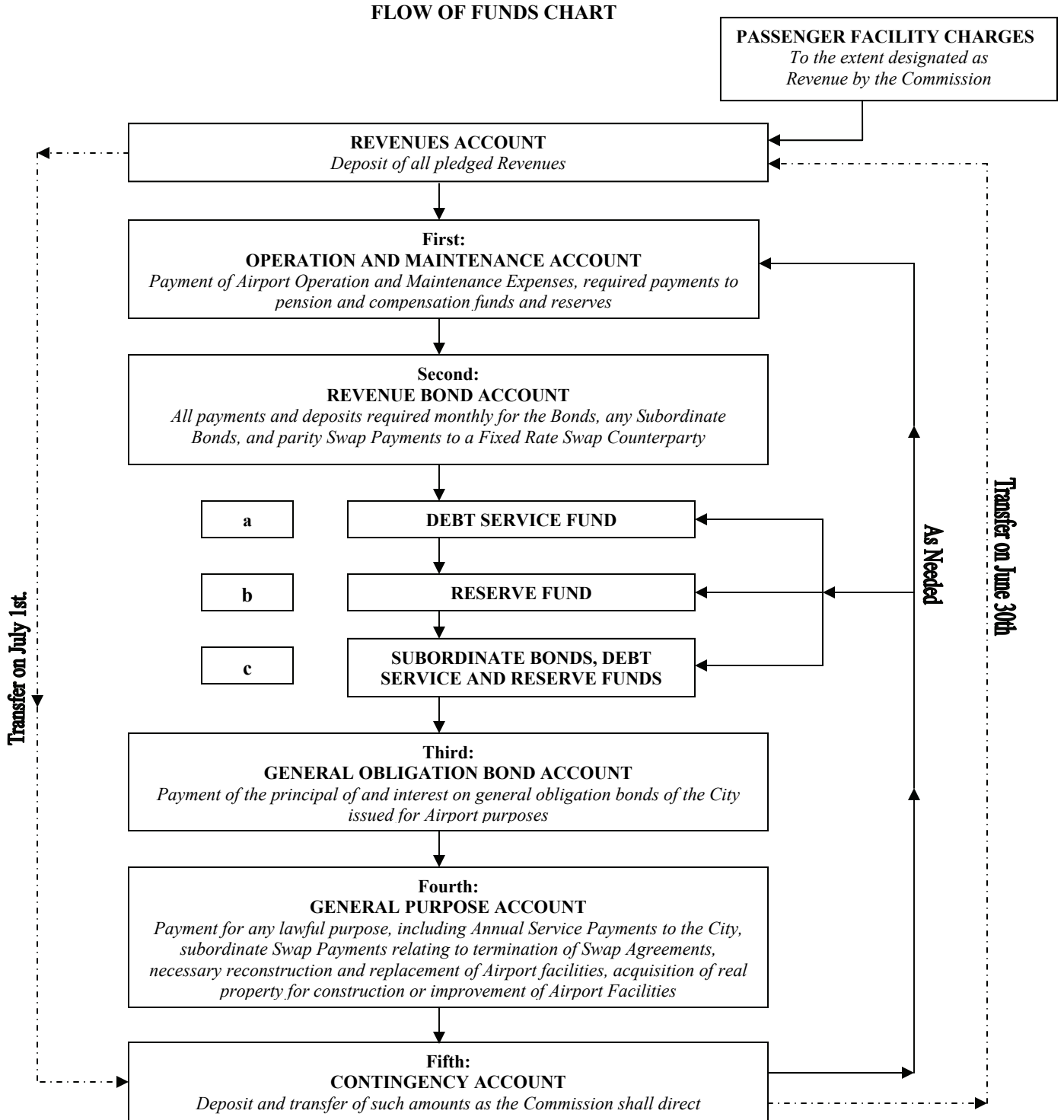
*Fourth*: to the General Purpose Account, the amount estimated to be needed to pay for any lawful purpose, including any subordinate Swap Payments payable in connection with the termination of the Swap Agreements (see “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps”); and

*Fifth*: to the Contingency Account, such amount as the Commission shall direct.



**Flow of Funds Chart**

The Flow of Funds Chart below sets forth a simplified graphic presentation of the allocation of amounts on deposit in the Airport Revenue Fund each month. It is provided solely for the convenience of the reader and is qualified in its entirety by reference to the statements under the caption “–Flow of Funds.”



For a detailed description of the transfers and deposits of Revenues, see APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Revenue Fund; Allocation of Net Revenues."

## **Additional Bonds**

### *General Requirements*

Additional Bonds which have an equal and parity lien on Net Revenues with the Series 2009D Bonds and all previously issued Bonds may be issued by the Commission pursuant to the 1991 Master Resolution. The Commission has retained substantial flexibility as to the terms and conditions of any additional Bonds which may be issued with a lien and charge on Net Revenues on a parity with that of the Series 2009D Bonds. Such additional Bonds (which may include, without limitation, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein and Repayment Obligations to Credit Providers or Liquidity Providers) may mature on any date or dates over any period of time; bear interest at a fixed or variable rate; be payable in any currency or currencies; be in any denominations; be subject to such additional events of default; have any interest and principal payment dates; be in any form (including registered, book-entry or coupon); include or exclude such redemption provisions; be sold at such price or prices; be further secured by any separate and additional security; be subject to optional tender for purchase; and otherwise include such additional terms and provisions as the Commission may determine, subject to the then-applicable requirements and limitations imposed by the Charter.

Under the Charter, the issuance of Bonds authorized by the Commission must be approved by the Board of Supervisors of the City (the "Board of Supervisors"). The Commission has authorized and the Board of Supervisors has approved the issuance of up to \$6.84 billion principal amount of refunding Bonds to refund Outstanding Bonds and commercial paper. The Commission has issued \$4.525 billion principal amount of such refunding Bonds, excluding: the \$88,190,000 principal amount of Series 2009D Bonds that are currently being issued; the \$132,915,000 principal amount of Series 2009C Bonds that are expected to be issued on or about November 3, 2009 and the Series 2009F Bonds that, depending upon market conditions, may be issued in December 2009.

The Commission may not issue any additional Bonds (other than refunding Bonds) under the 1991 Master Resolution unless the Trustee has been provided with either:

(a) a certificate of an Airport Consultant dated within 30 days prior to the date of the delivery of the Bonds stating that:

(i) for the period, if any, from and including the first full Fiscal Year following the issuance of such additional Bonds through and including the last Fiscal Year during any part of which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and

(ii) for the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues together with any Transfer, if applicable, in each such Fiscal Year will be at least sufficient to satisfy the rate covenants in the 1991 Master Resolution (see "SECURITY FOR THE SERIES 2009D BONDS—Rate Covenant"); or

(b) a certificate of an Independent Auditor stating that Net Revenues, together with any Transfer, in the most recently completed Fiscal Year were at least equal to 125% of the sum of (i) Annual Debt Service on the Bonds in such Fiscal Year, plus (ii) Maximum Annual Debt Service on the Bonds proposed to be issued.

Any Transfer taken into account for purposes of (a) or (b) above shall not exceed 25% of Maximum Annual Debt Service in such Fiscal Year. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Issuance of Additional Series of Bonds."

The Commission may issue Bonds for the purpose of refunding any Bonds or Subordinate Bonds upon compliance with the requirements summarized above or upon provision to the Trustee of evidence that aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding subsequent to the issuance of the refunding Bonds will be less than aggregate Annual Debt Service in each such Fiscal Year in which Bonds are outstanding prior to the issuance of such refunding Bonds, and that Maximum Annual Debt Service with respect to all Bonds to be outstanding subsequent to the issuance of the refunding Bonds will not exceed Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance. See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Refunding Bonds.”

#### *Repayment Obligations*

Under certain circumstances, Repayment Obligations may be accorded the status of Bonds. Repayment Obligations are defined under the 1991 Master Resolution to mean an obligation under a written agreement between the Commission and a Credit Provider or Liquidity Provider to reimburse the Credit Provider or Liquidity Provider for amounts paid under or pursuant to a Credit Facility (which is defined in the 1991 Master Resolution to include letters of credit, lines of credit, standby bond purchase agreements, municipal bond insurance policies, surety bonds or other financial instruments) or a Liquidity Facility (which is defined in the 1991 Master Resolution to include lines of credit, standby bond purchase agreements or other financial instruments that obligate a third party to pay or provide funds for the payment of the Purchase Price of any variable rate Bonds) for the payment of the principal or Purchase Price of and/or interest on any Bonds. See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Repayment Obligations.”

#### **Reserve Fund; Reserve Account Surety Bonds**

##### *Series 2009D Reserve Account*

The 1991 Master Resolution established a Reserve Fund. Within such Reserve Fund, the Commission has established several Reserve Accounts relating to various Series of Bonds. Pursuant to the 1991 Resolution, the Commission has established a separate reserve account within the Reserve Fund (the “Series 2009D Single Issue Reserve Account”) *solely* as security for the Series 2009D Bonds. The reserve requirement for the Series 2009D Bonds (the “Series 2009D Single Issue Reserve Requirement”) is equal to 10% of the outstanding principal amount of the Series 2009D Bonds. Upon issuance of the Series 2009D Bonds, the Series 2009D Bonds Single Issue Reserve Requirement will be \$8,819,000 and will be funded through the transfer by the Commission of amounts on deposit in the Series 2008B Reserve Account into the Series 2009D Single Issue Reserve Account. See “ESTIMATED SOURCES AND USES OF FUNDS.”

Amounts on deposit in the Series 2009D Single Issue Reserve Account may be used solely for the purposes of paying principal, redemption price and interest on the Series 2009D Bonds whenever any moneys then credited to the debt service funds with respect to the Series 2009D Bonds are insufficient for such purposes. In the event that the balance in the Series 2009D Single Issue Reserve Account is diminished below the Series 2009D Single Issue Reserve Requirement, the Commission is required under the 1991 Master Resolution to replenish such Series 2009D Single Issue Reserve Account by transfers of available Net Revenues over a period not to exceed 12 months from the date on which the Commission is notified of such deficiency. See APPENDIX C–“SUMMARIES OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Debt Service and Reserve Funds–*Application and Valuation of the Reserve Account.*” Future Series of Bonds or notes may be secured by the Pooled Reserve Account (as described below) or by a separate reserve account, as the Commission shall determine. **The 1991 Master Resolution does not require that any future series of Bonds be secured by a debt service reserve account.**

Although the Series 2009D Bonds are not secured by the Pooled Reserve Account, or the 2009 Reserve Account (each as described below) or the separate reserve accounts established for other Series of Bonds, a deficiency in any of such other reserve accounts may require the Commission to apply Net Revenues to cure such deficiency and thereby reduce Net Revenues available to pay the Series 2009D Bonds. Any amounts on deposit in the Series 2009D Single Issue Reserve Account in excess of the Series 2009D Single Issue Reserve Requirement may be withdrawn by the Commission.

### *Pooled Reserve Account*

The 1991 Master Indenture established the “Issue 1 Reserve Account” (the “Pooled Reserve Account”) in the Reserve Fund as security for each Series of Bonds (the “Participating Series”) that is designated by Supplemental Resolution as being secured by the Pooled Reserve Account. All Bonds currently Outstanding under the 1991 Master Resolution have been designated as Participating Series *except* for the Issue 36A, Issue 36B, Issue 36C, Issue 36D and Issue 37D Bonds, the Series 2008A and Series 2008B Notes and the Series 2009A, Series 2009B and Series 2009C Bonds.

Separate reserve accounts were established for the Issue 36C, Issue 36D and Issue 37D Bonds, the Series 2008A and Series 2008B Notes (a portion of which reserve account will be transferred to the Series 2009D Single Issue Reserve Account upon the issuance of the Series 2009D Bonds) and the Series 2009A and Series 2009B Bonds. There are amounts in the separate reserve accounts for the Series 2008A Notes (\$20 million), and the Series 2009A/B Bonds (\$13.9 million), which are expected to become available in 2010 and the first half of 2011 when those Notes and Bonds are subject to mandatory tender for purchase by the Commission. Those amounts, as and to the extent they become available, would be applied by the Commission if needed in substitution for existing surety policies in the Pooled Reserve. As permitted under the 1991 Master Resolution, the Commission determined that it would not establish a reserve account for the Issue 36A Bonds or the Issue 36B Bonds. The Issue 36A Bonds and Issue 36B Bonds are each secured by separate irrevocable direct-pay letters of credit.

**The Series 2009D Bonds are secured only by the Series 2009D Single Issue Reserve Account and are not secured by the Pooled Reserve Account or any of the other separate Reserve Accounts.**

The reserve requirement for the Pooled Reserve Account (the “Pooled Reserve Requirement”) is an amount equal to Aggregate Maximum Annual Debt Service with respect to all Outstanding Participating Series of Bonds. The 1991 Master Resolution authorizes the Commission to obtain Credit Facilities, including surety bonds, in place of funding the Pooled Reserve Account with cash and Permitted Investments. Accordingly, the Commission previously obtained surety bonds issued by Ambac Assurance Corporation (“Ambac”), Financial Security Assurance Inc. (“FSA” which as of July 1, 2009 became Assured Guaranty Corp.) (“Assured”), Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Corporation (which policies are reinsured by MBIA Insurance Corporation, now known as National Public Finance Guarantee Corporation (“National”) and formerly, MBIA Insurance Corporation of Illinois), MBIA Insurance Corporation (now known as National Public Finance Guarantee Corporation) and Syncora Guarantee Inc. (“Syncora”), formerly XL Capital Assurance Inc., for deposit in the Pooled Reserve Account. **There is no requirement under the 1991 Master Resolution that the rating on any Credit Facility deposited in the Pooled Reserve Account be maintained after the date of such deposit.** See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Debt Service and Reserve Funds.”

For additional information regarding Ambac, FSA, FGIC, National and Syncora and the surety bonds issued by each, see APPENDIX F—“INFORMATION REGARDING THE RESERVE ACCOUNT SURETY BONDS.”

As of September 30, 2009, the Pooled Reserve Requirement was \$281.3 million and the balance in the Pooled Reserve Account, which includes cash and securities in the amount of \$192.8 million and surety bonds in the aggregate amount of \$144.9 million, was \$337.8 million. Each of Moody’s, Standard & Poor’s and Fitch (collectively, the “Rating Agencies”) has downgraded the claims-paying ability and financial strength ratings of most of the nation’s monoline bond insurance companies that issued the surety bonds on deposit in the Pooled Reserve Account. The Commission currently expects to replace surety bonds from Ambac and Syncora, whose claims-paying ability ratings are below the long-term ratings below investment grade of the Airport with cash or qualifying Credit Facilities. Excluding surety bonds issued by Ambac and Syncora, which have long-term ratings below investment grade, the balance in the Pooled Reserve Account is \$258.8 million, and excluding the FGIC and MBIA surety bonds that are guaranteed by National, the balance in the Pooled Reserve Account is \$201.9 million.

Pooled Reserve Account Balance  
As of September 30, 2009

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Cash and Permitted Investments	\$192.8 million
Surety Policies	
Ambac Surety Bonds	39.3 million
Assured (FSA) Surety Bonds	9.0 million
National (FGIC) Surety Bonds	15.1 million
National (MBIA) Surety Bonds	41.8 million
Syncora (XL Capital) Surety Bonds	<u>39.8 million</u>
SUBTOTAL SURETY BONDS	<u>\$144.9 million</u>
TOTAL	\$337.8 million

*2009 Reserve Account*

It is expected that upon the issuance of the Series 2009C Bonds, a 2009 Reserve Account (the “2009 Reserve Account”) will be established in the Reserve Fund as security for each series of Bonds (a “2009 Reserve Account Series”) that is designated by Supplemental Resolution as being secured by the 2009 Reserve Account. **The Series 2009D Bonds are *not* secured by the 2009 Reserve Account.**

*Forward Purchase and Sale Agreements*

The Commission has provided for the investment of a portion of the cash balance in the Pooled Reserve Account, as well as a portion of the amounts accumulated from time to time in the debt service funds for the Bonds, pursuant to long-term Forward Purchase and Sale Agreements which provide a fixed rate of return on specified permitted investments. These agreements have been entered into in order to increase the investment return of the Pooled Reserve Account. The Commission may invest additional amounts in the Reserve Fund and debt service funds pursuant to such types of agreements. The permitted investments delivered from time to time by the providers of such Agreements are the property of the Commission and the Commission received bankruptcy opinions of counsel to the respective providers to such effect. Thus, the principal amounts invested pursuant to such Agreements are not at risk in the event of the bankruptcy or insolvency of the respective providers.

**Contingent Payment Obligations**

The Commission has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation on the part of the Commission to make payments contingent upon the occurrence or non-occurrence of certain future events, including events that are beyond the direct control of the Commission. These agreements include interest rate swap and other similar agreements, investment agreements, including for the future delivery of specified securities, letter of credit and line of credit agreements for future advances of funds to the Commission, and other agreements. See “–Reserve Fund; Reserve Account Surety Bonds–*Forward Purchase and Sale Agreements*” and “–Other Debt Issuance–*Subordinate Bonds.*” For summaries of the Interest Rate Swap Policy and the swap agreements entered into by the Commission in connection with the Issue 36A through 36D Bonds, the Issue 37B Bonds, the Issue 37C Bonds and the Issue 35 Bonds, see “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps.”

Such contracts and agreements may provide for contingent payments that may be conditioned upon the future credit ratings of the Airport and/or of the other parties to the contract or agreement, maintenance by the Commission of specified financial ratios, the inability of the Commission to obtain long-term refinancing for shorter-term obligations or liquidity arrangements, and other factors. Such payments may be payable on a parity with debt service on the Bonds, including any “Swap Payments” to a Swap Counterparty as such term is defined in the 1991 Master Resolution.

The amount of any such contingent payments may be substantial. To the extent that the Commission does not have sufficient funds on hand to make any such payment, it is likely that the Commission would seek to borrow such amounts through the issuance of additional Bonds or Subordinate Bonds (including commercial paper).

## **No Acceleration**

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution. Moreover, the Bonds will not be subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution to the extent the redemption or Purchase Price is payable from Net Revenues, but may be subject to mandatory redemption or mandatory purchase or tender for purchase if the redemption or Purchase Price is payable from a source other than Net Revenues such as a credit facility or liquidity facility. Amounts payable to reimburse a credit provider or liquidity provider pursuant to a credit or liquidity facility for amounts drawn thereunder to pay principal, interest or Purchase Price of Bonds, which reimbursement obligations are accorded the status of Repayment Obligations, can be subject to acceleration, but any such accelerated payments (other than certain amounts assumed to be amortized in that year under the 1991 Master Resolution) would be made from Net Revenues on a basis subordinate to the Bonds. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Repayment Obligations."

Upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution, the Commission would be liable only for principal and interest payments on the Bonds as they became due. The inability to accelerate the Bonds limits the remedies available to the Trustee and the Owners upon an Event of Default, and could give rise to conflicting interests among Owners of earlier-maturing and later-maturing Bonds. In the event of successive defaults in payment of the principal of or interest on the Bonds, the Trustee would be required to seek a separate judgment for each such payment not made.

## **Other Debt Issuance**

### *General*

In addition to the Series 2009D Bonds and the Bonds, the Commission has reserved the power under the 1991 Master Resolution to issue indebtedness (i) secured in whole or in part by a pledge of and lien on Net Revenues subordinate to the pledge and lien securing the Bonds ("Subordinate Bonds"), or (ii) secured by revenues earned from a Special Facility (defined herein) ("Special Facility Bonds"). Provisions of the 1991 Master Resolution governing the issuance of and security for Subordinate Bonds and Special Facility Bonds are described in APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Subordinate Bonds" and "—Special Facility Bonds."

### *Subordinate Bonds*

The Commission has authorized, and the Board of Supervisors has approved, the issuance of up to \$400,000,000 principal amount of commercial paper notes (the "Commercial Paper Notes"), which constitute Subordinate Bonds. The Commercial Paper Notes are authorized pursuant to Resolution No. 97-0146 adopted on May 20, 1997 (the "Master Subordinate Resolution") and Resolution No. 97-0147 adopted on May 20, 1997, as amended and restated by Resolution No. 09-0088 adopted by the Commission on May 5, 2009 (the "Note Resolution," and together with the Master Subordinate Resolution, the "Subordinate Resolution"). The terms and provisions of the Subordinate Resolution are substantially similar to those of the 1991 Master Resolution.

The Commission obtained an irrevocable direct-pay letter of credit consisting of a principal component equal to \$200 million and an interest component equal to 270 days' interest calculated at an assumed interest rate of 12%. The current letter of credit expires on May 9, 2011 and is issued by State Street Bank and Trust Company.

Payment of the Commercial Paper Notes, and repayment of amounts drawn on the letter of credit, is secured by a lien on Net Revenues subordinate to the lien of the 1991 Master Resolution securing the Bonds. See "—Contingent Payment Obligations."

As of October 1, 2009, the Airport had approximately \$152.0 million of Commercial Paper Notes outstanding.

### *Special Facility Bonds*

The Commission may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or part of any facility or structure at the Airport as a Special Facility, (b) provide that revenues earned by the Commission from or with respect to such Special Facility shall constitute Special Facility Revenues and shall not be included as Revenues, and (c) issue Special Facility Bonds for the purpose of acquiring, constructing, renovating, or improving such Special Facility. The designation of an existing facility as a Special Facility therefore could result in a reduction in the Revenues of the Airport. Principal, Purchase Price, if any, redemption premium, if any, and interest with respect to Special Facility Bonds shall be payable from and secured by the Special Facility Revenues, and not from or by Net Revenues.

No Special Facility Bonds may be issued by the Commission unless an Airport Consultant has certified: (i) that the estimated Special Facility Revenues with respect to the proposed Special Facility will be at least sufficient to pay the principal, Purchase Price, interest, and all sinking fund, reserve fund and other payments required with respect to such Special Facility Bonds when due, and to pay all costs of operating and maintaining the Special Facility not paid by a party other than the Commission; (ii) that estimated Net Revenues calculated without including the Special Facility Revenues and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses will be sufficient so that the Commission will be in compliance with its rate covenant during each of the five Fiscal Years immediately following the issuance of the Special Facility Bonds; and (iii) no Event of Default under the 1991 Master Resolution exists.

SFO FUEL Bonds. The Commission has two outstanding issues of Special Facility Bonds, which were issued to finance the construction of jet fuel distribution and related facilities at the Airport for the benefit of the airlines: \$86,465,000 Airport Commission of the City and County of San Francisco, San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A (AMT); and \$15,915,000 Airport Commission of the City and County of San Francisco, San Francisco International Airport, 1997 Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A (collectively, the “SFO FUEL Bonds”). The SFO FUEL Bonds are payable from and secured by payments made by a special purpose limited liability company (“SFO Fuel”) pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities. SFO Fuel was formed by certain airlines operating at the Airport, including United Airlines, which were its initial members. The lease payments, and therefore the SFO FUEL Bonds, are payable from charges imposed by SFO Fuel for into-plane fueling at the Airport, and are not payable from or secured by Net Revenues. The SFO FUEL Bonds are further secured by an Interline Agreement (the “Interline Agreement”) among the participating airlines, including United Airlines, under which the participating airlines are obligated to make payments to SFO Fuel equal to its total net costs, including the lease payments due to the Commission with respect to the SFO FUEL Bonds. All airlines operating at the Airport are required to have aviation fuel delivered to their aircraft through the jet fuel distribution facilities of SFO Fuel. See also, “CERTAIN RISK FACTORS—Uncertainties of the Aviation Industry.”

For a description of the jet fuel distribution and related facilities at the Airport, see “SAN FRANCISCO AIRPORT—Current Airport Facilities—*Jet Fuel Distribution System*.”

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## CERTAIN RISK FACTORS

*This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2009D Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2009D Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2009D Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2009D Bonds, or in the ability of the Commission to make timely payments of principal of or interest on the Series 2009D Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.*

### Airport Market Access

The Airport has Outstanding the following Bonds (collectively, the “Mandatory Tender Bonds”) that are subject to mandatory tender by the holders for purchase by the Commission upon the expiration of their respective fixed term Interest Period:

<u>Bonds</u>	<u>Mandatory Tender Date</u>	<u>Principal Amount</u>
Series 2008B Notes	December 1, 2009	\$88,190,000 <sup>(1)</sup>
Series 2008A-1 Notes	May 1, 2010	50,000,000 <sup>(2)</sup>
Series 2008A-2 Notes	May 1, 2010	50,000,000 <sup>(2)</sup>
Series 2009A Bonds	September 15, 2010	92,500,000
Series 2009B Bonds	September 15, 2010	82,500,000
Series 2008A-3 Notes	May 1, 2011	100,000,000 <sup>(2)</sup>
Series 2008A-4 Notes	May 1, 2012	26,735,000 <sup>(2)</sup>

(1) The Series 2008B Notes are being refunded from proceeds of the Series 2009D Bonds. See “REFUNDING PLAN.”

(2) The Series 2008A Notes were subject to an Invitation to Tender Bonds, dated September 18, 2009 pursuant to which the Commission elected to purchase and refund certain Series 2008A Notes that resulted in sufficient debt service savings to the Commission.

When issued, the Series 2009D Bonds will be Mandatory Tender Bonds. **The payment of the principal portion of the Purchase Price of the Mandatory Tender Bonds upon mandatory tender is not secured by a pledge of or lien on Net Revenues but is payable from remarketing proceeds. Payment of the principal of the Mandatory Tender Bonds upon mandatory redemption thereof is secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing all previously issued Bonds and any additional Bonds issued under the 1991 Master Resolution.**

**There are no credit or liquidity facilities in place to pay the Mandatory Tender Bonds upon the mandatory tender thereof for purchase.** If for any reason the Commission is unable to purchase any Mandatory Tender Bonds on their respective mandatory tender dates, such Mandatory Tender Bonds will be subject to mandatory redemption on such dates at a redemption price equal to the principal amount thereof plus accrued interest thereon. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Current and Future Financings.”

The funds available to the Commission to pay the redemption price of the Mandatory Tender Bonds of a Series, if they could not otherwise be purchased, would include (i) any amounts in the Reserve Account for such Mandatory Tender Bonds, (ii) any amounts in the Contingency Account, (iii) proceeds from Commercial Paper Notes, but only if and to the extent there is remaining capacity to issue Commercial Paper Notes pursuant to the Subordinate Resolution, and (iv) any other unencumbered funds of the Commission, which likely would consist primarily of working capital in the Revenue Fund. See also “SECURITY FOR THE SERIES 2009D BONDS—Other Debt Issuance—*Subordinate Bonds.*” Any failure of the Commission to pay the Mandatory Tender Bonds of a Series upon the mandatory redemption thereof will constitute an Event of Default under the 1991 Master Resolution.



The Commission, for at least the past 40 years, has always had market access to sell its revenue bonds at such times and in such amounts as it has chosen to issue. Given the extraordinary recent events in the financial markets, however, the Commission cannot provide any assurance that it will have market access to remarket the Mandatory Tender Bonds (or, in the alternative, to refund the Mandatory Tender Bonds) upon the mandatory tender thereof for purchase. Lack of market access could result from then-existing market conditions or from an unanticipated and substantial deterioration in the financial condition of the Airport. Although the Commission may have sufficient funds available to pay each Series of Mandatory Tender Bonds upon the mandatory redemption thereof, the Commission does not expect to have sufficient funds on hand or sufficient Net Revenues on hand to pay all of the Mandatory Tender Bonds if they were to become subject to mandatory redemption due to an inability to remarket or refund them.

The Commission has issued approximately \$694 million of variable rate tender option bonds and commercial paper notes backed by either bond insurance and a bank liquidity facility or by a bank letter of credit.

	<u>Issue 34A/B<sup>(1)</sup></u>	<u>Issue 36A</u>	<u>Issue 36B</u>	<u>Issue 36C/D</u>	<u>Issue 37C/D</u>	<u>Commercial Paper</u>
Principal Amount	\$175,000,000	\$100,000,000	\$40,620,000	\$68,830,000	\$109,546,000	\$200,000,000
Type	SBPA <sup>(2)</sup>	LOC <sup>(3)</sup>	LOC <sup>(3)</sup>	SBPA <sup>(2)</sup>	SBPA <sup>(2)</sup>	LOC <sup>(3)</sup>
Expiration Date	April 9, 2013	May 7, 2013	May 6, 2011	May 15, 2013	May 15, 2013	May 9, 2011
Insurer	Assured	N/A	N/A	FSA	FSA	N/A
Rating <sup>(4)</sup>	Aa2/AAA/AA			Aa3/AAA/AA+	Aa3/AAA/AA+	
Liquidity Provider	LBBW <sup>(5)</sup>	Wells Fargo <sup>(6)</sup>	UBOC <sup>(7)</sup>	Dexia <sup>(8)</sup>	Dexia <sup>(8)</sup>	State Street <sup>(9)</sup>
Liquidity Provider Ratings <sup>(4)</sup>						
Short-Term	P-1/A-2/F1+	F-1/A-1+/F1+	P-1/A-1/F1	P-1/A-1/F1+	P-1/A-1/F1+	P-1/A-1+/F1+
Long-Term	Aa2/A-/A+	Aa2/AA/AA-	A2/A+/A	A1/A/A+	A1/A/A+	Aa2/AA-/A+

(1) The Issue 34A/B Bonds are held in trust.

(2) SBPA means Standby Bond Purchase Agreement.

(3) LOC means Letter of Credit.

(4) As of October 20, 2009.

(5) LBBW means Landesbank Baden-Württemberg, acting through its New York branch.

(6) Wells Fargo means Wells Fargo Bank, National Association.

(7) UBOC means Union Bank, N.A.

(8) Dexia means Dexia Crédit Local, acting through its New York Branch.

(9) State Street means State Street Bank and Trust Company.

### **Credit Risk of Financial Institutions Providing Credit Enhancement, Liquidity Support and Other Financial Products Relating to Airport Bonds**

The Airport entered into a number of liquidity, credit enhancement and other transactions involving a variety of financial institutions relating to its Outstanding Bonds, including bond insurance policies and debt service reserve fund surety bonds issued by monoline bond insurance companies. Additionally, in connection with various variable rate bond issues, the Airport entered into credit and liquidity agreements and interest rate swap agreements with and/or guaranteed by various financial institutions, including commercial and investment banks. See also “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps.”

Each of Moody’s, Standard & Poor’s and Fitch (collectively, the “Rating Agencies”) has downgraded the claims-paying ability and financial strength ratings of most of the nation’s monoline bond insurance companies and many other financial institutions. The Rating Agencies could announce changes in rating outlook, or a review for downgrade or further downgrades of bond insurers, or credit or liquidity providers. Such adverse ratings developments with respect to bond insurers or credit or liquidity providers could have a material adverse effect on the Airport, including without limitation as a result of substantial increases in the Airport’s debt service-related costs. For example, the Airport is in the process of replacing existing surety bonds provided by bond insurers whose claims-paying ability ratings are below investment grade with cash. See “SECURITY FOR THE SERIES 2009D BONDS—

Reserve Fund; Reserve Account Surety Bonds–Pooled Reserve Account,” “–Airport Market Access” and “AIRPORT’S FINANCIAL RELATED INFORMATION–Current and Future Financings.”

In addition, such downgrades of credit or liquidity providers or swap counterparties, particularly below investment grade, could result in termination or events of default under swap agreements or credit or liquidity facilities. Payments required under these agreements in the event of any termination could be substantial and could have a material adverse impact on the liquidity position of the Airport. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps.”

***A default by any of these financial institutions under its bond insurance, debt service reserve fund, liquidity or interest rate swap obligations could have a material adverse impact on Airport finances and its ability to issue debt to purchase or redeem the Mandatory Tender Bonds.***

## **Uncertainties of the Aviation Industry**

### *General Factors Affecting Airport Revenues*

The principal determinants of passenger demand at the Airport include the growth in the population and economy of the Airport service region; national economic conditions; political conditions, including, wars, other hostilities and acts of terrorism; airline 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; and the occurrence of pandemics. See also “SAN FRANCISCO INTERNATIONAL AIRPORT–Competition.”

Historically, the passenger traffic in the nation has correlated with the state of the national economy and levels of disposable income. Globalization of business and the increased importance of international trade has resulted in a national economy that is more closely tied to worldwide economic and political conditions. Thus, future increases in passenger traffic will depend not only on the ability of the nation to sustain growth in economic output and income, but also on political relationships, international economics, currency exchange rates, and international hostilities.

In addition to revenues received from the airlines, the Airport derives a substantial portion of its revenues from concessionaires including parking operators, merchandisers, car rental companies, food outlets and others. See “AIRPORT FINANCIAL AND RELATED INFORMATION–Concessions.” Declines in Airport passenger traffic have, and may in the future, adversely affect the commercial operations of many of such concessionaires. Severe financial difficulties affecting a concessionaire could lead to a failure to pay rent due under its lease agreement with the Airport or could lead to the cessation of operations of such concessionaire.

The ability of the Airport to derive revenues from its operations depends in part upon the financial health of the airline industry and international relations. The financial results of the airline industry are subject to substantial volatility and many carriers have had extended periods of unprofitability. Additional bankruptcy filings, mergers, consolidations and other major restructuring by airlines are possible. See also “SAN FRANCISCO INTERNATIONAL AIRPORT–Existing Airline Agreements–*Potential Effects of an Airline Bankruptcy.*”

### *Bankruptcy*

In the event a bankruptcy case is filed with respect to an airline operating at the Airport, a bankruptcy court could determine that the Lease Agreement to which such airline is a party is an executory contract or unexpired lease pursuant to Section 365 of the United States Bankruptcy Code. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Existing Airline Agreements–*Potential Effects of an Airline Bankruptcy.*” In that event, a trustee in bankruptcy or the airline as debtor-in-possession might reject the Lease Agreement, in which case the Commission would regain control of any leased facilities (including gates and boarding areas) and could lease them to other airlines. The rejection of a Lease Agreement in connection with the bankruptcy of an airline operating at the Airport may result in the loss of Revenues to the Commission and a resulting increase in the costs per enplaned passenger for the airlines remaining at the Airport. In addition, the Commission may be required to repay landing fees, terminal rentals and other amounts paid by the airline up to 90 days prior to the date of the bankruptcy filing. The

Commission's ability to lease such facilities to other airlines may depend on the state of the airline industry in general, on the nature and extent of the increased capacity at the Airport resulting from the departure of the bankrupt airline, and on the need for such facilities.

Also, under the United States Bankruptcy Code, any rejection of a Lease Agreement could result in a claim for damages for lease rejection by the Commission which claim would rank as that of a general unsecured creditor of the airline, in addition to pre-bankruptcy amounts owed.

For a discussion of the effects of an airline bankruptcy on the collection of the passenger facility charge, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Passenger Facility Charge—*Collection of PFCs in the Event of Bankruptcy.*"

## **H1N1 Influenza**

In spring 2009, the World Health Organization 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. The outbreaks occurred initially in Mexico and shortly thereafter in the United States, and have spread to countries around the world. This strain apparently is the first to be communicable from human-to-human, and thus poses a potential risk of an international influenza pandemic. Travel restrictions, as well as other public health measures, may be imposed to limit the spread of this flu. These outbreaks may lead to a decrease in air traffic, at least for a temporary period, which in turn could cause a decrease in passenger activity at the Airport and a corresponding decline in Revenues. The Airport is unable to predict how serious this situation may become, what effect it may have on air travel to and from San Francisco, and whether any such effects will be material. 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. That, together with the outbreak of the war in Iraq and other factors at about the same time, resulted in a temporary but significant decline in passenger activity at the Airport of approximately 14% in the second quarter of Fiscal Year 2002-03, and approximately 7% for the year as a whole.

## **Climate Change Issues**

### *Possible Sea-Level Rise*

In March 2009, the California Climate Change Center released a draft paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is "The Impacts of Sea-Level Rise on the California Coast." The paper posits that increases in sea level will be a significant consequence of climate change over the next century. While noting that impacts are highly site-specific and somewhat speculative, the paper indicates that the Airport is vulnerable to flooding with a 1.4-meter sea level rise. The Airport is adjacent to the San Francisco Bay, which in turn opens onto the Pacific Ocean. At high tide, most of the Airport is less than six feet above sea-level. The Airport is presently considering potential mitigation measures, including diking and other structural protection, if they became necessary. The Airport is unable to predict whether sea-level rise or other impacts of climate change will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the Airport.

### *Possible Increased Regulations*

Climate change concerns are leading to new laws and regulations at the Federal and state levels that could have a material adverse effect on airlines operating at the Airport and could also affect ground operations at airports.

The U.S. Environmental Protection Agency ("EPA") very recently has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing Federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On April 24, 2009, EPA published a proposed "endangerment and cause or contribute finding" under the Clean Air Act. In the proposed finding, EPA declared that the weight of scientific evidence "requires" a finding that it is very likely that the six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming

endangers public health and welfare. The proposed rule also finds that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. If the proposed rule becomes final, EPA would be required to regulate emissions of certain GHGs from motor vehicles. The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. Accordingly, EPA may elect or be forced by the courts to regulate aircraft emissions as a result of this endangerment finding.

Regulation by the EPA can be initiated by private parties or by governmental entities other than EPA. In 2007, several states, including California, petitioned EPA to regulate GHGs from aircraft. On July 30, 2008, EPA issued an Advanced Notice of Proposed Rulemaking (“ANPR”) relating to GHG emissions and climate change. Part of the ANPR requested comments on whether and how to regulate GHG emissions from aircraft. While EPA has not yet taken any action to regulate GHG emissions from aircraft, the request for comments and proposed rule on motor vehicles may eventually result in such regulation.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the Federal level. California recently passed Assembly Bill 32, the Global Warming Solutions Act, which requires the statewide level of GHGs to be reduced to 1990 levels by 2020. A recently proposed Federal bill, the American Clean Energy and Security Act of 2009, would, if passed, amend the Clean Air Act to require regulation of aircraft GHG emissions, require a reduction in emissions from transportation fuels including jet fuel, and generally would cap GHG emissions.

The Airport is unable to predict what Federal and/or state laws and regulations with respect to GHG emissions will be adopted, or what effects such laws and regulations will have on airlines serving the Airport or on Airport operations. The effects, however, could be material.

### **Airport Security**

The September 11, 2001 terrorist attacks resulted in increased safety and security measures at the Airport mandated by the Aviation and Transportation Security Act passed by the U.S. Congress in November 2001 and by directives of the Federal Aviation Administration. In addition, certain safety and security operations at the Airport have been assumed by the Transportation Security Administration. In spite of the increased security measures, there is no assurance that there will not be additional acts of terrorism resulting in further disruption to the North American air traffic system, increased passenger and flight delays, and reductions in Airport passenger traffic and/or Airport revenues. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airport Security.”

### **Expiration and Renegotiation of Leases**

The City, acting through the Commission, has entered into certain long-term lease agreements (the “Lease Agreements”) with certain of the airlines that operate at the Airport (the “Signatory Airlines”) according to which the Signatory Airlines pay terminal rents and landing fees under a residual rate-setting system. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Existing Airline Agreements–*Lease Agreements*.” The Commission expects that prior to the expiration of the existing Lease Agreements on June 30, 2011, the Commission may (a) extend the Lease Agreements, (b) negotiate new long-term agreements, (c) enter into month-to-month agreements, or (d) not enter into new agreements, and instead set rates and charges from time to time for airlines serving the Airport by Commission resolution. Any new agreements could be based on either a compensatory or a residual rate-setting methodology. In any event, the Commission will establish rates and charges that will comply with the requirements of the rate covenant under the 1991 Master Resolution. For a description of the rate covenant, see “SECURITY FOR THE SERIES 2009D BONDS–Rate Covenant.” If the Commission and the airlines do not execute new agreements by the time the existing Lease Agreements expire, the Commission would set rates and charges that are consistent with any applicable parameters established by the FAA, the U.S. DOT or their successors. The Commission cannot predict the final form any new agreements may take, whether the existing residual rate-setting system will be continued or whether the balance of risks and benefits between the Commission and the airlines will be the same as under the current Lease Agreements. See also “SAN FRANCISCO INTERNATIONAL AIRPORT–Existing Airline Agreements–*Lease Agreements*” and “–*Expiration of the Settlement Agreement and Lease Agreements*.”

## **Variable Rate Debt and Credit and Liquidity Provider Downgrades**

The Rating Agencies have downgraded the claims-paying ability and financial strength ratings of a number of the nation's monoline bond insurance companies. Most of the bond insurers in question are insurers of one or more series of Outstanding Bonds of the Airport and/or providers of related debt service reserve fund surety bonds and/or swap insurance policies with respect to Outstanding Bonds. It is possible that the Rating Agencies could issue additional statements leading to a change in rating outlook, a review for downgrade or downgrades or further downgrades of the bond insurers that have already been downgraded or of other bond insurers or credit enhancers. The Airport's exposure to the credit of downgraded bond insurers or credit enhancers could have negative effects on the Airport's debt portfolio. In addition to an increase in the interest rates on variable rate Bonds secured by the subject bond insurers or credit enhancers, such downgrades, especially downgrades to below investment grade could lead to termination events or other negative effects under related agreements including, but not limited to, swap agreements and liquidity facilities, letters of credit and/or reserve fund surety policies. Payments required under these agreements in the event of any termination could be substantial and could have a negative impact on Net Revenues and/or the liquidity position of the Airport.

## **Seismic Risks**

The Airport is located in a seismically active region. The San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas fault with an estimated magnitude of 8.3 on the Richter scale. The most recent significant seismic event was an earthquake measuring 7.1 on the Richter scale that occurred in October 1989.

The Airport could sustain extensive damage to its facilities, including to the control tower, in a major earthquake from ground motion and possible liquefaction of underlying soils and resulting tidal surges. Damage could include pavement displacement (which could, in the worst case, necessitate the closing of one or more runways for extended periods of time), distortions of pavement grades, breaks in utilities, loss of water supply from the City's Hetch Hetchy water system, drainage and sewage lines, displacement or collapse of buildings, rupture of gas and fuel lines (including the common carrier pipelines under the San Francisco Bay that supply jet fuel to the Airport), and collapse of dikes at the Airport with consequential flooding. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Current Airport Facilities—*Seismic Design of Airport Facilities*."

## **Competition**

Metropolitan Oakland International Airport and Norman Y. Mineta San Jose Airport are the other airports in the Bay Area that compete with the Airport for passengers and cargo traffic. Competition from these airports could affect passenger and cargo demand at the Airport. For a further discussion of such airports see "SAN FRANCISCO INTERNATIONAL AIRPORT—Competition."

## **Uncertainties of Projections, Forecasts and Assumptions**

Compliance with certain of the covenants contained in the 1991 Master Resolution is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the Commission assumes no responsibility for the accuracy of such projections.

## **Limitation of Remedies**

Any remedies available to the Owners of the Bonds upon the occurrence of an event of default under the 1991 Master Resolution are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the Commission fails to comply with its covenants under the 1991 Master Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds. The ability of the Commission to comply with its covenants under the 1991 Master Resolution and to generate Net

Revenues sufficient to pay principal and interest evidenced by the Bonds may be adversely affected by actions and events outside of the control of the Commission, or may be adversely affected by actions taken (or not taken) by voters or payers of fees and charges, among others. See “SAN FRANCISCO INTERNATIONAL AIRPORT—Certain Federal, State and Local Laws and Regulations—*State Proposition 218*.”

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution. Moreover, the Bonds will not be subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution to the extent the redemption or Purchase Price is payable from Net Revenues, but may be subject to mandatory redemption or mandatory purchase or tender for purchase if the redemption or Purchase Price is payable from a source other than Net Revenues such as a credit facility or liquidity facility.

In addition to the limitations on remedies contained in the 1991 Master Resolution, the rights and obligations under the 1991 Master Resolution may be subject to the limitations on legal remedies against charter cities and counties in the State, including applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors’ rights generally, now or hereafter in effect, and to the application of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or in law. Bankruptcy proceedings, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. The opinion to be delivered by each of Orrick, Herrington & Sutcliffe LLP and Quateman LLP, Co-Bond Counsel, concurrently with the execution and delivery of the Series 2009D Bonds, that the 1991 Master Resolution constitutes a valid and binding obligation of the Commission will be subject to such limitations. The various other legal opinions to be delivered concurrently with the execution and delivery of the Series 2009D Bonds will be similarly qualified. Co-Bond Counsel expect to deliver separate opinions substantially in the form set forth in APPENDIX G subject to the matters discussed under “TAX MATTERS.” In the event the Commission fails to comply with its covenants under the 1991 Master Resolution or to pay principal or interest, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2009D Bonds.

### **Initiative, Referendum and Charter Amendments**

The ability of the Commission to comply with its covenants under the 1991 Master Resolution and to generate revenues sufficient to pay the principal of and interest on the Series 2009D Bonds may be adversely affected by actions and events outside the control of the Commission, including without limitation by actions taken (or not taken) by voters.

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the Charter, the voters of the City can restrict or revise the powers of the Commission through the approval of a Charter amendment. The Commission is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the Commission or the Airport.

### **Risk of Tax Audit of Municipal Issuers**

The Internal Revenue Service (the “IRS”) includes a Tax Exempt and Government Entities Division (the “TE/GE Division”). The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations (including of the issuance of securities such as the Series 2009D Bonds) has increased significantly under the TE/GE Division. The Commission can provide no assurance that if an IRS examination of the Bonds issued by the Commission as tax-exempt bonds was undertaken that it would not adversely affect the market value of the Series 2009D Bonds. See “TAX MATTERS.” The Commission has not been the subject of an audit, is not currently the subject of any ongoing audit, nor has it been notified by the IRS regarding the possibility of any such audit.

## Future Legislation

The Airport is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The Commission is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations or financial condition of the Airport.

## SAN FRANCISCO INTERNATIONAL AIRPORT

### Introduction

San Francisco International Airport, which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for Calendar Year 2008 from the Airports Council International (the "ACI"), the Airport ranked 10th in the United States in terms of passengers and 14th in terms of air cargo tonnage. According to 2008 U.S. Department of Transportation ("U.S. DOT") Statistics, the Airport is also a major domestic origin and destination point (10th in the United States) and one of the nation's principal gateways for Pacific traffic and serves as a domestic hub and Pacific gateway for United Airlines.

### Organization and Management

Under the Charter, the Commission is responsible for the operation and management of the Airport, which is a department of the City. The Commission consists of five members appointed by the Mayor for four-year overlapping terms. All appointments are subject to rejection by a two-thirds vote of the Board of Supervisors and any member may be removed by a three-fourths vote of the Board of Supervisors for official misconduct.

The current members of the Commission and their respective occupations and terms are as follows:

<u>Member</u>	<u>Occupation</u>	<u>Term Ends August 31 of</u>
Larry Mazzola, <i>President</i>	Business Manager and Financial Secretary/Treasurer, Local Union 38	2010
Linda S. Crayton, <i>Vice President</i>	Regional Senior Director, Government Relations, Comcast Cable Communications	2012
Richard J. Guggenlime	Attorney (Of Counsel), Schiff Hardin LLP	2013
Caryl Ito	Businesswoman, Bozeman and Associates	2010
Eleanor Johns	Executive Director of the Willie L. Brown, Jr. Institute on Politics and Public Service	2011

Under the Charter, the Commission is responsible for the "construction, management, supervision, maintenance, extension, operation, use and control of all property, including the real, personal and financial assets under its jurisdiction." The Commission has the exclusive authority to plan and issue revenue bonds for airport-related purposes, subject to the approval, amendment or rejection by the Board of Supervisors.

The Commission also has exclusive power to fix and adjust Airport rates, fees and charges for services and facilities provided by the Airport.

The Commission's budget and certain Commission contracts and leases (generally, those for a term of more than ten years or involving revenue to the City of more than \$1,000,000 or expenditures of more than \$10,000,000), and modifications thereto, require approval of the Board of Supervisors. In addition, if any project is estimated to cost more than \$25 million, and more than \$1 million in predevelopment, planning or construction costs will be paid with City funds, then the Board of Supervisors is required to make a determination of fiscal feasibility prior to the commencement of environmental review, if any, on such project.

Other City departments provide certain functions, services and personnel to the Commission, including the Police Department, the Fire Department, the Water Department, the City's Hetch Hetchy Water and Power Division, the Department of Public Works, the City Controller, the Purchasing Department, the City Attorney and the City-wide risk manager. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION-City Budget Process" and "--Payments to the City."

### **Airport Senior Management and Legal Counsel**

Senior management is led by the Airport Director ("Director"), who has the authority to administer the affairs of the Commission as the chief executive officer thereof. Under the Charter, the Director is appointed by the Mayor from candidates submitted by the Commission. Once appointed by the Mayor, the Director serves at the pleasure of the Commission.

The Airport has a Chief Operating Officer who is appointed by the Director. Six Deputy Directors oversee and manage the following divisions: Administration, Business and Finance, Communications and Marketing, Facilities, Operations and Security and the Bureau of Design and Construction. All of the divisions, except Business and Finance and Communications and Marketing, who report directly to the Airport Director, report to the Chief Operating Officer.

Brief biographies of the principal members of the senior management and legal counsel at the Airport are set forth below:

*John L. Martin* was appointed Airport Director in November 1995. Prior to this appointment, he served for two years as Deputy Airport Director-Business and Finance and five years as Assistant Deputy Airport Director-Business and Finance. He has worked for the Commission since 1981. In October 2004, Mr. Martin was named Director of the Year by *Airport Revenue News*. He is also a past member of the Board of Directors and the Vice President of the Airports Council International, Pacific Region and a past member of the Board of Directors of ACI-Pacific Region and ACI-World.

*Jackson J. Wong* was appointed Chief Operating Officer in August 1998. In this position he oversees the Airport Museum and the following Airport divisions: Administration, Facilities Maintenance, Operations and Security, and the Bureau of Design and Construction. From March 1994 to August 1998 he served as Deputy Airport Director-Facilities, Operations and Maintenance. Prior to that appointment, he served for four years as Bureau Chief for the Department of Public Works, City and County of San Francisco. Mr. Wong has over 20 years of experience in engineering, construction management, and project administration.

*Leonardo "Leo" Fermin, Jr.* was appointed Deputy Airport Director-Business and Finance in July 2003. From October 2002 until July 2003, he served as Acting Deputy Airport Director - Business and Finance. He has been with the Airport since July 1986, serving in a number of positions, including Assistant Deputy Director for Financial Planning and Analysis for five years and as Finance Director since November 2001. Prior to joining the Airport, Mr. Fermin served 13 years in a variety of financial and accounting capacities in the private sector. In October 2002, Mr. Fermin was nominated for the City's Public Managerial Excellence Award.

*Tryg McCoy* was appointed Deputy Airport Director-Operations and Security in December 2003. He joined the Airport staff in June 1996 as an Airport Duty Manager, Operations and became Assistant Deputy Airport Director, Operations in October 1997. Prior to joining the Airport, Mr. McCoy served for one year as the Regional Manager for Ogden Aviation Services based at the Airport. Mr. McCoy worked for 22 years with American Airlines and Air California, where his experience included all positions from baggage handler to General Manager. Mr. McCoy was a nominee for the City's 2003 Public Managerial Excellence Award.

*Theresa M. Lee* was appointed Deputy Airport Director-Administration in July 1996. Prior to her appointment, she served as Administrative and Special Projects Manager in the Airport's Bureau of Planning and Environmental Affairs and 3-1/2 years as the Deputy Finance Director in the San Francisco Mayor's Office where she was responsible for the management and development of the City's budget. Ms. Lee has over 17 years of public policy, administration and management experience in state and local government.



*Kandace Bender* was appointed Deputy Airport Director-Communications and Marketing in August 2002. From September 2000 to August 2002, she managed all public information and communications for the Airfield Development Bureau, focusing in particular on all aspects of communications surrounding the Runway Modernization Program. Prior to that, Ms. Bender served as Press Secretary to San Francisco Mayor Willie L. Brown Jr. for five years. She has 18 years experience as a daily print reporter and editor.

*Ernie Eavis* was appointed Deputy Airport Director of Facilities (formerly Facilities Operations and Maintenance) in March 1999. Mr. Eavis is a registered Civil Engineer in the State of California with over 35 years of professional engineering experience at the Airport. Mr. Eavis is the designated building official for the Airport and has served for the last 20 years as either the Principal and/or the Chief Engineer for the Airport.

*Ivar Satero* was appointed Deputy Director for the Bureau of Design and Construction in December 2003. From February 2002 through November 2003, he served as the Administrator of the Bureau of Design and Construction and then as the Administrator of Airport Development. From February 1994 to February 2002, Mr. Satero was the Project Manager responsible for various Near-Term Master Plan projects of the Airport and then the Program Manager responsible for the management, implementation and construction of the AirTrain System and the BART Extension to the Airport. Prior to joining the Airport in February 1994, Mr. Satero worked for the Public Utilities Commission of the City as Project Engineer/Project Manager for various municipal railway and Hetch Hetchy water system capital improvement projects.

*Molly S. Stump* was appointed Airport General Counsel effective September 1, 2009. Prior to this appointment, Ms. Stump served as General Counsel to the San Francisco Police Department and Police Commission from 2005 to 2009. Ms. Stump received her J.D. from Boalt Hall in 1994. She joined the City Attorney's Office in 1996, after completing a judicial clerkship with District Court Judge Marilyn H. Patel. At the City Attorney's Office, Ms. Stump has served as General Counsel to the Department of Human Resources, the Civil Service Commission and the Health Services Board, and was specially assigned to assist with the Mayoral transition in 2004.

## **Current Airport Facilities**

### *General*

The Airport occupies approximately 5,171 acres, of which approximately 2,383 acres have been developed for Airport use. Approximately 2,788 acres are tidelands, and have not been developed.

### *Airfield*

General. The runway and taxiway system occupies approximately 1,700 acres and includes four intersecting runways, three of which are equipped with instrument landing systems (an "ILS") for arrivals. Each of the four runways is 200 feet wide and is paved with asphaltic concrete. The east-west runways are 11,870 and 10,600 feet long, respectively. The north-south runways are 8,648 and 7,500 feet long, respectively. The current runway system can accommodate the arrival and departure at maximum loads of all commercial aircraft currently in service and those in development, including the new large aircraft such as the Airbus A-380 and the Boeing 787 Dreamliner. The current runways at the Airport are built on bay tidelands that were filled during and after World War II. As a result, the runways continue to settle at various rates, and require periodic repair and maintenance work.

On-Time Performance. On-time flights are defined by the U.S. DOT as any flight that arrives or departs within 15 minutes of the scheduled arrival or departure time. During calendar year 2008, 69.1% of the arrivals at the Airport were on time, down from approximately 69.8% for calendar year 2007, according to the U.S. DOT statistics. The Airport, which operates four runways, was behind the other Bay Area airports in on-time arrivals in calendar year 2008, with 80.3% of on-time arrivals at Oakland, which operates one runway, and 80.4% of on-time arrivals at San Jose, which operates two runways. Arrival on-time performance is lower at the Airport than that of the two other Bay Area airports due primarily to the prevalence of low clouds and fog around the Airport during various times of the year. During calendar year 2008, 75.2% of the Airport's departures were on time, down from 75.7% for

calendar year 2007, according to the U.S. DOT On-Time Departure Performance Statistics. This compares to 81.2% of on-time departures for Oakland and 84.2% of on-time departures for San Jose.

The Commission has acquired and installed an FAA Precision Runway Monitoring System (a “PRM”) for its primary arrival runways (28R and 28L). In good weather conditions (cloud ceiling of at least 3,600 feet) 60 planes per hour land at the Airport. In adverse weather conditions (cloud ceiling of between 1,600 feet and 3,600 feet) 30 planes per hour were previously permitted to land at the Airport. The PRM, combined with the implementation of a Simultaneous Offset Instrument Approach flight procedure, now allows as many as 38 planes per hour to land during adverse weather conditions.

Improvements to Accommodate New Large Aircraft. The introduction of new large aircraft (“NLAs”) will significantly affect airport design at most airports in the United States where NLAs are expected to operate. Generally, existing facilities are designed for aircraft having a maximum wingspan of 213 feet. It is anticipated that the NLAs, with a wingspan of 262 feet, could require, among other things, reinforced pavement and aprons, and more clearance and separation on the taxiways, at the gates, and for the aircraft parking positions.

The Airport currently operates three gates in the International Terminal Complex with sufficient clearance to accept NLAs, and is considering making modifications to three additional gates in the ITC to accept NLAs. In October 2007, the Airport completed taxiway modifications to accommodate the NLAs, and was the first airport on the West Coast to do so. As a result, the runways and most of the taxiways do not require relocation or realignment to accommodate NLAs. Lufthansa German Airlines is expected to commence the first regularly scheduled NLA flights to the Airport in April 2010.

#### *Terminals*

International Terminal. The International Terminal Complex (the “ITC”) is a 2.5 million square foot state-of-the-art facility located directly above an entry roadway network, and houses ticketing, Federal Inspection Service, baggage facilities, concessions, and airline offices. The approximately 1.7 million square foot terminal connects to the new Boarding Areas A and G, which have a combined space of approximately 850,000 square feet and 24 gates. The ITC (with total floor area covering almost 44 football fields), completed in 2000, is the largest common use airport terminal in the United States. The Airport owns and maintains a common use baggage system that supports all airlines in the ITC. The Airport provides technical support and assistance to the airlines 24-hours a day for the telecommunications system. See also “–Airport Security.”

Other Airport Terminals. In addition to the ITC, the Airport currently has three other terminal buildings (together with the ITC, the “Terminal Complex”) consisting of approximately 2.6 million square feet of space. Terminal 1 and Terminal 3 handle domestic flights and flights to Canada and Mexico. Terminal 2, the former international terminal, has been closed to passenger traffic for conversion to a domestic terminal to meet projected gate needs. Construction is underway and the Airport expects to reopen Terminal 2 in spring 2011. See also “–Airport Security” and “CAPITAL PROJECTS AND PLANNING.”

Environmental Sustainability Program. The ACI-NA named the Airport as the 2007 recipient of the Environmental Management Award for its Environmental Sustainability Program. This program was initiated by the Airport in 2005, and seeks to reduce emissions, save energy, improve water quality, preserve natural resources and minimize waste. Specifically noted in the award were the pilot program with Virgin Atlantic Airlines to tow departing aircraft partway to the runway, the 400 Hz power and pre-conditioned air at many gates, conversion of an airport shuttle to bio-diesel fuel, installation of solar panels and a solid waste minimization and recycling program.

In September 2007, 2,843 solar panels were installed on the rooftop of Terminal 3. This joint project between the Airport and the San Francisco Public Utilities Commission (the “SFPUC”) has a capacity of 450 kilowatts, which is enough power to provide all daytime lighting needs within Terminal 3, and will generate 628 kilowatt hours annually. This project was paid for with funds provided by the SFPUC Power Enterprise and is the second solar system project to be installed at the Airport. The first solar system project was a 20 kilowatt system installed on an engineering building in September 2001.

On September 17, 2009, the Airport initiated the nation's first airport based "Climate Passport" program that offers passengers a way to easily calculate and reduce the carbon footprint of their air travel by supporting carbon offset (also known as Verified Emission Reductions) projects based in the City and the State. Three Climate Passport kiosks are located past security in the ITC and in Terminal 3 and the Climate Passport is also available through the Airport's website.

AirTrain System. The AirTrain System provides 24-hour transit service over a "terminal loop" to serve the Terminal Complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the Terminal Complex. The AirTrain stations are located at the north and south sides of the ITC, Terminals 1, 2 and 3, at the two short-term ITC parking garages, on Lot "D" to serve the rental car facility, and on McDonnell Road to serve the West Field area of the Airport.

#### *Gates*

The Airport has 81 operational gates, 46 of which can accommodate wide-body aircraft. 24 gates are located in the ITC, 26 in Terminal 1 and 31 are located in Terminal 3. The 10 gates in Terminal 2 are closed to passenger traffic during renovation. Terminal 2 is expected to reopen in spring 2011 with 14 gates.

Forty-six of the gates in Terminal 1 and Terminal 3 are under long-term exclusive lease by six airlines pursuant to the Lease Agreements which expire June 30, 2011. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Existing Airline Agreements—*Lease Agreements*." The Airport's remaining 35 operational gates are used by airlines either on a month-to-month exclusive use, common use or joint-use basis. The Airport obtained control of these 35 gates by way of airline consolidation and the Airport's buyout of airline improvements. As a result of its rights under the Lease Agreements and its control of gates which are not subject to Lease Agreements, the Airport has been able to accommodate new airlines as necessary. See "CAPITAL PROJECTS AND PLANNING."

#### *Jet Fuel Distribution System*

Pursuant to a Fuel System Lease, dated as of July 1, 1997, the Airport leased its on-Airport jet fuel receipt, storage, distribution and other related facilities (collectively, the "Fuel System") to SFO Fuel. Substantially all of the airlines with regularly-scheduled service to the Airport are members of SFO Fuel. Pursuant to the Interline Agreement, the members of SFO Fuel are jointly responsible for all costs, liabilities and expenses of SFO Fuel. SFO Fuel is responsible for the management and operation of the Fuel System. Operation and management of the Fuel System is performed by a third-party pursuant to an operation and management agreement with SFO Fuel.

The Fuel System currently includes a pipeline system, with a loop around the Terminal Complex which provides redundancy in the event of a pipeline break; various hydrant systems, some of which are leased to SFO Fuel; storage tanks owned by the Airport and leased to SFO Fuel, with total storage capacity of approximately 165,000 total barrels (representing approximately 2.4 days of operations based upon 2008 consumption); storage tanks owned by SFO Fuel and operated by Chevron Corporation ("Chevron") and located on ground sublet from SFO Fuel pursuant to a tank farm sublease, with total storage capacity of approximately 150,000 barrels (representing approximately 1.9 days of operations based upon 2008 consumption); and other related facilities. The Chevron tanks are operated and maintained by Chevron.

In early 2007, SFO Fuel finalized an arrangement with an affiliate of Shell Oil for substantial additional off-Airport jet fuel storage at facilities immediately adjacent to the Airport. The total storage capacity at the Shell Oil facilities is approximately 236,000 total barrels (representing approximately 3.3 days of operations based on 2008 consumption). In addition, SFO Fuel has entered into other agreements for off-Airport jet fuel terminaling, storage, and transportation for the benefit of SFO Fuel members and to further supplement its on-Airport facilities. SFO Fuel may elect in the future to construct additional significant on-Airport jet fuel storage and related facilities, but has no current plans to do so.

#### *Communications Facilities*

The Airport operates state-of-the-art telecommunications facilities at the ITC. The Airport was the first airport in the United States to offer its tenants separate broadband services from two local service carriers: Pacific

Bell and AT&T Local Services, each of which provides the Airport with OC-48 Synchronous Optical Network (“SONET”) rings that deliver diverse, redundant, and continuous services to Airport users. The Airport operates a Gigabyte Ethernet Network that supports an extensive array of Common-Use Terminal Equipment in the ITC. The CUTE design allows airlines to operate from any service counter in the ITC as well as in their individual offices.

The Airport has also implemented a contingency communications system for use when catastrophic or other events disable standard communications systems. This contingency system permits the Airport to deploy a network of wireless services, including cellular telephones and pagers. In addition, the Airport has the capability to manually perform passenger processing and baggage transport in the event of emergencies.

Through a concessionaire, T-Mobile, the Airport installed a high-speed wireless broadband network (also known as “Wi-Fi”) for use by passengers, tenants, the Transportation Security Administration (the “TSA”) and the Commission.

#### *BART Extension to SFO*

The San Francisco Bay Area Rapid Transit (“BART”) extension to the Airport opened for full operation on June 22, 2003. The extension creates a convenient connection between the Airport and the greater San Francisco Bay Area that is served by BART. According to BART statistics for Fiscal Year 2007-08, a weekday average of 4,859 riders exited at the SFO BART station. An intermodal station in the City of Millbrae provides a direct link between BART and CalTrain offering additional transit options and connection to the southern parts of the Bay Area as well as San Francisco. In order to close an approximately \$250 million four-year deficit, effective July 1, 2009, BART increased fares by 6.1% and increased the one-way surcharge levied on riders using the station at the Airport from \$1.50 to \$4.00. The Airport is the only station in the entire BART system that has a surcharge added to all fares.

According to BART statistics, more than 10,000 passengers per day ride BART to and from the Airport. Of these, approximately 11% are Airport employees.

The Commission has requested that BART waive the entire surcharge for riders working at the Airport. Such a move would save Airport employees who commute by BART \$8 per day, or \$2,000 per year for those working five days per week. BART offered Airport employees a 25% discount off their entire fare, which would partially reduce the cost of the increased surcharge.

The Airport is sponsoring free shuttle for Airport employees from the nearby Millbrae station. Because of the surcharge increase, a rider from Daly City can travel to the Millbrae station for less than half the price of a ticket to the Airport, even though the Millbrae station is farther away.

BART pays the Airport \$2.5 million per year for rent on the BART station in the ITC, plus an additional \$700,000 for custodial and electrical support services. BART currently nets more than \$5 million per year from the Airport surcharge. Even if the \$4 surcharge is waived for Airport employees, BART will still realize approximately \$11 million per year from the surcharge paid by Airport passengers.

The Commission is unable to predict what effect a reduction of the surcharge for Airport employees will have on the finances of BART and its ability to make rental payments to the Airport.

#### *Ground Transportation and Parking Facilities*

**Public Parking.** A 6,385 space hourly Domestic Parking Garage is connected to the three domestic terminals by seven pedestrian tunnels and three pedestrian bridges, including an elevated pedestrian bridge between the Domestic Parking Garage and Terminal 1 that opened in August 2007 and an elevated pedestrian bridge from the Domestic Parking Garage to Terminal 2 that has been completed, but will not be opened to the public until the renovation of Terminal 2 is completed in Spring 2011. Approximately 4,675 of the 6,385 spaces are available for public parking, 230 are used for taxi stations and 730 are for permit-employee parking. Seven hundred fifty spaces are cordoned off due to the security requirements of the Aviation and Transportation Security Act. See “–Airport Security.” The Domestic Parking Garage features ParkFAST, reserved covered parking with an automated entry

and exit system and ParkVALET, providing valet service to all terminals. Two public garages located near the ITC provide 2,980 spaces for short-term parking and approximately 3,112 indoor covered spaces and approximately 1,670 uncovered spaces are available for public long-term parking approximately 1.5 miles from the Terminal Complex. This long-term parking lot offers curbside baggage check-in service for most domestic flights, and free shuttle bus service to and from the Terminal Complex.

Employee Parking. The Airport also operates three on-Airport employee/permit parking facilities: the West Field Garage containing 1,722 spaces, located approximately one mile from the Terminal Complex; a 1,600 space surface lot, located at the north end of the Airport, approximately two miles from the Terminal Complex; and Lot D (formerly the main long-term public lot) with approximately 3,500 spaces, located approximately 1.5 miles from the Terminal Complex.

Rental Car Facility. A 5,000 space, full service rental car facility for all on-Airport rental car companies is located approximately one mile north of the Terminal Complex and is accessed from the terminals by the AirTrain.

Bicycle Parking. The Airport offers complimentary bicycle parking in the Central Garage and the ITC for 72 bicycles for up to 14 days.

#### *Maintenance and Cargo Facilities*

The airlines have made substantial investments in facilities at the Airport. The United Airlines maintenance base, containing approximately three million square feet of building and hangar floor area, is United Airlines' sole maintenance facility, and one of the world's largest private aircraft maintenance facilities. Major maintenance facilities are also operated at the Airport by American Airlines, Delta Air Lines and Northwest Airlines. The airlines have constructed these maintenance facilities under long-term ground leases. Certain other airlines operate significant line maintenance facilities at the Airport.

Certain of the airline maintenance, cargo and other facilities have been financed by bonds issued by the California Statewide Communities Development Authority, which has the authority to issue tax-exempt private activity bonds. These bonds are separately secured by leases or loans with the respective airlines and are *not* payable from Net Revenues. If United Airlines moved its maintenance operations from its Maintenance and Operations Center and related facilities, United Airlines would remain responsible under the lease until the then-current expiration date.

#### *Seismic Design of Airport Facilities*

The Airport exists in a zone 4 seismic area. Seismic zones aid in identifying and characterizing certain geological conditions and the risk of seismic damage at a particular location and are used in establishing building codes to minimize seismic damage. The five seismic zones are: zone 0 (no measurable damage), zone 1 (minor damage), zone 2 (moderate damage), zone 3 (major damage) and zone 4 (major damage and greater proximity than zone 3 to certain major fault systems).

The ITC was designed to meet the structural and code requirements for a building of its type located in seismic zone 4 and to meet the standards of an "essential facility" (*i.e.*, a facility that is immediately occupiable following a maximum credible seismic event). In addition, the more recent buildings and facilities constructed by the Airport, including the other terminal buildings, the AirTrain System and the Airport's garages were designed to comply with then-current seismic design standards. These structures include the inbound and outbound freeway ramps and elevated circulation roadways serving the ITC; Garages A and G and the vehicle bridge connecting these two garages; Concourse H (the AirTrain/BART Station), the elevated guideway, eight stations, and the maintenance facility for the AirTrain system; the Rental Car Center; and the Communications Center located in a portion of the North Connector Building that links Terminal 2 to Terminal 3.

In 2006, the Commission engaged an architectural firm to perform a feasibility study and seismic analysis of Terminal 2, which was constructed in 1951, and Boarding Area D and the FAA control tower, both of which are structurally integrated with Terminal 2 and were constructed in 1981. The analysis concluded that these facilities are highly susceptible to significant damage as a result of a major earthquake in the vicinity of the Airport which

could render them inoperable for an extended period of time, and that they require significant structural upgrades in order to meet today's stringent seismic code requirements and remain operable following a significant seismic event. The analysis also indicated that it is not cost effective nor operationally feasible to seismically upgrade the existing FAA control tower and that the FAA control tower should be relocated to a less seismically vulnerable site at the Airport.

The Airport therefore is pursuing the construction of a replacement control tower in a new location with the FAA. The FAA has identified a preferred location for the new control tower, based on the results of their recent siting study. The Airport and the FAA are also discussing funding sources for the new control tower. Congress has appropriated an initial \$1.5 million to fund tower design activities. The current Capital Plan provides for the renovation of Terminal 2 and Boarding Area D, including the required seismic upgrades for Boarding Area D. The Capital Plan also includes the anticipated FAA funding for the new control tower. The FAA has developed contingency plans for the operation of air traffic control functions from a temporary site in the event the FAA control tower is rendered inoperable. Such remote operations could result in a reduction in air traffic control service levels and capabilities, and may have a significant impact on the airspace system supporting the Airport. See also "CAPITAL PROJECTS AND PLANNING."

In April 2007, the Airport completed the first phase of a two phase project to install and construct improvements to the upper level roadway at the domestic terminals to increase seismic stability. The first phase of the improvements consisted of seismically retrofitting the upper level viaduct adjacent to Terminals 1 and 2, installation and construction of related improvements, utilities and lighting systems. In September 2008, the Airport received authorization from the State to proceed with the second and final phase of this project, which is located adjacent to Terminal 3. The contract for this project was awarded and construction commenced in March 2009. Completion of this project is expected in December 2010. In addition, the Airport maintains contingency plans to deal with major seismic events. See also, "CERTAIN RISK FACTORS—Seismic Risks."

### **Airport Security**

In the immediate aftermath of September 11, 2001, the FAA mandated stringent new safety and security requirements, which have been implemented by the Commission and the airlines serving the Airport. In addition, Congress passed the Aviation and Transportation Security Act (the "Aviation Act"), which imposed additional safety and security measures. Certain safety and security functions at the Airport were assumed by the TSA, which was established by the Aviation Act. Among other things, the Aviation Act required that (i) as of January 18, 2002, explosive detection screening be conducted for all checked baggage; (ii) all individuals, goods, property, vehicles and other equipment entering secured areas of airports be screened; (iii) security screeners be federal employees, United States citizens and satisfy other specified requirements; and (iv) that vehicles be parked at least 300 feet from airport terminals.

The Commission, the TSA and the airlines satisfied all of these requirements. The Airport installed in the ITC and in Terminals 1 and 3, 45 TSA certified, three dimensional, GE CTX 9000 explosive detection baggage screening machines to provide for 100% in-line checked baggage screening, as mandated by the Aviation Act. The cost of acquisition and installation of the 45 machines was paid for by the TSA and FAA. In spring 2007, four GE CTX 9000 explosive detection baggage screening machines that provided redundant screening capability were removed from the Terminal Complex and three of these machines were installed as part of a cargo screening pilot program. The pilot program was completed in April 2008 and these machines are slated to be returned to the TSA. The fourth explosive detection baggage screening machine was allocated by the TSA for installation within a new Southwest Airlines stand-alone baggage screening system being installed in Terminal 1. No machines will be installed in Terminal 2 until spring 2011 when this Terminal is expected to be reopened for passenger traffic. See also "—Current Airport Facilities—Terminals—Other Airport Terminals." The Airport may undertake a number of other required security related capital projects, a portion of the costs of which are expected to be funded by federal grants.

The TSA operates nine separate security checkpoints containing 39 security lanes with employees of a private security firm, Covenant Aviation Security. The Airport is one of six airports in the nation in which the TSA operates security through their private partnership program. The employees of the private security firm undergo the same training and are under the same TSA management as federal-employed security operating at other United

States airports. This private partnership program at the Airport has been in operation since 2002. TSA management utilizes staffing models and closed circuit images to monitor demand checkpoints to quickly accommodate increases in passenger flow.

On August 24, 2009, the Global Entry initiative, a U.S. Customs and Border Protection (CBP) pilot program that streamlines the arrival screening process at airports for trusted travelers through biometric identification, was extended to the Airport and 12 other airports. Global Entry enrollment centers and kiosks at the Airport allow pre-approved members an alternative to regular passport processing lines. At the kiosk, Global Entry members insert their passport or lawful permanent resident card into a document reader, provide digital fingerprints for comparison with fingerprints on file, answer customs declaration questions on the kiosk's touch-screen, and then present a transaction receipt to CBP officers before leaving the inspection area.

## **Airline Service**

### *General*

During Fiscal Year 2008-09, the Airport was served by 49 passenger and 10 cargo only airlines. In Fiscal Year 2008-09, domestic passenger air carriers provided scheduled non-stop service to 73 airport destinations in the United States and one-stop service to an additional 34 destinations in the United States. Twenty-eight passenger airlines provided nonstop scheduled passenger service to over 30 international airport destinations and one-stop service to an additional 22 international destinations.

During Fiscal Year 2008-09, United Airlines (including SkyWest Airlines/United Express) handled 40.6% of the total enplaned passengers at the Airport (a decrease in market share of 3.1 percentage points compared to Fiscal Year 2007-08), American Airlines (including American Eagle Airlines) handled 9.2%; and Delta Air Lines (including SkyWest Airlines, Express Jet Airlines and Mesaba Airlines) handled 4.9%.

The domestic enplanements of United Airlines (including SkyWest Airlines/United Express) during Fiscal Year 2008-09 decreased by 7.1% while its international enplanements (including SkyWest Airlines/United Airlines) decreased by 11.0% compared to Fiscal Year 2007-08. During Fiscal Year 2008-09, United Airlines handled 36.0% of the international enplaned passengers, Air Canada handled 6.5%, Cathay Pacific Airlines handled 5.3%, Lufthansa Airlines handled 4.9% and British Airways handled 4.8%. Although United Airlines (including SkyWest Airlines/United Airlines) handled 43.7% of the Airport's total enplanements during Fiscal Year 2007-08, audited results for Fiscal Year 2007-08 indicated that payments by United Airlines accounted for approximately 25% of the Airport's operating revenues and approximately 20% of total revenues. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Principal Revenue Sources."

### *Low Cost and Low Fare Carriers*

During Fiscal Year 2008-09, eight airlines at the Airport offered low-cost carrier service:

- AirTran Airways
- Allegiant Air (which provided service at the Airport from June 6, 2008 through January 4, 2009)
- Frontier Airlines (which filed for Chapter 11 bankruptcy protection on April 10, 2008 and continues operations at the Airport). On October 1, 2009 Republic Airways Holdings, Inc. ("Republic") completed its acquisition of Frontier Airlines Holdings pursuant to an auction process in the Frontier Airlines bankruptcy case. Republic announced it will continue to operate the Frontier brand as a wholly-owned subsidiary.
- jetBlue Airways
- Southwest Airlines

- Sun Country Airlines
- TED Airlines (which was a low fare brand operated by United Airlines). The TED brand was discontinued on January 6, 2009 and its operations were integrated into the mainline operations of United Airlines.
- Virgin America Airlines

During Fiscal Year 2008-09, approximately 21.5% of total domestic enplanements at the Airport were provided by low-cost carriers, compared to 83.6% of the domestic enplanements at Oakland International Airport and 54.0% of the domestic enplanements at San Jose International Airport. During Fiscal Year 2008-09, the low-cost carriers represented an aggregate of 16.5% of total enplanements at the Airport.

#### *New Service*

The following is a description of new service that commenced in Fiscal Year 2008-09:

- From April 2007 through October 2008, United Airlines operated one additional daily nonstop flight from the Airport to Frankfurt, Germany and three additional weekly nonstop flights from the Airport to Hong Kong, China.
- In June 2008 Virgin America Airlines added an additional twice daily flight to Seattle, Washington.
- From June 6, 2008 through January 4, 2009, Allegiant Air provided three times per week service between the Airport and Bellingham, Washington.
- On June 14, 2008 through January 12, 2009, Jet Airways provided daily service between the Airport and Mumbai, India, via Shanghai, China.
- On July 7, 2008, United commenced twice daily flights to Klamath Falls, Oregon and to Coos Bay/North Bend, Oregon.
- In October 2008, Southwest Airlines commenced three times daily nonstop service to Denver, Colorado, which service was increased to four times daily.
- jetBlue Airways added a third daily flight to Long Beach, California on November 2, 2008.
- Mexicana Airlines added four additional flights per week between the Airport and Mexico City, Mexico in November 2008 and commenced four times per week service between the Airport and Puerto Vallarta, Mexico in December 2008.
- On December 15, 2008, Emirates Airlines launched three weekly nonstop flights to Dubai, United Arab Emirates.
- In February 2009, Virgin America commenced two daily non-stop flights to Boston, AeroMexico commenced daily non-stop service to Puerto Vallarta, Mexico and Air Canada added two seasonal weekly flights to Calgary, Alberta Canada.
- In February 2009, AeroMexico added non-stop flights to provide daily service to Mexico City, Mexico.
- In April 2009, United Airlines reinstated a second daily flight to Frankfurt, Germany.



- In May 2009, Southwest Airlines launched five daily flights to Orange County, Virgin America launched five daily non-stop flights to Orange County, California, jetBlue Airways reinstated a daily flight to Boston and Emirates Airlines added four weekly flights providing daily service to Dubai, United Arab Emirates.
- In June 2009, United Airlines reinstated one daily non-stop flight to Toronto, Canada, and launched one daily non-stop flight to Minneapolis, Minnesota and two daily non-stop flights to Spokane and Pasco, Washington; Alaska Airlines resumed service to Anchorage, Alaska with one daily non-stop flight; and West Jet launched three weekly flights to Calgary, Canada.

The following is a description of new service that has or is expected to commence in Fiscal Year 2009-10.

- In July 2009, AeroMexico launched five weekly non-stop flights from the Airport to Hermasillo, Mexico; and Virgin America added a third daily flight to Boston, Massachusetts.
- Southwest Airlines announced the addition of a sixth daily flight between the Airport and Orange County, California.
- United Airlines is expected to commence daily non-stop service between the Airport and Pittsburgh, Pennsylvania on September 2, 2009 and a new non-stop service to Kansas City, Missouri.
- jetBlue Airways is expected to commence daily non-stop service between the Airport and Fort Lauderdale, Florida on November 17, 2009. In January 2010, jetBlue Airways is expected to add two daily non-stop flights from the Airport to Long Beach, California, one daily non-stop flight to Boston, Massachusetts and one daily non-stop flight to New York, New York.
- For the 2009 winter season, Northwest/Delta Airlines announced that the summer season flights to Memphis, Tennessee will continue, and AirTran announced that its seasonal service to Milwaukee, Wisconsin will be continued.

See also “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Operating Revenues—*Terminal Rental Rates and Landing Fees*” and “—*Aviation Market Stimulus Program*.”

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The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during Fiscal Year 2008-09.

**AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT  
(Fiscal Year 2008-09)**

**Domestic Passenger Air Carriers**

AirTran Airways  
Alaska Airlines<sup>\*(1)</sup>  
Allegiant Air<sup>(2)</sup>  
American Airlines\*  
Continental Airlines\*  
Delta Air Lines<sup>\*(3)</sup>  
Frontier Airlines<sup>(4)</sup>  
Hawaiian Airlines  
jetBlue Airways  
Midwest Express Airlines  
Northwest Airlines<sup>\*(1)(5)</sup>  
Southwest Airlines  
Sun Country Airlines/MN Airlines<sup>(6)</sup>  
United Airlines<sup>\*(1)</sup>  
US Airways<sup>†(7)</sup>  
Virgin America Airlines

**Foreign Flag Carriers**

Aer Lingus<sup>(8)</sup>  
Aero Mexico  
Air Canada  
Air China (CAAC)<sup>†</sup>  
Air France<sup>†</sup>  
Air New Zealand  
All Nippon Airways<sup>†</sup>  
Asiana Airlines<sup>†</sup>  
British Airways<sup>†</sup>  
Cathay Pacific Airlines<sup>†</sup>  
China Airlines\*  
Emirates Airlines  
EVA Airways<sup>†</sup>  
Japan Airlines\*  
Jet Airways<sup>(9)</sup>  
KLM Royal Dutch Airlines<sup>†</sup>

**Foreign Flag Carriers (continued)**

Korean Air<sup>†</sup>  
Lufthansa German Airlines<sup>†</sup>  
Mexicana Airlines\*  
Philippine Airlines\*  
Qantas Airlines  
Singapore Airlines\*  
TACA International Airlines<sup>†</sup>  
Virgin Atlantic Airlines<sup>†</sup>  
WestJet Airlines

**Cargo Only Carriers**

ABX Air Inc.  
Ameriflight  
Astar Air Cargo/DHL Airways<sup>(10)</sup>  
Cargolux Airlines  
China Cargo Airlines  
Evergreen International  
FedEx\*  
Kalitta Air  
Nippon Cargo Airlines  
Southern Air Cargo

**Commuter Air Carriers<sup>(11)</sup>**

American Eagle Airlines (American Airlines)  
Express Jet (Delta Airlines)  
Horizon (Alaska Airlines)  
Mesaba Airlines (Delta Airlines)  
SkyWest Airlines (Delta Connection and United Express)<sup>(12)</sup>

**Seasonal/Charter Air Carriers**

Balair Airlines  
Miami Air

\* Indicates a Signatory Airline to a Lease and Use Agreement.

† Indicates a Signatory Airline to a Lease and Operating Agreement. See “–Existing Airline Agreements.”

(1) Provides international and domestic air passenger service at the Airport.

(2) Allegiant Air provided service at the Airport from June 6, 2008 through February 2, 2009.

(3) Delta Air Lines emerged from Chapter 11 bankruptcy protection in April 2007 and continues its operations at the Airport. On April 14, 2008, Delta Air Lines Inc. (“Delta”) and Northwest Airlines Corporation (“Northwest”) announced an agreement in which the two carriers will merge into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008.

(4) Frontier Airlines filed for Chapter 11 bankruptcy on April 10, 2008 and continues operations at the Airport. On October 1, 2009, Republic Airways Holdings, Inc. (“Republic”) completed its acquisition of Frontier Airlines Holdings pursuant to an auction process in the Frontier Airlines bankruptcy case. Republic announced it will continue to operate the Frontier brand as a wholly-owned subsidiary.

(5) Northwest Airlines emerged from Chapter 11 bankruptcy protection in May 2007 and continues its operations at the Airport. On April 14, 2008, Delta and Northwest announced an agreement in which the two carriers will merge into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008. Northwest continues to be a wholly-owned subsidiary of Delta until the FAA certificates of the two airlines are combined.

(6) Sun Country Airlines is owned and operated by MN Airlines LLC d/b/a Sun Country Airlines. Sun Country Airlines filed for Chapter 11 bankruptcy on October 6, 2008 and continues operations at the Airport.

(7) Under its plan of reorganization, which was effective in September 2005, US Airways created a new subsidiary (“US Airways Group, Inc.”) that merged into America West Holdings Corporation which became a wholly-owned subsidiary of US Airways Group, Inc.

(8) Aer Lingus will cease operations at the Airport on October 25, 2009.

(9) Jet Airways ceased operations at the Airport in January 2009

(10) Astar Air Cargo acquired DHL Airways in July 2003.

(11) The term “commuter air carrier” as used in this listing refers to those air carriers that primarily operate aircraft with 90 seats or fewer and provide service between two or more points at least five times per week.

(12) SkyWest Airlines is a United Airlines and Delta Air Lines express carrier at the Airport. SkyWest Airlines became the United Express carrier at the Airport on June 1, 1998 and the Delta Connection carrier in April 1987.

Source: San Francisco Airport Commission.

## Passenger Traffic

During Fiscal Year 2008-09 (July through June), according to traffic reports submitted by the airlines, the Airport served approximately 36.5 million passengers (enplanements and deplanements), and handled 379,200 total flight operations, including 363,034 scheduled passenger airline operations. Scheduled passenger aircraft arrivals and departures during Fiscal Year 2008-09 decreased by 2.0%, domestic passenger traffic (enplanements and deplanements) increased by 1.7%, international passenger traffic decreased by 7.7%, and total passenger traffic decreased by 0.6% compared to Fiscal Year 2007-08. The Airport was ranked the 10th most active airport in the United States in terms of domestic origin and destination passengers, according to 2008 U.S. DOT statistics. For calendar year 2008, the Airport was ranked the 10th most active airport in the United States in terms of total passengers, according to final 2008 data from the ACI. The Airport accounted for approximately 66.1% of the total air passenger traffic at the three San Francisco Bay Area airports during Fiscal Year 2008-09, an increase of approximately 5.6 percentage points compared to Fiscal Year 2007-08.

Fiscal Year 2008-09 represented a narrowing of the difference between current and peak Fiscal Year 1999-00 domestic passenger levels, with domestic enplanements 14.4% lower than the peak levels during Fiscal Year 1999-00.

Compared to June 2008, scheduled aircraft arrivals and departures increased by 1.1%, domestic passenger traffic (enplanements and deplanements) increased by 1.2%, international passenger traffic decreased by 8.0% and total passenger traffic decreased by 1.0% during June 2009.

Air traffic data for the past 10 Fiscal Years is presented in the table below.

### PASSENGER TRAFFIC

Fiscal Year	Scheduled Passenger Aircraft Arrivals and Departures		Passenger Enplanements and Deplanements				Total	Total % Change
	Total	% Change	Domestic	% Change	International	% Change		
2008-09*	363,034	(2.0%)	28,030,334	1.7%	8,445,278	(7.7%)	36,475,612	(0.6%)
2007-08	370,569	7.7	27,558,480	9.5	9,150,925	5.2	36,709,405	8.4
2006-07	344,048	2.6	25,159,432	1.9	8,695,950	4.9	33,855,382	2.6
2005-06	335,223	2.2	24,799,655	0.0	8,187,999	4.3	32,987,672	1.0
2004-05	328,014	0.6	24,800,769	5.8	7,847,866	7.0	32,648,635	6.1
2003-04	326,109	0.9	23,438,173	4.5	7,333,291	8.9	30,771,464	5.5
2002-03	323,363	(4.6)	22,437,556	(5.5)	6,736,673	(6.1)	29,174,229	(5.7)
2001-02	338,772	(13.9)	23,755,366	(22.1)	7,177,523	(13.0)	30,932,889	(20.1)
2000-01	393,286	(4.1)	30,484,409	(6.6)	8,250,667	9.0	38,735,076	(3.7)
1999-00	410,220	1.1	32,641,901	1.1	7,571,897	10.2	40,213,798	2.7

\* Preliminary.

Source: San Francisco Airport Commission.

During Fiscal Year 2008-09 approximately 77% of the passenger traffic at the Airport was “origin and destination” traffic, where San Francisco is the beginning or end of a passenger’s trip, an increase over the percentage Fiscal Year 2007-08 (75%) and over the percentage (73%) that had been reported at the Airport from Fiscal Year 2003-04 through Fiscal Year 2006-07. This relatively high percentage of origin and destination traffic pattern is in contrast to many other major airports, which have a higher percentage of connecting passengers, largely as a result of airline hubbing practices. Historically, when airlines have reduced or ceased operations at the Airport, other airlines have absorbed the traffic with no significant adverse impact on Airport revenues. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Principal Revenue Sources.”

*Enplanements*

Total Enplanements. Total enplanements at the Airport decreased 0.8% during Fiscal Year 2008-09 as compared to Fiscal Year 2007-08.

The decline in total enplanements was primarily driven by decreases in international enplanements of approximately 344,801 (-7.6%) which was partially offset by an increase in domestic enplanements of approximately 196,376 (1.4%). The growth in domestic enplanements during Fiscal Year 2008-09 primarily reflects increases from Southwest Airlines and Virgin America Airlines. The growth in domestic enplanements for these two airlines of 77.9% exceeded the 4.1% decline in domestic enplanements by the legacy carriers during this same time period.

Total enplanements at the Airport for June 2009 were 1,733,926, a decrease of 0.3% compared to June 2008.

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Total enplanements for the Airport's 10 most active airlines for Fiscal Years 2004-05 through 2008-09 are shown in the table below.

**TOTAL ENPLANEMENTS BY AIRLINE<sup>†</sup>**  
**(Fiscal Years)**

<u>Airline</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09*</u>	<u>% of 2008-09*(1)</u>
United Airlines <sup>(2)</sup>	7,866,210	7,978,010	8,240,285	8,037,171	7,403,585	40.6%
American Airlines <sup>(3)</sup>	1,571,228	1,691,295	1,734,119	1,751,201	1,676,029	9.2
Southwest Airlines <sup>(4)</sup>	–	–	–	737,484	1,203,425	6.6
Virgin America <sup>(5)</sup>	–	–	–	526,131	1,044,365	5.7
Delta Air Lines <sup>(6)</sup>	926,574	1,003,587	863,454	974,886	901,108	4.9
US Airways <sup>(7)</sup>	486,721	410,160	405,969	855,866	852,915	4.7
Continental Airlines	563,361	608,801	647,065	666,619	685,283	3.8
Northwest Airlines <sup>(8)</sup>	626,655	662,438	705,553	697,199	664,339	3.6
Alaska Airlines <sup>(9)</sup>	624,460	633,759	722,039	739,167	576,352	3.2
Air Canada <sup>(10)</sup>	276,063	294,189	304,935	299,111	273,870	1.5
America West Airlines <sup>(11)</sup>	493,556	413,690	466,831	–	–	–
ATA Airlines <sup>(12)</sup>	362,997	–	–	–	–	–
British Airways <sup>(13)</sup>	–	219,630	–	–	–	–
Frontier Airlines <sup>(14)</sup>	–	–	267,714	–	–	–
SUBTOTAL	<u>13,797,825</u>	<u>13,884,559</u>	<u>14,357,964</u>	<u>15,284,835</u>	<u>15,281,271</u>	<u>83.8</u>
All others	<u>2,451,268</u>	<u>2,605,786</u>	<u>2,596,014</u>	<u>3,008,654</u>	<u>2,943,793</u>	<u>16.2</u>
TOTAL	<u>16,249,093</u>	<u>16,490,345</u>	<u>16,953,978</u>	<u>18,373,489</u>	<u>18,225,064</u>	<u>100.0%</u>
Percentage Change	5.5%	1.5%	2.8%	8.4%	(0.8%)	

<sup>†</sup> Restated.

\* Preliminary.

(1) Figures do not total due to rounding.

(2) Restated. Data has been restated to include enplanements for Ted, the United Airlines low-fare brand and SkyWest/United Airlines. On January 6, 2009, United Airlines ceased flying Ted as a separate brand.

(3) Includes enplanements for American Eagle Airlines, the American Airlines low-fare brand.

(4) Southwest Airlines reinitiated service at the Airport on August 26, 2007.

(5) Virgin America initiated service at the Airport on August 8, 2007.

(6) Restated. Data has been restated to include enplanements for Song, the Delta Air Lines Inc. ("Delta") low-cost carrier (Fiscal Year 2005-06 only), and SkyWest/Delta. For Fiscal Years 2007-08 and 2008-09, includes enplanements for Express Jet and for Fiscal Year 2008-09, enplanements for Mesaba Airlines, a Delta carrier. In May 2006, Delta ceased flying Song as a separate brand. On April 14, 2008, Delta and Northwest Airlines Corporation ("Northwest") announced an agreement to merge the two carriers into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008. Northwest continues to be a wholly-owned subsidiary of Delta until the FAA certificates of the two airlines are combined.

(7) Restated. Data for Fiscal Years 2007-08 and 2008-09 includes enplanements for Mesa Airlines, a US Airways carrier. Under its plan of reorganization, which was effective in September 2005, US Airways created a new subsidiary ("US Airways Group, Inc.") that merged into America West Holdings Corporation which became a wholly-owned subsidiary of US Airways Group, Inc.

(8) On April 14, 2008, Delta Air Lines Inc. ("Delta") and Northwest Airlines Corporation ("Northwest") announced an agreement to merge the two carriers into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008. Northwest continues to be a wholly-owned subsidiary of Delta until the FAA certificates of the two airlines are combined.

(9) Restated. Data has been restated for Fiscal Years 2007-08 and 2008-09 to include enplanements of Horizon Air, the Alaska Airlines regional carrier.

(10) Air Canada was not one of the 10 most active airlines at the Airport by total enplanements for Fiscal Year 2007-08. Information includes enplanements for Air Canada Jazz, the Air Canada regional affiliate brand.

(11) America West Airlines merged into America West Holdings Corporation and became a wholly-owned subsidiary of US Airways Group, Inc. as part of the US Airways plan of reorganization.

(12) Effective April 27, 2006, ATA Airlines ceased flights at the Airport and moved its operations to Oakland International Airport. All amounts owed by ATA Airlines to the Airport were paid in full.

(13) British Airways was not one of the 10 most active airlines at the Airport by total enplanements for Fiscal Years 2004-05 through 2007-08.

(14) Frontier Airlines filed for Chapter 11 bankruptcy on April 10, 2008 and continues operations at the Airport. On October 1, 2009, Republic Airways Holdings, Inc. ("Republic") completed its acquisition of Frontier Airlines Holdings pursuant to an auction process in the Frontier Airlines bankruptcy case. Republic announced it will continue to operate the Frontier brand as a wholly-owned subsidiary.

Source: San Francisco Airport Commission.

Domestic Enplanements. During Fiscal Year 2008-09, total domestic enplanements were 14,003,850, an increase of 1.4% compared to Fiscal Year 2007-08.

Domestic enplanements for Fiscal Year 2008-09 reflected an increase of 77.9% in combined enplanements for Southwest Airlines and Virgin America Airlines that exceeded aggregate domestic enplanement declines by the legacy carriers of 4.1%.

Domestic enplanements at the Airport during June 2009 were 1,314,679, a decrease of 1.3%, compared to June 2008.

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Domestic and international enplanements for the 10 most active airlines for Fiscal Year 2004-05 through 2008-09 are shown in the tables on the following pages.

**DOMESTIC ENPLANEMENTS BY AIRLINE<sup>†</sup>**  
**(Fiscal Years)**

<u>Airline</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09*</u>	<u>% of 2008-09*</u>
United Airlines <sup>(1)</sup>	6,458,884	6,484,061	6,637,448	6,332,254	5,885,426	42.0%
American Airlines <sup>(2)</sup>	1,571,228	1,691,295	1,734,119	1,751,201	1,676,029	12.0
Southwest Airlines <sup>(3)</sup>	–	–	–	737,484	1,203,425	8.6
Virgin America <sup>(4)</sup>	–	–	–	526,131	1,044,365	7.5
Delta Air Lines <sup>(5)</sup>	926,574	1,003,587	863,454	974,886	901,108	6.4
US Airways <sup>(6)</sup>	486,721	410,163	405,969	726,553	852,915	6.1
Continental Airlines	563,361	608,801	647,065	666,619	685,283	4.9
Northwest Airlines <sup>(7)</sup>	550,684	586,412	626,177	618,791	590,711	4.2
Alaska Airlines <sup>(8)</sup>	481,554	480,529	516,549	568,594	480,106	3.4
jetBlue Airways <sup>(9)</sup>	–	–	–	231,871	194,925	1.4
America West Airlines <sup>(10)</sup>	493,556	413,690	466,831	–	–	–
Frontier Airlines <sup>(11)</sup>	151,303	177,698	267,714	–	–	–
ATA Airlines <sup>(12)</sup>	362,997	174,716	–	–	–	–
AirTran Airways <sup>(13)</sup>	–	–	99,266	–	–	–
SUBTOTAL	<u>12,046,862</u>	<u>12,030,952</u>	<u>12,265,592</u>	<u>13,108,679</u>	<u>13,514,293</u>	<u>96.5</u>
All others	<u>272,800</u>	<u>312,470</u>	<u>344,382</u>	<u>698,804</u>	<u>489,557</u>	<u>3.5</u>
TOTAL	<u>12,319,662</u>	<u>12,343,422</u>	<u>12,608,974</u>	<u>13,807,246</u>	<u>14,003,850</u>	<u>100.0%</u>
Percentage Change	5.2%	0.2%	2.2%	9.5%	1.4%	

<sup>†</sup> Restated.

\* Preliminary.

(1) Restated. Data has been restated to include enplanements for Ted, the United Airlines low-fare brand and SkyWest/United Airlines. On January 6, 2009, United Airlines ceased flying Ted as a separate brand.

(2) Includes enplanements for American Eagle Airlines, the American Airlines low-fare brand.

(3) Southwest Airlines reinstated service at the Airport on August 26, 2007.

(4) Virgin America initiated service at the Airport on August 8, 2007.

(5) Restated. Data has been restated to include enplanements for Song, the Delta Air Lines Inc. ("Delta") low-cost carrier (Fiscal Year 2005-06 only), and SkyWest/Delta. For Fiscal Years 2007-08 and 2008-09, includes enplanements for Express Jet and for Fiscal Year 2008-09, enplanements for Mesaba Airlines, a Delta carrier. In May 2006, Delta ceased flying Song as a separate brand. On April 14, 2008, Delta and Northwest Airlines Corporation ("Northwest") announced an agreement to merge the two carriers into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008. Northwest continues to be a wholly-owned subsidiary of Delta until the FAA certificates of the two airlines are combined.

(6) Under its plan of reorganization, which was effective in September 2005, US Airways created a new subsidiary ("US Airways Group, Inc.") that merged into America West Holdings Corporation which became a wholly-owned subsidiary of US Airways Group, Inc.

(7) On April 14, 2008, Delta Air Lines Inc. ("Delta") and Northwest Airlines Corporation ("Northwest") announced an agreement to merge the two carriers will merge into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008. Northwest continues to be a wholly-owned subsidiary of Delta until the FAA certificates of the two airlines are combined.

(8) Restated. Data has been restated to include enplanements for Horizon Air, the Alaska Airlines regional carrier. The decline in domestic enplanements is primarily due to discontinuance of service to San Diego since October 2007 and seat capacity reductions to Los Angeles and Portland since November 2007 and May 2008, respectively.

(9) jetBlue Airways commenced operations at the Airport on May 3, 2007.

(10) America West Airlines merged into America West Holdings Corporation and became a wholly-owned subsidiary of US Airways Group, Inc. as part of the US Airways plan of reorganization.

(11) Frontier Airlines filed for Chapter 11 bankruptcy on April 10, 2008 and continues operations at the Airport. On October 1, 2009, Republic Airways Holdings, Inc. ("Republic") completed its acquisition of Frontier Airlines Holdings pursuant to an auction process in the Frontier Airlines bankruptcy case. Republic announced it will continue to operate the Frontier brand as a wholly-owned subsidiary.

(12) ATA Airlines filed for bankruptcy protection in October 2004. Effective April 27, 2006 ATA ceased flights at the Airport and moved its operations to Oakland International Airport. All amounts owed by ATA Airlines to the Airport were paid in full.

(13) AirTran Airways was not one of the 10 most active airlines at the Airport for Fiscal Years 2003-04 through 2007-08.

Source: San Francisco Airport Commission.

International Enplanements. International enplanements during Fiscal Year 2008-09 totaled 4,221,214, a decrease of 7.6% compared to Fiscal Year 2007-08.

International enplanements at the Airport during June 2009 were 401,937, a decrease of 5.1% compared to June 2008.

**INTERNATIONAL ENPLANEMENTS BY AIRLINE<sup>†</sup>**  
**(Fiscal Years)**

<u>Airline</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09*</u>	<u>% of 2008-09*(1)</u>
United Airlines <sup>(2)</sup>	1,407,326	1,493,949	1,602,835	1,602,837	1,518,159	36.0%
Air Canada <sup>(3)</sup>	276,063	294,189	304,697	299,111	273,870	6.5
Cathay Pacific Airlines	122,050	122,106	123,209	209,269	225,033	5.3
Lufthansa Airlines	208,014	218,875	229,988	210,009	205,397	4.9
British Airways	215,515	219,630	215,231	210,877	203,875	4.8
Singapore Airlines	181,401	198,100	196,350	184,504	167,300	4.0
EVA Airways	124,246	142,180	153,162	153,203	141,140	3.3
China Airlines	122,004	128,159	128,259	121,574	116,172	2.8
Philippine Airlines	120,146	120,087	126,437	128,298	114,808	2.7
Virgin Atlantic Airways <sup>(4)</sup>	—	—	—	—	106,266	2.5
Alaska Airlines <sup>(5)</sup>	<u>194,882</u>	<u>207,445</u>	<u>205,490</u>	<u>216,222</u>	—	—
SUBTOTAL	2,971,647	3,095,343	3,208,758	3,335,904	3,072,020	72.8
All others	<u>957,784</u>	<u>1,051,560</u>	<u>1,136,246</u>	<u>1,230,111</u>	<u>1,149,194</u>	<u>27.2</u>
TOTAL	3,929,431	4,146,903	4,345,004	4,566,015	4,221,214	100.0%
Percentage Change	6.5%	5.5%	4.8%	5.1%	(7.6%)	

<sup>†</sup> Restated.

\* Preliminary.

(1) Column does not total due to rounding.

(2) Restated. Data has been restated to include enplanements for SkyWest Airlines/United Express-Canada.

(3) Includes enplanements for Air Canada Jazz, the Air Canada regional affiliate brand.

(4) Virgin Atlantic Airlines was not one of the 10 most active airlines at the Airport by international enplanements during Fiscal Years 2004-05 through 2007-08.

(5) Alaska Airlines was not one of the 10 most active airlines at the Airport by international enplanements during Fiscal Year 2008-09. The decline in international enplanements is primarily due to discontinuance of service to three destinations in Mexico since May 2008 and discontinuance of service to Canada since August 2008. Alaska Airlines continues service to two destinations in Mexico.

Source: San Francisco Airport Commission.

Compared to June 2008, enplanements to Asia and the Middle East decreased by 10.0% (representing 44.1% of international enplanements and 10.2% of total enplanements); enplanements to Canada decreased by 0.3% (representing 14.7% of international enplanements and 3.4% of total enplanements); enplanements to Europe decreased by 2.3% (representing 27.4% of international enplanements and 6.4% of total enplanements); enplanements to Mexico/Caribbean/Central America decreased by 0.1% (representing 9.0% of international enplanements and 2.1% of total enplanements); and enplanements to Australia/Oceania increased by 4.0% (representing 4.8% of international enplanements and 1.1% of total enplanements) during June 2009.

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**INTERNATIONAL ENPLANEMENTS BY DESTINATION  
(Fiscal Years)**

<u>Destination</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09*</u>	<u>% of 2008-09</u>	
						<u>International Enplanements*†</u>	<u>Total Enplanements*(1)</u>
Asia/Middle East	1,842,975	1,915,999	1,984,911	2,102,630	1,913,830	45.3%	10.5%
Europe	1,079,706	1,091,871	1,105,556	1,172,857	1,134,359	26.9	6.2
Canada	510,172	564,028	634,381	650,149	585,492	13.9	3.2
Mexico/Caribbean/ Central America	357,066	402,001	380,016	393,747	358,282	8.5	2.0
Australia/Oceania	<u>139,512</u>	<u>173,004</u>	<u>240,140</u>	<u>246,632</u>	<u>229,251</u>	<u>5.4</u>	<u>1.3</u>
TOTAL	3,929,431	4,146,903	4,345,004	4,566,015	4,221,214	100.0%	23.2%
Percentage Change	6.5%	5.5%	4.8%	5.1%	(7.6%)		

\* Preliminary.

(1) Column does not total due to rounding.

(2) Includes Emirates Airlines services to Dubai which commenced in December 2008.

Source: San Francisco Airport Commission.

**Cargo Traffic and Landed Weight**

*Cargo Traffic*

In Fiscal Year 2008-09, according to traffic reports submitted by the airlines, Airport air cargo volume was approximately 420,784 metric tons, including U.S. mail, freight and express shipments, a decline of 129,742 metric tons (-23.6%) compared to reported cargo volume for Fiscal Year 2007-08. A total of approximately 242,540 metric tons of international cargo, mail, freight and express shipments were handled at the Airport during Fiscal Year 2007-08, compared to approximately 178,245 metric tons of domestic cargo, mail, freight and express shipments. The Airport was ranked 14th in the United States in terms of air cargo volume in Calendar Year 2008, according to final 2008 data from the ACI. See also "SAN FRANCISCO INTERNATIONAL AIRPORT—Competition."

Compared to Fiscal Year 2007-08, domestic cargo and mail traffic tonnage decreased 50,176 metric tons (-22.0%) and international cargo and mail traffic tonnage decreased 79,565 metric tons (-24.7%) during Fiscal Year 2008-09. The leading component for the decline in cargo tonnage is a decrease in consumer spending in the nation and abroad due to the global recession.

Total cargo tonnage in June 2009 decreased 7,087 metric tons (-15.5%), domestic cargo and mail traffic decreased 4,994 metric tons (-28.1%) and international cargo and mail traffic decreased 2,093 metric tons (-7.5%) compared to June 2008.

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The following table provides information concerning cargo traffic at the Airport for the last 10 Fiscal Years.

**AIR CARGO ON AND OFF**  
(in metric tons)

Fiscal Year	Freight and Express	U.S. and Foreign Mail	Total Cargo	Percent Change
2008-09*	364,918	55,867	420,784	(23.6%)
2007-08	488,454	62,072	550,526	(3.8)
2006-07	513,726	58,599	572,326	(3.6)
2005-06	524,856	68,715	593,571	1.0
2004-05	512,800	74,717	587,518	6.4
2003-04	472,964	79,154	552,118	(9.0)
2002-03	517,419	89,536	606,955	8.6
2001-02	465,019	93,939	558,958	(27.9)
2000-01	627,950	147,560	775,510	(10.9)
1999-00	680,051	190,579	870,630	8.7
1998-99	618,334	182,384	800,718	1.7

\* Preliminary.

Source: San Francisco Airport Commission.

*Landed Weight*

For Fiscal Year 2008-09 total landed weight at the Airport decreased 934,486 thousand pounds (-3.2%) when compared with Fiscal Year 2007-08. The decline in landed weight during Fiscal Year 2008-09 was partially offset by the aggregate increase in landed weight of 1,248,132 thousand pounds (68.6%) by Southwest Airlines and Virgin America Airlines. Among the major carriers serving the Airport, total landed weight for United Airlines (including SkyWest/United Airlines flights) was down 1,052,921 thousand pounds (-8.5%); American Airlines was down 137,219 thousand pounds (-5.9%); Southwest Airlines was up 671,174 thousand pounds (65.7%); Virgin America was up 577,048 thousand pounds (72.2%); Delta Air Lines (including SkyWest/Delta Air Lines, Express Jet Airlines and Mesaba Airlines) was down 197,644 thousand pounds (-16.3%); US Airways (including Mesa Airlines) was down 58,589 thousand pounds (-5.5%); Northwest Airlines was down a 28,970 thousand pounds (-3.4%); Alaska Airlines was down 252,428 thousand pounds (-24.3%); Continental Airlines was down 2,658 thousand pounds (-0.4%); and British Airways was down 3,780 thousand pounds (-0.8%) during Fiscal Year 2008-09 when compared to Fiscal Year 2007-08.

Total landed weight at the Airport was down 2.8% during June 2009 when compared to June 2008. United Airlines total landed weight (including the landed weight for the SkyWest/United Airlines flights) was up 5.1%, American Airlines (including American Eagle flights) was down 6.5%, Southwest Airlines was up 33.4%; Virgin America was up 12.9%; Delta Air Lines (including SkyWest/Delta Air Lines, Express Jet Airlines and Mesaba Airlines) was down 8.0%; US Airways including Mesa Airlines) was up 7.6%%; Northwest Airlines was down 8.8%; Alaska Airlines was down 28.6%; Continental Airlines was up 4.3%; and British Airways was down 4.0% during June 2009 when compared to June 2008.

Landing fees paid by each airline are based on landed weights of aircraft operating at the Airport. The landed weights for the 10 most active airlines operating at the Airport for Fiscal Years 2004-05 through 2008-09 are shown in the table below.

**TOTAL LANDED WEIGHT BY AIRLINE<sup>†</sup>**  
**(in thousands of pounds)**  
**(Fiscal Years)**

Airline	2004-05	2005-06	2006-07	2007-08	2008-09*	% of 2008-09*(1)
United Airlines <sup>(2)</sup>	12,321,417	12,313,098	12,554,535	12,453,327	11,400,406	40.0%
American Airlines <sup>(3)</sup>	2,349,163	2,323,210	2,404,396	2,326,973	2,189,754	7.7
Southwest Airlines <sup>(4)</sup>	—	—	—	1,020,894	1,692,068	5.9
Virgin America <sup>(5)</sup>	—	—	—	798,792	1,375,840	4.8
Delta Air Lines <sup>(6)</sup>	1,310,551	1,458,610	1,153,206	1,211,760	1,014,116	3.6
US Airways <sup>(7)</sup>	591,450	509,699	479,417	1,058,981	1,000,392	3.5
Northwest Airlines <sup>(8)</sup>	817,113	836,418	872,979	847,587	818,617	2.9
Alaska Airlines <sup>(9)</sup>	936,116	944,781	1,101,771	1,040,205	787,777	2.8
Continental Airlines	645,957	665,174	707,835	722,688	720,030	2.5
British Airways	458,010	453,600	454,060	456,120	452,340	1.6
Japan Airlines	522,270	575,820	565,740	—	—	—
America West Airlines <sup>(10)</sup>	684,049	542,929	612,363	—	—	—
SUBTOTAL	20,636,096	20,613,339	20,906,302	21,937,327	21,451,340	71.9
All others	6,508,299	6,559,969	6,893,679	7,484,887	7,036,388	28.1
TOTAL	27,144,395	27,173,308	27,799,981	29,404,733	28,487,728	100.0%
Percentage Change	0.6%	0.1%	2.3%	5.8%	(3.2%)	

† Restated.

\* Preliminary.

(1) Figures do not total due to rounding.

(2) Restated. Information includes landed weight for Ted, the United Airlines low-fare brand and SkyWest/United Airlines. On January 6, 2009, United Airlines ceased flying Ted as a separate brand.

(3) Includes enplanements for American Eagle, the American Airlines low-fare brand.

(4) Southwest Airlines initiated service at the Airport on August 26, 2007.

(5) Virgin America initiated service at the Airport on August 8, 2007.

(6) Restated. Data has been restated to include enplanements for Song, the Delta Air Lines Inc. ("Delta") low-cost carrier (Fiscal Year 2005-06 only), and SkyWest/Delta. For Fiscal Years 2007-08 and 2008-09, includes enplanements for Express Jet and for Fiscal Year 2008-09, enplanements for Mesaba Airlines, a Delta carrier. In May 2006, Delta ceased flying Song as a separate brand. On April 14, 2008, Delta and Northwest Airlines Corporation ("Northwest") announced an agreement to merge the two carriers into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008. Northwest continues to be a wholly-owned subsidiary of Delta until the FAA certificates of the two airlines are combined.

(7) Restated. Data for Fiscal Years 2007-08 and 2008-09 includes landed weight for Mesa Airlines, a US Airways carrier. In September 2005, US Airways created a new subsidiary ("US Airways Group, Inc.") that merged into America West Holdings Corporation which became a wholly-owned subsidiary of US Airways Group, Inc.

(8) On April 14, 2008, Delta Air Lines Inc. ("Delta") and Northwest Airlines Corporation ("Northwest") announced an agreement to merge the two carriers into a new airline to be called Delta. The merger was approved by Delta and Northwest shareholders on September 25, 2008 and by the United States Department of Justice on October 29, 2008.

(9) Restated. Data for fiscal Years 2007-08 and 2008-09 includes landed weight for Mesa Airlines, a US Airways carrier.

(10) America West Airlines merged into America West Holdings Corporation and became a wholly-owned subsidiary of US Airways Group, Inc. as part of the US Airways plan of reorganization.

Source: San Francisco Airport Commission.

## Competition

The San Francisco Bay Area is also served by Metropolitan Oakland International Airport and Norman Y. Mineta San Jose International Airport. During Fiscal Year 2008-09, the Airport's passenger traffic (enplanements and deplanements) decreased by 232,025 (-0.6%), Oakland's decreased by 3,703,245 (-27.2%) and San Jose's decreased by 1,559,373 (-15.0%) compared to Fiscal Year 2007-08. According to traffic reports released by the three Bay Area airports for Fiscal Year 2008-09, the Airport accounted for approximately 60.2% of total domestic passenger traffic and approximately 97.3% of total international passenger traffic. The combined total passenger traffic decrease at the three Bay Area airports during Fiscal Year 2008-09 was 5,494,643 (-9.0%) resulting in a market share increase for the Airport of 5.6 percentage points and a total market share for the Airport of 66.1% in Fiscal Year 2008-09 compared to 60.5% in Fiscal Year 2007-08.

During Fiscal Year 2008-09, the Airport accounted for approximately 40.7% of total air cargo at the three San Francisco Bay Area airports, compared with 42.7% in Fiscal Year 2007-08. Oakland accounted for approximately 53.2% and San Jose accounted for approximately 6.0% of the total air cargo in the Bay Area during Fiscal Year 2008-09. The Airport handled approximately 23.0% of domestic loaded and unloaded cargo and approximately 93.7% of the Bay Area's international loaded and unloaded air cargo. Oakland had the largest share of the domestic air cargo market (approximately 68.9% compared to approximately 67.5% during Fiscal Year 2007-08), which is attributable to its traffic in express package shipments, an activity that requires significant land area that is not available at or in the vicinity of the Airport. Due to the large international component in the overall cargo mix at the Airport and a deeper decline in international cargo, the total cargo tonnage decline at the Airport was more severe compared to the other Bay Area airports which have cargo mixes that are primarily domestic. During Fiscal Year 2008-09, this resulted in a 2.0 percentage point decline in cargo tonnage market share for the Airport, and an increase in cargo tonnage market share of 2.1 percentage points at Oakland while the market share for San Jose was virtually unchanged.

During June 2009, the Airport accounted for approximately 47.9% of total air cargo at the three San Francisco Bay Area Airports, compared with 45.2% for June 2008. Oakland accounted for approximately 47.2% and San Jose accounted for approximately 4.9% of the total air cargo in the Bay Area during June of Fiscal Year 2008-09. The Airport handled approximately 23.6% of domestic loaded and unloaded cargo and approximately 96.8% of the Bay Area's international loaded and unloaded air cargo during June 2009.

The Commission expects the Airport to continue to be the major air traffic center for the Bay Area based on air traffic projections, the substantial investment by a number of major airlines at the Airport, terminal facility improvements and passenger preferences stemming from the Airport's location, service and frequent flights to domestic and international destinations.

The primary competitor of the Airport on the West Coast for international passengers is Los Angeles International Airport (LAX), rather than Oakland or San Jose. During Fiscal Year 2008-09, international passenger traffic (enplanements and deplanements) at the Airport decreased 7.7% compared to a decrease of 12.2% at LAX for the same period. During June 2009, international passenger traffic at the Airport decreased 8.0% compared to a decrease of 15.9% at LAX for the same period.

### **Existing Airline Agreements**

Three types of agreements (collectively referred to as the "Lease Agreements") are currently in effect between the City, acting through the Commission, and certain airlines (the "Signatory Airlines") operating at the Airport: the original Lease and Use Agreements (the "Original Agreements"), the amended Lease and Use Agreements (the "Amended Agreements"), and the Lease and Operating Agreements (the "Operating Agreements"). Certain non-signatory airlines at the Airport operate under short-term month-to-month operating permits while the remaining non-signatory airlines use Airport facilities on an itinerant basis. See "CERTAIN RISK FACTORS—Expiration and Renegotiation of Leases."

In 1981, as a result of litigation in 1979 between the City and certain airlines regarding the operation and finances of the Airport, the City entered into a Settlement Agreement (the "Settlement Agreement") and the Original Agreements with 15 Signatory Airlines of which 14 are currently operating at the Airport. In connection with the opening of the ITC in 2000, eight of the original Signatory Airlines entered into Amended Agreements that provide for increased common use facilities and equipment in the ITC. In addition, 13 of the 16 non-signatory foreign flag airlines currently operating in the ITC became Signatory Airlines in 2000 by entering into Operating Agreements which are substantially similar to the Amended Agreements. Thus, there are at present a total of 27 Signatory Airlines, of which seven do not lease space in the new ITC and thus have not signed the Amended Agreement, and 20 have signed either the Amended Agreement or the Operating Agreement in order to lease space in the new ITC. Although the Amended Agreements and the Operating Agreements differ from the Original Agreements with respect to the use of the ITC, all of the Lease Agreements incorporate the same provisions with regard to the calculation and periodic adjustment of terminal rentals and landing fees, and airline review of proposed capital projects.

### *Settlement Agreement*

Under the Settlement Agreement, the Commission makes payments from Airport net revenues to the City consisting of an “Annual Service Payment” and certain additional payments for direct services provided by the City to the Commission. Each Fiscal Year through Fiscal Year 2010-11, the Commission is required to make an Annual Service Payment from the Airport Revenue Fund to the General Fund of the City. The Annual Service Payment constitutes full satisfaction of all obligations of the Airport, the Commission, and the Signatory Airlines for all indirect services provided by the City, for debt service, if any, on certain City airport general obligation bonds, and for an investment return to the City.

The Settlement Agreement prohibits the Commission and the City from taking any action to cause payment to the City, directly or indirectly, of any additional Airport revenues or from the airlines, except as permitted under the Lease Agreements. The Lease Agreements permit payments to the City for certain direct services provided by the City to the Commission, including services provided by the Police Department, the Fire Department, the City Attorney, the City Controller, the Water Department, the Department of Public Works and the Purchasing Department. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Payments to the City.”

The Settlement Agreement also provides that, except as provided in the Lease Agreements, no surcharge, special assessment or other charge, rental or fee to the airlines may be made for the funding of Airport capital improvements from current revenues. Under the Lease Agreements, capital improvements are required to be financed primarily through the issuance of Airport revenue bonds.

### *Lease Agreements*

Each Lease Agreement expires on June 30, 2011. The Commission may terminate a Signatory Airline’s Lease Agreement only upon the occurrence of certain events, including, but not limited to, such airline’s filing for federal bankruptcy protection or its voluntary cessation of service to the Airport for more than 30 days.

Residual Methodology. The Lease Agreements govern the use of exclusive-use and common-use ramp, terminal, baggage claim, ticketing and gate areas. Under the Lease Agreements, the Signatory Airlines pay terminal rents and landing fees under a residual rate-setting methodology tied to six cost centers. This methodology is designed to provide revenues to the Commission sufficient to pay operating expenses and debt service costs. Under this residual rate-setting methodology, landing fees and terminal rentals are established each year to produce projected revenues from the airlines (“airline payments”) equal to the difference between (i) the Airport’s non-airline revenues and (ii) the Airport’s total costs, including without limitation operating expenses and debt service costs (“net costs”). In other words, rates and charges are established each year to produce projected airline payments equal to projected net costs. Thus, increases in non-airline revenues, such as parking and concession revenues, generally result in decreases in airline landing fees and terminal rental rates, and *vice versa*. In Fiscal Year 2007-08, airline landing fees and terminal rental payments under the Lease Agreements represented approximately 56% of the Commission’s operating revenues.

Differences between receipts and expenditures in any Fiscal Year may result in adjustments of terminal rental rates and landing fees in subsequent Fiscal Years. The Commission’s financial statements reflect such differences in the Fiscal Year in which they occur, with overcharges being recorded as liabilities (accounts payable) and undercharges as assets (accounts receivable). Although the Lease Agreements apply only to the Signatory Airlines, the Commission charges the same rental rates and landing fees to the non-signatory airlines that operate under operating permits. Non-signatory airlines that use the Airport on an itinerant basis pay higher rates and fees.

Annual Adjustment of Terminal Rentals and Landing Fees. In accordance with the Lease Agreements, the Commission may adjust terminal rental rates and landing fees each year for the next Fiscal Year based on each Signatory Airline’s proposed changes to its leased space, additions of new terminal space for lease, the forecast landed weight for the next Fiscal Year, and the Commission’s budgetary forecast of attributed operating expenses and debt service costs for the various Airport cost centers.

Mid-Year Adjustment of Terminal Rentals and Landing Fees. The Commission may also increase terminal rental rates and/or landing fees at any time during the Fiscal Year if the actual expenses (including debt service) in one or more applicable cost centers are projected to exceed by 10% or more the actual revenues from such cost center. Prior to increasing terminal rental rates and/or landing fees, as applicable, the Commission must use its best efforts to reduce expenses and to satisfy any remaining deficit from other available funds. The Commission is also required to provide 60 days' notice to, and consult with, the Signatory Airlines. The Signatory Airlines are required under the Lease Agreements to pay such increased terminal rentals and/or landing fees for the remaining months of the then-current Fiscal Year. The last time a mid-year adjustment was made was in Fiscal Year 2000-01.

Landing Fees. Landing fees, consisting of minimum fees for fixed-wing and rotary aircraft and a rate based on landed weight, are imposed primarily with respect to Airfield Area and Airport Support Area net costs. Each Signatory Airline and other airlines and airfield users are required to pay landing fees, the principal component of which is based upon landed weight, that are established by the Commission to fully recover all Airfield and Airport Support Area net costs. However, if a Signatory Airline were to cease or substantially reduce its operations at the Airport, it would still remain liable for certain terminal rentals (with respect to Terminal Area and Groundside Area net costs), calculated each year on a residual basis as provided in the Lease Agreements. Any shortfall in landing fees payable to the Commission by the Signatory Airlines and other airlines and airfield users in any Fiscal Year as a result of actual landed weights being less than those projected would be made up either from a mid-year rate adjustment, or from adjustments to landing fee rates in the succeeding Fiscal Years pursuant to the formulas set forth in the Lease Agreements.

Airline Review of Capital Improvements. Under the Lease Agreements, the Commission agrees, subject to the limited exception described below, to use its best efforts to finance all capital improvements through the issuance of Airport revenue bonds. A "capital improvement" is defined as any item of expenditure with a cost (including design and planning costs) exceeding \$100,000 in 1981 dollars (\$208,011 in 2009 dollars based on the Implicit Price Deflator, and approximately \$240,000 in 2009 dollars based on the Consumer Price Index) and a useful life of more than three years. Proposed capital improvements with a cost in excess of \$300,000 in 1981 dollars (\$624,129 in 2009 dollars based on the Implicit Price Deflator, and \$722,471 in 2009 dollars based on the Consumer Price Index) are subject to certain review procedures established under the Lease Agreements. A Majority-In-Interest of the Signatory Airlines (defined as more than 50% of the Signatory Airlines, which on the date of calculation represent more than 50% of the landed weight of such Signatory Airlines during the immediately preceding Fiscal Year) may require the Commission to defer a proposed capital improvement for up to six months in order for the airlines to present their views with respect to such capital improvement, after which time the Commission may proceed with the capital improvement.

Additionally, the Airport may annually budget and spend without airline approval up to \$2,000,000 in 1981 dollars (\$4,160,210 in 2009 dollars based on the Implicit Price Deflator, and \$4,816,474 in 2009 dollars based on the Consumer Price Index) or a greater amount approved by a Majority-In-Interest, from current revenues for capital improvements. Also, capital improvements that are required by (i) a federal or state agency having jurisdiction over Airport operations, or (ii) an emergency which, if the improvements are not made, would result in the closing of the Airport within 48 hours, are not subject to the airline review procedures.

ITC Joint Use Space. Under the Original Agreements, the Commission can require the Signatory Airlines to make a limited accommodation of new air carriers in the domestic terminals. Subject to a written agreement between the Signatory Airline and the new air carrier, each Signatory Airline must make its passenger holdrooms and loading bridges available on a temporary basis, when such facilities are not needed for the Signatory Airline's own operations or those of its sublessees, to permit the new air carrier to load and unload passengers on scheduled flights. With respect to the ITC, the Amended Agreements provide that all ITC gates, holdrooms, ticket counters and baggage systems are to be used on a joint use basis in accordance with management protocols which allocate the facilities for use among the various airlines according to need during the day. This arrangement facilitates the efficient use of the ITC facilities and enables the Airport to easily accommodate new domestic or international carriers or other market changes within the industry.

### *Expiration of the Settlement Agreement and the Lease Agreements*

Upon the expiration of Settlement Agreement and the Lease Agreements on June 30, 2011, the Commission will have various options, including (i) extending the long-term agreements, (ii) negotiating new long-term agreements, (iii) entering into month-to-month agreements, or (iv) not entering into new agreements and setting rates and charges by resolution. In any event, the Commission intends to continue to establish rates and charges that will comply with the requirements of the rate covenant under the 1991 Master Resolution and that will allow the continued safe and efficient operation of the Airport and additional capital investment. If the Commission and the airlines do not finalize new long-term agreements by the time the existing Lease Agreements expire, the Commission intends to set rates and charges by resolution that are consistent with any applicable parameters established by the FAA and the U.S. DOT or their successors. However, the Commission cannot provide any assurance as to the final form any new agreements may take, whether the existing residual rate-setting system will be continued or whether the balance of risks and benefits between the Commission and the airlines will be the same as in the current Lease Agreement. The Airport and the airlines have been holding preliminary discussions since October 2007, and during summer 2009 commenced more formal negotiations with respect to a long-term agreement. See “CERTAIN RISK FACTORS—Expiration and Renegotiation of Leases.”

### *Surety Bonds under the Lease Agreements*

Each Signatory Airline is required to post security with the Commission to guaranty its performance and payment under its Lease Agreement. Such security may consist of a surety bond, a letter of credit or another form of security acceptable to the Commission in an amount equal to two months estimated rentals and landing fees for original Signatory Airlines and in an amount equal to six months estimated rentals and landing fees for other Signatory Airlines. The Signatory Airlines have elected to post surety bonds or letters of credit to satisfy this requirement, with the exception of United Airlines, which posted cash to secure its obligations under its Lease Agreement and other agreements with the Commission following the cancellation of its surety policy by the provider. The surety bonds or letters of credit delivered by all of the other Signatory Airlines are in full force and effect. Airlines operating at the Airport pursuant to ground leases or 30-day permits are required to post security bonds or letters of credit in an amount ranging from two to six months estimated rentals under such agreements.

### *Potential Effects of an Airline Bankruptcy*

In the event a bankruptcy case is filed with respect to an airline operating at the Airport, the lease or permit governing such airline’s use of Airport space would constitute an executory contract or unexpired lease pursuant to Section 365 of the United States Bankruptcy Code. In that event, a trustee in bankruptcy or the airline as debtor-in-possession might reject the agreement, in which case the Commission would regain control of the applicable facilities (including gates and boarding areas) and could lease or permit them to other airlines. The Commission’s ability to lease such facilities to other airlines may depend on the state of the airline industry in general, on the nature and extent of the increased capacity at the Airport resulting from the departure of the bankrupt airline, and on the need for such facilities. If the bankruptcy trustee or the airline assumes the agreement as part of a reorganization, including assumption and assignment to another airline, the original or successor airline would continue to be bound by the terms of the agreement and would be required to cure any defaults or arrearages in amounts owed. Even if all such amounts owed are eventually paid, the Commission could experience delays of many months or more in collecting such amounts.

In Chapter 11 cases, the debtor in possession or a trustee, if one is appointed, has until the earlier of the confirmation of a plan or 120 days (unless extended by court order not to exceed 210 days from the date of filing of the bankruptcy petition) to decide whether to assume or reject a non-residential lease, such as the Airport’s Lease Agreements.

Under the United States Bankruptcy Code, any rejection of a lease could result in a claim by the Commission for lease rejection damages against the airline estate in addition to pre-bankruptcy amounts owed, which claim would rank as that of a general unsecured creditor of such airline. The Airport may also have rights to claim against the faithful performance bond or letter of credit required of airlines to secure their obligations under Airport agreements or the right to set off against credits owed to the airlines. The airlines generally pay landing fees one to two months in arrears based on final reporting data and the standard billing practices of the Airport. There

can be no assurance that all such amounts could be collected if a Signatory Airline rejects its Lease Agreement in connection with a bankruptcy proceeding. In addition, the Commission may be required to repay landing fees and terminal rentals paid by the airline up to 90 days prior to the date of the bankruptcy filing.

Even if a bankruptcy debtor airline assumes its lease while in Chapter 11, a bankruptcy trustee could reject the assumed lease if the case were subsequently converted to a case under Chapter 7 of the bankruptcy code (liquidation). The Commission's claim against the bankruptcy estate would be an administrative claim limited to all sums due under the lease for the two year period following the later of the rejection date or the date of the actual turnover of the premises. Any excess rent amounts due under the lease would be treated as a general unsecured claim limited to the greater of one year of rent reserved under the lease or 15% of the rent for the remaining lease term, not to exceed three years of rent.

## **Certain Federal and State Laws and Regulations**

### *Federal Law Prohibiting Revenue Diversion*

Federal law requires that all revenues generated by a public airport be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property. In February 1999, the FAA adopted its "Policies and Procedures Concerning the Use of Airport Revenue" (the "Final Policy") clarifying the application of these principles to airport sponsors that receive federal grants for airport development from the FAA, including the Airport. The City is the "sponsor" of the Airport for purposes of these federal requirements.

Examples of unlawful revenue diversion include using airport revenues for: (1) land rental to, or use of land by, the sponsor for non-aeronautical purposes at less than the fair market rate; (2) impact fees assessed by any governmental body that exceed the value of services or facilities provided to the airport; or (3) direct subsidy of air carrier operations. An otherwise unlawful revenue diversion may be "grandfathered" if such use was instituted pursuant to a law controlling financing by the airport owner or operator, or a covenant or assurance in a debt obligation issued by the airport owner prior to September 1982. The Final Policy acknowledges that the Commission's Annual Service Payment to the City's General Fund is "grandfathered" as a lawful revenue diversion.

The Commission makes substantial payments to the City, separate from and in addition to its Annual Service Payment, for services provided to the Airport by other City departments. The FAA has authority to audit the payments and to order the City to reimburse the Airport for any improper payments made to the City. The FAA may also suspend or terminate pending FAA grants to the Airport and/or any then-existing PFC (as defined below) authorizations as a penalty for any violation of the revenue diversion rules. In addition, the U.S. DOT may also withhold non-aviation federal funds that would otherwise be made available to the City as a penalty for violation of the revenue diversion rules (for example, grants to the City's municipal railway system). See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City."

### *State Tidelands Trusts*

A substantial portion of the land on which the Airport's facilities are located is held in trust by the City and administered by the Commission pursuant to tidelands grants from the State. These grants, accomplished by special State legislation, date to 1943 and 1947. Generally, the use of this land is limited to Airport purposes under the terms of the grants. The Commission may not transfer any of this land, nor lease it for periods of more than 50 years. There are also certain limitations on the use of funds generated from facilities located on this land. However, none of the various restrictions is expected to affect the operations or finances of the Airport. The grants may be subject to amendment or revocation by the State legislature, as grantor of the trust and as representative of the beneficiaries (the people of the State). Under the law, any such amendment or revocation could not impair the accomplishment of trust purposes, or abrogate the existing covenants and agreements between the City, acting by and through the Commission, as trustee, and the Airport's bondholders. The Commission does not anticipate that the State will revoke the tidelands grants.



### *State Proposition 218*

In November 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIII C and XIII D to the California Constitution, and contains a variety of interrelated provisions concerning the ability of local governments, including the City, to impose both existing and future taxes, assessments, fees and charges.

Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, seek to repeal, reduce, or prohibit the future imposition or increase of, any local tax, assessment, fee or charge. “Assessment,” “fee,” and “charge” are not defined in Article XIII C and it is unclear whether the definitions of such terms contained in Article XIII D (which are generally property-related as described below) are so limited under Article XIII C.

Article XIII D conditions the imposition of a new or increased “fee” or “charge” on either voter approval or the absence of a majority protest, depending upon the nature of the fee or charge. The terms “fee” and “charge” are defined to mean levies (other than *ad valorem* taxes, special taxes and assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce, or prohibit the future imposition or increase of, assessments, fees, or charges, including the Commission’s fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Bonds. The Commission believes that Article XIII D does not apply to Airport fees and charges imposed by the Commission.

The interpretation and application of the Proposition 218 will ultimately be determined by the courts or through implementing legislation. The Commission is unable to predict the outcome of any such litigation or legislation.

### **Noise Mitigation and Variance**

#### *General*

In accordance with State regulations administered by the California Department of Transportation (“Title 21”), each California airport which has a noise impact area defined by the 65 decibel (Db) Community Noise Equivalent Level (“CNEL”) contour is required to apply for a variance from those regulations. As of October 2002, the Airport became the first major commercial airport in the State to achieve Title 21 compliance and therefore is permitted to operate without a variance. In order to maintain compliance with Title 21 regulations, the Airport continues to monitor aircraft noise levels through the preparation of quarterly 65 Db CNEL contour maps and offers insulation to new property owners at sites where previous owners declined participation in the noise insulation program.

The significant progress made by the Commission in reducing the impact of aircraft noise on the communities surrounding the Airport resulted from the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

#### *Noise Abatement Procedures*

The Commission has instituted a wide range of noise abatement procedures to reduce the impact of aircraft-generated noise on the neighboring communities surrounding the Airport. These procedures include “quiet bridge approach” and “preferential runway departure” policies, among others. The preferential runway departure policy is in effect between 11:00 p.m. and 7:00 a.m. for certain departures from selected runways. These preferential runway departure and quiet bridge approach policies permit departures and landing approaches to occur over water in order to minimize the over-flight of surrounding communities.

### *Noise Insulation Program*

In 1991, the Commission authorized the execution of an agreement with the City of South San Francisco to provide up to \$10 million for aircraft noise mitigation in exchange for a prohibition by the City of South San Francisco of residential uses of land located under the Airport's Shoreline Departure Route.

In 1992, the Airport entered into a Memorandum of Understanding with the neighboring communities of South San Francisco, Daly City, Millbrae, San Bruno and Pacifica and the County of San Mateo to provide up to \$120 million of funding for noise insulation (including FAA grants). Each participating community administered its own program. In 2000, the Commission approved supplemental agreements with the County of San Mateo, and the cities of Daly City, San Bruno and South San Francisco to provide funding in an amount not to exceed \$34.2 million to insulate almost 1,800 incompatible structures and to eliminate incompatible land uses within the Airport's noise contour.

Funding for the Airport's noise insulation program has been provided from a number of sources, including proceeds of Commission bonds, federal grant reimbursements to cities and operating revenues. Participating communities have received an aggregate of approximately \$187 million in noise insulation funds for the programs described above and previous program components, consisting of approximately \$135 million advanced by the Commission and approximately \$52 million in grant funds from the FAA, and have reported that more than 15,210 homes have been or in the process of being insulated from aircraft noise.

### *Community Outreach*

The Commission has funded the Airport Community Roundtable (an association of local government representatives) since 1993. The Airport Community Roundtable was a first-of-its-kind noise outreach program in the nation initiated to address noise-related issues and provide information to the public on the Airport's efforts to reduce aircraft noise.

### *Local Ordinances*

Under the terms of their agreements with the Airport, the surrounding communities of South San Francisco, Daly City, Millbrae, San Bruno and Pacifica, and the County of San Mateo are required to promote actions to protect new purchasers of homes within their communities from aircraft noise, including by (1) adopting ordinances requiring notice to prospective buyers of homes of the location, nature and scale of the Airport's operations, and (2) adopting ordinances requiring homes constructed after January 1, 1993, or renovated at a cost equal to 25% or more of the value of the home, to be insulated to meet FAA noise insulation program standards.

## **Employee Relations**

The Charter governs the Airport's employment policies, and since 1976 has prohibited strikes by City employees. The Charter authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies. During Fiscal Year 2008-09, the Commission had 1,256 full-time employees and has budgeted 1,358 full time positions for Fiscal Year 2009-10.

There are presently 18 labor unions representing Airport employees. In November 1993, San Francisco voters approved an amendment to the Charter that allows employee organizations representing City workers to negotiate wages, hours, benefits and other conditions of employment through collective bargaining. The decision to choose collective bargaining is irrevocable. All Airport employees now bargain collectively. Most Airport employee unions enter into new agreements with the City every three years. Disagreements between the employees and the City in collective bargaining are resolved by an arbitration board whose decision is final. There have been no strikes by City employees since the adoption of a strike prohibition in 1976.

## **Hazardous Material Management**

### *Environmental Control Unit*

The Commission has an Environmental Control Unit that is responsible for environmental compliance issues. This unit includes professional engineers and chemists, sanitary technicians and inspectors and surveillance teams. This unit is supported by on-site consultants, on-site testing and treatment facilities, and an on-call environmental contractor to provide rapid clean up where contamination is unexpectedly encountered during construction or other activities.

### *Remediation and Preventative Measures*

The Commission and certain Airport tenants have discovered and remediated or are engaged in the process of remediating and managing certain contamination on Airport property pursuant to current regulatory standards. The contamination has primarily consisted of fuel constituents which most likely resulted from fueling practices of the 1940's through the early 1960's. Since then the Commission has instituted regulations which require fueling practices and facilities requirements that are less likely to contribute to hazardous environmental discharges. The Commission believes that the jet fueling system is currently in compliance with applicable environmental regulations.

Remediation activities at the Airport in the majority of cases have consisted of removal and offsite disposal of contaminated soil and extraction and treatment of contaminated groundwater and in-situ methods approved by the regulatory agencies with jurisdiction. Substantially all of the hazardous material management work for the Master Plan was completed within budget and on schedule.

To avert the migration of contamination into environmentally sensitive areas such as the San Francisco Bay, the Commission has installed, and has future plans with its tenants to install, monitoring wells at various locations including the Airport's outer perimeter. The monitoring wells have thus far detected very low levels of contamination. Further investigation is being coordinated with the Regional Water Quality Control Board and tenants to ensure that the contamination has no adverse impact on environmentally sensitive areas.

### *Water Quality Control Plant*

The Commission owns and operates a water quality control plant (the "Plant") located at the Airport. The Plant was designed with a dry weather capacity of 2.2 million gallons per day and is used to treat wastewater from various Airport facilities prior to discharge into the San Francisco Bay. In 2001, the California Regional Water Quality Control Board, San Francisco Region, issued a Cease and Desist Order requiring the Airport to comply with its wastewater discharge permit requirements by increasing the reliability of the Plant. In 2002 the Commission awarded a contract for a three-year \$37 million expansion project to improve the Plant. This project, which was completed and operational in 2004, expanded and upgraded the Plant to incorporate current wastewater treatment technology, increase dry weather capacity to 3.22 million gallons per day, and provide redundancy during peak demand periods.

## **CAPITAL PROJECTS AND PLANNING**

The Commission maintains capital plans (the "Capital Plans") for budgeting and planning purposes. These plans are periodically updated by Airport staff and approved by the Commission based upon available funding sources, anticipated capital needs, airline feedback, and project priority.

In Fiscal Year 2004-05, the Airport resumed preparation of an annual update to its multi-year Capital Plan, which had been suspended following the events of September 11, 2001. The most recent revision to the five-year Capital Plan corresponds to the period between Fiscal Year 2009-10 and Fiscal Year 2013-14. These revisions were approved by the Commission in February 2009, and resulted in a five-year Capital Plan that includes an aggregate of approximately \$881.9 million in projects. Of this total, approximately \$545.3 million is expected to be financed through the issuance of new debt. The Capital Plan also includes approximately \$233.1 million in projects that will

be funded with grants, \$68.0 million in Passenger Facility Charges allocated to fund capital projects, \$19.9 million in interest income and \$15.5 million from operating revenues to support capital projects.

The Capital Plan includes the \$383 million renovation of Terminal 2 and Boarding Area D, which will provide an additional 14 domestic gates (13 narrow-body and one wide-body). The renovation, which is expected to achieve Leadership in Energy and Environmental Design (LEED) Silver Certification, includes reconstruction of more than 575,000 square feet of public space, installation at a new baggage facilities, new CTX explosive detection baggage screening machines, construction of two 500-square foot children's play areas and seismic upgrades. The primary construction contract was awarded in spring 2008 and completion is expected in spring 2011. The Commission expects to issue Bonds in November 2009 to finance costs associated with this capital project. See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Current and Future Financings."

In accordance with the Lease Agreements, the Airlines are notified about projects contained in the five-year Capital Plan with costs that exceed the capital project review threshold that is indexed to inflation and adjusted annually. For Fiscal Year 2009-10, the capital project review threshold is \$624,129. Following Airline review, the five-year Capital Plan is submitted to the Commission for approval. The Capital Plan includes projects related to health, safety and security enhancements; improvements to the airfield, groundside activities, terminals and customer service functions; environmental mitigation; utilities infrastructure upgrades; cost savings and revenue generating enhancements; and seismic retrofit of certain facilities. See also "SAN FRANCISCO INTERNATIONAL AIRPORT—Existing Airline Agreements—Lease Agreements—Airline Review of Capital Improvements."

See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Passenger Facility Charge—PFC Applications."

At the beginning of each Fiscal Year, the Airport convenes the Capital Project Review Committee (the "CPRC"), which is comprised of Airport senior management. The CPRC members meet over a three month period, evaluate new and existing capital projects against established criteria and select projects for funding in the Capital Plan. In developing the Plan, the CPRC considers available funding and the projected impact of capital projects on Airport debt service and the operating budget.

## **AIRPORT'S FINANCIAL AND RELATED INFORMATION**

### **General**

A summary of historical financial results as reported in the Airport's annual financial statements for the last five Fiscal Years is shown in the table below. See also APPENDIX B—"FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007 (WITH INDEPENDENT AUDITORS' REPORT THEREON)." The Fiscal Year 2007-08 financial statements include the initial reporting of the costs and obligations of the Airport related to the post-employment health care and other non-pension benefits as required under the Governmental Accounting Standards Board Statement No. 45. See also "—Payments to the City—Employee Benefit Plans."

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**SUMMARY OF AIRPORT FINANCIAL RESULTS**  
**(\$ in thousands)**  
**(Fiscal Years)**

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Aviation Revenues	\$325,256	\$303,015 <sup>(2)</sup>	\$263,422 <sup>(3)</sup>	\$296,368	\$306,348
Concession Revenues <sup>(1)</sup>	121,071	131,182	143,051	155,653	172,947
Net Sales and Services	<u>39,805</u>	<u>43,117</u>	<u>48,869</u>	<u>51,893</u>	<u>56,476</u>
Total Operating Revenues	486,132	477,314	455,342	503,914	535,771
Total Operating Expenses <sup>(4)</sup>	<u>(400,596)</u>	<u>(418,993)<sup>(5)</sup></u>	<u>(432,811)</u>	<u>(431,059)</u>	<u>(451,258)</u>
Operating Income	85,536	58,321	22,531	72,855	84,513
Nonoperating Revenue (Expense) <sup>(6)</sup>	<u>(149,772)</u>	<u>(127,121)</u>	<u>(92,234)</u>	<u>(94,590)</u>	<u>(102,978)</u>
Income (Loss) Before Operating Transfer	(64,236)	(68,800)	(69,703)	(21,735)	(18,465)
Capital Contributions <sup>(7)</sup>	27,404	34,893	48,544	46,902	41,060
Loss Due to Asset Impairment	-	(50,043) <sup>(8)</sup>	-	-	-
Transfer to the City	(18,161)	(19,677)	(21,458)	(23,348)	(25,942)
Transfer from the City	<u>-</u>	<u>4,611<sup>(9)</sup></u>	<u>(55)<sup>(10)</sup></u>	<u>-</u>	<u>-</u>
<b>Changes in Net Assets</b>	<b>(54,993)<sup>(11)</sup></b>	<b>(99,016)<sup>(12)</sup></b>	<b>(42,672)</b>	<b>\$1,819</b>	<b>(3,347)</b>

<sup>(1)</sup> Also includes parking and transportation revenues.

<sup>(2)</sup> The decrease in the amount of \$22.2 million compared to Fiscal Year 2003-04 is due to a decrease in costs recovered from landing fees and terminal rentals resulting from the residual rate calculation methodology made pursuant to the Lease and Use Agreements. See "SAN FRANCISCO INTERNATIONAL AIRPORT-Existing Airline Agreements-Lease Agreements-Residual Methodology."

<sup>(3)</sup> The decrease in the amount of \$39.6 million compared to Fiscal Year 2004-05 is a result of the residual calculation performed in accordance with the Lease and Use Agreements. See "SAN FRANCISCO INTERNATIONAL AIRPORT-Existing Airline Agreements-Lease Agreements-Residual Methodology."

<sup>(4)</sup> Includes depreciation and amortization expense in the amounts of \$161.1 million for Fiscal Year 2003-04, \$161.6 million for Fiscal Year 2004-05, \$162.0 million for Fiscal Year 2005-06, \$142.8 million for Fiscal Year 2006-07 and \$151.1 million for Fiscal Year 2007-08.

<sup>(5)</sup> Operating expenses in Fiscal Year 2004-05 increased by \$19.3 million compared to the prior Fiscal Year primarily due to an increase in repair and maintenance costs of Airport infrastructure.

<sup>(6)</sup> Includes interest expense in the amount of \$217.7 million for Fiscal Year 2003-04, \$209.4 million for Fiscal Year 2004-05, \$200.3 million for Fiscal Year 2005-06 and \$193.7 million for Fiscal Year 2006-07.

<sup>(7)</sup> Represents federal grant funds.

<sup>(8)</sup> Represents remaining costs associated with the suspension of the runway reconfiguration project that were written off based on a determination that, for accounting purposes, the associated costs no longer have economic value.

<sup>(9)</sup> Represents a transfer from the City in the amount of \$4.6 million as settlement of amounts owed as a result of an audit by the U.S. Department of Transportation Office of Inspector General (the "OIG"). See "AIRPORT'S FINANCIAL AND RELATED INFORMATION-Payments to the City-Annual Service Payment."

<sup>(10)</sup> Represents the balance of the OIG audit settlement amount that was returned to the City. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION-Payments to the City-Annual Service Payment."

<sup>(11)</sup> The net loss is attributable primarily to depreciation expense in connection with the new International Terminal Complex which, due to limited bond principal amortization in that year, was not offset by increased Aviation Revenues.

<sup>(12)</sup> The increase in the net loss is attributable to increases in operating expenses due to increases in infrastructure repair and maintenance costs and approximately \$50 million in capitalized costs relating to the runway reconfiguration project that were written off due to asset impairment based upon a determination that, for accounting purposes, certain costs related to the preparation of environmental impact reports and engineering no longer have economic value. See also "CAPITAL PROJECTS AND PLANNING."

Source: San Francisco Airport Commission.

### City Budget Process

The Airport budget is a part of the overall budget prepared annually by the City. Each year, the Airport's proposed budget is reviewed by airline representatives and is approved by the Commission before being submitted to the Mayor. The Mayor's office reviews and may amend the Airport's proposed budget, and then incorporates the proposed budget into the over-all City budget that is submitted to the Board of Supervisors for approval. Under the Charter, the Board of Supervisors may increase or decrease any proposed expenditure in the Mayor's budget so long as the aggregate changes do not cause the expenditures to exceed the total amount of expenditures proposed by the Mayor. The Charter further provides that the Mayor may reduce or reject any expenditure authorized by the Board of Supervisors except appropriations for bond interest, redemption or other fixed charges, subject to reinstatement of any such expenditure by a two-thirds vote of the Board of Supervisors.

## Operating Revenues

### *General*

Under the Lease Agreements, the Airport's operating budget and non-airline revenue sources are projected for each new Fiscal Year. Then, using a residual cost methodology, airline landing fees and terminal rental rates are set such that estimated total Airport revenues each Fiscal Year are equal to estimated total Airport operating costs, which include debt service and certain capital items as well as general operation and maintenance expenses. Increases in non-airline revenue sources generally result in decreases in airline landing fees and terminal rental rates. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Existing Airline Agreements—Lease Agreements."

### *Terminal Rental Rates and Landing Fees*

For Fiscal Year 2009-10, annual terminal rental rates range from \$176.11 per square foot for Category I space (ticket counters and hold rooms) to \$17.61 per square foot for Category V space (unenclosed or covered areas at ramp level) space, with an average rate per square foot of \$100.61. Fiscal Year 2008-09 rates were \$167.32 per square foot for Category I space and \$16.73 square foot for Category V space, with an average rate per square foot of \$95.85.

The landing fee rate for Fiscal Year 2008-09 is \$3.00 per thousand pounds of landed weight compared to \$3.01 per thousand pounds of landed weight for Fiscal Year 2007-08. Operators without a lease or an operating permit will pay a supplemental landing fee charge of \$0.30 per thousand pounds of landed weight. For Fiscal Year 2009-10, the minimum landing fee for fixed wing aircraft is \$140 compared to \$134 for Fiscal Year 2008-09.

Because of the variety of methodologies used by different airports to calculate airline landing fee and terminal rental rates, such fees and rates are not directly comparable between airports. However, terminal rental rates and landing fees represent a small proportion of over-all costs to the airlines per enplaned passenger at the Airport, and are not a primary consideration in the establishment and maintenance of routes and schedules. Instead of rates, airline payments per passenger (for landing fees and terminal rental rates) is the principal index commonly used to compare the costs to the airlines for their facilities at different airports. On a GAAP basis, airline payments per enplaned passenger at the Airport were \$14.29 in Fiscal Year 2008-09 compared to \$13.20 in Fiscal Year 2007-08 and compared to \$14.26 in Fiscal Year 2006-07. Overall, costs to the airlines are expected to rise in the near term, primarily due to the construction of capital projects needed to serve the current demand for domestic terminal space. See "CAPITAL PROJECTS AND PLANNING." Passenger traffic is expected to reflect low growth rates based on a slow economic recovery from the global recession. These factors are expected to cause an increase in the airline payments per passenger during the next few years.

Terminal rental rates and landing fees are adjusted annually on July 1. The Lease Agreements do not require the airlines, either individually or as a group, to maintain any minimum level of landed weight at the Airport. A summary of historical and current landing fees for scheduled aircraft with a lease or operating permit and average terminal rental rates and those for the last five Fiscal Years is set forth below.

### **HISTORICAL AND CURRENT LANDING FEES AND TERMINAL RENTALS (Fiscal Years)**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Landing Fees (per thousand pounds)	\$3.213	\$3.336	\$3.010	\$3.000	\$3.150
Minimum Landing Fee (fixed wing)	109	123	127	134	140
Minimum Landing Fee (rotary)	55	62	64	67	70
Average Terminal Rental Rate (per square foot)	90.16	94.61	91.60	95.85	100.61

Source: San Francisco Airport Commission.

### *Aviation Market Stimulus Program*

In 2003, the Commission created an Aviation Market Stimulus Program (the “Stimulus Program”) reducing landing fees by 50%, for new domestic and international flights maintained for twelve consecutive months to destinations not currently served by the airline. Since Fiscal Year 2004-05, the Commission has extended the Stimulus Program for new international flights only. For a description of new service at the Airport that commenced in Fiscal Year 2008-09, see “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Service–*New Service.*”

### *SFO Transportation and Facility Fees*

The rental car companies collect a \$17.50 per rental contract fee that is paid to the Commission for reimbursement of certain costs of operating and providing the AirTrain facilities to and from the Terminal Complex and the rental car facility located one mile north of the Terminal Complex.

### **Passenger Facility Charge**

Prior to 2001, the Airport financed its capital program primarily through interest earnings, Airport operating revenues, Federal grants and the issuance of revenue bonds and commercial paper secured by a pledge of the Net Revenues of the Airport. In 2001, the Airport received authorization from the FAA to commence collection and use of a Passenger Facility Charge (a “PFC”) in the amount of \$4.50 per enplaning passenger to pay for certain eligible capital projects as approved by the FAA. The PFC revenues received by the Airport are subject to audit and final acceptance by the FAA and costs reimbursed with PFC revenues are subject to adjustment upon audit.

### *PFC Applications*

In 2001, the FAA approved the Airport’s initial PFC application (“PFC # 1”) to collect approximately \$113 million in revenues from October 1, 2001 through June 1, 2003, from a \$4.50 PFC to pay for development activities and studies related to a potential runway reconfiguration, which project has since been terminated. In 2002, the FAA approved the Airport’s second PFC application (“PFC # 2”) to extend the collection period for PFC # 1 through April 1, 2008 (later revised to January 1, 2006) and apply the proceeds to pay debt service on Bonds issued to finance certain other eligible project costs relating to the ITC. The amount of PFC revenues estimated to be collected under PFC # 2 was \$224 million. In 2003, the FAA approved a third PFC application (“PFC # 3”) by the Airport to extend the collection period through the earlier of November 1, 2018 (later revised to January 1, 2017) or the date when the total authorized collection amount is achieved. The collections from PFC # 3 will be used to pay a portion of debt service on Bonds issued for certain eligible costs associated with the development of Boarding Areas A and G, and the ITC, and to pay costs in connection with the Airport’s five year Capital Plan on a “pay as you go basis.” The total amount of authorized PFC collections, including interest earnings thereon, under these three applications, as amended, is \$833 million and as of June 30, 2009, a total of \$478.4 million, including interest earnings thereon, had been collected.

### *Designation of PFC Collections as Revenues*

PFC collections are *not* included in the definition of “Revenues” under the 1991 Master Resolution unless specifically so designated by the Commission. Set forth in the table below is information regarding such designations. The actual amount of PFC collections to be designated as “Revenues” and used to pay debt service in Fiscal Year 2008-09 as designated by the Commission is dependent, in part, upon the actual amounts permitted for such use by PFC regulations.

**PFC COLLECTIONS DESIGNATED AS REVENUES BY THE COMMISSION  
FOR PAYMENT OF DEBT SERVICE ON OUTSTANDING BONDS**

<u>Designation Date</u>	<u>Amount Designated (\$ in millions)</u>	<u>Applicable Fiscal Year</u>
04/16/02	\$18.8	2001-02
11/05/02	13.0	2002-03
03/25/03	46.1	2003-04
06/03/03	10.0	2003-04
06/01/04	68.4	2004-05
06/07/05	67.7	2005-06
05/02/06	58.4	2006-07
05/01/07	54.4	2007-08
05/06/08	51.0	2008-09
05/05/09	61.0	2009-10

Source: San Francisco Airport Commission.

The Commission may use a portion of current or future PFC collections to redeem Outstanding Bonds and for the payment of debt service. The Commission can give no assurances that PFC amounts will be collected as anticipated or that PFC amounts so collected will be designated as Revenues in any given Fiscal Year.

*Collection of PFCs in the Event of Bankruptcy*

In order to ensure continuation of the PFC program, including the trust fund status of collected PFCs, Congress amended the PFC enabling legislation, effective December 12, 2003, to provide additional specific obligations for an air carrier operating under bankruptcy protection in Chapter 7 or Chapter 11. The statute provides that (i) the air carrier must segregate in a separate account an amount of PFCs equal to its average monthly liability, (ii) PFCs are funds held in trust for each airport regardless of the ability to identify or trace precise funds, (iii) the air carrier may not pledge the PFCs to a third party, (iv) an airport is entitled to recover costs for enforcing an air carrier's compliance with the statute, (v) the air carrier may keep any interest income earned on the segregated PFCs if it is in compliance with the PFC enabling legislation and (vi) PFCs may not be commingled with other air carrier revenues.

While the PFC enabling legislation provides that PFCs are trust funds both before and after an air carrier files for bankruptcy protection, there can be no assurance that the air carrier has collected, retained, segregated or properly accounted for its PFCs, or that the Airport would be able to collect the PFCs from the air carrier that were collected prior to the bankruptcy filing.

**Concessions**

*Retail Program*

Each retail tenant at the Airport is charged a Minimum Annual Guarantee (a "MAG") pursuant to its lease.

DFS Group. DFS Group is the principal retail concessionaire at the Airport. Effective June 1, 2007, the DFS Group lease was amended to add 3,066 square feet of rentable space and the MAG paid by DFS Group was increased from \$26.1 million to \$26.4 million. The DFS Group lease expires on December 9, 2010, with one five year option to extend pursuant to the Concession Support Program. In addition, pursuant to the lease, the Airport has two one-year options to extend the DFS Group at its sole discretion. During Fiscal Year 2007-08, DFS Group also opened additional high-end retail establishments: Burberry shop, a Swarovski kiosk, and Hermes, Dior, and Ferragamo boutiques within their current galleria in the ITC.

Other Retail. During Fiscal Year 2007-08, the Airport opened new retail and services establishments in 24 additional locations, including five Airport Wireless locations, seven retail locations in Terminal 3 and a spa in each of Terminal 3 and the ITC.



On November 21, 2006, Travelex, the currency exchange and ATM service provider at the Airport, exercised its option to extend its lease for five years through December 9, 2012. The terms of the lease extension provide for a MAG of \$4.1 million (adjusted annually to reflect increases in the Consumer Price Index), an increase in rent per enplaned passenger from \$0.88 to \$0.90 and improvements to facility designs financed by Travelex. In addition, Travelex opened two additional facilities in the ITC in November 2007.

*International Terminal Complex Food and Beverage Program*

With the opening of the ITC in December 2000, the Airport increased its total food and retail concessions space from 35,432 square feet to 89,080 square feet (subsequently increased to 91,857 square feet), and initiated a food and beverage program that showcases the quality and diversity of local San Francisco Bay Area restaurants. The original 18 restaurants in the ITC were selected from the nine Bay Area counties. This program was designed to provide international and domestic travelers with a welcoming taste of the Bay Area culinary experience.

*Domestic Terminal Food and Beverage Program*

In 2003, the Commission adopted a program similar to the one implemented in connection with the ITC to redevelop food and beverage concessions in the approximately 48,430 leasable square feet (subsequently expanded to 51,517 leasable square feet) of available food and beverage space in Terminals 1 and 3. This program, known as the “San Francisco Marketplace,” targeted food and beverage companies that would offer a high quality dining experience and be representative of San Francisco and the Bay Area. Approximately 82% of the food and beverage companies operating in Terminals 1 and 3 are owned by Bay Area residents. As was the case with the ITC and in order to maximize revenues to the Airport, the selected companies entered into direct leases with the Airport. In part as a result of this program, domestic terminal food and beverage revenues in Fiscal Year 2007-08 increased by \$1,382,158 (14%) compared to the Fiscal Year 2006-07. The new providers offer more menu variety, increased customer service and competitive pricing, all of which have been well received by passengers. All restaurants in the San Francisco Marketplace feature food to-go for the convenience of passengers traveling on flights that do not serve meals. Twelve of the 42 restaurants in the San Francisco Marketplace are located in pre-security areas accessible to the general public.

*Advertising Program*

In 2000, Transportation Media Inc., which was subsequently acquired by Clear Channel Airports, was selected by the Commission through a competitive process to provide advertising in limited areas within the Airport. The agreement (the “Advertising Lease”) was for a term of five years with three one-year options to extend. Annual base rental payable under the agreement was the higher of the MAG, which was equal to \$4,050,000, or 70% of gross receipts charged with respect to such year with base rental adjusted annually based on the Consumers Price Index. In 2002 and 2003, the Commission authorized Clear Channel Airports to add advertising locations in additional areas within the Airport in exchange for increases in its rental payments.

In 2005, Clear Channel Airports notified the Airport of its intention to exercise its five-year lease renewal option. The terms of the Advertising Lease provide for rental payments equal to the higher of the MAG set forth below or 70% of gross receipts.

<u>Lease Option Period</u>	<u>MAG</u>
April 1, 2006 through March 31, 2007	\$5,850,000
April 1, 2007 through March 31, 2008	6,009,000
April 1, 2008 through March 31, 2009	6,176,000
April 1, 2009 through March 31, 2010	6,351,000
April 1, 2010 through March 31, 2011	6,535,000

In September 2007, the Commission approved the early exercise by Clear Channel Airports of three one-year extensions to the Advertising Lease and the execution of a third amendment thereto. The third amendment to the Advertising Lease: (i) extends the expiration date to March 31, 2014; (ii) authorizes advertising and other series; (iii) amends the annual base rental payment to the greater of the MAG (in the amount of \$6,535,000) or approximately 70% of gross receipts; and (iv) commencing April 1, 2012, amends the MAG to the greater of the MAG for the immediately prior lease year or 85% of actual rent paid in the immediately prior lease year.

#### *Rental Cars*

The eight on-Airport rental car companies that operate at the consolidated rental car facility located approximately one mile north of the Terminal Complex generated an aggregate of approximately \$29.3 million in revenue in Fiscal Year 2007-08. This represents an approximately 22% increase compared to rental car revenues generated in Fiscal Year 2006-07, reflecting the impact of State legislation permitting rental car companies to charge customers for concession fees paid to airports, which in effect increased reportable revenues from the rental car companies by 10%. Each rental car company lease includes one five-year option to extend at the discretion of the Commission. For the expiration dates of each lease, see the table "Principal Airport Concessionaires."

Effective on the commencement of each lease through December 31, 2010, the Airport is offering each rental car company an incentive that will lower its concession fees, if at least 15% of their rental cars meet an EPA Green Vehicle score of 17 or higher. Rental car customers will also receive a \$15 credit if they select a rental car that has an EPA Green Vehicle score of 18 or higher. This program will be evaluated at the end of 2010 to determine if the targets and incentives require adjustment.

The aggregate MAG (the total concession fees and building space rental) for Fiscal Year 2007-08 received from the on-Airport rental car companies was \$41,135,430 and for Fiscal Year 2008-09 is expected to be \$45,400,000.

#### *Parking*

In October 2006, New South Parking-California was selected by the Commission through a competitive process to provide public and employee parking services, commencing July 2, 2007 for an aggregate maximum fixed price equal to \$48,287,442. The parking management agreement is for a term of three years with two one-year options to extend.

#### *Concession Revenues*

The table on the following page summarizes concession revenues for Fiscal Years 2007-08 and 2008-09 attributable to the Airport's highest paying concessionaires. For the purpose of this table "Concession Revenue" is defined as fees and rentals collected by the Commission for: (i) the right to provide and operate restaurants, bars, car rental services, newsstands, gift shops, specialty shops, advertising displays, insurance, public telephones and other merchandising concessions and consumer services in the Terminal Area; (ii) the right to provide and operate courtesy vehicles, ground transportation services, hotels, service stations and other concessions and services in the groundside area; (iii) other activities and services in the groundside area of the Terminals such as public automobile parking and traffic fines.

**PRINCIPAL AIRPORT CONCESSIONAIRES†**

Concessionaire	Concession	Lease Expiration Date	FY 2007-08 Concession Revenue (\$ in thousands)†	FY 2008-09 Concession Revenue (\$ in thousands)**	Projected FY 2009-10 MAG or Estimated Percentage Rent (\$ in thousands)**
New South Parking- California	Public Parking	6/30/10	\$65,701	\$68,355	\$67,600
DFS Group, L.P.	Duty Free and General Merchandise	12/31/10	26,342	26,400	26,520
Hertz Corporation	Rental Car	12/31/13 <sup>(1)</sup>	10,596	11,024	10,094
Avis Budget Rent-A-Car, Inc. <sup>(2)</sup>	Rental Car	12/31/13 <sup>(1)</sup>	—	9,155	8,887
Avis Rent-A-Car, Inc.	Rental Car	Terminated	6,516	—	—
Budget Rent-A-Car, Inc.	Rental Car	Terminated	2,527	—	—
EAN, LLC <sup>(3)</sup>	Rental Car	12/31/13 <sup>(1)</sup>	—	7,798	7,100
Vanguard Car Rental USA Inc. <sup>(4)</sup>	Rental Car	Terminated	5,204	—	—
Enterprise Rent-A-Car	Rental Car	Terminated	1,496	—	—
Clear Channel Airports	Advertising	3/31/11	7,041	5,856	6,397
Pacific Gateway Concessions LLC	General Merchandise	Various	4,054	4,546	4,366
Travellex America, Inc.	Currency Exchange/ATM	12/9/12 (Currency Exchange)	4,474	4,215	4,128
DTG Operations Rental Car <sup>(5)</sup>	Rental Car	12/31/13 <sup>(1)</sup>	—	3,782	3,323
Dollar Rent-A-Car, Inc.	Rental Car	Terminated	1,718	—	—
Thrifty Rent-A-Car	Rental Car	Terminated	1,209	—	—
D. Lew Enterprises	Food and Beverages	Various <sup>(6)</sup>	1,622	1,569	1,616
Host-Retail	General Merchandise	12/15/10	1,301	1,294	1,510 <sup>(7)</sup>
Bay Area Restaurant Group	Food and Beverages	Various <sup>(8)</sup>	1,487	1,499	1,417
Fox Rent-A-Car, Inc.	Rental Car	12/31/13 <sup>(1)</sup>	—	996	1,358
T-Mobile	WiFi and Wireless Phone Service	2/28/10 (WiFi Service)	877	2,318	1,231 <sup>(9)</sup>
Books Inc.	General Merchandise	12/31/09 (Wireless Phone)	1,140	1,140	1,140 <sup>(7)</sup>
SUB TOTAL			143,305	149,947	\$146,687
Other Revenue <sup>(10)</sup>			29,612	29,049	
TOTAL CONCESSION REVENUE			\$172,947	\$178,996	

† See also, “-Concessions-Retail Program.”

\* Preliminary.

(1) For each rental car company there are two agreements: a concession agreement and a lease agreement. Both agreements for each company commenced January 1, 2009 and have one five-year option to extend. Revenue reflects only the concession lease. The total MAG under the concession agreements is equal to \$30,869,751.

(2) Doing business as Avis Rent-A-Car and Budget Rent-A-Car.

(3) Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental.

(4) In 2003 Vanguard Car Rental USA Inc. purchased the “Alamo Rent-A-Car” and “National Car Rental” brand names from ANC Rental Corporation.

(5) Doing business as Dollar Rent-A-Car and Thrifty Car Rental.

(6) Includes leases in the International Terminal expiring on November 9, 2010, and in the domestic terminals expiring on August 4, 2015, except for the Yankee Pier Restaurant which expires on December 26, 2014.

(7) Assumes Host-Retail and Books Inc. will continue operations into calendar year 2010 in “hold-over” status.

(8) Bay Area Restaurant Group operates various restaurants within the Airport, each with 10-year leases from the commencement date at each location.

(9) Assumes WiFi lease agreement terminate on 2/28/10 with no replacement and wireless phone service to continue its “hold-over” status into calendar year 2010.

(10) Represents the aggregate concession revenue received from the approximately 180 additional concessionaires operating at the Airport.

Source: San Francisco Airport Commission.

In Fiscal Year 2007-08, terminal concession revenues (which excludes revenues for parking and other ground transportation) were approximately \$96.3 million, an approximately 9.2% increase compared to the previous Fiscal Year's revenues of approximately \$88.2 million.

### Principal Revenue Sources

Set forth in the table below is a description of the Airport's principal revenue sources. No single tenant accounted for more than 25% of total operating revenue in Fiscal Year 2007-08. For the purpose of this table, the term "revenues" includes all amounts paid to the Airport by a company, including Concession Revenues.

#### TEN HIGHEST REVENUE PRODUCERS

Company	FY 2006-07 Revenues (\$ in thousands)	FY 2007-08 <sup>(1)</sup>		
		Revenues (\$ in thousands)	Percent of Operating Revenue <sup>(2)</sup>	Percent of Total Revenue
United Airlines, Inc. <sup>(3)</sup>	\$131,802	\$128,823	24.50%	20.40%
New South Parking-California <sup>(4)</sup>	—	65,726	12.50	10.41
DFS Group, L.P.	26,385	26,732	5.08	4.23
American Airlines	25,963	24,900	4.74	3.94
Hertz Corporation	20,249	21,831	4.15	3.46
Avis Rent-A-Car, Inc.	12,287	14,292	2.72	2.26
Delta Air Lines	13,879	13,063	2.48	2.07
Signature Flight Support	8,405	11,691	2.22	1.85
Northwest Airlines	11,608	10,495	2.00	1.66
Alamo Rent-A-Car, Inc.	—	9,363	1.78	1.48
AMPCO Parking <sup>(5)</sup>	61,470	—	—	—
Continental Airlines	8,385	—	—	—
SUBTOTAL TEN HIGHEST	320,434	326,916	62.17	51.77
Other Operating Revenue	183,480	198,935	37.83	31.50
TOTAL OPERATING REVENUE	503,914	525,852	100.00%	83.27
Other Revenue <sup>(6)</sup>	38,827 <sup>(7)</sup>	36,195 <sup>(8)</sup>		5.37
PFC Collections <sup>(9)</sup>	64,277	69,476		11.00
<b>TOTAL AIRPORT REVENUE</b>	<b>\$607,018</b>	<b>\$631,521</b>		<b>100.00%</b>

<sup>(1)</sup> Revenue is audited and includes operating and non-operating income and credit adjustments.

<sup>(2)</sup> Includes concession revenues from non-concession tenants and credit adjustments. Column does not total due to rounding.

<sup>(3)</sup> Includes revenues generated by Ted.

<sup>(4)</sup> New South Parking-California manages the Airport's public short-term garage, long-term and employee parking services pursuant to a three year management agreement. See also "—Concessions—Parking."

<sup>(5)</sup> AMPCO Parking, Inc. managed the Airport's garage, long-term lot, and taxicab-related services under a management contract that expired January 2, 2007 and was extended to June 30, 2007 to accommodate the transition to the new parking operator, New South Parking-California.

<sup>(6)</sup> Includes interest and other non-operating revenue.

<sup>(7)</sup> Includes investment income in the amount of \$36.2 million and settlement income in the amount of \$2.2 million in Fiscal Year 2006-07.

<sup>(8)</sup> Includes investment income in the amount of \$28.9 million and settlement income in the amount of \$5.0 million in Fiscal Year 2007-08.

<sup>(9)</sup> See "SECURITY FOR THE SERIES 2009D BONDS—Source of Payment; Pledge of Revenues."

Source: San Francisco Airport Commission.

### Off-Airport Parking Facilities

Seven off-Airport parking facilities are operated by private companies. These parking facilities offer approximately 8,550 public remote parking spaces for Airport patrons, including a covered 1,500 space facility that is located near the long-term parking facility operated by the Airport. These off-Airport parking facilities are in addition to the spaces currently available at the Airport. In Fiscal Year 2005-06, parking volume decreased approximately 3.2%. However, revenues increased approximately 6.6% to \$52.8 million due to an adjustment in the time and structure of the grace period in the parking garages and the re-opening of the Airport's long-term parking garage in June 2006. In Fiscal Year 2006-07, parking volume increased approximately 2.3% and revenues increased

approximately 10.3% to \$58.3 million due primarily to a 43.7% increase in patronage at the new long-term facility. In Fiscal Year 2007-08, parking volume increased by approximately 3.7% and revenues increased by approximately 14.6% or \$8.5 million due primarily to increased passenger traffic at the Airport, an enhanced marketing program that increased market share and a restructuring of parking rates. See also “SAN FRANCISCO INTERNATIONAL AIRPORT—Current Airport Facilities—Ground Transportation and Parking Facilities—Public Parking.”

## **SFOTEC**

The twenty-two airlines which operate in the ITC formed the San Francisco Terminal Equipment Company, LLC (“SFOTEC”) to use, operate and maintain certain Airport-owned common-use equipment and systems related to handling flights and passengers at the ITC. This equipment, which includes computer check-in systems with baggage and boarding pass printers, flight information systems, baggage handling systems, passenger loading bridges, systems for delivering preconditioned air to aircraft and ground power for aircraft, was acquired by the Airport with approximately \$100 million of Airport bond proceeds. SFOTEC also manages the daily assignment of the ITC joint use gates, holdrooms, ticket counters and baggage systems to the airlines operating in the ITC in accordance with Airport-approved protocols.

In November 2000, the Airport and SFOTEC entered into a five-year services contract, which contract was renewed through June 30, 2011, pursuant to which SFOTEC is obligated to maintain, operate, repair and schedule the common use of such equipment; pay the associated utility and custodial costs; and provide non-discriminatory access to such equipment for all ITC carriers, whether or not they are members of SFOTEC. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Passenger Facility Charge.” The costs of operating and maintaining the equipment are shared by all airline users of the equipment. The user fees for airlines that are members of SFOTEC are determined pursuant the terms of the SFOTEC Members Agreement, while the user fees of non-member airlines are negotiated between SFOTEC and the non-member airlines. Charter airlines are currently the only non-member airlines that use the equipment.

## **Interest Rate Swaps**

### *General*

Pursuant to the 1991 Master Resolution, the Commission may enter into one or more Interest Rate Swaps in connection with one or more series of Bonds. An Interest Rate Swap is an agreement between the Commission or the Trustee and a Swap Counterparty under which a variable rate cash flow (which may be subject to an interest rate cap) on a principal or notional amount is exchanged for a fixed rate of return on an equal principal or notional amount. The Swap Counterparty must be a member of the International Swaps and Derivatives Association and must be rated in one of the three top rating categories by at least one rating agency. The 1991 Master Resolution provides that, if and to the extent provided in any Supplemental Resolution authorizing the issuance of a series of Bonds, regularly scheduled swap payments may be paid directly out of the account or accounts in the Debt Service Fund established with respect to such series of Bonds, and thus on a parity with debt service on the Bonds.

### *Swap Policy*

In 2002, the Commission adopted a written Interest Rate Swap Policy (the “Swap Policy”). The Swap Policy is reviewed periodically by the Airport Director and revisions are submitted to the Commission for approval. The most recent revision to the Swap Policy was approved by the Commission on August 4, 2009. Those revisions clarified and improved the Airport’s response to downgraded swap counterparties as a result of the recent financial crisis. The revisions also included provisions for terminating or replacing existing swaps due to adverse market conditions, evaluating the risk of having sufficient liquidity to fund termination payments in the event swaps are required to be terminated, and requiring that substitution or replacement of a swap must be on substantially the same terms as the original swap as previously approved by the Commission.

The following is a summary of the current Swap Policy:

**Prohibited Uses.** The Swap Policy prohibits the Commission from entering into interest rate swaps, caps, collars and floors, options with respect thereto and other similar instruments, on either a current or forward basis (collectively, “Swaps”) that: (i) are for speculative purposes, such as for potential trading gains; (ii) create extraordinary risk or leverage with respect to the related Bonds or investments; (iii) would result in the Commission lacking sufficient liquidity to make payments that may be due upon termination of the Swap; and (iv) lack sufficient price transparency to permit the Airport Director and the Swap advisor to reasonably determine the market valuation of the Swap.

**Qualified Swap Counterparties.** The Commission is authorized under the Swap Policy to enter into Swaps only with qualified Swap counterparties. As of the date of execution of each Swap, at least one of the ratings of each counterparty (or its guarantor) from Moody’s, S&P or Fitch must be “A1,” “A+” or “A+,” respectively, or higher and the other ratings no lower than “A2” or “A.”

**Notional Amount of Swaps.** The Swap Policy prohibits the Commission from entering into any Swap that would cause the aggregate notional amount of all of the Commission’s Swaps to exceed 20% of the aggregate principal amount of the Commission’s outstanding general airport revenue bonds.

**Swap Counterparty Credit Exposure Limits.** The Swap Policy requires the Commission to diversify its Swap counterparty credit risk to limit the Commission’s credit exposure to any one counterparty. The following limits apply to termination exposure to any one counterparty. The Commission is permitted to make exceptions to the limits in its discretion after consultation with the Swap advisor and Bond Counsel to the extent that the execution of swap achieves one or more of the objectives outlined therein.

The term “Maximum Net Termination Exposure” is defined as an amount equal to the projected aggregate maximum net termination payment value at any one time of all of the Commission’s then existing and proposed Swaps with such counterparty, as determined by a swap advisor taking into account the current market value of the then existing Swaps with such counterparty. Maximum Net Termination Exposure is (i) calculated taking into account possible future changes in interest rates based on historical or projected measures applied over the remaining term of each Swap, and (ii) based on a two standard deviation change in the relevant swap rate, or on such other methodology that the Swap advisor determines is a reasonable assumption regarding potential future rate changes. Maximum Net Termination Exposure is calculated as of the date of execution of each Swap. If the counterparty has more than one credit rating, the lowest rating will govern for purpose of calculating the permissible levels of exposure. There are separate limits for collateralized Maximum Net Termination Exposure. The limitations are as follows:

**INTEREST RATE SWAP POLICY MAXIMUM NET TERMINATION EXPOSURE**

Counterparty Credit Ratings	Counterparty Maximum Net Termination Exposure	Maximum Net Termination Exposure (Uncollateralized)	Total Maximum Net Termination Exposure
AAA Category	N/A	\$40 million	N/A
AA Category	\$40 million	30 million	\$40 million
A Category	30 million	20 million	30 million
BBB Category	20 million	10 million	20 million
Below BBB Category	None	None	None

**Swap Aggregate Maximum Net Termination Exposure.** As of the date of execution of any Swap, the aggregate Maximum Termination Exposure for all of the Commission’s then existing Swaps with all counterparties, as determined by a swap advisor, shall not exceed the sum of (i) the funds available in the Airport’s Contingency Account, plus (ii) the Commission’s then available utilized capacity (but not to exceed \$100 million) under its Commercial Paper program, plus (iii) so long as the Airport is rated no lower than an “A” category by at least two rating agencies, \$50 million.

### *Interest Rate Swap Agreements*

The obligation of the Commission to make regularly scheduled payments to the Swap Provider under the Swap Agreements is an obligation of the Commission payable from Net Revenues on a parity with payments of principal of or interest on the applicable series of Bonds. Under certain circumstances, the Swap Agreements are subject to termination and the Commission may be required to make a substantial termination payment to the respective Swap Providers depending upon the then current market value of the swap transaction. Any payment due upon the termination of a Swap Agreement is payable from Net Revenues subordinate to payments of principal of or interest on the Bonds.

Issue 36A-D. The Commission entered into four forward starting interest rate swap agreements in connection with the issuance of its variable rate Issue 32A-E Bonds, which were transferred to the Issue 36A-D Bonds in May 2008. The counterparties to these interest rate swap agreements are Bear Stearns Capital Markets Inc. (“BSCM”) with respect to an aggregate notional amount of \$59,970,000, and J.P. Morgan Chase Bank, N.A. (“JP Morgan”) with respect to an aggregate notional amount of \$139,930,000. The payment obligations of BSCM are guaranteed by JP Morgan. As of October 20, 2009, the JP Morgan guarantor credit ratings were “Aa3” by Moody’s, “A+” by Standard & Poor’s and “AA-” by Fitch. As of October 20, 2009, the JP Morgan counterparty ratings were “Aa1” by Moody’s, “AA-” by Standard & Poor’s and “AA-” by Fitch.

The Commission’s payments under these interest rate swap agreements are secured by surety bonds issued by Financial Security Assurance Inc. (which as of July 1, 2009 became an Assured Guaranty company) and FGIC Insurance Corporation (which policy is reinsured by MBIA Insurance Corporation, now known as National Public Finance Guarantee Corporation and formerly MBIA Insurance Corporation of Illinois). In addition certain termination payments which may be payable by the Commission in the event of the termination of these interest rate swap agreements are also insured by these insurers.

Pursuant to these interest rate swap agreements, the Commission receives a monthly variable rate payment from each counterparty equal to 63.5% of USD-LIBOR-BBA, plus 0.29%, times the notional amount of the swap, which was intended to approximate the variable rate interest payments the Commission would pay on such Bonds. The Commission makes a monthly fixed rate payment to the counterparties as set forth below. These interest rate swap agreements are terminable at any time at the option of the Commission at their market value. The objective of these interest rate swap agreements was to achieve a synthetic fixed rate with respect to \$199.9 million principal amount of the Issue 32A-E Bonds. In May 2008, the Commission applied a portion of the proceeds from the issuance of the Issue 36A Bonds and the Issue 36B Bonds to purchase and hold in trust certain Issue 32 Bonds hedged by the JPMorgan interest rate swap agreements. The JPMorgan interest rate swap agreements continue to hedge the Issue 36A/B Bonds.

Issues 37B/C. The Commission entered into two forward starting interest rate swap agreements in connection with the issuance of the Issue 37B/C Bonds. The counterparties to these interest rate swap agreements are BSCM with respect to an aggregate notional amount of \$89,856,000 and Merrill Lynch Capital Services, Inc. (“Merrill”) with respect to an aggregate notional amount of \$79,684,000. The payment obligations of BSCM are guaranteed by JP Morgan. The payment obligations of Merrill are guaranteed by Merrill Lynch & Co. which, as of October 20, 2009, was rated “A2” by Moody’s, “A” by Standard & Poor’s and “A+” by Fitch.

Pursuant to these swap agreements, commencing May 1, 2008, the Commission receives a monthly variable rate payment from each counterparty equal to 61.85% of USD-LIBOR-BBA, plus 0.34%, times the notional amount of the swap, which is intended to approximate the variable rate interest payments the Commission will pay on a portion of the Issue 37B/C Bonds. The Commission makes a monthly fixed rate payment to the counterparties as set forth below. These interest rate swap agreements are terminable at any time at the option of the Commission at their market value. The objective of these interest rate swap agreements was to achieve a synthetic fixed rate with respect to \$169.54 million principal amount of the Issue 37B/C Bonds. In December 2008, the Commission applied a portion of the proceeds from the issuance of the Series 2008B Notes to purchase and hold in trust the Issue 37B Bonds hedged by the Issue 37B Swap Agreement. The Issue 37B Swap Agreement continues to hedge the Issue 37B Bonds.

Issue 35. The Commission entered into two forward starting interest rate swap agreements in connection with the anticipated issuance of the Issue 35 Bonds in 2010. The counterparties to the Issue 35 Swap Agreements are DEPFA BANK plc (“DEPFA”) with respect to an initial notional amount of \$71,973,000 and Goldman Sachs Capital Markets, Inc. (“Goldman”) with respect to an aggregate initial notional amount of \$143,947,000. As of October 20, 2009, the payment obligations of DEPFA were rated “A3” by Moody’s, “BBB” by Standard & Poor’s and “A-” by Fitch. The payment obligations of Goldman are guaranteed by the Goldman Sachs Group, which, as of October 20, 2009, were rated “Aa3” by Moody’s, “A” by Standard & Poor’s and “A+” by Fitch. Ambac Assurance Corporation issued a forward commitment to insure the Commission’s regularly scheduled payments to the counterparties under the Issue 35 Swap Agreements.

Pursuant to these swap agreements, beginning in February 2010 the Commission will be entitled to receive a monthly variable rate payment from each counterparty equal to 61.85% of USD-LIBOR-BBA, plus 0.34%, times the notional amount of the swap, which is intended to approximate the variable rate interest payments the Commission will pay on a portion of the Issue 35 Bonds. The Commission will be obligated to make a monthly fixed rate payment to the counterparties as set forth below. These interest rate swap agreements are terminable at any time at the option of the Commission at their market value. The objective of the swaps is to achieve a synthetic fixed rate with respect to \$215.92 million principal amount of Issue 35 Bonds.

The Swap Payments, other than those relating to the termination of the interest rate swap agreements, are payable on a parity with the Bonds. See also “REFUNDING PLAN.”

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The table below summarizes the interest rate swap agreements entered into by the Commission.

**SUMMARY OF INTEREST RATE SWAP AGREEMENTS**

Associated Bonds	Effective Date	Initial Notional Amount	Counterparty/Guarantor	Counterparty/ Guarantor Credit Ratings (Moody's/S&P/Fitch) <sup>(1)</sup>	Insurer	Fixed Rate Payable by Commission	Market Value to Commission <sup>(1)</sup>	Expiration Date
<b>Issue 36A/B</b>								
	02/10/05	\$70,000,000	J.P. Morgan Chase Bank, N.A.	Aa1/AA-/AA-	FGIC/National <sup>(2)</sup>	3.444%	(\$6,081,161.53)	May 1, 2026
	02/10/05	69,930,000	J.P. Morgan Chase Bank, N.A.	Aa1/AA-/AA-	FGIC/National <sup>(2)</sup>	3.445	(6,082,370.91)	May 1, 2026
Subtotal Issue 36A/B		139,930,000					(12,163,532.44)	
<b>Issue 36C</b>								
	02/10/05	30,000,000	Bear Stearns Capital Markets Inc./ J.P. Morgan Chase Bank, N.A.	Aa3/A+/AA-	FSA <sup>(2)</sup>	3.444	(2,606,212.09)	May 1, 2026
<b>Issue 36D</b>								
	02/10/05	29,970,000	Bear Stearns Capital Markets Inc./ J.P. Morgan Chase Bank, N.A.	Aa3/A+/AA-	FSA <sup>(2)</sup>	3.445	(2,606,730.39)	May 1, 2026
<b>Issue 37B</b>								
	05/15/08	79,684,000	Merrill Lynch Capital Services, Inc./ Merrill Lynch & Co.	A2/A/A+	FSA <sup>(3)</sup>	3.898	(11,613,416.14)	May 1, 2029
<b>Issue 37C</b>								
	05/15/08	89,856,000	Bear Stearns Capital Markets Inc./ J.P. Morgan Chase Bank, N.A.	Aa3/A+/AA-	FSA	3.898	(13,095,945.27)	May 1, 2029
<b>Issue 35</b>								
	02/01/10	71,973,000	Depfa BANK plc, New York Branch	A3/BBB/A-	Ambac <sup>(4)</sup>	3.925	(10,187,540.94)	May 1, 2030
	02/01/10	143,947,000	Goldman Capital Markets, L.P./ Goldman Sachs Group	Aa3/A/A+	Ambac <sup>(4)</sup>	3.925	(20,373,261.02)	May 1, 2030
Subtotal Issue 35		215,920,000					(30,560,801.96)	
	<b>TOTAL</b>	<b>\$585,360,000</b>					<b>(\$72,646,638.29)</b>	

<sup>(1)</sup> As of October 20, 2009.

<sup>(2)</sup> The Issue 32A/B/C Bonds that were hedged by these swap agreements were purchased with proceeds of the Issue 36A Bonds and the Issue 36B Bonds and are held in trust.

<sup>(3)</sup> The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes and the Issue 37B Bonds are held in trust.

<sup>(4)</sup> The Commission executed a forward commitment from Ambac insuring the Commission's regularly scheduled payments under these Issue 35 Swap Agreements.

## **Operating Expenses**

Fiscal Year 2007-08 operating expenses of \$451.3 million reflected a 4.7% increase from Fiscal Year 2006-07 operating expenses of \$431.1 million. The operating expenses in Fiscal Year 2005-06 were \$432.8 million. See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION."

The increase in total operating expenses in Fiscal Year 2007-08 in the amount of \$20.2 million was primarily due to salary increases related to the implementation of the Memorandum of Understanding between the City and the various bargaining units (\$6.1 million), increases in depreciation and amortization expenses due to the addition of capital assets (\$8.3 million), increases in repair and maintenance costs (\$1.3 million) and in materials and supply costs (\$300,000).

### *Review and Adjustment to Operating Expenditures*

Each quarter, the Airport produces a financial forecast for the operating budget. If this forecast projects that the operating budget will be in a deficit by the end of the Fiscal Year, Airport management has historically implemented cost control measures. These cost control measures have included, but are not limited to workforce reductions or hiring freezes on positions except those that have a direct impact on safety and security, and cuts in discretionary expenditures, such as professional service contracts.

## **Payments to the City**

### *Annual Service Payment*

Under the Lease Agreements and the Settlement Agreement with certain airlines, the Commission makes an "Annual Service Payment" to the City to compensate the City for certain indirect services and facilities that it provides to the Airport and the Commission. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Existing Airline Agreements—*Lease Agreements*." The Annual Service Payment is equal to the greater of (i) \$5 million, and (ii) 15% of "Concession Revenues" (as defined in the Lease Agreements), and is paid by the Commission in quarterly installments. The Annual Service Payment is made only after the payment of Operation and Maintenance Expenses and debt service on outstanding revenue bonds of the Commission, including the Bonds, and certain other expenditures. See "SECURITY FOR THE SERIES 2009D BONDS—Flow of Funds." The amount of Annual Service Payment for each of the last five fiscal years is set forth below.

There is no assurance that upon renewal of the Lease Agreements, that the FAA will permit the Annual Service Payment to continue. See "San Francisco International Airport—Existing Airline Agreements—*Lease Agreements*." The elimination or substantial reduction of the Annual Service Payment would reduce Net Revenues available for debt service coverage. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Historical Debt Service Coverage."

### *Payments for Direct Services*

In addition to the Annual Service Payment, the Lease Agreements and the Settlement Agreement permit the Commission to compensate the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. Set forth in the table below is a summary of the payments made by the Airport to the City for the last five Fiscal Years. The Commission is otherwise prohibited under the Settlement Agreement and the Lease Agreements from making any payments to the City, directly or indirectly. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Certain Federal, State and Local Laws and Regulations—*Federal Law Prohibiting Revenue Diversion*."

**SUMMARY OF PAYMENTS MADE BY THE AIRPORT TO THE CITY**  
**(\$ in millions)**

<u>Fiscal Year</u>	<u>Annual Service Payment</u>	<u>Direct Services</u>					<u>Subtotal</u>	<u>Total</u>
		<u>Police</u>	<u>Fire</u>	<u>Other<sup>(1)</sup></u>	<u>Utility Costs</u>			
2007-08	\$25.9	\$31.5	\$14.0	\$11.3	\$35.9 <sup>(2)</sup>	\$92.7	\$118.6	
2006-07	23.3	31.4	13.6	14.0	34.0 <sup>(3)</sup>	93.0	116.3	
2005-06	21.4	29.6	12.9	14.8	33.3 <sup>(4)</sup>	90.6	112.0	
2004-05	19.7	27.8	11.3	13.9	32.9 <sup>(5)</sup>	85.9	105.6	
2003-04	18.2	33.4	12.8	13.6	36.3 <sup>(6)</sup>	96.1	114.3	

<sup>(1)</sup> Represents costs of direct services provided by the City Attorney, City Treasurer, City Controller, City Purchasing Agent and other City departments.

<sup>(2)</sup> Approximately \$14.3 million in utility costs were recovered from Airport tenants.

<sup>(3)</sup> Approximately \$13.7 million in utility costs were recovered from Airport tenants.

<sup>(4)</sup> Approximately \$14.0 million in utility costs were recovered from Airport tenants.

<sup>(5)</sup> Approximately \$13.7 million in utility costs were recovered from Airport tenants.

<sup>(6)</sup> Approximately \$20.8 million in utility costs were recovered from Airport tenants.

Source: San Francisco Airport Commission.

*Employee Benefit Plans*

**Retirement System.** The San Francisco City and County Employees' Retirement System (the "Retirement System") is a defined-benefit plan initially established in the late 1880's and constituted in its current form by the 1932 City Charter and then retained under the Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative vote of a majority of the electorate at a duly called election. The Retirement System is administered by a Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among members of the Retirement System and a member of the Board of Supervisors appointed by the President of the Board of Supervisors. To aid in the administration of the Retirement System, the Retirement Board appoints an actuary and an Executive Director. The responsibilities of the Executive Director extend to all divisions of the Retirement System consisting of: Administration, Investment, Retirement Services/Accounting, and Deferred Compensation. The responsibilities of the actuary include the production of data and a summary of plan provisions for the independent consulting actuary retained by the Retirement Board to produce a valuation report and other analyses as required by the Retirement Board. The independent consulting actuary is Cheiron, a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

Membership in the Retirement System includes substantially all full-time employees of the City, including the Airport, who are not members of the California Public Employees' Retirement System ("CalPERS"), San Francisco Community College District (the "SFCCD") and San Francisco Unified School District (the "SFUSD") employees who are not members of the State Teachers Retirement System, and San Francisco Trial Court employees other than judges. The Retirement System provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Retirement System also provides pension continuation benefits to qualified survivors. The payroll for the 30,650 active City employees covered by the Retirement System for the year ended June 30, 2008 (the most recent Fiscal Year for which final data is available) was \$2.457 billion. During Fiscal 2006-07, the 1,300 full-time Airport employees represented approximately 4.3% of the total number of employees of the City. Contributions are made to the Retirement System by both the City and its employees on that portion of a member's earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). Employee contributions are mandatory.

**Funding Practices.** Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an independent consulting actuarial firm employed under contract by the Retirement Board. Before the valuation is conducted, the consulting actuarial firm recommends three long-term economic assumptions based on the experience of the plan. These economic assumptions include a long-term investment earnings assumption, a

long-term wage/inflation assumption and a long-term consumer price index assumption. At its November 2008 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board reduced the long-term investment earnings assumption from 8.00% to 7.75%. The Retirement Board did not change the other two long-term economic assumptions, leaving the long-term wage/inflation assumption at 4.50% per annum and the consumer price index assumption at 3.25% per annum. These economic assumptions along with periodic demographic studies are utilized to prepare the valuation of the plan each year. The latest report as of June 30, 2008 was issued in January 2009. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board as to the Retirement Board's acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as detailed in the report.

The actuary and the Retirement Board determine the actuarially required contribution amounts using three related calculations:

*First*, the normal cost is established for the Retirement System. The normal cost of the system represents the portion of the actuarial present value of benefits that the Retirement System will be expected to fund that is attributable to a current year's employment. The Retirement System uses the entry age normal cost method, which is an actuarial method of calculating the anticipated cost of pension liabilities, designed to fund promised benefits over the average future life of the Retirement System members.

*Second*, the contribution calculation takes account of the amortization of a portion of the amount by which the actuarial value of Retirement System liabilities exceeds the actuarial value of Retirement System assets, such amount being known as an "unfunded accrued actuarial liability" or "UAAL." If the actuarial value of assets exceeds the actuarial value of liabilities, the contribution amount is adjusted to reflect this excess by decreasing it in an amount equal to the excess of actuarial assets over actuarial liabilities, divided by the present value of projected salaries for the next 15 years. The most recent valuation of the Retirement System shows such an excess. Such a situation is known colloquially as a "negative UAAL."

The UAAL is the difference between estimated liabilities and the value of smoothed plan assets and can be thought of as a snapshot of the funding of benefits as of the valuation date. There are a number of assumptions and calculation methods that bear on each side of this asset-liability comparison. On the asset side, the actuarial value of Retirement System assets is calculated using a five-year smoothing technique, so that gains or losses in asset value are recognized over that longer period rather than in the immediate time period such gain or loss is identified. As for calculating the pension benefit liability, certain assumptions must be made about future costs of pension benefits to generate an overall liability amount. If the Retirement System's results are better or worse than the estimated UAAL, the result is called an actuarial gain or loss, respectively, and under the Actuarial Methods Policy of the Retirement Board any such gain or loss is amortized over a 15-year period. Similarly, if the estimated liabilities change due to changes in the aforementioned assumptions, the effect of such changes is also amortized over a 15-year period.

*Third*, after calculating the normal cost and the adjustment for UAAL, the actuary amortizes supplemental costs for the various member benefit plans. Supplemental costs are additional costs resulting from the past service component of Retirement System benefit increases. In other words, when the Charter is amended to extend additional benefits to some or all beneficiaries of the Retirement System, the Retirement System's payment liability is increased by the amount of the new benefit earned in connection with the service time already accrued by the then-current beneficiaries. These supplemental costs for each beneficiary are amortized over no more than 20 years.

The actuary combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in that fiscal year. This total contribution amount is satisfied from a combination of employer and employee contributions. Employee contributions are mandated by the Charter. Sources of payment may be the subject of collective bargaining agreements with each union or bargaining unit. The employer contribution is established by Retirement Board action each year and is expressed as a percentage of salary applied to all wages covered under the Retirement System.

Voter Approved Changes to the Retirement Plan. The City’s retirement benefits are established under the Charter and approved directly by the voters, rather than through the regular collective bargaining process; most changes to retirement benefits require a voter-approved Charter amendment. On June 3, 2008, the voters of San Francisco approved Proposition B, which increases the service required for City employees hired after January 10, 2009 to qualify for employer-funded retiree health benefits, establishes a separate Retiree Health Care Trust Fund to fund retiree health costs, and increases retirement benefits and retirement cost-of-living adjustments for “miscellaneous” employees. The cost of Proposition B is incorporated in the actuarial valuation as of July 1, 2008.

The voters of San Francisco have recently approved two other retirement plan amendments:

- The enactment of a Deferred Retirement Option Plan available to certain police members effective July 1, 2008, authorized by the February 2008 election by initiative proposition; and
- A limited cost transfer of Airport police officers’ historical service from CalPERS to SFERS that is currently pending as the costing and individual elections have not yet occurred, authorized by the November 2007 election.

Recent Funding Performance. From Fiscal Year 1996-97 through Fiscal Year 2003-04, the City’s contribution to the Retirement System decreased to zero due to lowered funding requirements as determined by the consulting actuary of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period were due primarily to higher-than-projected investment earnings and lower-than-projected wage increases. Beginning in Fiscal Year 2004-05, the Retirement Board reinstated required employer contributions based on the funding requirements as determined by the consulting actuary in the manner described above in “–Funding Practices.”

The table on the next page shows Retirement System actual contributions for Fiscal Years 2003-04 through 2007-08. The column “Market Value of Assets” reflects the fair market value of assets held in trust for payment of pension benefits; the column “Actuarial Value of Assets” refers to the value of assets held in trust adjusted according to the Retirement System’s actuarial methods as summarized above; the column “Pension Benefit Obligation” reflects the accrued actuarial liability of the Retirement System; the column “Percent Funded” column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations; and the column “Employer and Employee Contributions” reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System.

**CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES’ RETIREMENT SYSTEM**  
Fiscal Years 2003-04 through 2007-08  
(\$ in thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee and Employer Contribution†	Employer Contribution Rates
2004	\$11,907,358	\$11,299,997	\$10,885,455	104.0%	\$170,550	0.00%
2005	13,135,263	12,659,698	11,765,737	108.0	248,029	4.48
2006	14,497,022	13,597,646	12,515,463	109.0	289,226	6.58
2007	16,952,044	14,929,287	13,541,388	110.0	308,348	6.24
2008	15,832,521	15,941,390	15,358,824	103.8	319,183	5.91

† For Fiscal Years 1999-00 through 2003-04, the City paid no employer contribution. The employer contribution rates were as determined by the Retirement Board Actuarial Valuations.

Sources: Retirement System Actuarial Valuation reports as of July 1, 2004, July 1, 2005, July 1, 2006, July 1, 2007 and July 1, 2008.

The employer contribution rate for Fiscal Year 2008-09 is 4.99% of Pensionable Salary and was 5.91% of Pensionable Salary for Fiscal Year 2007-08. The Airport is required to contribute at an actuarially determined rate. Based on an actuarial valuation, there were no required employer contributions for annual pension costs for Fiscal Years 2002-03 and 2003-04. As of July 1, 2008, the date of the last actuarial valuation, the funded ratio for the plan was 103.8%. The Airport’s required contributions for the last five Fiscal Years are set forth below.

## AIRPORT CONTRIBUTIONS TO THE RETIREMENT SYSTEM

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Airport Contribution</u>
2003-04	0.00%	\$0
2004-05	4.48	3.6 million
2005-06	6.58	7.4 million
2006-07	6.24	9.1 million
2007-08	5.91	9.1 million

Sources: Retirement System Actuarial Valuation Reports and San Francisco Airport Commission.

**Asset Management and Actuarial Valuation.** The assets of the Retirement System are invested in a broadly diversified manner across the institutional capital markets. In addition to U.S. equities and fixed income securities, the Retirement System holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. The Retirement System does not invest directly in subprime mortgage obligations. The potential exposure of the assets of the Retirement System to subprime mortgage obligations is limited to its investments in real estate investment trusts and funds, distressed debt funds, and certain mortgage obligations held by external managers either in mortgage pools or commingled funds, which in aggregate comprise less than 3% of the total assets. The investments are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of the investments described above. For information regarding the investment policy of the Retirement System, see its “Investment Policy Statement,” which is available upon request from the Retirement System. The Retirement System also issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement System. The financial report and the Investment Policy Statement may be obtained by writing to the San Francisco City and County Employees’ Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling 415-487-7020.

**Health Care Benefits.** Health care benefits for Airport and other City employees, retired employees, and surviving spouses and domestic partners of covered retirees (the “City Beneficiaries”) are administered by the City’s Health Service System (the “Health Service System”) pursuant to the Charter. The Health Service System also administers medical benefits to active and retired employees of SFCCD, SFUSD and the San Francisco Superior Court (collectively, the “Other Beneficiaries”). The City is not required to fund health care benefits for Other Beneficiaries. Benefits paid by the Health Service System in each year are funded on a current basis primarily from contributions made during that year by the City for its employees, retired employees and surviving spouses. The City contributions, including those of the Airport, are funded from available resources on a pay-as-you-go basis. The contributions of the City to the Health Service System are determined by a Charter provision based on similar contributions made by the ten most populous counties in the State. The contributions for health care benefits made by the Airport for the last five Fiscal Years are set forth below:

## AIRPORT CONTRIBUTIONS TO THE HEALTH SERVICE SYSTEM (\$ in millions)

<u>Fiscal Year</u>	<u>Active Employees</u>	<u>Retirees</u>	<u>Total</u>
2003-04	\$9.419	\$2.145	\$11.564
2004-05	10.283	2.770	13.053
2005-06	11.042	4.529	15.571
2006-07	12.309	9.694 <sup>(1)</sup>	22.003 <sup>(2)</sup>
2007-08	13.552	10.495 <sup>(3)</sup>	24.047 <sup>(2)</sup>

<sup>(1)</sup> Includes \$6.294 million in postretirement benefits on a pay-as-you-go basis.

<sup>(2)</sup> Restated.

<sup>(3)</sup> Includes \$7.046 million on postretirement benefits on a pay-as-you-go basis.

Source: San Francisco Airport Commission.

Recent Changes in the Economic Environment and the Impact on the Retirement System. The market value of the Retirement System was approximately \$15.8 billion as of June 30, 2008. Since mid-2008, global capital markets have experienced unprecedented adverse events, including severe credit and liquidity contractions, and continue to suffer extreme price volatility. The overall economic climate has had an adverse impact on the Retirement System's portfolio.

As of April 30, 2009, the Retirement System estimated that the market value of its assets was \$11.7 billion. The estimated market value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value and therefore this section focuses on the funding by the City of medical benefits for City Beneficiaries.

The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The Health Service Board is composed of the following seven seats: a member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; and four members of the Health Service System, active or retired, elected from among their number.

The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to the Charter.

The Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to the Charter through which medical benefits for the HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. A copy of this report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling 415-554-1727.

As presently structured under the Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB Fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board Statement Number 45, Financial Reporting for Postemployment Benefit Plans Other Than Pensions, which applies to OPEB Funds.

Determination of Employer and Employee Contributions for Medical Benefits. Contributions by the participating employers and HSS Beneficiaries to HSS Medical Plans are determined according to applicable provisions of the Charter. To the extent annual medical premiums exceed the contributions made by employers and HSS Beneficiaries as required by the Charter, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets held in the Health Service Trust Fund.

All City Beneficiaries receive a base contribution from the City toward the monthly cost of their medical benefits calculated pursuant to the Charter. Pursuant to the Charter, in January of each year, the Health Service System conducts a survey of the 10 most populous counties in the State (other than the City) to determine "the average contribution made by each such county toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County." Under the Charter, the City, including the Airport, is required to contribute to the Health Service Trust Fund an amount equal to such "average contribution" for each City Beneficiary.

In addition to the average contribution described above, the City, including the Airport, makes additional medical and other benefit contributions on behalf of City Beneficiaries who are active employees as negotiated and agreed to by such employees' applicable collective bargaining units. City bargaining units have negotiated additional City contributions for enhanced single medical coverage, dependent medical coverage and for additional benefits such as dental care for the members of such bargaining units. These contribution amounts are also paid by into the Health Service Trust Fund.

Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (*e.g.*, surviving spouses and domestic partners of City employees) (the “Nonemployee City Beneficiaries”) are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to the Charter. The Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under “–Post-Employment Health Care Benefits.”

Contributions relating to Nonemployee City Beneficiaries include the contribution of the “average contribution” corresponding to such Nonemployee City Beneficiaries as described in the Charter along with the following:

- Monthly contributions from Nonemployee City Beneficiaries in amounts equal to the monthly contributions required from active employees excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining. However, such monthly contributions from Nonemployee City Beneficiaries covered under Medicare are reduced by an amount equal to the amount contributed monthly by such persons to Medicare.
- In addition to the average contribution described in the second paragraph of this subsection, the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.
- After application of the calculations described above, the City contributes 50% of City retirees’ remaining monthly contributions.

In addition, the City contributes 50% of the monthly contributions required for the first dependent of a retired City participant.

Further information on Health Service System funding can be found in the Health Plan’s audited financial statements, which are available through Fiscal Year 2007-08. The Health Plan’s audited financial statements are *not* incorporated by reference.

*Postemployment Health Care Benefits.* In June 2004, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 45 (“GASB 45”), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits (“OPEB”). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. The City began reporting the liability and related information for unfunded post-retirement medical benefits in the City’s financial statements for the Fiscal Year ending June 30, 2008.

Eligibility of former City employees for retiree health care benefits is governed by the Charter, as amended by Proposition B, passed by voters on June 3, 2008. Employees and a spouse or dependent are potentially eligible for health benefits following retirement after age 50 and completing five years of City service, subject to other eligibility requirements.



To help plan for the implementation of GASB 45, the City engaged an actuary to prepare a preliminary actuarial valuation of this liability. In its November 1, 2007 report on GASB 45 Valuation Results and Plan Design, Mercer Consulting estimated that if the City were to have a Funded Plan to cover post-employment medical benefits, the projected liability would be \$4.04 billion and have an annual required contribution for Fiscal Year 2007-08 of \$409.1 million, assuming a 4.5% return on investments, while covering all City operations, including those that are General Fund supported. In Fiscal Year 2006-07, the City's expenditures included \$102.6 million for retiree health subsidies, which represented only the amount needed to pay for current costs due during such Fiscal Year. The additional potential liability to the City would, therefore, be the difference between the Mercer estimate and the Fiscal Year 2006-07 expenditures. The calculations in the Mercer Report are sensitive to a number of critical assumptions, including but not limited to the projected rate of increases in health plan costs.

Proposition B, passed by San Francisco voters on June 3, 2008, tightens post-retirement health benefit eligibility rules for employees hired after January 10, 2009, and requires payments by the City and these employees equal to 3% of salary into a new retiree health trust fund. The City's actuarial analysis shows that by 2031, this 3% funding will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. The projected liability of \$4.04 billion described above is designed to be partially addressed by the passage of Proposition B which applies to future hires. See "*Retirement System—Voter Approved Changes to the Retirement Plan.*"

The Health Service System issues a publicly available financial report that includes financial statements for the health care benefits plan. The report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling 415-554-1700.

### **Risk Management and Insurance**

Under the 1991 Master Resolution, the Commission is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Commission, and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Commission is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport has an ongoing loss prevention program, a safety officer, property loss control and ongoing employee training programs. The Airport carries general liability insurance coverage of \$750 million, subject to a deductible of \$10,000 per single occurrence. The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Commission, subject to a deductible of \$500,000 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Commission pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public official liability and employers liability coverage of \$5 million, subject to a deductible of \$100,000 per single occurrence for each wrongful act other than employment practices violations and of \$200,000 per each occurrence for each employment practices violation. The Airport also carries insurance for public employee dishonesty, fine arts, electric data processing equipment and watercraft liability for Airport fire and rescue vessels.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of \$750 million per occurrence for war, terrorism and hijacking. Immediately following the events of September 11, 2001, insurers cancelled their coverages for war, terrorism and hijacking for all airports, including the Airport, and for all airlines around the country. A number of insurers now provide this coverage through the Federal Government Terrorism Risk Insurance Act (TRIA). However, the scope of the coverage is limited and the premiums are high. Due to these factors, the Commission, in consultation with the City's Risk Manager, has elected not to secure such coverage.

## Investment of Airport Funds

Under the Charter and the 1991 Master Resolution, the Revenue Fund and the accounts therein, including the Contingency Account, are held by the Treasurer. Amounts in the Revenue Fund are accounted for separately from all other funds of the City. The 1991 Master Resolution further provides that moneys in all funds and accounts (including Revenues) established under the 1991 Master Resolution which are held by the Treasurer shall be invested in Permitted Investments in accordance with the policies and procedures of the Treasurer in effect from time to time. For definitions of “Revenues” and “Permitted Investments” under the 1991 Master Resolution, see APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions.”

### *Airport Pooled Investment Fund*

Under the Treasurer’s current investment procedures, amounts in the Airport’s Revenue Fund and Contingency Account are commingled for investment purposes with the Airport’s Construction Fund as part of a pooled investment fund (the “Airport Pool”). Amounts in the Airport Pool are invested in Permitted Investments as defined in the 1991 Master Resolution. The objectives of the Treasurer’s current investment policy, in order of priority, are preservation of capital, maintenance of liquidity and yield. Investments generally are made so that securities can be held to maturity. The Treasurer calculated the current weighted average maturity of these investments as of September 30, 2009 to be approximately 669 days.

Payments due from the Revenue Fund and the Construction Fund actually are made from the City’s larger pooled investment fund (the “City Pool”). Among other purposes, the City Pool serves in effect as a disbursement account for expenditures from the City’s various segregated and pooled funds (including the Airport Pool). The Treasurer periodically transfers from the Revenue Fund and the Construction Fund to the City Pool the proceeds of investments in the Airport Pool which have matured or been sold and which are necessary to cover Airport disbursements. These transfers may be made either before or after the disbursements are made from the City Pool. Under the Treasurer’s current investment policy, amounts in the City Pool are invested in accordance with State law in types of securities which are somewhat more limited than Permitted Investments.

Set forth in the table below are the approximate market values, as of September 30, 2009, of amounts in the Airport Pool representing Construction Fund, Operating Fund, Contingency Account and Revenue Fund moneys. These amounts include certain minimum balances maintained in the City Pool for liquidity purposes. Also set forth below are the types of the investments in the Airport Pool as of such date.

### **AIRPORT POOLED INVESTMENT FUND (As of September 30, 2009)**

Funds in Airport Pool		Market Value Investment Distribution as of September 30, 2009	
Operating Fund	\$211.2 million	U.S. Treasury Liquidity Guarantee Program	\$110.8 million
Construction Funds	178.9 million	FHLMC Bonds	82.3 million
Contingency Account	92.5 million	Collateralized Negotiable Certificates of Deposit	65.3 million
Revenue Fund	<u>1.9 million</u>	U.S. Treasury Notes	56.0 million
TOTAL	\$484.5 million	FNMA Notes	46.0 million
		U.S. Treasury Bills	37.7 million
		Fed Farm Credit Bank Note	26.6 million
		FHLB Multistep	17.5 million
		FHLB Discount Notes	15.8 million
		FFCB Floaters	8.4 million
		FHLMC Floaters	8.4 million
		FNMA Multistep	5.0 million
		Other	2.6 million
		Commercial Paper	<u>2.1 million</u>
		TOTAL	\$484.5 million

## Currently Outstanding Bonds

The Commission has currently Outstanding \$3,878,630,000 in aggregate principal amount of Second Series Revenue Bonds (exclusive of the Series 2009D Bonds and the Series 2009C Bonds expected to be issued on November 3, 2009 and inclusive of the 2008B Notes and the Bonds to be refunded with proceeds from the issuance of the Series 2009C Bonds). See “INTRODUCTION” and “REFUNDING PLAN.”

Series	Dated Date	Original Principal Amount Issued	Outstanding Principal (as of October 20, 2009)	Purpose
Issue 15A (AMT)	January 1, 1998	\$263,355,000	\$165,685,000	New Money
Issue 15B (Non-AMT)	January 1, 1998	236,645,000	77,705,000	New Money
Issue 16A (AMT)	April 1, 1998	133,000,000	6,940,000	New Money
Issue 16B (Non-AMT)	April 1, 1998	82,000,000	25,195,000	New Money
Issue 17 (Non-AMT)	April 1, 1998	35,000,000	10,755,000	New Money
Issue 18A (AMT)	July 1, 1998	126,035,000	57,515,000	New Money
Issue 20 (Non-AMT)	October 1, 1998	267,985,000	206,735,000	Refunding
Issue 21 (Non-AMT)	October 1, 1998	82,015,000	61,465,000	New Money
Issue 22 (AMT)	December 1, 1998	125,000,000	96,465,000	New Money
Issue 23A (AMT)	May 1, 1999	168,335,000	148,680,000	New Money
Issue 23B (Non-AMT)	May 1, 1999	81,665,000	9,670,000	New Money
Issue 24A (AMT)	March 1, 2000	104,360,000	91,580,000	New Money
Issue 24B (Non-AMT)	March 1, 2000	28,140,000	2,700,000	New Money
Issue 25 (AMT)	March 1, 2000	117,500,000	103,110,000	New Money
Issue 26A (AMT)	December 1, 2000	87,230,000	76,540,000	New Money
Issue 26B (Non-AMT)	December 1, 2000	150,955,000	110,685,000	New Money
Issue 27A (AMT)	June 15, 2001	210,995,000	183,785,000	Refunding
Issue 27B (Non-AMT)	June 15, 2001	277,530,000	243,555,000	Refunding
Issue 28A (AMT)	February 15, 2002	116,640,000	103,945,000	Refunding
Issue 28B (Non-AMT)	February 15, 2002	151,210,000	63,810,000	Refunding
Issue 28C (Non-AMT)	February 15, 2002	97,150,000	42,675,000	Refunding
Issue 29A (AMT)	February 5, 2003	31,870,000	23,130,000	Refunding
Issue 29B (Non-AMT)	February 5, 2003	125,105,000	102,545,000	Refunding
Issue 30 (Non-AMT)	February 10, 2004	34,820,000	34,820,000	Refunding
Issue 31F (Taxable)	February 10, 2005	111,695,000	103,815,000	Refunding
Issue 32F (Non-AMT)	November 2, 2006	260,115,000	260,115,000	Refunding
Issue 32G (Non-AMT)	November 2, 2006	158,195,000	158,195,000	Refunding
Issue 32H (AMT) <sup>(1)</sup>	November 2, 2006	34,690,000	25,750,000	Refunding
Issue 34C (AMT)	March 27, 2008	79,170,000	77,580,000	Refunding
Issue 34D (Non-AMT)	March 27, 2008	81,170,000	81,170,000	Refunding
Issue 34E (AMT) <sup>(1)</sup>	March 27, 2008	299,365,000	296,710,000	Refunding
Issue 34F (Private Activity/Non-AMT)	March 27, 2008	16,645,000	16,645,000	Refunding
Issue 36A (Non-AMT) <sup>(2)</sup>	May 8, 2008	100,000,000	100,000,000	Refunding
Issue 36B (Non-AMT) <sup>(2)</sup>	May 8, 2008	40,620,000	40,620,000	Refunding
Issue 36C (Non-AMT) <sup>(2)</sup>	May 20, 2008	36,145,000	36,145,000	Refunding
Issue 36D (Non-AMT)	May 20, 2008	32,685,000	32,685,000	Refunding
Issue 37C (Non-AMT) <sup>(2)</sup>	May 15, 2008	89,895,000	89,895,000	Refunding
Issue 37D (Non-AMT)	May 20, 2008	19,690,000	19,690,000	Refunding
Series 2008A Notes (AMT) <sup>(1)</sup>	November 13, 2008	226,735,000	226,735,000	Refunding
Series 2008B Notes (AMT) <sup>(3)</sup>	December 17, 2008	88,190,000	88,190,000	Refunding
Series 2009A Bonds (Non-AMT/Private Activity)	August 26, 2009	92,500,000	92,500,000	Refunding
Series 2009B Bonds (Non-AMT/Private Activity)	August 26, 2009	<u>82,500,000</u>	<u>82,500,000</u>	Refunding
TOTAL		\$4,984,545,000	\$3,878,630,000	

(1) This Issue of Bonds was subject to an Invitation to Tender Bonds dated September 18, 2009. The Commission elected to purchase and refund certain Bonds that resulted in sufficient debt service savings to the Commission. For a description of Bonds accepted for purchase by the Commission, see “REFUNDING PLAN.”

(2) This Issue of Bonds was remarketed in order to convert the Bonds to securities not subject to the federal alternative minimum tax.

(3) The Series 2009B Notes are expected to be refunded with proceeds from the issuance of the Series 2009D Bonds. See “REFUNDING PLAN.”

## Debt Service Requirements

The following table presents the annual debt service requirements for the Outstanding Bonds following the issuance of the Series 2009D Bonds. See “REFUNDING PLAN.”

### DEBT SERVICE SCHEDULE<sup>(1)</sup>

Fiscal Year Ending June 30	Debt Service on Outstanding Bonds <sup>(2)(3)</sup>	Series 2009D Bonds			
		Principal	Interest <sup>(4)</sup>	Total Debt Service	Total Scheduled Debt Service
2010	\$280,732,275	—	\$975,602	\$975,602	\$281,707,877
2011	312,548,218	—	1,984,275	1,984,275	314,532,493
2012	320,090,256	—	1,984,275	1,984,275	322,074,531
2013	313,883,835	—	2,254,357	2,254,357	316,138,192
2014	324,788,927	\$395,000	2,645,700	3,040,700	327,829,627
2015	325,697,082	410,000	2,633,850	3,043,850	328,740,932
2016	328,165,182	425,000	2,621,550	3,046,550	331,211,732
2017	325,428,100	1,685,000	2,608,800	4,293,800	329,721,900
2018	321,273,333	1,760,000	2,558,250	4,318,250	325,591,583
2019	331,659,958	2,590,000	2,505,450	5,095,450	336,755,408
2020	309,977,696	2,710,000	2,427,750	5,137,750	315,115,446
2021	296,770,821	4,375,000	2,346,450	6,721,450	303,492,271
2022	293,855,406	4,570,000	2,215,200	6,785,200	300,640,606
2023	293,687,250	5,845,000	2,078,100	7,923,100	301,610,350
2024	292,440,078	7,830,000	1,902,750	9,732,750	302,172,828
2025	288,346,577	8,210,000	1,667,850	9,877,850	298,224,427
2026	261,853,897	8,595,000	1,421,550	10,016,550	271,870,447
2027	195,666,356	13,520,000	1,163,700	14,683,700	210,350,056
2028	191,092,760	16,395,000	758,100	17,153,100	208,245,860
2029	144,189,119	8,875,000	266,250	9,141,250	153,330,369
2030	97,389,199	—	—	—	97,389,199
2031	40,121,050	—	—	—	40,121,050
2032	17,842,913	—	—	—	17,842,913
TOTAL	\$5,907,500,288	\$88,190,000	\$39,019,809	\$127,209,809	\$6,034,710,096

(1) Gross debt service.

(2) Includes debt service on San Francisco International Airport Second Series Revenue Bonds Issues 15A through 30, 31F, 32F/G/H and 34C/D/E/F at fixed rates. The Issue 36A/B/C/D and Issue 37C/D Bonds were issued as variable rate securities and the debt service on such Bonds is calculated at assumed interest rates: debt service on the Issue 36A Bonds is calculated at an assumed interest rate equal to 2.00% until May 1, 2011 and thereafter at an assumed interest rate equal to 3.00% plus ancillary fees equal to 0.67%; debt service on the Issue 36B Bonds is calculated at an assumed interest rate equal to 2.00% until May 1, 2011 and thereafter at an assumed interest rate equal to 3.00% plus ancillary fees equal to 0.62%; debt service on the Issue 36D and Issue 37D Bonds is calculated at assumed interest rates equal to 3.00% plus ancillary fees equal to 0.77%; and debt service on the Issue 36C and Issue 37C Bonds is calculated at an assumed interest rate equal to 3.00% plus ancillary fees equal to 0.77%. The debt service on the Series 2008A Notes is based on the fixed interest rates equal to 6.39% until the respective mandatory tender dates on May 1, 2010 through May 1, 2012, inclusive. Following each mandatory tender, the debt service on the Series 2008A Notes is calculated at an assumed interest rate equal to 5.00%. Includes ancillary fees on the Issue 34A/B Bonds equal to 0.655% while the Issue 34A/B Bonds are held in the Issue 34A/B Bonds Trust Accounts. The debt service on the Series 2009A/B Bonds is based on an interest rate equal to 0.75% until the mandatory tender date on September 15, 2010. Following such mandatory tender date, the debt service on the Series 2009A/B Bonds is calculated at an assumed interest rate equal to 3.00%.

(3) Includes debt service on the Series 2009C Bonds expected to be issued on November 3, 2009 and reflects the refunding of certain tendered Bonds expected to be refunded with proceeds of the Series 2009C Bonds. See “INTRODUCTION.”

(4) Following the mandatory tender date, the interest on the Series 2009D Bonds is calculated at an assumed interest rate equal to 3.00%.

## Historical Debt Service Coverage

The following table reflects historical Net Revenues and the calculation of debt service coverage on the Bonds based on such Net Revenues for Fiscal Years 2003-04 through 2007-08.

	<b>HISTORICAL DEBT SERVICE COVERAGE<sup>†</sup></b>				
	<b>(Fiscal Year)</b>				
	<b>(\$ in thousands)</b>				
	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Net Revenues <sup>(1)</sup>	\$315,194	\$304,729	\$297,165	\$302,070	\$316,726
Transfer from the Contingency Account <sup>(2)</sup>	<u>92,658</u>	<u>92,699</u>	<u>92,584</u>	<u>92,609</u>	<u>92,658</u>
TOTAL AVAILABLE FOR DEBT SERVICE	\$407,852	\$397,428	\$389,749	\$394,679	\$409,384
Total Annual Debt Service <sup>(3)</sup>	\$294,469	\$285,985	\$278,544	\$272,161	290,349
Historical Debt Service Coverage per the 1991 Master Resolution <sup>(4)</sup>	138.5%	139.0%	139.9%	145.0%	141.0%
Historical Debt Service Coverage Excluding Transfer	107.0%	106.6%	106.7%	111.0%	109.1%

<sup>†</sup> Restated.

<sup>(1)</sup> Using the definition of Net Revenues contained in the 1991 Master Resolution (including PFCs classified as “Revenues” as defined under the 1991 Master Resolution for Fiscal Year 2003-04 in the amount of \$48.1 million, for Fiscal Year 2004-05 in the amount of \$68.4 million, for Fiscal Year 2005-06 in the amount of \$67.7 million and for Fiscal Year 2006-07 in the amount of \$58.4 million.

<sup>(2)</sup> Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year. See “SECURITY FOR THE SERIES 2009D BONDS–Contingency Account.”

<sup>(3)</sup> Annual Debt Service net of accrued and capitalized interest.

<sup>(4)</sup> Net Revenues plus Transfer divided by total Annual Debt Service. Must not be less than 125%. See “SECURITY FOR THE SERIES 2009D BONDS–Rate Covenant.”

Source: San Francisco Airport Commission.

## Current and Future Financings

The Commission anticipates issuing Bonds in fall 2009 to take advantage of refunding opportunities and to finance Capital Plan projects, including capital improvements related to the renovation of Terminal 2 and Boarding Area D. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Current Airport Facilities–*Terminals*” and “CAPITAL PROJECTS AND PLANNING.”

### *Series 2008A Notes*

On November 13, 2008, the Commission issued its Airport Commission of the City and County of San Francisco San Francisco International Airport Second Series Revenue Notes, Series 2008A in the aggregate principal amount of \$226,735,000 (the “Series 2008A Notes”). The Series 2008A Notes were issued to refund the Commission’s San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37A. Series 2008A Notes in the aggregate principal amount of \$100,000,000 are subject to mandatory tender by the Owners thereof for purchase by the Commission on May 1, 2010, Series 2008A Notes in the aggregate principal amount of \$100,000,000 are subject to mandatory tender for purchase on May 1, 2011 and Series 2008A Notes in the aggregate principal amount of \$26,735,000 are subject to mandatory tender for purchase on May 1, 2012. The obligation of the Commission to purchase Series 2008A Notes upon mandatory tender is *not* secured by any liquidity or credit facility.

The Series 2008A Notes were subject to an Invitation to Tender Bonds, dated September 18, 2009 pursuant to which the Commission elected to purchase and refund a portion of the Series 2008A Notes that resulted in sufficient debt service savings to the Commission. The tendered Series 2008A Bonds will be refunded with proceeds from the issuance of the Series 2009C Bonds.

If the Commission is unable to pay the Purchase Price of the Series 2008A Notes upon the respective mandatory tender date, such Series 2008A Notes would be subject to mandatory redemption. Payment of the principal of the Series 2008A Notes upon mandatory redemption is secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing all previously issued Bonds and any additional Bonds issued under the 1991 Master Indenture, including the Series 2009D Bonds. Failure to pay such Series 2008A Notes upon mandatory tender will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Events of Default" The Commission expects to refund each Series of the Series 2008A Notes on their respective mandatory date. See also "CERTAIN RISK FACTORS—Airport Market Access."

### *Capital Projects*

The Commission expects to issue the Series 2009E Bonds in November 2009 to finance certain Capital Plan projects, consisting of the renovation of Terminal 2 and Boarding Area D. The customary practice of the Commission has been to include a feasibility report in official statements for its new money bond issues (a practice the Commission may discontinue at any time) and the Commission has retained an airport consultant to prepare a "Report of the Airport Consultant" in connection with the issuance of the Series 2009E Bonds.

The Report of the Airport Consultant will be included as an appendix to the Official Statement related to the Series 2009E Bonds. The Preliminary Official Statement with respect to the Series 2009E Bonds is dated October 16, 2009. Such Report contains demographic information and projections prepared by the airport consultant, rather than the Airport, that may be of interest to some investors. The Airport assumes no responsibility for the contents of the Report of the Airport Consultant. See also "CAPITAL PROJECTS AND PLANNING."

The Commission also expects to issue Bonds in summer 2010 to finance other Capital Plan projects.

### *Issue 35 Swap Agreements*

The Commission had expected to issue variable rate bonds, in the aggregate principal amount of approximately \$215,920,000 on or about February 1, 2010, for the purpose of refunding certain outstanding bonds. The Commission has entered into two interest rate swap agreements (the "Issue 35 Swap Agreements") pursuant to which the Commission will receive payment from the respective counterparties at a variable rate commencing February 1, 2010 and the Commission will pay to the counterparties interest at a fixed rate. The Commission has not decided whether to proceed with such refunding and/or whether to terminate the related Issue 35 Swap Agreements.

If for any reason the Commission terminates the Issue 35 Swap Agreements, the Commission may owe a termination payment to the swap providers, depending upon then current interest rates in the municipal swap market. Any such payment would be payable on a basis that is subordinate to the Bonds. The Commission expects that it would make any such termination payment either from available funds, proceeds of its commercial paper program or another financing, and/or proceeds from a replacement swap. Any such payment obligation is not expected to have a material adverse effect on the Airport or its financial condition. For a description of the commercial paper program see "SECURITY FOR THE SERIES 2009D BONDS—Other Debt Issuance—*Subordinate Bonds*."

### *Series 2009A/B Bonds*

On September 3, 2009, the Commission issued its Airport Commission of the City and County of San Francisco San Francisco International Airport Second Series Revenue Bonds, Series 2009A in the aggregate principal amount of \$92,500,000 and the Commission issued its Airport Commission of the City and County of San Francisco San Francisco International Airport Second Series Revenue Bonds, Series 2009B in the aggregate principal amount of \$82,500,000 (together, the "Series 2009A/B Bonds") to refund Outstanding Bonds and take advantage of opportunities presented by ARRA. The Series 2009A/B Bonds were issued to purchase for deposit into a trust account the Commission's San Francisco International Airport Second Series Variable Rate Revenue Bonds, Issue 34AB and 34B. The Series 2009A/B Bonds are subject to mandatory tender by the Owners thereof for purchase by the Commission. The obligation of the Commission to purchase Series 2009A/B Bonds upon

mandatory tender is not secured by any liquidity or credit facility. The Commission expects to refund the Series 2009A/B Bonds with Bonds on their respective mandatory tender dates. Such Refunding Bonds may be issued as long-term fixed rate bonds, variable rate bonds or notes.

The mandatory tender dates for the Series 2009A/B Bonds is set forth below:

<u>Bonds</u>	<u>Mandatory Tender Date</u>	<u>Principal Amount</u>
Series 2009A	September 15, 2010	\$92,500,000
Series 2009B	September 15, 2010	82,500,000

If the Commission is unable to pay the Purchase Price of the Series 2009A/B Bonds upon the mandatory tender date, such Series 2009A/B Bonds would be subject to mandatory redemption. Payment of the principal of the Series 2009A/B Bonds upon mandatory redemption is secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing all previously issued Bonds and any additional Bonds issued under the 1991 Master Indenture, including the Series 2009D Bonds. Failure to pay the Series 2009A/B Bonds upon mandatory tender will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Events of Default" The Commission expects to refund the Series 2009A/B Bonds on their mandatory date. See also "CERTAIN RISK FACTORS—Airport Market Access."

#### **AIRLINE INFORMATION**

*The Commission cannot and does not assume any responsibility for the accuracy or completeness of any information contained or referred to herein regarding the business operations or financial condition of any of the airlines serving the Airport.*

Each of the principal domestic airlines serving the Airport, or their respective parent corporations, and foreign airlines serving the Airport with American Depositary Receipts ("ADR's") registered on a national exchange are subject to the information requirements of the Securities Exchange Act of 1934, and in accordance therewith files 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, 450 Fifth Street, N.W., Washington, D.C. 20549; and 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 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates or from the SEC Web site at: <http://www.sec.gov>. In addition, each airline is required to file periodic reports of financial operating statistics with the U.S. DOT. Such reports can be inspected at the Bureau of Transportation Statistics, Research and Innovative Technology Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590.

Airlines owned by foreign governments, or foreign corporations operating airlines (unless such airlines have ADR's 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 U.S. DOT.

#### **ABSENCE OF MATERIAL LITIGATION**

##### **General**

There is no litigation pending concerning the validity of the 1991 Master Resolution or the Series 2009D Bonds or the issuance and delivery thereof, the existence of the Commission, the title of the officers thereof who shall execute the Series 2009D Bonds to their respective offices, or the pledge of Net Revenues to the payment of the Series 2009D Bonds.

## **Other Matters**

In the regular course of the Airport's business, the Commission and the City are parties to a variety of pending and threatened lawsuits and administrative proceedings with respect to the Airport's operations and other matters, in addition to those specifically discussed herein. The Commission does not believe that any such lawsuits or proceedings will have a material adverse effect on the Airport's business operations or financial condition.

## **RATINGS**

Moody's Investors Service ("Moody's") has assigned a rating of "A1/VMIG1" to the Series 2009D Bonds, Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") has assigned a rating of "A" to the Series 2009D Bonds and Fitch, Inc., doing business as Fitch Ratings ("Fitch") has assigned a rating of "A+" to the Series 2009D Bonds.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2009D Bonds. An explanation of the significance of each rating may be obtained from the rating agencies at their respective addresses, as follows: Moody's Investors Service at 7 World Trade Center, at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041 and Fitch, One State Street Plaza, New York, New York 10004. 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 a rating will apply for any given period of time, or that the rating will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. The Commission undertakes no responsibility to maintain any rating or to oppose any revision or withdrawal of a rating. A downward revision or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2009D Bonds.

## **UNDERWRITING**

The Series 2009D Bonds are being purchased through negotiation by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") at a purchase price equal to \$88,190,000 (representing the principal amount of the Series 2009D Bonds, and the Underwriter will be paid a fee in the amount of \$263,333.18) in connection with the underwriting of the 2009D Bonds. The purchase contract pursuant to which the Underwriter is purchasing the Series 2009D Bonds provides that the Underwriter will purchase all of the Series 2009D Bonds if any are purchased. Under the terms of the purchase contract, the obligation of the Underwriter to make the purchase is subject to certain terms and conditions set forth in the purchase contract.

The Underwriter may offer and sell the Series 2009D Bonds to certain dealers and other at prices lower than the public offering prices set forth on the inside cover page.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Upon delivery of the Series 2009D Bonds the arithmetical accuracy of certain computations included in the schedules provided by the Co-Financial Advisors on behalf of the Commission relating to the sufficiency of cash will be verified by Grant Thornton LLP, independent certified public accountants (the "Verification Agent"). Such verification shall be based solely upon information and assumptions supplied to the Verification Agent by the Co-Financial 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.



## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP and Quateman LLP (“Co-Bond Counsel”), 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 Series 2009D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), except that no opinion is expressed as to the status of interest on any Series 2009D Bond for any period that such Series 2009D Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2009D Bonds or by a “related person” within the meaning of Section 147(a) of the Code. In the further opinion of Co-Bond Counsel, interest on the Series 2009D Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel are also of the opinion that interest on the Series 2009D Bonds is exempt from State of California personal income taxes. Co-Bond Counsel expect to deliver separate opinions at the time of issuance of the Series 2009D Bonds substantially in the form set forth in APPENDIX G hereto.

Series 2009D 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 Series 2009D Bonds. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2009D 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 Series 2009D Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2009D Bonds. The opinion of each Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Bond Counsel have 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 Co-Bond Counsel’s attention after the date of issuance of the Series 2009D Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009D Bonds. Accordingly, the opinions of Co-Bond Counsel are not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel are of the opinion that interest on the Series 2009D 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 interest on, the Series 2009D 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. Co-Bond Counsel express no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2009D Bonds to be subject, directly or indirectly, 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 future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2009D Bonds. Prospective purchasers of the Series 2009D Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel express no opinion.

The opinion of each Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the Series 2009D Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and have not given any opinion or assurance about the future activities of the Commission or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Commission has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsels' engagements with respect to the Series 2009D Bonds end with the issuance of the Series 2009D Bonds, and, unless separately engaged, Co-Bond Counsel are not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the Series 2009D Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission 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 Commission legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009D 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 Series 2009D Bonds, and may cause the Commission or the Beneficial Owners to incur significant expense.

#### **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters incident to the authorization, issuance and sale of the Series 2009D Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP and Quateman LLP, Co-Bond Counsel. Certain legal matters will be passed upon for the Commission by the City Attorney and by Lofton & Jennings, Disclosure Counsel and for the Underwriter by Hawkins Delafield & Wood LLP, Underwriter's Counsel. Co-Bond Counsel expect to deliver separate opinions at the time of issuance of the Series 2009D Bonds substantially in the form set forth in APPENDIX G subject to the matters discussed under "TAX MATTERS."

Co-Bond Counsel are not passing upon and undertake no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

#### **PROFESSIONALS INVOLVED IN THE OFFERING**

The Commission has retained Public Financial Management, Inc., Backstrom McCarley Berry & Co., LLC, Robert Kuo Consulting, LLC and Castleton Partners, LLC to serve as Co-Financial Advisors with respect to the Series 2009D Bonds.

The Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel and Underwriter's Counsel will receive compensation with respect to the Series 2009D Bonds which is contingent upon the sale and delivery of the Series 2009D Bonds.

#### **FINANCIAL STATEMENTS**

The audited financial statements of the Commission for Fiscal Year 2007-08 and Fiscal Year 2006-07, prepared in accordance with Governmental Accounting Standards Board guidelines, are included as APPENDIX A attached hereto. The financial statements referred to in the preceding sentence have been audited by KPMG LLP, independent certified accountants, whose report with respect thereto also appears in APPENDIX A.

The 1991 Master Resolution requires the Commission to have its financial statements audited annually by independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing, and it is the policy of the City to select the independent auditor periodically through a competitive selection process. KPMG LLP was selected for a four-year contract pursuant to a regular request for proposals process conducted by the City. The audited financial statements prepared by the Commission each Fiscal Year are required to be provided to the Trustee within 120 days after the end of each such year in accordance with the 1991 Master Resolution. The Fiscal Year 2007-08 financial statements also include the initial reporting of OPEB costs and obligations of the Airport as required under GASB 45. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Payments to the City—*Employee Benefit Plans.*”

### **CONTINUING DISCLOSURE**

The Commission has covenanted for the benefit of the Holders and Beneficial Owners (as defined in the Continuing Disclosure Certificate) of the Series 2009D Bonds to provide certain financial information and operating data relating to the Commission (the “Annual Disclosure Report”) by not later than 210 days following the end of each Fiscal Year, commencing with the report for Fiscal Year 2008-09, and to provide notices of certain enumerated events, if material. The Annual Disclosure Report and notices of material events will be filed by the Commission with the means of the Electronic Municipal Market Access site maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Disclosure Report or the notices of material events is summarized in APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter of the Series 2009D Bonds in complying with SEC Rule 15c2-12(b)(5). The Commission has never failed to comply in any material respect with any previous undertakings in accordance with said Rule to provide Annual Disclosure Reports or notices of material events.

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## MISCELLANEOUS

This Official Statement has been duly authorized, executed and delivered by the Commission.

The summaries and descriptions of provisions of the 1991 Master Resolution, the Interest Rate Swap Agreements, the Escrow Agreement, the Continuing Disclosure Certificate, the Settlement Agreement, the Lease Agreements, the purchase contract pursuant to which the Underwriter is purchasing the Series 2009D Bonds, and all references to other materials not purporting to be quoted in full are qualified in their entirety by reference to the complete provisions of the documents and other materials summarized or described. Copies of such documents may be obtained from the Trustee or, during the offering period, from the Underwriter. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

AIRPORT COMMISSION OF THE CITY AND  
COUNTY OF SAN FRANCISCO

By: /s/ John L. Martin  
Airport Director

**APPENDIX A**

**FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY  
CHARGES JUNE 30, 2008 AND 2007 (WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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SAN FRANCISCO INTERNATIONAL AIRPORT**

Financial Statements with  
Schedule of Passenger Facility Charge Revenues and Expenditures  
June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP  
95 Second Street  
San Francisco, CA 94105

AIRPORT COMMISSION  
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Independent Auditors' Report

The Honorable Mayor and Board of Supervisors  
City and County of San Francisco:

We have audited the accompanying financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements of the Airport are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2008 and 2007, the changes in their financial position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Commission, City and County of San Francisco, San Francisco International Airport as of June 30, 2008 and 2007, and its changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 26 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting



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Management's Discussion and Analysis  
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principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in notes 2(b) and 9(b) to the financial statements, the Airport adopted the recognition and disclosure provisions of Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2007.



October 31, 2008

The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO) presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2008 with comparative data for the fiscal year ended June 30, 2007. All amounts are expressed in thousands of dollars unless otherwise indicated.

The Airport's financial statements are comprised of two components: (1) Financial Statements and (2) Notes to Financial Statements. The Airport's financial statements include:

*Statements of Net Assets* present information on the Airport's assets and liabilities as of year-end, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Airport is improving or deteriorating.

While the Statements of Net Assets provide information about the nature and amount of resources and obligations at year-end, the *Statements of Revenues, Expenses, and Changes in Net Assets* present the results of the Airport's operations over the course of the fiscal year and information as to how the net assets changed during the year. These Statements can be used as an indicator of the extent to which the Airport has successfully recovered its costs through user fees and other charges. All changes in net assets are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operating, noncapital financing, capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or revenue and exclude noncash accounting measures of depreciation or amortization of assets.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Highlights of Airline Operations at the Airport**

Passenger growth trends at SFO that began in late fiscal year 2007 accelerated in early fiscal year 2008, with summer travel demand in both domestic and international sectors, the start-up of three low cost carriers (LCCs), and capacity increases for existing carriers. JetBlue Airways began flights from SFO in May 2007; new domestic start-up Virgin America began flights from SFO in August 2007; and Southwest Airlines returned to SFO with flights starting in late August 2007. Load factors (ratio of passengers to seats available) reached record highs and the domestic sector showed the highest growth rates since the downturn following 9/11. The positive operating margins that most airlines posted since the fourth quarter of fiscal year 2006 continued into the first quarter of fiscal year 2008.

Capacity growth continued through the second-half of fiscal year 2008, with a majority of the growth due to Southwest and Virgin America domestically and new service from Aer Lingus, plus frequency increases from United and Cathay Pacific internationally. These increases in capacity were partially offset by reductions from many network carriers in the second half of the fiscal year as they responded to the upward trend in fuel costs that began in late summer 2007. The domestic sector saw capacity reductions from American, Alaska, Continental, Delta, United, and US Airways. The international sector saw reductions in short-haul international flights to Canada and Mexico by Alaska and Air Canada.

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Passenger growth slowed in the last quarter of the fiscal year, despite the increased capacity. As oil prices reached unprecedented highs, many airlines raised fares and added fees in order to achieve higher yields (revenue in cents per mile). Higher prices and a weakening economy, however, resulted in lower travel demand as evidenced by lower load factors in the last quarter. Despite higher fares, the combination of record-high fuel cost and lower load factors resulted in operating losses for most airlines in the last quarter of fiscal year 2008 and prompted additional rounds of seat capacity reductions scheduled to take place during fiscal year 2009.

While SFO saw year-over-year capacity and enplanement increases, the trend was opposite at other Bay Area airports. Oakland International Airport's enplanement decrease was 6.4% and a 3.9% capacity decrease, which was primarily due to liquidation of three LCCs serving Oakland—Skybus, Aloha Airlines, and ATA. This trend will continue next fiscal year with the expected cancellations of service by American and Continental from Oakland in September, and also reduced flights by Southwest. Mineta San Jose International Airport's year-over-year statistics were more stable at a decrease of 2.6% in enplanements and 0.9% capacity decrease. The result is a fiscal year 2008 Bay Area market share increase of 3.1 percentage points for SFO to 60.5%.

**Passenger and Other Traffic Activity**

In the first three quarters of fiscal year 2008, passenger traffic grew at a rate of 9.1%, compared to the same time period in fiscal year 2007. The fourth quarter saw a growth rate of 6.6% due to lower travel demand caused by a weakening economy plus higher airfares, which brought the final year-over-year enplanement growth rate to 8.4%. Throughout the fiscal year, enplanements showed month-over-month increases in each month in both domestic and international sectors. Domestic enplanement growth was strong throughout the fiscal year at an average of 9.5%, primarily due to capacity growth from Southwest and Virgin America. The first three quarters saw an international enplanement growth rate of 6.3%, however growth slowed in the last quarter to 1.9%, bringing the final international enplanement growth rate to 5.2%. Overall load factors softened by 1.0% to 77.9%. Cargo tonnage declined by 3.8% compared to the prior year, attributable to domestic cargo, which has shown month-over-month decreases for most of fiscal year 2008. Total aviation operations increased 6.9% over prior year levels. Aircraft landed weight, which determines revenue generated by landing fees, ended fiscal year 2008 at 5.8% above prior fiscal year levels.

(Continued)

The following chart presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2008, 2007, and 2006:

	FY 2008	FY 2007 <sup>1</sup>	FY 2006 <sup>1</sup>	% Change FY 2008	% Change FY 2007
Flight operations	390,830	365,642	356,556	6.9%	2.5%
Landing weight (in 000 lbs.)	29,404,733	27,799,981	27,173,309	8.1	2.3
Total passengers	37,121,365	34,346,413	33,564,796	8.4	2.6
Total enplaned and deplaned passengers	36,709,405	33,853,382	32,987,850	8.4	2.8
Enplaned passengers	18,373,378	16,953,978	16,490,345	8.5	2.4
Deplaned passengers	18,336,027	16,901,404	16,497,505	8.5	1.9
Domestic passengers	27,558,480	25,159,432	24,701,481	9.5	4.9
International passengers	9,150,925	8,695,950	8,286,369	5.2	(3.6)
Cargo and U.S. mail tonnage (in metric tons)	550,547	572,326	593,570	(3.8)	(3.6)

<sup>1</sup> Revised data received subsequent to the 2007 and 2006 fiscal year end.

**Fiscal Year 2008**

**Passenger Traffic**

Compared to the previous fiscal year, passenger enplanements in fiscal year 2008 increased by 8.4% from 17.0 million to 18.4 million passengers. International passenger growth was 5.2%, while domestic traffic increased 9.5%, which represents a 0.3% and 7.3% improvement over the 2007 fiscal year-over-year growth rate in the international and domestic sectors respectively. Of those increased passengers, 84% were domestic and 16% international. In the prior fiscal year, international enplanements accounted for 43% of the year-over-year increase.

The domestic enplanement growth was on a 10.1% increase in seat capacity, primarily from LCC entrants Southwest and Virgin America whose services at SFO started in August 2007. International enplanement growth was on an 8.9% increase in capacity, primarily from reinstatement of Taipei service and frequency addition to Frankfurt and Hong Kong (seasonal) by United Airlines, frequency addition to Hong Kong by Cathay Pacific, and start-up of new service to Dublin by Aer Lingus. Overall load factors in both domestic and international sectors softened by 1.0% to 77.9%.

**Flight Operations**

During fiscal year 2008, the number of aircraft operations (takeoffs and landings) increased by 25,188 flights or 6.9% over prior fiscal year levels. The entirety of the increase was from commercial traffic, which increased at a higher rate of 7.7%, or 26,521 flights. Civil and military traffic decreased by 6.2%, or 1,333 flights.

Scheduled airline passenger and cargo landings increased by 8.6% with an increase in landed weight for these landings of 5.8% compared to the prior fiscal year. Domestic passenger landings increased by 9.9% with landed weight increasing by 8.0%. The ratio of domestic aircraft seat capacity per landing was relatively stable year-over-year at approximately 121 seats per landing. This was influenced by an increase in usage of narrow

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body aircraft by new entrants JetBlue, Southwest, and Virgin America, and the decrease of wide body aircraft usage primarily by United and Delta. In the domestic sector, narrow body aircraft landings increased by 16.8%, while wide body aircraft landings decreased by 10.9%.

In the international market, the 6.8% increase in landed weight was above the 6.6% increase in landings, indicating a trend in larger aircraft size. This is reflective of added trans-oceanic service/frequencies served by large wide body aircraft and capacity cuts in short-haul international routes using smaller narrow body aircraft. International wide body aircraft landings increased by 5.3%, while narrow body aircraft landings decreased by 7.6%. Commuter landings overall (domestic and international) increased by 4.0%, but was primarily driven by increased usage of 100 seat or less regional aircraft to Canada by Skywest/United Express and Air Canada.

Cargo-only landings declined at a rate of 14.2%, which is indicative of the trend in weakening cargo traffic observed in fiscal year 2008.

**Cargo Tonnage**

Fiscal year 2008 cargo and U.S. mail tonnage decreased by 21,779 metric tons or 3.8%. While mail tonnage increased by 3,472 metric tons or 5.9%, cargo volume excluding mail decreased by 25,251 metric tons or 4.9%. Domestic cargo volume decreased by 9.4%, while international cargo increased by 0.6%. This 0.6% increase in international cargo reflects an increase primarily in import cargo. However, this trend has reversed in the last quarter of the fiscal year, likely due to weakening of the U.S. dollar. Cargo-only airlines, which carry 29.4% of cargo tonnage, showed a fiscal year decrease in tonnage of 14.4%. Airlines with passenger only or mixed passenger and freight operations showed an increase of 1.4%.

**Fiscal Year 2007**

**Passenger Traffic**

Compared to the previous fiscal year, passengers using the Airport in fiscal year 2007 increased by 2.3% from 33.6 million to 34.3 million. International passenger growth was 4.9%, a 0.6 percentage point improvement over the fiscal year 2006 year-over-year growth rate, and domestic traffic increased 1.9%, an improvement over the flat growth in fiscal year 2006. Overall, there were 867,532 more enplaned and deplaned passengers, with 53% of the increased passengers in the domestic sector, and 47% in international. Passenger traffic growth was dampened in the first half of fiscal year 2007 following the terrorist plot in the U.K. and the heightened security measures that followed. 90% of the growth occurred in the second half of the fiscal year as passengers adjusted to the new security measures and seat capacity increased.

**Flight Operations**

During fiscal year 2007, the number of aircraft operations (takeoffs and landings) increased by 9,086 flights or 2.5% over prior fiscal year levels. Domestic commercial traffic accounted for 74% of the increased flights. Scheduled airline passenger and cargo landings increased by 2.5% with an increase in landed weight for these landings of 2.3% compared to the prior fiscal year. Domestic passenger landings increased by 2.4% with landed weight increasing by 1.4%, as domestic carriers continue minimizing operating costs through use of smaller aircrafts. International landings increased by 4.6% and landed weight by 4.4%, indicating relatively stable

aircraft size. Cargo aircraft size increased as indicated by a 5.6% decrease in landings and a 0.7% increase in landed weight.

**Cargo Tonnage**

Fiscal year 2007 cargo and U.S. mail tonnage decreased by approximately 21,244 metric tons or 3.6%; cargo volume excluding mail decreased by 13,507 metric tons or 2.6%. Domestic cargo volume decreased by 4.1% while international cargo decreased by 1.3%. The decrease in international cargo, compared to the prior year, was due to a 3.3% net decline in import cargo.

**Financial Highlights, Fiscal Year 2008**

- The assets of the Airport exceeded liabilities at the close of the fiscal year by \$313.4 million.
- Total revenue bonds payable of the Airport decreased by \$8.8 million.
- Operating revenues were \$535.8 million.
- Operating expenses were \$451.3 million.
- Nonoperating expenses net of revenues from nonoperating sources (including revenues of \$69.5 million from passenger facility charges) were \$103.0 million.
- Capital contributions from Airport Improvement Program (AIP) were \$41.1 million.
- Annual service payment to the City for the fiscal year was \$25.9 million.
- Net assets decreased by \$3.3 million.

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**Overview of the Airport's Financial Statements**

**Net Asset Summary**

A condensed summary of the Airport's net assets for the fiscal years 2008, 2007, and 2006 is shown below (in thousands):

**SAN FRANCISCO INTERNATIONAL AIRPORT'S NET ASSETS**

	FY 2008	FY 2007	FY 2006	FY 2008 increase (decrease)	FY 2007 increase (decrease)
<b>Assets:</b>					
Unrestricted current assets	\$ 342,930	306,897	282,493	36,033	24,404
Restricted assets available for current outlay	69,647	55,930	54,449	13,717	1,481
Noncurrent assets	529	4,215	8,555	(3,686)	(4,340)
Noncurrent restricted assets	338,543	318,170	359,599	20,373	(41,229)
Capital assets, net	3,600,632	3,640,941	3,676,771	(40,309)	(35,830)
Unamortized bond issuance costs	45,171	44,947	44,970	224	(23)
<b>Total assets</b>	<b>4,397,452</b>	<b>4,371,100</b>	<b>4,426,637</b>	<b>26,352</b>	<b>(55,537)</b>
<b>Liabilities:</b>					
Current liabilities payable from unrestricted assets	183,461	176,163	151,833	7,298	24,330
Current liabilities payable from restricted assets	73,688	48,840	48,661	24,848	179
Noncurrent liabilities	3,826,908	3,829,355	3,911,220	(2,447)	(81,865)
<b>Total liabilities</b>	<b>4,084,057</b>	<b>4,054,358</b>	<b>4,111,714</b>	<b>29,699</b>	<b>(57,356)</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	(177,974)	(122,134)	(134,016)	(55,840)	11,882
Restricted for debt service	220,132	159,020	153,498	61,112	5,322
Restricted for capital projects	18,212	34,641	15,210	(16,429)	19,431
Unrestricted	253,025	245,215	280,231	7,810	(35,016)
<b>Total net assets</b>	<b>\$ 313,395</b>	<b>\$ 316,742</b>	<b>\$ 314,923</b>	<b>(3,347)</b>	<b>1,819</b>

**Fiscal Year 2008**

Total net assets serve as an indicator of the Airport's financial position. The Airport's assets exceeded liabilities by \$313.4 million and \$316.7 million as of June 30, 2008 and June 30, 2007, respectively, representing a 1.06% decrease or \$3.3 million. Unrestricted net assets represent 80.7% and 77.4% of total net assets as of June 30, 2008 and June 30, 2007, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 11.7% from \$306.9 million on June 30, 2007 to \$342.9 million on June 30, 2008 due principally to an increase in the Airport's cash and investments generated from higher operating revenues realized during the fiscal year.

Restricted assets available for current outlay consist principally of cash and investments held for capital outlay and debt service funds held by the fiscal agent. The increase is principally due to the increase in cash and investments in City Treasury generated from increased receipts of passenger facility fees (PFC).

Noncurrent assets which is principally noncurrent accounts receivable decreased by \$3.7 million from \$4.2 million in 2007 to \$0.5 million in 2008 due to the payment received in fiscal year 2008 from a claim settlement.

Noncurrent restricted assets increased from \$318.2 million in fiscal year 2007 to \$338.5 million in fiscal year 2008 because of incremental deposits to the debt service reserve fund funded from bond proceeds.

Capital assets consist of land, easements, buildings, structures, improvements, and equipment. The Airport financed its capital assets primarily through the issuance of revenue bonds and commercial paper notes and uses these facilities to provide services to passengers and visitors to the Airport. The debt service associated with the acquisition of these capital assets is provided annually from operations. Capital assets, net of depreciation, decreased by 1.1% in fiscal year 2008 due to depreciation and deletions of certain capital assets.

Current liabilities payable from unrestricted assets increased by 4.1% from \$176.2 million as of June 30, 2007 to \$183.5 million as of June 30, 2008 primarily due to the net effect of the increase in rent collected in advance and the decrease of accrued liabilities due to the reversal of a provision for loss contingencies relating to a certain litigation. (see note 12(c))

Current liabilities payable from restricted assets increased by 50.9% from \$48.8 million as of June 30, 2007 to \$73.7 million as of June 30, 2008 primarily because of increased construction activities funded from bond proceeds and issuance of commercial paper notes; there were no commercial paper issued in the prior fiscal year.

Noncurrent liabilities consist of long-term bonds payable and related premium and discount, and long-term liabilities representing accrual of compensated absences for vacation and vested sick leave and workers' compensation liabilities and other post employment benefits obligation. Noncurrent liabilities decreased by 0.1% in fiscal year 2008 primarily due to the maturity of long-term bonds payable.

As of June 30, 2008, the Airport's net assets invested in capital assets, net of related debt were a negative \$178.0 million, compared to a negative \$122.1 million in the prior year because of the cumulative effect of the Airport depreciating its capital assets faster than the repayment of its bonded debt. In fiscal year 2007, the Airport changed the estimated useful life of certain fixed assets to address this issue. (see note 5)

**Fiscal Year 2007**

Total net assets serve as an indicator of the Airport's financial position. The Airport's assets exceeded liabilities by \$316.7 million and \$314.9 million as of June 30, 2007 and June 30, 2006, respectively, representing a 0.58%

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increase or \$1.82 million. Unrestricted net assets represent 77.4% and 89.0% of total net assets as of June 30, 2007 and June 30, 2006, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 8.6% from \$282.5 million on June 30, 2006 to \$306.9 million on June 30, 2007 due principally to an increase in the Airport's cash and investments generated from higher operating revenues realized during the fiscal year and increased rate of return on investments, which averaged 4.1% in fiscal year 2006 compared to 5.1% in fiscal year 2007.

Restricted assets consist of cash and investments of revenue bonds and commercial paper proceeds that are used for the construction of Airport capital assets. Restricted assets decreased by 9.6% from \$413.8 million in fiscal year 2006 to \$374.1 million in fiscal year 2007 primarily due to draw-down of construction funds.

Noncurrent assets, consisting of noncurrent accounts receivable, decreased by \$4.4 million or 50.7% from \$8.6 million to \$4.2 million in fiscal year 2007. The decrease is due principally to a claim settlement payment received during the fiscal year.

Capital assets consist of land, buildings, structures, improvements, and equipment. The Airport financed its capital assets primarily through the issuance of revenue bonds and commercial paper notes and uses these facilities to provide services to passengers and visitors to the Airport. The debt service associated with the acquisition of these capital assets is provided annually from operations. Capital assets, net of depreciation, decreased by 1.0% and 2.2%, respectively, in fiscal years 2007 and 2006. The decrease in fiscal year 2007 is due to depreciation and deletions of certain capital assets.

Current liabilities from unrestricted assets increased by 16.0% from \$151.8 million as of June 30, 2006 to \$176.2 million as of June 30, 2007 primarily due to the increase in accounts payable and accrued liabilities due to the provision for loss contingencies relating to various litigations.

Current liabilities payable from restricted assets increased by 0.4% from \$48.7 million as of June 30, 2006 to \$48.8 million as of June 30, 2007 primarily due to increased construction activities funded by bond proceeds.

Noncurrent liabilities consist of long-term bonds payable and related premium and discount, and long-term liabilities representing accrual of compensated absences for vacation and vested sick leave and workers' compensation liabilities. Noncurrent liabilities decreased by 2.1% in fiscal year 2007 primarily due to the maturity of long-term bonds payable.

As of June 30, 2007, the Airport's net assets invested in capital assets, net of related debt were a negative \$122.1 million, compared to a negative \$134 million in the prior year. The negative net assets are due to the Airport's depreciating capital assets faster than the repayment of its bonded debt. The change in the estimated useful life of certain fixed assets should help negate this decline (see note 5).

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**Highlights of Changes in Net Assets**

The following table shows a condensed summary of changes in net assets for fiscal years 2008, 2007, and 2006 (in thousands):

	FY 2008	FY 2007	FY 2006	FY 2008 increase (decrease)	FY 2007 increase (decrease)	FY 2006 increase (decrease)
<b>SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET ASSETS</b>						
Operating revenues	\$ 535,771	503,914	455,342	31,857	48,572	48,572
Operating expenses	451,258	431,059	432,811	20,199	(1,752)	(1,752)
Operating income	84,513	72,855	22,531	11,658	50,324	50,324
Other nonoperating expenses, net	(102,978)	(94,590)	(92,234)	(8,388)	(2,356)	(2,356)
Loss before transfers, contributions, and special item	(18,465)	(21,735)	(69,703)	3,270	47,968	47,968
Transfers to the City and County of San Francisco	(25,942)	(23,348)	(21,458)	(2,594)	(1,890)	(1,890)
Transfers from the City and County of San Francisco	—	—	(55)	—	—	55
Deficiency before capital contributions	(44,407)	(45,083)	(91,216)	676	46,133	46,133
Capital contributions	41,060	46,902	48,544	(5,842)	(1,642)	(1,642)
Changes in net assets	(3,347)	1,819	(42,672)	(5,166)	44,491	44,491
Total net assets at beginning of year	316,742	314,923	357,595	1,819	(42,672)	(42,672)
Total net assets at end of year	\$ 313,395	316,742	314,923	(3,347)	1,819	1,819



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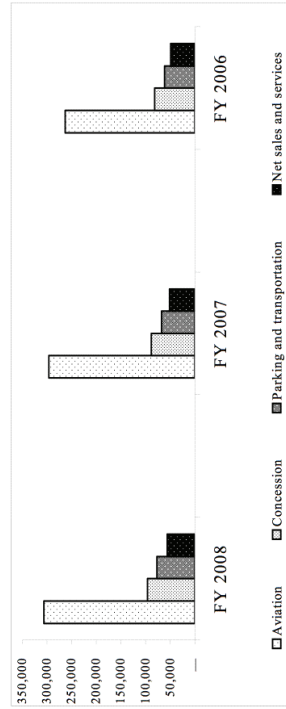
During fiscal years ended June 30, 2008, June 30, 2007, and June 30, 2006, revenues realized from the following sources equal or exceed 5% of the Airport's total operating revenues:

	FY 2008	FY 2007	FY 2006
United Airlines	22.7%	21.1%	20.4%
New South Park	6.3	—	—
AMPCO Parking Systems	—	9.0	8.8

The following shows a comparative summary of operating revenues for fiscal years 2008, 2007, and 2006:

**Comparative Summary of Airport's Operating Revenues**

	FY 2008	FY 2007	FY 2006	FY 2008 Percentage Increase (decrease)	FY 2007 Percentage Increase (decrease)
Aviation	\$ 306,348	296,368	263,422	3.4%	12.5%
Concession	96,268	88,225	81,865	9.1	7.8
Parking and transportation	76,679	67,428	61,186	13.7	10.2
Net sales and services	56,476	51,893	48,869	8.8	6.2
<b>Total operating revenues</b>	<b>\$ 535,771</b>	<b>503,914</b>	<b>455,342</b>	<b>6.3%</b>	<b>10.7%</b>



**Fiscal Year 2008**

Operating revenues increased by 6.3% from \$503.9 million in fiscal year 2007 to \$535.8 million in fiscal year 2008, primarily due to the growth in concession revenues, parking and net sales and services, driven by the growth in passenger traffic.

Aviation revenues increased by 3.4% from \$296.4 million in fiscal year 2007 to \$306.3 million in fiscal year 2008, primarily due to nonterminal rentals and fees for activities related to the increase in air traffic and adjustment of deferred aviation revenue, offset by decreases in Airline landing fees and terminal rentals. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds decreased 9.8% from \$3.34 in 2007 to \$3.01 in 2008 and airline average annual terminal rent per square foot decreased 3.2% from \$94.61 in 2007 to \$91.60 in 2008, resulting in an \$11.0 million or 4.5% decrease in revenues from these sources. Significant increases in other aviation revenues included \$3.3 million from a new lease and operating agreement with the fixed based operator, \$3.6 million from aviation leases, \$1.7 million from employee parking and \$1.5 million from aircraft parking. The balance of the increase in other aviation revenues was from miscellaneous fees such as jet bridge usage fees and airline support services.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free and retail merchandise (gifts, candy, tobacco, and news) and rental car concessions increased by 9.1% from \$88.2 million in fiscal year 2007 to \$96.3 million in fiscal year 2008. The 8.4% increase in enplaned and deplaned passengers was the primary driver for increased sales and revenues, though some concession areas exceeded that increase. Revenue from rental car activity increased by \$5.6 million or 23.0%, reflecting a 5.5% increase in rental car contracts and full year effect of the State legislation allowing rental car companies to charge customers for concession fees paid to airports. The added charge is considered as gross receipts and in effect increased reportable gross revenues of the rental car companies by 10%. Telephone revenues increased \$1.2 million or 94.2% reflecting service from a new pay phone service provider and increased minimum annual guarantee (MAG) rent from the four wireless phone companies per lease terms and the WiFi service provider per terms of its lease option. Food and beverage revenues increased \$1.1 million or 11.3% reflecting increased sales activity from new airline carriers commencing operation during the fiscal year. Retail merchandise sales activity increased by 15.6%, but MAG rent was higher than the calculated percentage rent for many concessionaires, resulting in a revenue increase of \$0.4 million or 1.1%. The balance of the increase in concession revenue is attributable to higher advertising activity and passenger services revenues.

Parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 13.7% from \$67.4 million in fiscal year 2007 to \$76.7 million in fiscal year 2008. The increase reflects a \$1/day rate increase for long-term parking and a 4.7% average fee increase to ground transportation trip fees, plus restructuring of other parking fees and enhanced marketing program to increase market share. Fiscal year 2008 parking activity increased 3.7% or 114,900 vehicle exits from prior year levels. Additional parking capacity was added in the international A & G garage following tenant employee parking relocation to Lot D and the paving of the adjacent lot next to the long-term garage during May and June 2008 respectively.

Net sales and service revenues consist of revenues derived from utility services, telecommunication access fees, gate security fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 8.8% or \$4.6 million in fiscal year 2008 compared to fiscal year 2007 principally due to a \$3.4 million or 17.4% increase from transportation and facility fees charged on rental car contracts related to AirTrain usage to and from the Rental Car Center. The increase was, in part, due to \$1.1 million in increases related to increased passenger traffic. The remaining increase is from miscellaneous fees.

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**Fiscal Year 2007**

Operating revenues increased by 10.7% from \$455 million in fiscal year 2006 to \$504 million in fiscal year 2007 primarily due to an increase in aviation revenues. Airline landing fees and terminal rentals account for nearly 90% of the \$32.9 million or 12.5% increase in aviation revenue over the prior year. Landing fees increased 3.8% and landed weight on which the fees are assessed increased 2.3% as compared to the prior year. Effective average rental rates increased 4.9%. In addition, the allocation of the aforementioned \$13.5 million net overcharge to landing fees and terminal rentals was significantly lower in fiscal year 2007 as compared with the \$29.9 million overcharge in fiscal year 2006. The balance of the increase in aviation revenues resulted from activities related to increased flight operations such as aircraft parking and storage and rental revenue increases based on scheduled rental increases for cargo and airline support space.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free and retail merchandise (gifts, candy, tobacco, and news) and rental car concessions increased by 7.8% from \$81.9 million in fiscal year 2006 to \$88.2 million in fiscal year 2007. While the 2.6% increase in emplaned and deplaned passengers contributed to increased sales, revenues for all concession categories exceeded that increase for reasons as follows. Food and beverage revenues increased \$1.5 million or 17.4% reflecting continued success of the domestic terminal food and beverage program and passengers arriving earlier before flight times due to increased security measures following the August 2006 terrorist bomb plot in the U.K. Revenues from retail concessions increased \$2.3 million or 7.0% as a result of reinstated minimum annual guarantees (MAG) that had been suspended under the Concession Support Program following 9/11 and an increase in the Duty Free Shop MAG related to the opening of new store locations. Revenue from rental car activity increased by \$2.0 million or 9.2%, reflecting a 2.7% increase in rental car contracts and mid-year implementation of State legislation allowing rental car companies to charge customers for concession fees paid to airports. The added charge is considered as gross receipts and in effect increased reportable gross revenues of the rental car companies by 10%. The balance of the increase in concession revenue is attributable to tenant rentals of concession support space.

Parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 10.2% from \$61.2 million in fiscal year 2006 to \$67.4 million in fiscal year 2007. The increase is primarily attributable to the opening of the renovated long-term parking facility in June 2006 and longer duration stays in the domestic and international garages. The total fiscal year 2007 parking activity increased by 2.3% or 70,852 vehicle exits from prior year levels.

Net sales and service revenues derived from utility services, telecommunication access fees, gate security fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 6.2% or \$3 million in fiscal year 2007 compared to fiscal year 2006 principally due to an increase in the transportation and facility fees charged on rental car contracts related to AirTrain usage to and from the Rental Car Center. The fee increased from \$13.50 to \$15.00 in fiscal year 2007 and rental car transactions increased by the aforementioned 2.7%.

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**Operating Expenses**

The following shows a comparative summary of operating expenses for fiscal years 2008, 2007, and 2006 (in thousands):

	FY 2008	FY 2007	FY 2006	Percentage increase (decrease) FY 2008	Percentage increase (decrease) FY 2007
Personnel	\$ 185,238	163,945	153,777	13.0%	6.6%
Depreciation and amortization	151,121	142,807	162,009	5.8	(11.9)
Contractual services	51,914	51,148	51,483	(2.3)	3.2
Light, heat, and power	18,893	18,515	18,544	2.0	(0.2)
Services provided by other City departments	10,863	12,425	12,516	(12.6)	(0.7)
Repairs and maintenance	15,848	14,481	18,810	9.4	(23.0)
Materials and supplies	11,319	11,016	7,654	2.8	43.9
General and administrative	1,610	8,663	2,813	(81.4)	208.0
Amortization of bond issuance costs	4,288	3,560	3,415	20.4	4.2
Environmental cleanup expenses	164	2,499	1,790	(93.4)	39.6
	<u>\$ 451,258</u>	<u>431,059</u>	<u>432,811</u>	<u>4.7%</u>	<u>(0.4)%</u>

**Fiscal Year 2008**

Total operating expenses increased by 4.7% or \$20.2 million in fiscal year 2008 compared to a negative 0.4% or \$1.75 million decrease in fiscal year 2007. Reasons for the significant fluctuations in the different operating expense categories are provided below.

Personnel costs increased \$21.3 million or 13.0% from \$163.9 million in fiscal year 2007 to \$185.2 million in fiscal year 2008, primarily due to \$15.4 million of other post employment benefits obligation (see notes 2(b) and 9(b)) depreciation and amortization increased by 5.8% from \$142.8 million in fiscal year 2007 to \$151.1 million in fiscal year 2008 due to additions to capital assets.

Contractual services decreased by 2.3% from \$53.1 million in fiscal year 2007 to \$51.9 million in fiscal year 2008 due to the decrease in professional and financial services expenditures.

Services provided by other City departments decreased 12.6% from \$12.4 million in fiscal year 2007 to \$10.9 million in fiscal year 2008 primarily due to the decrease in legal cost provided by the City Attorney. (see note 12c)



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Repairs and maintenance increased 9.4% from \$14.5 million in fiscal year 2007 to \$15.9 million in fiscal year 2008 due to price escalation provisions in the service maintenance contract for the AirTrain, elevators, escalators, and moving walkways through-out the terminal complex.

Materials and supplies increased by 2.8% from \$11.0 million in fiscal year 2007 to \$11.3 million in fiscal year 2008 principally due to the significant rise in fuel costs and other oil-based products.

General and administrative costs decreased by 81.4% from \$8.7 million in fiscal year 2007 to \$1.6 million in fiscal year 2008 principally because of the provision for loss contingencies in the prior fiscal year.

Environmental cleanup costs for fiscal year 2008 are \$0.16 million compared to \$2.5 million in fiscal year 2007. The decrease is due to completion of environmental hazard abatements relating to demolition of Boarding Area A in fiscal year 2007.

**Fiscal Year 2007**

Total operating expenses decreased by 0.4% (\$1.8 million) in fiscal year 2007 compared to a 3.3% (\$13.8 million) increase in fiscal year 2006. The significant increase in personnel cost of \$10.2 million and general and administrative cost of \$5.9 million was mitigated by the decrease in depreciation and amortization expense of \$19.2 million and recovery of indirect costs of \$7.7 million (see notes 2(d) and 5).

Personnel costs increased \$10.2 million from \$153.8 million to \$164.0 million primarily due to salary increases and incremental retirement cost related to the implementation of the Memorandum of Understanding (MOU) between the City and the various bargaining units.

Depreciation and amortization decreased by 11.9% from \$162.0 million in fiscal year 2006 to \$142.8 million in fiscal year 2007. This decrease is primarily due to the change in the estimated useful life of certain fixed assets. The change resulted in a decrease of \$16.5 million in annual depreciation of the affected assets (see note 5).

Contractual services increased by 3.2% from \$51.5 million in fiscal year 2006 to \$53.1 million in fiscal year 2007 principally due to the increase in costs relating to parking garage operations, the Airport Information Booth, and financial advisory services.

Services provided by other City departments decreased 0.7% from \$12.5 million in fiscal year 2006 to \$12.4 million in fiscal year 2007 due to the effect of indirect costs recovery.

Repairs and maintenance decreased 23.0% from \$18.8 million in fiscal year 2006 to \$14.5 million in fiscal year 2007. This decrease is principally due to the decrease in contractual costs related to the maintenance and repair of the Airport's infrastructure while returning to more typical expense levels after higher prior year project spending.

Materials and supplies increased by 43.9% from \$7.7 million in fiscal year 2006 to \$11.0 million in fiscal year 2007 principally due to the increase in cost of asphalt and related construction supplies for roadway paving and maintenance, plumbing supplies and small tools to maintain Airport pipe and water distribution systems, as well as increased purchases of electrical and lighting supplies for various Airport facilities.

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General and administrative costs increased by 208.0% from \$2.8 million in fiscal year 2006 to \$8.7 million in fiscal year 2007 principally because of an increase in the provision for litigation costs.

Environmental cleanup costs for fiscal year 2007 are \$2.5 million compared to \$1.8 million in fiscal year 2006. The increase is due to a new environmental project involving lead contamination cleanup.

**Nonoperating Revenues and Expenses**

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2008, 2007, and 2006 (in thousands):

	FY 2008	FY 2007	FY 2006	Percentage increase (decrease) FY 2008	Percentage increase (decrease) FY 2007
Nonoperating revenues:					
Passenger facility charges	\$ 69,476	64,277	62,067	8.1%	3.6%
Investment income	29,368	36,272	25,331	(19.0)	43.2
Other	6,827	2,655	22,096	157.1	(88.0)
Total	<u>105,671</u>	<u>103,204</u>	<u>109,494</u>	<u>2.4%</u>	<u>(5.7)%</u>
Nonoperating expenses:					
Interest expense	200,323	193,773	200,291	3.4%	(3.3)%
Write-offs, loss on disposal, and other	8,326	4,021	1,437	107.1	179.8
Total	<u>208,649</u>	<u>197,794</u>	<u>201,728</u>	<u>5.5%</u>	<u>(2.0)%</u>
	<u>\$ (102,978)</u>	<u>(94,590)</u>	<u>(92,234)</u>	<u>8.9%</u>	<u>2.6%</u>

**Fiscal Year 2008**

Nonoperating revenues consist primarily of Passenger Facility Charges (PFC) revenues and investment income, while nonoperating expenses consist of interest expense and loss on disposal of capital assets. PFCs, which became effective in October 2001, generated \$69.5 million during this fiscal year. The significant decrease in investment income is due to a lower investment yield; the average interest rate earned on the Airport's pooled cash declined from 5.19% in 2007 to 4.30% in 2008.

Other nonoperating revenues include the reversal of a provision for loss contingencies relating to certain litigations. (see note 12c)

In fiscal year 2008, transfers to the City and County of San Francisco (City) increased by \$2.6 million, 11.1% above the previous fiscal year. This increase is proportionate to the increase in concession, parking, and transportation revenues during the year.

Capital contributions received from federal grants during the year were \$41.1 million.

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**Fiscal Year 2007**

Nonoperating revenues consist primarily of Passenger Facility Charges (PFC) revenues and investment income, while nonoperating expenses consist of interest expense and loss on disposal of capital assets. PFCs, which became effective in October 2001, generated \$64.3 million during this fiscal year. The significant increase in investment income is due to the higher investment yield; the average interest rate earned on the Airport's pooled cash was 4.19% in 2006 compared to 5.19% in 2007. Settlement revenues of \$2.3 million consist principally of reimbursements of litigation expenses.

In fiscal year 2007, transfers to the City and County of San Francisco (City) increased by \$1.8 million, 8.5% above the previous fiscal year. This increase is proportionate to the increase in concession, parking, and transportation revenues during the year.

Capital contributions received from federal grants during the year were \$46.9 million.

**Fiscal Year 2008**

***Capital Acquisitions and Construction***

Under the Lease and Use Agreements, the City is obligated to use its best efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds. The Lease and Use Agreements also provide for airline review of capital projects meeting the dollar thresholds established in the Agreement.

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The year's major capital additions included:

	<b>Amount</b>
Runway 28L-10R Overlay and Reconstruction	\$ 17,573,640
Boarding Area A-3 Gate Activation	15,474,441
Terminal 2 Remodeling and Boarding Area D Renovation	10,411,425
Power Distribution System Loop Connection Phase III	7,540,393
Secure Connector Terminal 3 to Boarding Area G	5,960,350
Terminal 1 Airtrain Bridge and Mezzanine	5,283,643
Airport Rail Transit (ART) Operating System	5,024,418
South Field Runway Safety Area Construction Phase B	4,261,232
Airfield Markings and Lighting Improvement	3,423,400
Reconstruction of Taxiway L East and Power Distribution System	3,103,817
International Terminal Complex Common Use Technology Upgrade	2,964,693
Simultaneous Offset Instrument Approach (SOIA) System Upgrade	2,000,000
Plumbing and Utility Modification: Gates A7, A9 and G101	1,323,276
North Terminal Power Improvement	1,300,990
Taxiways H and M Realignment Phase II	1,212,358
Underground utilities Improvement Phase 2	1,199,351
Access Control System Enhancement Phase 2	1,178,184
ADA Visual Paging System	1,156,757
Apron Modification: Gates A7, A9 and G101	1,116,019
Pavement Replacement and Construction, Phase II	1,035,108
Total	<u>\$ 92,543,495</u>

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

**Fiscal Year 2007**

***Capital Acquisitions and Construction***

Under the Lease and Use Agreements, the City is obligated to use its best efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds. The Lease and Use Agreements also provide certain airline review procedures with respect to capital projects.

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The year's major capital additions included:

	<u>Amount</u>
Terminal 1 Airtrain Bridge and Mezzanine Phased Reconstruction and Overlay Taxiways A, B, C, D, E, K, R, S, S1, T, U, and Z	\$ 10,538,089
Air Cargo Explosive Detection System Program	8,145,970
Boarding Area A Gate A3 Activation – Aircraft Apron	7,789,319
Terminal Upper Level Viaduct Improvement – Phase I	6,773,158
Electrical Power Distribution Improvements – North Field	6,092,712
Taxiway H and M Reconstruction, Phase II	5,290,084
Runway 1L-19R Overlay and Reconstruction	5,150,831
Parking Revenue Control System (PRCS) Replacement	4,897,292
Southfield Runway Safety Area Construction, Phase B	4,294,718
Closed Circuit Television(CCTV) Video Surveillance, Phase 2 Integration and Upgrade	3,845,022
Plumbing and Utilities Modification: Gates A7, A0, and G101	2,788,959
North Terminal (Terminal 3) Power Improvements	2,509,992
Master Plan Landscaping Phase II – North to San Bruno Avenue Interchange	2,173,278
Apron Modifications: Gates A7, A9 & G101	1,498,626
Boarding Area 'A', 3 Gate Activation – Passenger Loading Bridges, PC/Air/400 Hz Power Aircraft Docking System	1,319,512
Boarding Area 'A', Gate 3 Activation – Interior Improvements	1,094,903
Taxi Control System	1,073,545
Pavement Replacement and Construction, Phase II	1,063,861
Total	<u>\$ 77,389,535</u>

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

**Fiscal Year 2008**

**Long-term Debt Administration**

Since Fiscal Year 2003, the Airport has recurrently taken advantage of low interest rates to refund and restructure a large portion of its long-term debt for debt service savings. The Airport has not issued new money bonds since 2002.

During Fiscal Year 2008, the Airport completed 17 series of refunding through seven bond transactions totaling \$1,255,205,000. However, only \$291,300,000 of the bonds was refunded for savings. Present value debt service savings for these refunded bonds was \$4,593,405. The balance of the 2008 refunding bonds were issued in transactions to repair the Airport's outstanding Auction Rate Bonds and Variable Rate Demand Bonds with alternative structures that did not produce any savings.

These refundings were necessitated by the downgrade of various bond insurance companies by the credit rating agencies in January 2008. Specifically, the Airport's affected bonds all carried credit enhancement either XL Capital or Financial Guaranty Insurance Company (FGIC), which lost their AAA ratings from at least one of the three major rating agencies on January 24 and January 30, 2008, respectively. Once the bond insurers were downgraded, the Airport's floating interest rates increased dramatically above historical levels, exceeding levels at which the Airport had budgeted for variable rate debt service for the year. In order to stabilize rates, the Airport refunded the underlying bonds that allowed the Airport to terminate existing insurance policies and obtain high quality AAA insurance for the new refunded bonds.

Further descriptions are set forth below. A series of refunding bonds (the Issue 35 Bonds) are also expected to be issued on or about February 1, 2010.

On March 19, 2008, the Airport issued its Second Series Revenue Refunding Bonds Issue 34C(D)/E/F in the principal amount of \$476.4 million. The Issue 34C/E Bonds are subject to Alternative Minimum Tax while the Issue 34D/F Bonds are not. Proceeds were used to refund certain revenue bonds, auction rate securities, and variable rate demand bonds previously issued by the Airport and to pay costs of issuance.

On April 9, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 34A/B in the principal amount of \$175.0 million. The Issue 34A/B Bonds are subject to Alternative Minimum Tax and the proceeds were used to refund certain variable rate demand bonds previously issued by the Airport and to pay costs of issuance.

On May 7, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 37A/B in the principal amount of \$284.8 million. The Issue 37A/B Bonds are subject to Alternative Minimum Tax and the proceeds were used to refund certain variable rate demand bonds previously issued by the Airport and to pay costs of issuance.

On May 8, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 36A in the principal amount of \$100.0 million. The Issue 36A Bonds are subject to Alternative Minimum Tax and the proceeds were used to refund certain auction rate securities previously issued by the Airport and to pay costs of issuance.

On May 8, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 36B in the principal amount of \$40.6 million. The Issue 36B Bonds are subject to Alternative Minimum Tax and the proceeds were used to refund certain auction rate securities previously issued by the Airport and to pay costs of issuance.

On May 15, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 37C in the principal amount of \$89.9 million. The Issue 37C Bonds are subject to Alternative Minimum Tax and the proceeds were used to refund certain revenue bonds previously issued by the Airport and to pay costs of issuance.

On May 20, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 37D in the principal amount of \$19.7 million. The Issue 37D Bonds are not subject to Alternative Minimum Tax and the

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proceeds were used to refund certain revenue bonds previously issued by the Airport and to pay costs of issuance.

On May 20, 2008, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds Issue 36C/D in the principal amount of \$68.8 million. The Issue 36C Bonds are subject to Alternative Minimum Tax while the 36D Bonds are not. Both series were issued to refund certain auction rate securities previously issued by the Airport and to pay costs of issuance.

In July 2007, the Airport bid out \$385.5 million in notional amount of swaps on a forward basis to hedge its interest rate risk and increase debt service savings for Issues 37B and 37C (associated with \$169.54 million in notional amount) issued in May 2008 as well as Issue 35 (associated with \$215.92 million in notional amount) to become effective in 2010.

Pursuant to these interest rate swaps, the Airport receives a monthly variable rate payment from each counterparty that approximates the variable interest rates the Airport pays on the Issue 36A/B/C/D and the Issue 37A/B/C Bonds while the Airport makes a monthly fixed rate payment to the counterparties. The objective of the swaps is to achieve a synthetic fixed rate for these bonds.

More detailed information about the Airport's long-term debt and interest rate swaps is presented in note 7 to the financial statements.

During fiscal year 2008, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's Master Bond Resolution.

**Fiscal Year 2007**

***Long-term Debt Administration***

On November 16, 2006, the Airport issued its Second Series Revenue Refunding Bonds Issue 32F/G/H in the principal amount of \$453 million. The Issue 32F/G/H Bonds were issued as fixed rate bonds and the proceeds were used to refund certain revenue bonds previously issued by the Airport and to pay costs of issuance.

During fiscal year 2007 and 2006, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's Master Bond Resolution.

The Airport entered into seven forward-starting interest rate swaps in December 2004 in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds Issue 32A through E on February 10, 2005 and the Issue 33 Bonds on February 15, 2006. Pursuant to these interest rate swaps, four with respect to the Issue 32A through E Bonds and three with respect to the Issue 33 Bonds, the Airport receives a monthly variable rate payment from each counterparty that approximates the variable interest rates the Airport pays on the Issue 32A through E Bonds and the hedged portion of the Issue 33 Bonds; the Airport makes a monthly fixed rate payment to the counterparties. The objective of the swaps is to achieve a synthetic fixed rate with respect to the Issue 32A through E Bonds and the hedged portion of the Issue 33 Bonds.

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More detailed information about the Airport's long-term debt and interest rate swaps is presented in note 7 to the financial statements.

During fiscal year 2007, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's Master Bond Resolution.

**Fiscal Year 2008**

***Credit Ratings and Bond Insurance***

The Airport's underlying bond ratings were upheld by all three major rating agencies in conjunction with the issuance of the Issues 34, 36 and 37 Bonds. Moody's Investor Services (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch) maintained their ratings of "A1," "A," and "A," respectively. Moody's and S&P preserved their Stable Rating Outlooks, while Fitch revised the Rating Outlook to Positive on January 18, 2008.

In connection with the sale of most Airport revenue bond issues, municipal bond insurance has been purchased by the Commission or the underwriters to guarantee the payment of principal and interest when due. With the insurance, Moody's, S&P, and Fitch have assigned their municipal bond ratings of "Aaa," "AAA," and "AAA," respectively, to each of the Airport revenue bond issues. The downgrade of various bond insurance companies by credit rating agencies in January 2008 caused the Airport's insured ratings to decline in tandem with the bond insurer's ratings.

**Fiscal Year 2007**

***Credit Ratings and Bond Insurance***

The Airport's underlying bond ratings were upheld by all three major rating agencies in conjunction with the issuance of the Issue 33 Bonds. Moody's Investor Services (Moody's), Standard & Poor's (S&P), and Fitch maintained their ratings of "A1," "A," and "A," respectively, with a stable rating outlook.

In connection with the sale of most Airport revenue bond issues, municipal bond insurance has been purchased by the Commission or the underwriters to guarantee the payment of principal and interest when due. With the insurance, Moody's, S&P, and Fitch have assigned their municipal bond ratings of "Aaa," "AAA," and "AAA," respectively, to each of the Airport revenue bond issues.

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**Fiscal Year 2009 Airline Rates and Charges**

**Rates and Charges, Fiscal Year 2009**

Terminal rental rates and airline landing fees for fiscal year 2009 have been developed as part of the annual budget process that started in October 2007. The Lease and Use Agreements between the Airport and the Signatory Airlines provide for the rate-setting methodology for calculating the terminal rental rates and Airline landing fees as discussed earlier. Not less than 60 days prior to the start of the fiscal year, the Signatory Airlines are notified of the proposed rates and fees. These fees are subject to review by, but not the approval of, the Signatory Airlines. The terminal rental rates and airline landing fees for fiscal year 2009, which became effective as of July 1, 2008, are as follows:

Effective average terminal rental rate (per sq. ft.)	\$ 95.850
Landing fee rate (per 1,000 lbs.)	3.300

The fiscal year 2009 airline landing fee increased by 9.6% from \$3.010 per 1,000 pounds in fiscal year 2008 to \$3.300 per 1,000 pounds in fiscal year 2009 while the effective average rental rate increased by 4.6% from \$91.60 per sq. ft. in fiscal year 2008 to \$95.85 per sq. ft. in fiscal year 2009.

**Requests for Information**

This report is designed to provide a general overview of the San Francisco International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Airport Deputy Director, Business and Finance Division, P.O. Box 8097, San Francisco International Airport, San Francisco, California 94128.

	2008	2007
<b>Assets:</b>		
<b>Current assets:</b>		
Unrestricted current assets:		
Cash and investments held in City Treasury –	\$ 299,153	263,176
Operating Fund	10	10
Cash – Revolving Fund		
Accounts receivable (net of allowance for doubtful	38,352	37,733
accounts; 2008, \$305; 2007, \$1,343)	2,094	4,425
Accrued interest	73	60
Inventories	3,248	1,493
Other current assets		
Total unrestricted current assets	342,930	306,897
<b>Restricted assets available for current outlay:</b>		
For capital outlay:		
Cash and investments held in City Treasury	27,522	15,099
For revenue bond reserves and debt service:		
Investments with Trustee	41,814	40,226
Grants receivable	311	605
Total restricted assets available for current outlay	69,647	55,930
Total current assets	412,577	362,827
<b>Accounts receivable – noncurrent</b>	529	4,215
<b>Restricted assets:</b>		
For capital outlay:		
Cash and investments held in City Treasury	100,089	125,114
Accrued interest – City Treasury	829	2,729
For revenue bond reserves and debt service:		
Investments with Trustee	220,554	159,020
Grants receivable	6,869	17,986
Passenger facility charges and other receivable	10,202	13,321
Total restricted assets	338,543	318,170
<b>Capital assets, net</b>	3,600,632	3,640,941
<b>Unamortized bond issuance costs</b>	45,171	44,947
<b>Total assets</b>	4,397,452	4,371,100

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	2008	2007
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities	\$ 28,995	37,769
Accrued payroll	7,726	6,625
Compensated absences	6,930	6,733
Accrued workers' compensation	948	1,141
Estimated claims payable	15	15
Due to City and County of San Francisco	21	28
Deferred aviation revenue	50,827	44,239
Rent collected in advance	14,728	4,530
Current maturities of long-term debt	73,271	75,083
Total current liabilities payable from unrestricted assets	183,461	176,163
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities	12,895	7,758
Accrued payroll	247	251
Grants received in advance	311	605
Accrued bond interest payable	27,301	25,209
Current maturities of long-term debt	14,934	15,017
Commercial paper	18,000	—
Total current liabilities payable from restricted assets	73,688	48,840
Total current liabilities	257,149	225,003
<b>Noncurrent liabilities:</b>		
Compensated absences, net of current portion	5,983	6,102
Accrued workers' compensation, net of current portion	3,888	3,636
Estimated claims payable, net of current portion	22	25
Other post employment benefits obligation	15,413	—
Long-term debt, net of current maturities	3,801,602	3,819,592
Total noncurrent liabilities	3,826,908	3,829,355
Total liabilities	4,084,057	4,054,358
<b>Net assets:</b>		
Invested in capital assets, net of related debt	(177,974)	(122,134)
Restricted for debt service	220,132	159,020
Restricted for capital projects	18,212	34,641
Unrestricted	253,025	245,215
Total net assets	\$ 313,395	\$ 316,742

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets  
Years ended June 30, 2008 and 2007  
(In thousands)

	2008	2007
<b>Operating revenues:</b>		
Aviation	\$ 306,348	296,368
Concession	96,268	88,225
Parking and transportation	76,679	67,428
Net sales and services	56,476	51,893
Total operating revenues	535,771	503,914
<b>Operating expenses:</b>		
Personnel	185,238	163,945
Depreciation and amortization	151,121	142,807
Contractual services	51,914	53,148
Light, heat, and power	18,893	18,515
Services provided by other City departments	10,863	12,425
Repairs and maintenance	15,848	14,481
Materials and supplies	11,319	11,016
General and administrative	1,610	8,663
Amortization of bond issuance costs	4,288	3,560
Environmental cleanup expenses	164	2,499
Total operating expenses	451,258	431,059
Operating income	84,513	72,855
<b>Nonoperating revenues (expenses):</b>		
Investment income	29,368	36,272
Interest expense	(200,323)	(193,773)
Passenger facility charges	69,476	64,277
Write-offs and loss on disposal	(8,326)	(538)
Other nonoperating (expenses) revenues, net	6,827	(828)
Total nonoperating revenues, net	(102,978)	(94,590)
Loss before capital contributions and transfers	(18,465)	(21,735)
<b>Capital contributions:</b>		
Federal grants	41,060	46,902
Transfers to the City and County of San Francisco (note 10)	(25,942)	(23,348)
Changes in net assets	(3,347)	1,819
Total net assets – beginning of year	316,742	314,923
Total net assets – ending of year	\$ 313,395	\$ 316,742

See accompanying notes to financial statements.

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Statements of Cash Flows  
Years ended June 30, 2008 and 2007  
(In thousands)

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 84,513	72,855
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	151,122	142,807
Provision for doubtful accounts	(1,038)	(2,447)
Cost of issue funds from bond proceeds	2,303	—
Gain on sale of fixed assets	—	(12)
Amortization of bond issuance costs	4,288	7,444
Changes in operating assets and liabilities:		
Accounts receivable	1,038	985
Inventories	(13)	16
Other current assets	(1,754)	751
Accounts payable and other liabilities	(3,510)	14,749
Accrued payroll	1,101	796
Compensated absences	77	505
Accrued workers' compensation	59	(175)
Other post employment benefits obligation	15,413	—
Deferred aviation revenue	6,588	13,510
Rent collected in advance	10,198	(8,046)
Net cash provided by operating activities	\$ 270,385	243,738
Noncash transactions:		
Accrued capital asset costs	\$ 16,437	16,578

See accompanying notes to financial statements.

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Statements of Cash Flows  
Years ended June 30, 2008 and 2007  
(In thousands)

	2008	2007
Cash flows from operating activities:		
Cash received from airline carriers, concessionaires, and others	\$ 568,026	522,919
Cash paid for employees' services	(168,587)	(162,819)
Cash paid to suppliers of goods and services	(129,054)	(116,362)
Net cash provided by operating activities	270,385	243,738
Cash flows from noncapital financing activities:		
Transfers to the City and County of San Francisco	(25,942)	(23,348)
Other noncapital financing receipts/(payments)	6,827	(828)
Net cash used in noncapital financing activities	(19,115)	(24,176)
Cash flows from capital and related financing activities:		
Bond issuance costs paid	—	(881)
Cash paid to escrow agent for debt refunding	(35,921)	(6,177)
Principal paid on revenue bonds	(75,510)	(79,415)
Interest paid on revenue bonds and commercial paper borrowings	(191,349)	(188,274)
Acquisition and construction of capital assets	(116,450)	(111,643)
Proceeds from sale of equipment	—	18
Proceeds from passenger facility charges	72,594	66,166
Proceeds from commercial paper	18,000	—
Capital contributed by federal agencies and others	52,176	67,342
Net cash used in capital and related financing activities	(276,460)	(252,864)
Cash flows from investing activities:		
Sale of investments with Trustee	2,821,703	1,129,585
Purchases of investments with Trustee	(2,806,847)	(1,136,705)
Interest received on investments	35,152	37,448
Net cash provided by investing activities	50,008	30,328
Net increase/(decrease) in cash and cash equivalents	24,818	(2,974)
Cash and cash equivalents, beginning of year	403,606	406,580
Cash and cash equivalents, end of year	\$ 428,424	403,606
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and investments held in City Treasury – Operating Fund	\$ 299,153	263,176
Cash – Revolving Fund	10	10
Restricted cash and investments in City Treasury	127,611	140,213
Cash, cash equivalents, and investments	426,774	403,399
Cash, cash equivalents, and investments	1,650	207
Cash and cash equivalents, June 30, 2008	\$ 428,424	403,606

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Notes to Financial Statements

June 30, 2008 and 2007

**(1) Definition of Reporting Entity**

The accompanying financial statements reflect the net assets and changes in net assets of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), a commercial service airport owned and operated as a department of the City and County of San Francisco (the City). The Airport opened in 1927 and is currently the thirteenth busiest airport in the United States in terms of passengers and cargo. The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. A five-member Airport Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for terms of four years.

The Airport is an integral part of the City and is reported as a major enterprise fund in the City's Comprehensive Annual Financial Report. There is no component units considered for inclusion in the Airport's financial reporting entity. The accompanying financial statements present only the financial operations of the Airport and do not purport to, and do not, present the financial position of the City, and the results of its operations and the cash flows of its proprietary fund types.

**(2) Significant Accounting Policies**

**(a) Measurement Focus and Basis of Accounting**

The Airport's financial activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Airport applies all statements and interpretations of the Financial Accounting Standards Board (FASB), the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Airport does not apply FASB statements and interpretations issued after November 30, 1989.

The Airport distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an organization's principal ongoing operations. The principal operating revenues of the Airport are charges to airlines and concessionaires, and parking and transportation charges. Operating expenses of the Airport include the cost of sales and services, administrative expenses, the write-off of certain costs associated with abandoned capital projects, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**(b) Implementation of New Accounting Standards**

**Governmental Accounting Standards Board (GASB) No. 45**

The Airport has adopted the provisions of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits

(OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

This Statement improves the relevance and usefulness of financial reporting by:

- Requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service; and
- Providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Employers that participate in *single-employer* or *multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or overcontributions.

**(c) Cash, Cash Equivalents, and Investments**

The Airport maintains its cash, cash equivalents, and investments and a significant portion of its restricted cash and investments as part of the City's pool of cash and investments. The Airport's portion of this pool is displayed on the statement of net assets as "Cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

The City reports certain investments at fair value in the statements of net assets and recognizes the corresponding change in fair value of investments in the year in which the change occurred, and the Airport reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash equivalents for financial reporting. The City also may hold nonpooled cash and investments for the Airport. Nonpooled restricted cash and highly liquid investments with maturities of three months or less, when purchased, are also considered to be cash equivalents. Restricted cash and investments held by the trustee are not considered to be cash and cash equivalents.

**(d) Capital Assets**

Capital assets are stated at cost. Interest costs of tax-exempt bond funds used for specified construction purposes, net of interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, are capitalized from the date of borrowings, until the asset is ready for its intended use. Interest costs of other borrowings are capitalized based on average accumulated construction expenditures.



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Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

	Years
Buildings, structures, and improvements	5 – 50
Equipment	5 – 10
Easements	20

Maintenance, repairs, and minor replacements are charged against operations in the year performed. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service. The Airport begins depreciation on capital assets the month following the date in which assets are placed in service. Additionally, the Airport commenced allocating indirect costs on self-constructed assets in fiscal year 2007. The indirect cost rate applied is based on a cost allocation plan developed in accordance with Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments* (see note 5).

**(e) Bond Issuance Costs, Discounts, and Premiums**

Bond issuance costs, discounts, and premiums are amortized using the effective-interest method. Original bond issuance discounts and premiums are offset against the related debt.

**(f) Compensated Absences**

Vested vacation and sick leave and related benefits are accrued when incurred for all the Airport's employees.

**(g) Net Assets**

A significant portion of the Airport's net assets is restricted by the bond resolutions and indentures and the Lease and Use Agreements with the airlines for the purpose of capital improvements and contingencies.

**(h) Aviation Revenue and Deferred Aviation Revenue**

Aviation revenue is based on reimbursable expenditures as defined in Lease and Use Agreements with the airlines. Under the Lease and Use Agreements, the airlines are required to pay terminal rents and landing fees in amounts that, when aggregated with certain other Airport revenues, will be equal to the Airport's expenditures for: operating expenses other than depreciation and amortization; principal and interest on outstanding debt; continuing annual payments to the City; and certain acquisitions of capital assets. Other capital asset additions are funded with proceeds of revenue bonds for which the airlines are required to fund debt service. The Lease and Use Agreements were executed in 1981 as part of a negotiated settlement with the airlines. The majority of airlines operate under Lease and Use Agreements that expire in 2011. All other airlines operate under

month-to-month permits with the same terms and conditions as the original 1981 Lease and Use Agreements.

Amounts billed to airlines are based on budgeted revenues and expenditures including all debt service such as principal and interest. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreements, the Airport owed the Airlines approximately \$50.8 million and \$44.2 million on June 30, 2008 and 2007, respectively, which represents aviation revenue collected in advance.

**(i) Security Deposits**

As a condition of the Airline Operating Permits (Permits), air carriers are required to deliver a security deposit to the Airport within five days after the effective date of the Permit. Such deposits are either in the form of (a) a surety bond payable to the City or (b) a letter of credit naming the City as a beneficiary. The bonds or letters of credit are renewed and increased annually such that they are equal to six months of fees estimated by the Airport Director. The bonds or letters of credit are also required to be kept in full force and effect at all times to ensure the faithful performance by the respective permittee of all covenants, terms, and conditions of the Permits, including payment of the monthly fees.

**(j) Net Sales and Service Revenues**

Net sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City (see note 10).

**(k) Environmental Cleanup Expenses and Recoveries**

The Airport incurs costs associated with environmental cleanup actions, which arise during the normal course of business. These costs are recorded as a liability when the Airport is required to perform the cleanup and if the costs can be reasonably estimated. The Airport records environmental cost recoveries as nonoperating revenues in the financial statements.

**(l) Capital Contributions**

The Airport receives federal grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditures of the funds.

**(m) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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**(n) Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

**(3) Cash, Cash Equivalents, and Investments**

The Airport maintains its operating cash, cash equivalents, and investments and its restricted asset cash and investments as part of the City's pool of cash and investments. The City's investment pool is invested in an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Cash equivalents, at fair value, held by the City in the City's pool as of June 30, 2008 and 2007 are as follows (in thousands):

	2008	2007
Pooled cash and investments:		
Cash and investments held in City Treasury – operating	\$ 299,153	263,176
Cash and investments held in City Treasury – capital outlay	127,611	140,213
Total cash and investments in City Treasury	\$ 426,764	403,389

The following table shows the percentage distribution of the City's pooled investments by maturity:

	Investment maturities (in months)	
	1 – 6	6 – 12
Under 1	—	12 – 36
6.9%	52.7%	11.6%
		28.8%

The restricted assets for revenue bond reserves and debt service are held by an independent trustee. As of June 30, 2008, the Airport had investments with maturities as follows (in thousands):

Investments	June 30, 2008		June 30, 2007	
	Maturities	Fair value	Maturities	Fair value
Federal Home Loan Mortgage Discount Notes	A-1+/P-/F1+	\$ 41,819	October 29, 2007	\$ 100,448
Federal National Mortgage Association Discount Notes	A-1+/P-/F1+	101,002	July 5, 2007	40,228
Federal Home Loan Bank Discount Note	A-1+/P-/F1+	56,919	July 6, 2007	8,608
Federal National Mortgage Association Discount Notes	A-1+/P-/F1+	43,070	November 1, 2008	42,396
U.S. Treasury Bills	AAA/AA+/AAA Non-Rated	19,554	—	—
Cash		—	—	7,566
Total		\$ 262,368		\$ 199,246

The primary objectives of the Airport's policy on investments of debt service reserve funds and debt service funds (including principal and interest accounts) held by the bond trustee are safety, liquidity, and yield.

Safety is the foremost objective of the investment program. Investments undertaken seek to ensure the preservation of capital in the overall portfolio, the objective of which is to mitigate credit and interest rate risk.

The term of any investments is based on the cash flow needs of the Airport's debt service requirements. Consequently, investment of any debt service reserve funds is limited to seven years or less and investments of any principal and interest payment account are to mature no later than the dates on which the principal or interest payments are due.

The Airport will maximize the retainable earnings of all bond proceeds after meeting the requirements of safety and liquidity. After these objectives are met, the Airport's investment policy will attempt to achieve net investment yields as close to each bond fund's arbitrage yield.

Funds held by the Trustee in funds and accounts established under the 1991 Master Resolution are invested in "Permitted Investments", as defined in the 1991 Master Resolution.

Funds held by the Trustee in funds and accounts established under the 1997 Subordinate Resolution are invested in "Permitted Investments", as defined in the 1997 Subordinate Resolution (excluding Banker's Acceptances that are permitted investments only for funds relating to the 1991 Master Resolution). The Airport's policy on Banker's Acceptances of a banking institution requires the highest short-term rating category by at least two Rating Agencies, and must not exceed 270 days maturity or forty percent (40%) of moneys invested pursuant to the 1991 Master Resolution. In addition, no more than twenty percent (20%) of moneys invested pursuant to the 1991 Master Resolution is to be invested in the Banker's Acceptances

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(4) of any one commercial bank. The Airport has approximately \$262.4 million and \$199.2 million in investments held by, and in the name of, the fiscal agent as of June 30, 2008 and 2007, respectively.

All other funds of the Airport are invested in accordance with the (1) Treasurer's policy and (2) the 1991 Master Resolution or the 1997 Subordinate Resolution, as appropriate if such funds are also subject to the 1991 Master Resolution or the 1997 Subordinate Resolution, respectively.

**(4) Grants Receivable**

Grants receivable of \$7,180,000 and \$18,591,000 as of June 30, 2008 and June 30, 2007, respectively, are based on actual costs incurred, subject to federal reimbursement limits.

Project costs are subject to audit by the Federal Aviation Administration (FAA) to ensure that the costs are allowable under the grant agreements. If any project costs are disallowed, amounts recorded as grants receivable will be reduced or refunded to the FAA. During the years ended June 30, 2008 and 2007, the Airport experienced no reduction to its grants receivable nor refunded any amounts to the FAA.

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**(5) Capital Assets**  
Capital assets consist of the following (in thousands):

	July 1, 2007	Additions	Deletions	Transfers	June 30, 2008
Capital assets not being depreciated:					
Land	\$ 2,316	—	—	471	2,787
Construction in progress	68,615	117,084	(8,455)	(122,094)	55,150
Total capital assets	70,931	117,084	(8,455)	(121,623)	57,937
Capital assets being depreciated/ amortized:					
Buildings, structures, and improvements	4,920,229	550	(140)	117,276	5,037,915
Equipment	63,239	1,634	(2,385)	4,347	66,835
Easements	139,367	—	—	—	139,367
Total capital assets being depreciated/ amortized	5,122,835	2,184	(2,525)	121,623	5,244,117
Less accumulated depreciation/ amortization for:					
Buildings, structures, and improvements	(1,430,895)	(142,180)	140	—	(1,572,935)
Equipment	(54,966)	(1,987)	2,385	—	(54,568)
Easements	(66,964)	(6,955)	—	—	(73,919)
Total accumulated depreciation/ amortization	(1,552,825)	(151,122)	2,525	—	(1,701,422)
Total capital assets being depreciated/ amortized, net	3,570,010	(148,938)	—	121,623	3,542,695
Total capital assets, net	\$ 3,640,941	(31,854)	(8,455)	—	3,600,632

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In 2007, the Airport determined that the original estimates of the useful life of certain fixed assets were too short relative to their economic life. Based on a combined engineering and architectural reevaluation of certain Airport facilities and the 2006 Pavement Survey report, the useful lives of specific fixed assets with a total value of \$742 million were extended an additional 5 to 30 years; these fixed assets include drainage, runways, taxiways, roadways, and buildings. Depreciation expenses related to these assets in fiscal year 2007 were \$32,317,000 prior to the adjustment; the adjusted depreciation expense aggregated \$15,784,000, a net reduction in the 2007 annual depreciation of \$16,533,000.

**(6) Commercial Paper**

On May 20, 1997, the Airport authorized the issuance of its Subordinate Commercial Paper Notes (CP) in an aggregate principal amount not to exceed the lesser of \$400 million or the stated amount of the letter of credit. On May 9, 2006, the Airport obtained a letter of credit issued by State Street Bank and Trust Company, with a maximum principal amount of \$200 million. Wells Fargo Bank, N.A. is the CP program's issuing and paying agent for fiscal year 2008 and 2007. There was no CP issuance in fiscal year 2007.

As of June 30, 2008, the outstanding principal amount of CP was \$18 million. The proceeds of the notes will be used by the Airport to pay capital costs, to pay costs of bond issuance and other incidental costs, to pay certain extraordinary expenditures for which Airport funds are not otherwise available, and to pay principal and interest on maturing CP. For fiscal year ended June 30, 2008, interest rates on the taxable CP ranged from 2.45% to 2.65%; interest rate on tax exempt, subject to Alternative Minimum Tax (AMT), CP was 1.57%.

The following table shows the CP issuances during the fiscal year ended June 30, 2008 (in thousands):

	Interest Rate	July 1, 2007	Increases	Decreases	June 30, 2008
Commercial Paper (Taxable)	2.45 - 2.65%	\$ —	10,000	10,000	—
Commercial Paper (AMT)	1.57%	\$ —	18,000	—	18,000
Total		\$ —	28,000	10,000	18,000

**(7) Long-term Debt**

**(a) Second Series Revenue Refunding Bonds**

The Commission has authorized the issuance of up to \$4.3 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding, paying, calling, and retiring a portion or all of one or more series of outstanding 1991 Resolution Bonds and all or a portion of the San Francisco International Airport's outstanding subordinate commercial paper notes, funding debt service reserves, and for paying costs of issuance, including any related redemption premiums therewith.

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	July 1, 2006	Additions	Deletions	Transfers	June 30, 2007
Capital assets not being depreciated:					
Land	\$ 2,316	—	—	—	2,316
Construction in progress	68,190	106,009	(263)	(105,321)	68,615
Total capital assets not being depreciated	70,506	106,009	(263)	(105,321)	70,931
Capital assets being depreciated/amortized:					
Buildings, structures, and improvements	4,817,171	121	(685)	103,622	4,920,229
Equipment	68,628	1,385	(8,473)	1,699	63,239
Easements	139,367	—	—	—	139,367
Total capital assets being depreciated/amortized	5,025,166	1,506	(9,158)	105,321	5,122,835
Less accumulated depreciation/amortization for:					
Buildings, structures, and improvements	(1,297,599)	(133,754)	458	—	(1,430,895)
Equipment	(61,293)	(2,098)	8,425	—	(54,966)
Easements	(60,009)	(6,955)	—	—	(66,964)
Total accumulated depreciation/amortization	(1,418,901)	(142,807)	8,883	—	(1,552,825)
Total capital assets being depreciated/amortized, net	3,606,265	(141,301)	(275)	105,321	3,570,010
Total capital assets, net	\$ 3,676,771	(35,292)	(538)	—	\$ 3,640,941

Total interest cost was approximately \$203,069,000 for 2008 and \$195,516,000 for 2007, of which approximately \$2,828,000 and \$1,743,000, respectively, were capitalized.

In fiscal year 2007, the Airport completed a cost allocation plan (CAP) developed in accordance with OMB Circular A-87, *Cost Principles for State and Local Governments*. Capturing indirect costs as a component of a building or other fixed asset will enable the Airport to capture the full and true cost of a capital asset. Effective July 1, 2006, the CAP established a provisional indirect cost rate of 8% on a total cost input base applied on capital projects; indirect costs capitalized for the year ended June 30, 2008 and 2007 were \$8.35 million and \$7.72 million, respectively.

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**Second Series Revenue Refunding Bonds Issue 32F/G/H**

On November 16, 2006, the Airport issued its Second Series Revenue Refunding Bonds Issue 32F/G/H (Issue 32F/G/H Bonds) in the amount of \$453 million with interest rates ranging from 4.00% to 5.25%. A portion of the proceeds from the Issue 32F/G/H Bonds was deposited into an irrevocable trust with an escrow agent to refund certain of the Airport's Second Series Revenue Bonds as follows:

Bond Issue:	Amount refunded	Interest rates	Redemption price
Issue 10A	\$ 20,975,000	5.300% - 5.450%	102%
Issue 12A	8,415,000	5.625%	101
Issue 13B	2,435,000	5.400% - 5.500%	101
Issue 14	3,185,000	5.400% - 5.500%	101
Issue 15B	90,820,000	4.700% - 5.000%	102
Issue 16B	40,475,000	5.000% - 5.500%	101
Issue 17	17,275,000	5.000% - 5.500%	101
Issue 18B	84,455,000	4.750% - 5.250%	101
Issue 19	20,195,000	4.750% - 5.250%	101
Issue 23B	63,680,000	4.500% - 5.125%	101
Issue 24B	21,990,000	5.250% - 5.625%	101
Issue 26B	21,785,000	4.875% - 5.000%	101
Issue 28B	73,605,000	3.250% - 5.250%	100
Total	\$ 469,290,000		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2007 to May 1, 2032 and call dates of December 18, 2006 to May 1, 2012.

The Issue 32F/G/H Bonds were issued as fixed rate bonds. The net proceeds of \$483.9 million (after payments of \$7.6 million in underwriting fees, insurance and surety bond premiums, and costs of issuance) plus bond premium of \$35.9 million and an additional \$2.6 million of available funds (consisting of debt service and principal funds) were used to purchase U.S. Treasury Securities - State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until their respective redemption dates.

The refunded bonds are considered legally defeased and are no longer considered outstanding under the 1991 Master Bond Resolution and the debt is considered legally satisfied based on certain provisions in the debt instrument even though most of the refunded bonds have not yet been redeemed. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

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Although the refunding resulted in the recognition of a deferred accounting loss of \$20.8 million for the year ended June 30, 2007, the Airport in effect reduced its aggregate debt service payments by approximately \$22.1 million over the next 26 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of \$19.6 million.

**Second Series Revenue Bonds Issue 34A/B**

In April 2008, the Commission issued its Second Series Variable Rate Refunding Bonds Issue 34A/B in the amount of \$175,000,000 to refund certain Outstanding Issue 33 (B, H) variable rate demand bonds and other outstanding bonds, including portions of Issues 15A, 16A and 18A. The Issue 34A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Commission to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 34A and 34B Bonds was 1.473% and 1.579%, respectively. The final maturity of both issues is May 1, 2029.

The net proceeds of \$161.36 million (after payment of \$16.2 million in underwriting fees, insurance and surety bond premiums and deposit to the reserve fund) plus an additional \$2.6 million in available debt service funds were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the \$157.4 million of refunded bonds until such bonds were called.

Bond Issue:	Amount refunded	Interest rates	Redemption price
Issue 15A	\$ 13,075,000	4.500% - 5.500%	102%
Issue 16A	33,540,000	5.000%	101
Issue 18A	33,510,000	5.000%	101
Issue 33B	57,100,000	Variable rate	100
Issue 33H	20,200,000	Variable rate	100
Total	\$ 157,425,000		

The refunded bonds were redeemed on May 1, 2008 (Issues 15A, 16A and 18A), May 9, 2008 (33B and 33H) and June 6, 2008 (33E). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

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**Second Series Revenue Bonds Issue 34C/D/E/F**

In March 2008, the Commission issued \$476,350,000 aggregate principal amount of Issue 34C/D/E/F Revenue Bonds, with interest rates ranging from 4.000% - 5.750%. A portion of the proceeds from the Issue 34C/D/E/F Bonds was deposited into an irrevocable trust with an escrow agent to refund certain of the Airport's Second Series Revenue Bonds as follows:

Second Series Revenue Bond Issue:	Amount refunded	Interest rates	Redemption price
Issue 10B	\$ 1,450,000	5.125%	100%
Issue 15A	6,010,000	5.500%	100
Issue 15B	14,690,000	4.600% - 4.700%	102
Issue 16A	42,970,000	5.375% - 5.500%	100 - 101
Issue 18A	23,085,000	5.250% - 6.250%	100 - 101
Issue 18B	1,335,000	5.000% - 5.250%	101
Issue 19	1,200,000	5.000% - 5.250%	101
Issue 22	16,310,000	5.000% - 6.000%	100 - 101
Issue 31A	54,950,000	Auction rate	100
Issue 31B	54,925,000	Auction rate	100
Issue 31C	60,225,000	Auction rate	100
Issue 31D	42,350,000	Auction rate	100
Issue 31E	17,875,000	Auction rate	100
Issue 33C	57,100,000	Variable rate	100
Issue 33I	27,800,000	Variable rate	100
Issue 33J	27,800,000	Variable rate	100
Total	\$ 450,075,000		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2009 to May 1, 2026. The refunded bonds are considered legally defeased and are no longer considered outstanding under the 1991 Master Bond Resolution and the debt is considered legally satisfied based on certain provisions in the debt instrument even though most of the refunded bonds have not yet been redeemed. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The Issue 34C/D/E/F Bonds were issued as fixed rate bonds. The net proceeds of \$458.02 million (after payments of \$42.87 million in underwriting fees, insurance and surety bond premiums, costs of issuance, and deposits to the debt service reserve funds) plus bond premium and available debt service funds of \$11 million were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until their respective redemption dates.

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**Second Series Revenue Bonds Issue 36A/B**

In May 2008, the Commission issued its Second Series Variable Rate Refunding Bonds Issue 36A/B in the amount of \$140.62 million to purchase and hold in trust for the benefit of the Commission certain Outstanding Issue 32A, 32B and 32C variable rate demand bonds. The Issue 36A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Commission to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 36A and 36B Bonds through July 2, 2008 was 1.509% and 1.594% respectively. The final maturity of both issues is May 1, 2026.

Second Series Revenue Bond Issue:	Amount refunded	Interest rates	Redemption price
Issue 32A	\$ 69,150,000	Auction rate	100%
Issue 32B	35,200,000	Auction rate	100
Issue 32C	35,200,000	Auction rate	100
Total	\$ 139,550,000		

The net proceeds of \$141.03 million (after payment of \$1.07 million in underwriting fees, insurance and costs of issuance), plus \$1.48 million in available debt service funds were deposited in a trust account with a trustee to provide debt service and purchase price payments for the Issues 32A/B/C bonds until such bonds were purchased upon mandatory tender.

The bonds were purchased on May 23, 2008 (Issues 32A and 32B) and June 13, 2008 (Issue 32C). The Commission will make payments of principal and interest on the Issue 32A/B/C Bonds held in the trust accounts until such time as the Commission directs the trustee to cancel such bonds or remarket them out of the trust. The Commission, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 32A/B/C Bonds. As such, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

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The net proceeds of \$61.23 million (after payment of \$7.87 million in underwriting fees, insurance and surety bond premiums and deposits to the debt service reserve fund) plus \$0.18 million in available debt service funds were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
Bond Issue:			
Issue 15A	\$ 535,000	5.000%	102%
Issue 32D	31,200,000	Auction rate	100
Issue 32E	29,150,000	Auction rate	100
Total	<u>\$ 60,885,000</u>		

The refunded bonds were redeemed on May 1, 2008, May 9, 2008 and June 19, 2008 (Issues 15A), June 6, 2008 (32E) and June 20, 2008 (Issue 32D). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

**Second Series Variable Rate Revenue Bonds Issue 37A/B**

In May 2008, the Commission issued its Second Series Variable Rate Refunding Bonds Issue 37A/B in the amount of \$284.82 million to refund certain Outstanding Issue 33A, 33D, 33E, 33F, 33G variable rate demand bonds. The Issue 37A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Commission to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 37A and 37B Bonds through July 2, 2008 was 1.729%. The final maturity of 37A is May 1, 2019 and for 37B is May 1, 2029.

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The net proceeds of \$279.74 million (after payment of \$29.96 million in underwriting fees, insurance and surety bond premiums and deposits to the debt service fund) plus \$24.88 million in available debt service funds were deposited in an irrevocable trust fund to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
Bond Issue:			
Issue 33A	\$ 64,000,000	Variable rate	100
Issue 33D	64,100,000	Variable rate	100
Issue 33E	57,000,000	Variable rate	100
Issue 33F	60,900,000	Variable rate	100
Issue 33G	31,000,000	Variable rate	100
Total	<u>\$ 277,000,000</u>		

The refunded bonds were redeemed on June 6, 2008. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

**Second Series Revenue Bonds Issue 37C/D**

In May 2008, the Commission issued its Second Series Variable Rate Refunding Bonds Issue 37C/D in the amount of \$109.59 million to refund certain Outstanding Issue 15A, 15B and 16A fixed rate bonds. The Issue 37C/D Bonds were initially issued in a Weekly Mode, subject to conversion by the Commission to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 37C and 37D Bonds through July 2, 2008 was 1.594% and 1.330%, respectively. The final maturity of 37C is May 1, 2029 and for 37D is May 1, 2030.

The net proceeds of \$105.95 million (after payment of \$3.64 million in underwriting fees, insurance and surety bond premiums), were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
Bond Issue:			
Issue 15A	\$ 48,270,000	4.800% – 5.000%	102%
Issue 15B	18,360,000	4.250% – 5.000%	102
Issue 16A	36,960,000	5.000% – 5.125%	101
Total	<u>\$ 103,590,000</u>		

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The refunded bonds were redeemed on May 1, 2008, May 9, 2008 and June 16 (Issues 15A and 16A), and May 1, 2008 and June 19, 2008 (Issue 15B). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

Certain of the Second Series Revenue Bonds are subject to optional and mandatory redemption under certain conditions. All Second Series Revenue Bonds are secured by a pledge of, lien on, and security interest in net revenues of the Airport.

Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the common 1991 Reserve Fund, the Airport is required to deposit with the trustee an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the common 1991 Reserve Fund or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

- (a) Net revenues (as defined in the bond resolutions) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City and
- (b) Net revenues, together with any transfer from the contingency account to the revenue account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differ from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

In addition to the long-term obligations discussed above, there were \$105,775,000 and \$109,005,000 in Special Facilities Lease Revenue Bonds outstanding as of June 30, 2008 and June 30, 2007, respectively, for SFO Fuel Company LLC (SFO Fuel). SFO Fuel is required to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposit on the bonds. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the obligations, and as such, they are not reported in the accompanying financial statements.

As of June 30, 2008 and June 30, 2007, long-term debt consisted of the following (in thousands):

Description	Date of issue	Interest rate	2008	2007
<b>Second Series Revenue Bonds:</b>				
Issue 10B	03/01/96	5.125%	\$ —	1,450
Issue 13	11/01/96	6.75%	—	2,900
Issue 15A/B	01/01/98	4.25% – 5.50%	246,300	352,640
Issue 16A/B	04/01/98	4.75% – 5.50%	32,135	147,420
Issue 17	04/01/98	4.75% – 5.50%	10,755	11,530
Issue 18A/B	07/01/98	4.75% – 6.25%	57,515	117,635
Issue 19	07/01/98	4.75% – 5.25%	—	1,755
Issue 20	10/01/98	4.25% – 5.00%	221,610	235,720
Issue 21	10/01/98	4.25% – 5.00%	69,905	71,620
Issue 22	12/01/98	4.40% – 6.00%	96,465	112,775
Issue 23A/B	05/01/99	4.40% – 5.50%	163,885	167,915
Issue 24A/B	03/01/00	4.875% – 6.00%	97,025	99,610
Issue 25	03/01/00	4.875% – 6.00%	105,540	107,835
Issue 26A/B	12/07/00	4.75% – 6.50%	192,155	196,805
Issue 27A/B	07/11/01	4.00% – 5.50%	438,075	448,380
Issue 28A/B/C	03/14/02	3.25% – 5.50%	225,410	236,815
Issue 29A/B	02/05/03	3.00% – 5.50%	134,355	142,755
Issue 30	02/10/04	3.865% – 5.25%	34,820	34,820
Issue 31A-E	03/25/04	Auction rate	109,315	230,325
Issue 31F	01/26/05	3.95% – 4.91%	—	11,695
Issue 32A-E	02/10/05	Auction rate	—	199,900
Issue 32F/G/H	11/16/06	4.00% – 5.25%	453,000	453,000
Issue 33A-J	02/15/06	Variable rate	—	467,000
Issue 34A/B	04/09/08	Variable rate	175,000	—
Issue 34C/D/E/F	03/27/08	4.00% – 5.25%	476,350	—
Issue 36A/B	05/07/08	Variable rate	140,620	—
Issue 36C/D	05/20/08	Variable rate	68,830	—
Issue 37A/B	05/07/08	Variable rate	284,820	—
Issue 37C/D	05/15/08	Variable rate	109,585	—
Total			3,943,470	3,952,300
Less current portion			(88,205)	(90,100)
Unamortized discount			(8,428)	(11,302)
Unamortized deferred amount on refunding			(101,915)	(80,435)
Unamortized premium			56,680	49,129
			\$ 3,801,602	3,819,592



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Revenue bond debt service requirements to maturity are as follows (in thousands):

Fiscal year:	Principal	Interest	Total
2009	\$ 88,205	185,543	273,748
2010	97,715	181,716	279,431
2011	133,655	177,194	310,849
2012	145,220	171,142	316,362
2013	145,315	164,303	309,618
2014 – 2018	900,490	707,685	1,608,175
2019 – 2023	1,134,005	468,759	1,602,764
2024 – 2028	1,013,310	206,153	1,219,463
2029 – 2033	285,555	24,825	310,380
	\$ 3,943,470	2,287,320	6,230,790

**(b) Changes in Long-term Liabilities**

Long-term liability activity for the years ended June 30, 2008 and 2007 was as follows (in thousands):

	July 1, 2007	Additions	Reductions	June 30, 2008	Due within one year
Revenue bonds payable	\$ 3,952,300	1,255,205	(1,264,035)	3,943,470	88,205
Less unamortized discount	(11,302)	—	2,874	(8,428)	—
Unamortized deferred amount on refunding	(80,435)	(30,821)	9,341	(101,915)	—
Add unamortized premium	49,129	10,998	(3,447)	56,680	—
Total revenue bonds payable	3,909,692	1,235,382	(1,255,267)	3,889,807	88,205
Compensated absences	12,835	9,375	(9,297)	12,913	6,930
Accrued workers' compensation	4,777	2,358	(2,299)	4,836	948
Estimated claims payable	40	1,559	(1,562)	37	15
Total long-term liabilities	\$ 3,927,344	1,248,674	(1,268,425)	3,907,593	96,098

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	July 1, 2006	Additions	Reductions	June 30, 2007	Due within one year
Revenue bonds payable	\$ 4,048,006	453,000	(548,706)	3,952,300	90,100
Less unamortized discount	(15,497)	—	4,195	(11,302)	—
Unamortized deferred amount on refunding	(66,761)	(20,817)	7,143	(80,435)	—
Add unamortized premium	16,476	35,888	(3,235)	49,129	—
Total revenue bonds payable	3,982,224	468,071	(540,603)	3,909,692	90,100
Compensated absences	12,330	9,794	(9,289)	12,835	6,733
Accrued workers' compensation	4,952	1,878	(2,053)	4,777	1,141
Estimated claims payable	37	284	(281)	40	15
Total long-term liabilities	\$ 3,999,543	480,027	(552,226)	3,927,344	97,989

**(c) Interest Rate Swaps General Terms**

On December 16, 2004, the Airport entered into seven forward-starting interest rate swaps (the 2004 swaps), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. On July 26, 2007, the Airport entered into four additional forward-starting interest rate swaps (the 2007 swaps), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008, and its Variable Rate Revenue Refunding Bonds, Issue 35, on February 1, 2010. Pursuant to these interest rate swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% of USD-LIBOR-BBA, plus 0.29% for the 2004 swaps and 61.85% of USD-LIBOR-BBA, plus 0.34% for the 2007 swaps, times the notional amount of the swap, which is intended to approximate the variable interest rates on the underlying Bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged Bonds. On May 20, 2008, the Airport completed refunding several issues of auction rate and variable rate obligations, including the Issue 32 and Issue 33 Bonds. The swaps previously associated with the Issue 32 and 33 Bonds now hedge the related San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issues 36 and 37A respectively.

For the fiscal year ended June 30, 2008, the Airport paid a total of \$14.67 million in fixed rate payments to the swap counterparties and received \$12.57 million in floating rate payments in return, resulting in total net swap payments of \$2.10 million to the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of \$17.18 million, resulting in the Airport paying \$4.61 million more in interest on the related variable rate bonds than swap

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receipts from the counterparties. The effective synthetic fixed rate on the related bonds was 4.45% for the year ending June 30, 2008.

For the fiscal year ended June 30, 2007, the Airport paid a total of \$13,830,600 in fixed rate payments to the counterparties and received \$15,096,950 in floating rate payments in return, resulting in total net swap receipts of \$1,266,350 from the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of \$14,467,824, resulting in the Airport receiving \$629,126 more from the counterparties than it paid in interest on the related variable rate bonds. The effective synthetic fixed rate on the related bonds was 3.215%.

The four 2004 swaps now hedging the Issue 36 Bonds went into effect on February 10, 2005, the date of issuance of the refunded Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three 2004 swaps now hedging the Issue 37A Bond went into effect on February 15, 2006, the date of issuance of the refunded Issue 33 Bonds, and the first payments commenced on March 1, 2006. The two 2007 swaps hedging the Issue 37B/C Bonds went into effect on May 15, 2008, the date of issuance of the Issue 37B/C Bonds, and the first payments commenced on June 2, 2008. The two 2007 swaps relating to the Issue 35 Bonds are expected to go into effect on February 1, 2010, the anticipated date of issuance of the Issue 35 Bonds, and the first payments will commence on March 1, 2010. All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The swaps with counterparty Bear Stearns have been acquired by JP Morgan as part of the JP Morgan/Bear Stearns merger in 2008. The Bear Stearns swaps terms and conditions on the swap remain the same under JP Morgan.

The swaps relating to the Issue 35 Bonds terminate by their terms on May 1, 2030, the anticipated final maturity date of the Issue 35 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by commission	Market value to commission
DePia Bank PLC, New York	\$ 71,793,000	A+/Aa3	3.925%	\$ (3,384,470)
Goldman Sachs Capital Markets	143,947,000	AA-/Aa3	3.925%	(6,768,142)
(Aggregate notional amount)	\$ 215,740,000			\$ (10,152,612)

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The swaps hedging the Issue 36 Bonds terminate by their terms on May 1, 2026, the final maturity date of the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by commission	Market value to commission
J.P. Morgan Chase Bank, N.A	\$ 70,000,000	AA/Aaa	3.444%	\$ (1,096,726)
Bear Stearns Capital Markets, Inc.	30,000,000	AA-/Baa1	3.444	(470,025)
J.P. Morgan Chase Bank, N.A	69,930,000	AA/Aaa	3.445	(1,102,129)
Bear Stearns Capital Markets, Inc.	29,970,000	AA-/Baa1	3.445	(472,341)
(Aggregate notional amount)	\$ 199,900,000			\$ (3,141,221)

The swaps hedging the Issue 37A Bonds terminate by their terms on May 1, 2019, the final maturity date of the Issue 37A Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by commission	Market value to commission
Lehman Brothers Special Financial Inc.	\$ 73,570,000	A/A1	3.393%	\$ (1,340,469)
Bear Stearns Capital Markets, Inc.	31,530,000	AA-/Baa1	3.393	(574,487)
Lehman Brothers Special Financial Inc.	100,000,000	A/A1	3.379	(1,724,473)
(Aggregate notional amount)	\$ 205,100,000			\$ (3,639,429)

The swaps hedging the Issue 37B/C Bonds terminate by their terms on May 1, 2029, the final maturity date of the Issue 37B/C Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by commission	Market value to commission
Merrill Lynch Capital Services	\$ 79,684,000	A/A1	3.898%	\$ (5,431,673)
Bear Stearns Capital Markets, Inc.	89,856,000	AA-/Baa1	3.898%	(6,125,059)
(Aggregate notional amount)	\$ 169,540,000			\$ (11,556,732)

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**Risks Disclosure**

The aggregate market value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Commission will have to that counterparty. The Airport has limited counterparty credit risk by limiting its exposure to any counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the market value of a swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. Although the Airport attempted to limit basis risk with respect to the interest rate swaps by choosing a variable rate index designed to closely approximate the variable rates payable on the related bonds, the chosen swap index and the actual variable rates on the related bonds diverged for a period of time during early 2008 due to the turmoil in the financial market. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Commission, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under the interest rate swaps from the following insurers:

Related Swap	Swap insurer	Insurer credit ratings (S&P/Moody's)
Issue 36	FGIC	BB/B1
Issue 36	FSA	AAA/Aaa
Issue 37A	FSA	AAA/Aaa
Issue 37B/C	FSA	AAA/Aaa
Issue 35	FSA	AAA/Aaa

Additional Termination Events under the swap documents in respect of the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer ratings downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade.

Additional Termination Events under the swap documents in respect of a counterparty include a ratings downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

**(8) Concession Revenue and Minimum Future Rents**

Certain of the Airport's rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees were approximately \$23,467,000 and \$14,867,000 in fiscal years 2008 and 2007, respectively. Rental car companies pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher. Under the terms of their concession agreement, the minimum guarantee for the rental car operators

does not apply if the number of deplaning passengers on all scheduled airlines during one calendar month is less than 70% of the number of deplaning passengers for the same calendar month of the base year (1996). In December 2003, the minimum guaranteed rent for the rental car operators modified to equal 10% of gross revenues and agreements were extended to expire on December 29, 2008. The minimum guarantee attributable to the rental car companies were approximately \$11,533,000 and \$20,676,000 for fiscal years 2008 and 2007 respectively.

Minimum future rents under noncancelable operating leases having terms in excess of one year are as follows (in thousands):

Fiscal year ending:	\$
2009	72,148
2010	55,706
2011	36,555
2012	18,930
2013	15,706
	\$ 199,045

During fiscal year 2002, the Airport suspended the minimum annual guaranteed (MAG) rental payments for Airport concessionaires in response to declining flight operations and passenger traffic. As of June 30, 2007, MAG payments have been reinstated except for certain concessionaires at Boarding Area F of Terminal 3 (North Terminal), which has not met the MAG reinstatement threshold. The above schedule of future minimum rental payments reflects all originally scheduled MAG payments.

**(9) Employee Benefit Plans**

**(a) Retirement Plan – City and County of San Francisco**

**Plan Description**

The City has a single-employer defined benefit retirement plan (the Plan), which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the Airport along with other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority that establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020.

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**Funding Policy**

Contributions are made to the basic plan by both the Airport and its employees. Employee contributions are mandatory. Employee contribution rates for 2008, 2007, and 2006 range from 7.5% to 8.0% as a percentage of covered payroll. The Airport is required to contribute at an actuarially determined rate. The actuarially determined contribution rate as a percentage of covered payroll was 5.91% in 2008, 6.24% in 2007, and 6.58% in 2006. The Airport contributed 100% of its annual contributions of \$9,186,000 in 2008, \$9,112,000 in 2007, and \$7,484,000 in 2006.

**(b) Health Care Benefits**

Health care benefits of Airport employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The Airport's annual contribution, which amounted to approximately \$24,047,000 and \$22,003,000 in fiscal years 2008 and 2007, respectively, is determined by a charter provision based on similar contributions made by the 10 most populous counties in California.

Included in these amounts are \$7,046,000 and \$6,294,000 for 2008 and 2007, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis.

The City has determined a City-wide ARC and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City has allocated \$22,459,000 of the City-wide ARC and OPEB cost to the Airport for the year ended June 30, 2008 based upon its percentage of City-wide payroll costs. The difference between the allocation and the amount paid is \$15,413,000 and has been recorded as a net OPEB obligation by the Airport as of June 30, 2008.

The City issues a publicly available financial report that includes the complete note disclosures and RSI related to the City's postretirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

**(10) Related-Party Transactions**

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statements of revenues, expenses, and changes in net assets. These services include utilities provided to tenants (see note 2) and the Airport. The cost of all services provided by City departments totaled approximately \$92,684,000 and \$93,060,000 in fiscal years 2008 and 2007, respectively. Included in personnel operating expenses are approximately \$45,564,000 and \$44,948,000 in fiscal years 2008 and 2007, respectively, related to police and fire services.

The Lease and Use Agreements with the airlines provide for continuing annual service payments to the City equal to 15% of concession revenues (net of certain adjustments), but not less than \$5,000,000 per fiscal year. Payments to the City were \$25,942,000 and \$23,348,000 in fiscal years 2008 and 2007, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net assets.

**(11) Passenger Facility Charges**

In July 2001, the FAA approved the Airport's first application (PFC #1) for the collection and use of a passenger facility charge totaling \$112,739,000 to pay for the development activities and studies relating to the runway reconfiguration project. The collection period for this application was October 1, 2001 to June 1, 2003. In January 2004, the FAA approved the Airport's amendment to delete PFC #1 as a result of the suspension of the runway reconfiguration project.

In March 2002, the FAA approved the Airport's second application (PFC #2) for \$224,035,000 to pay for debt service on a portion of the bonds issued to finance certain eligible costs relating to the new International Terminal complex. This application extended the PFC collection period to April 1, 2008. In January 2004, the FAA approved the Airport's amendment to delete PFC #1; receipts from PFC #1 were applied to PFC #2 and the FAA revised PFC #2's collection period to expire on January 1, 2006. In October 2005, the FAA approved an amendment to PFC #2 charge expiration date to October 6, 2005 due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the expiration date of PFC #2 will be recorded as November 1, 2005.

In November 2003, the FAA approved the Airport's third application (PFC #3) for \$539,108,000 to pay for debt service costs related to the construction of the new International Terminal Building and Boarding Areas A and G. The collection period for this application, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with a charge expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by \$70 million for a revised application of \$609,108,000. In September 2006, the FAA notified the Airport that the revised start date for the collections for PFC #3 is recorded as November 1, 2005 with a revised estimated charge expiration date of January 1, 2017.

Passenger facility charges (PFC) collections and related interest earned for the 12 months ended June 30, 2008 are as follows (in thousands):

Amount collected	\$ 69,476
Interest earned	1,994
	\$ 71,470

Interest earned on PFC revenues is included in investment income in the accompanying financial statements.

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**(12) Commitments, Litigation, and Contingencies**

**(a) Commitments**

Purchase commitments for construction, material, and services as of June 30, 2008 are as follows (in thousands):

Construction	\$ 30,108
Operating	11,333
Total	\$ 41,441

The Airport has a Memorandum of Understanding and supplemental funding agreement with various surrounding communities to insulate residential and nonresidential structures such as schools, churches, and hospitals. This program was funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. In fiscal year 2008, this program was finalized and the Airport received a reimbursement of \$385,000 from the County of San Mateo. In addition, the Airport made a final disbursement of \$214,000 to close the last phase for the City of San Bruno. As of June 30, 2008 and June 30, 2007, the cumulative disbursements under this program were approximately \$121.1 million and \$121.2 million, respectively.

**(b) Agreements with Airlines**

In 1981, to settle disputes among the City, Airport, and airlines, the parties agreed to enter into a settlement agreement and simultaneously the Lease and Use Agreements. These agreements provide for terms and restrictions related to use of Airport revenues, payments to the City, calculation of landing fees, bond financing, capital projects, and certain other matters. These agreements expire in 2011.

**(c) Litigation**

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. In June 2007, a jury from the San Mateo County Superior Court rendered a verdict finding the Airport in breach of covenant of good faith and fair dealing and awarded the plaintiffs \$1,050,000 in damages. In February 2008, the Court vacated the judgment against the Airport and ordered that judgment be entered in the Airport's favor. The ruling renders the \$1,050,000 verdict against the Airport null and void. It also nullifies the Airport's liability for up to \$522,000 in expenses and \$5 million in attorneys' fees that plaintiffs were seeking. As the prevailing party, the Airport is entitled to recover its costs associated with the litigation. Those costs, excluding attorneys' fees, total \$434,000. The Airport may also recover its attorneys' fees totaling \$3,380,000. Plaintiffs are expected to appeal the Court's ruling in the Airport's favor.

In July 2004, the San Francisco Superior Court granted summary judgment to the plaintiff in a case involving a contractor who claimed the City's minority and women-owned business program violates the California Constitution. Subsequently, the Airport appealed the Superior Court's

decision, prevailing in the Court of Appeals. Plaintiff, however, petitioned the California Supreme Court for review and the Supreme Court agreed to hear the case. If the decision is reversed by the Supreme Court, the plaintiff would be entitled to recover reasonable attorney's fees of approximately \$5 million.

The Airport is a defendant in other legal actions and claims, some of which may be covered by insurance. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable and consequently no provisions have been made for these claims.

**(d) Risk Management**

Under the 1991 Master Resolution, the Commission is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Commission, and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Commission is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport has an ongoing loss prevention program, a safety officer, property loss control and ongoing employee training programs. The Airport carries general liability insurance coverage of \$750 million, subject to a deductible of \$10,000 per single occurrence. The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Commission, subject to a deductible of \$500,000 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Commission pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public official liability and employer's liability coverage of \$5 million, subject to a deductible of \$100,000 per single occurrence for each wrongful act other than employment practices' violations, and \$200,000 per each occurrence for each employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of \$750 million per occurrence for war, terrorism and hijacking. Immediately following the events of September 11, 2001, insurers cancelled their coverages for war, terrorism, and hijacking for all airports, including the Airport, and for all airlines around the country. A number of insurers now provide this coverage through the Federal Government Terrorism Risk Insurance Act (TRIA). However, the scope of the coverage is limited and the premiums are high. Due to these factors, the Commission, in consultation with the City's Risk Manager, has elected not to secure such coverage.

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The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2006 resulted from the following activity (in thousands):

Balance, June 30, 2006	\$ 37
Claim payments	(281)
Claims and changes in estimates	284
Balance, June 30, 2007	40
Claim payments	(1,562)
Claims and changes in estimates	1,559
Balance, June 30, 2008	\$ 37

The Airport is self-insured as part of the City's program for workers' compensation. All self-insurance claims are processed by the City. Liability and risk are retained by the Airport. Accrued workers' compensation includes provisions for claims reported and claims incurred but not reported. This accrued workers' compensation liability is actuarially determined as part of the City's program and is as follows (in thousands):

Balance, June 30, 2006	\$ 4,952
Claim payments	(2,053)
Claims and changes in estimates	1,878
Balance, June 30, 2007	4,777
Claim payments	(2,299)
Claims and changes in estimates	2,358
Balance, June 30, 2008	\$ 4,836

**(e) Grants**

Grants that the Airport receives are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

**(f) Loan Guarantees**

The Airport continues to serve as the guarantor of certain loans on behalf of various food and beverage concession tenants within the International Terminal. The Airport's remaining maximum exposures under these loan guarantee agreements were approximately \$584,000 and \$1.5 million as of June 30, 2008 and June 30, 2007, respectively.

**(g) Concentration of Credit Risk**

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreements (see note 2) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2008 or June 30, 2007, revenues realized from the following sources exceeded 5% of the Airport's total operating revenues:

	<u>2008</u>	<u>2007</u>
United Airlines	22.7%	21.1%
New South Park	6.3	—
AMPCO Parking Systems	—	9.0

**(h) Noncancelable Operating Leases**

The Airport has noncancelable operating leases for certain buildings and equipment that require the following minimum annual payments, net of sublease income (in thousands):

Fiscal years:	
2009	\$ 4,702
2010	80
2011	75
Total	<u>\$ 4,857</u>

Net operating lease expense incurred for the fiscal years ended 2008 and 2007 was approximately \$5.2 million and \$5.3 million, respectively.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
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Schedule of Passenger Facility Charge Revenues and Expenditures  
Years ended June 30, 2008 and 2007  
(In thousands)

	Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Excess (deficiency) of Passenger Facility Charge revenues over (under) expenditures on approved projects
Program to date as of June 30, 2006	\$ 273,082	5,396	278,478	(254,366)	24,112
Fiscal year 2006 – 2007 transactions:					
Reversal of prior year passenger facility charges accrual	(10,002)	—	(10,002)	—	(10,002)
Quarter ended September 30, 2006	16,208	298	16,506	—	16,506
Quarter ended December 31, 2006	15,309	505	15,814	—	15,814
Quarter ended March 31, 2007	17,106	675	17,781	—	17,781
Quarter ended June 30, 2007	14,964	916	15,880	(64,413)	(48,533)
Unrealized gain on investments	—	3	3	—	3
Passenger facility charges accrual	10,692	—	10,692	—	10,692
Total fiscal year 2006 – 2007 transactions	64,277	2,397	66,674	(64,413)	2,261
Program to date as of June 30, 2007	337,359	7,793	345,152	(318,779)	26,373
Fiscal year 2007 – 2008 transactions:					
Reversal of prior year passenger facility charges accrual	(10,692)	—	(10,692)	—	(10,692)
Quarter ended September 30, 2007	20,331	487	20,818	—	20,818
Quarter ended December 31, 2007	15,962	517	16,479	—	16,479
Quarter ended March 31, 2008	16,294	575	16,869	—	16,869
Quarter ended June 30, 2008	19,022	520	19,542	(61,400)	(41,858)
Unrealized gain on investments	—	(105)	(105)	—	(105)
Passenger facility charges accrual	8,559	—	8,559	—	8,559
Total fiscal year 2007 – 2008 transactions	69,476	1,994	71,470	(61,400)	10,070
Program to date as of June 30, 2008	\$ 406,835	9,787	416,622	(380,179)	36,443

See accompanying notes to schedule of passenger facility charge revenues and expenditures.



KPMG LLP  
 55 Second Street  
 San Francisco, CA 94105

**AIRPORT COMMISSION  
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Notes to Schedule of Passenger Facility Charge Revenues and Expenditures  
 Year ended June 30, 2008

**Report on Internal Control over Financial Reporting  
 and on Compliance and Other Matters Based on an Audit of Financial  
 Statements Performed in Accordance with Government Auditing Standards**

The Honorable Mayor and Board of Supervisors  
 City and County of San Francisco:

We have audited the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Our report included an explanatory paragraph, related to the Airport's adoption of the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as of July 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not

**(1) General**

The accompanying schedule of passenger facility charge revenues and expenditures includes activities related to applications 02-02-C-00-SFO and 03-03-C-01-SFO of the passenger facility charge (PFC) program of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport). The level of PFCs authorized, charge effective dates, and approved collection amounts of the Airport's PFC program are as follows (in thousands):

Application number	Level of PFCs authorized	Charge effective date for collection	Amounts approved for collection
02-02-C-00-SFO	\$ 4.50	October 1, 2001	\$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
Total			\$ 833,143

**(2) Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures**

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (the Schedule) has been prepared on the accrual basis of accounting which is described in note 2(a) of the Airport's basic financial statements.



necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the schedule of findings and response is not a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

The Airport's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Airport's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City and County of San Francisco Government Audit and Oversight Committee, the Airport Commission, and management and is not intended to be and should not be used by anyone other than these specified parties.



October 31, 2008



KPMG LLP  
 55 Second Street  
 San Francisco, CA 94105

program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a passenger facility charge program such that there is more than a remote likelihood that noncompliance with compliance requirements of a passenger facility charge program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a compliance requirements of a passenger facility charge program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City and County of San Francisco Government Audit and Oversight Committee, the Airport Commission, management, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.



October 31, 2008

**Report on Compliance with Requirements  
 Applicable to the Passenger Facility Charge Program  
 and on Internal Control over Compliance**

The Honorable Mayor and Board of Supervisors  
 City and County of San Francisco:

**Compliance**

We have audited the compliance of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2008. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2008.

**Internal Control over Compliance**

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with compliance requirements of a passenger facility charge

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Schedule of Findings and Responses  
Year ended June 30, 2008

**I. Summary of Auditors' Results**

1. The type of report issued on the basic financial statements: **Unqualified opinion**
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements:  
**Yes**  
Material weaknesses: **None**
3. Noncompliance which is material to the financial statements: **None**
4. Significant deficiencies in internal control over the passenger facility charge program: **None reported**. Material weaknesses: **None**
5. The type of report issued on compliance for the passenger facility charge program: **Unqualified opinion**
6. Any audit findings: **No**

**II. Findings and Responses Related to the Passenger Facility Charge Program**

**None**

**2008-01 Lack of control over the review of cash flow statement presentation of cash paid for employees' services, and cash paid to suppliers of goods and services**

*Criteria*

A control deficiency 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 misstatements on a timely basis.

*Condition*

In preparing the statement of cash flows for the fiscal year ended June 30, 2008, cash paid for employees' services was erroneously misclassified as cash paid to suppliers of goods and services and vice versa. The result was understatement in cash paid for employees' services of approximately \$40 million and an overstatement of the same in cash paid to suppliers of goods and services. The supporting cash flow worksheet that reconciles the cash paid for employees' services and cash paid to suppliers of goods and services was correct.

*Cause*

An adequate control over the preparation of the statement of cash flows was not in place.

*Recommendation*

Management should ensure that the statement of cash flows is appropriately reviewed and reconciled to the supporting cash flow worksheet.

*Management Response*

The transposition error resulted from the cash flow statement cross-referencing incorrectly to the cash flow spreadsheet when reporting "Cash paid to supplier" and "Cash paid for employee services." The error was discovered during our internal review of the draft of financial statements, contemporaneous to the auditors' review of the cash flow statement. Unfortunately, our discovery of the error was not communicated to the auditors on a timely basis. The auditors maintain that under SAS 112, such errors should have been reported to them prior to their discovery. We concur with the auditors' recommendation that in the future, financial statements, including the statement of cash flows, will be reviewed and appropriately reconciled before these statements are provided to the auditors.

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## APPENDIX B

### INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM

#### Introduction

The information below concerning DTC and DTC's book-entry system has been obtained from DTC, and the Commission assumes no responsibility for the accuracy or completeness thereof. DTC has established a book-entry depository system pursuant to certain agreements between DTC and its participants (the "Participants"). The Commission is not a party to those agreements. The Commission and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, or to any other person who is not shown on the registration books as being an owner of the Series 2009D Bonds, with respect to any matter including (i) the accuracy of any records maintained by DTC or any of its Participants, (ii) the payment by DTC or its Participants of any amount in respect of the principal of, redemption price of, or interest on the Series 2009D Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the 1991 Master Resolution; (iv) the selection by DTC or any of its Participants of any person to receive payment in the event of a partial redemption of the Series 2009D Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter. The Commission and the Trustee cannot and do not give any assurances that DTC, its Participants or others will distribute payments of principal of or interest on the Series 2009D Bonds paid to DTC or its nominee, as the registered owner, or give any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement.

#### General

DTC will act as securities depository for the Series 2009D Bonds. The Series 2009D Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 2009D Bond certificate will be issued for each maturity and Series of the Series 2009D Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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. 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 Standard & Poor's highest rating: AAA. 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). The information contained in such websites is not incorporated by reference herein.

Purchases of the Series 2009D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009D 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 2009D 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 2009D Bonds, except in the event that use of the book-entry system for the Series 2009D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009D 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 Series 2009D 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 2009D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2009D Bonds within an issue 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission 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 2009D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments on the Series 2009D 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 County or 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, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, sinking fund and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR OWNERS OF BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

#### **Discontinuance of DTC Services**

DTC may discontinue providing its services as securities depository with respect to the Series 2009D Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2009D Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2009D Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION

*The following is a summary of certain provisions contained in Resolution No. 91-0210, adopted by the Commission on December 3, 1991 (the "1991 Master Resolution"), as subsequently amended and supplemented, and is not to be considered as a full statement thereof. See also "Description of the Series 2009D Bonds." Taken together, the 1991 Master Resolution, as previously amended and supplemented, including as supplemented by Resolution No. 98-0114, adopted by the Commission on May 19, 1998, Resolution No. 02-0010, adopted by the Commission on January 8, 2002, Resolution No. 03-0220, adopted by the Commission on October 21, 2003, Resolution No. 04-0220, adopted by the Commission on November 2, 2004, and by Resolution No. 05-0183, adopted by the Commission on October 11, 2005, as amended by Resolution No. 07-0043, adopted by the Commission on February 20, 2007, Resolution No. 08-0152, adopted by the Commission on August 19, 2008, Resolution No. 08-0185, adopted by the Commission on October 7, 2008, and Resolution No. 09-0059, adopted by the Commission on March 31, 2009, and by the Certificate of Additional Terms relating to the Series 2009D Bonds (collectively, the "Supplemental Resolutions"), and any other amending and supplemental resolutions or certificates of additional terms are herein called the "Resolution." Reference is made to the Resolution for full details of the terms of the Series 2009D Bonds, the application of revenues therefor, and the security provisions pertaining thereto. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Resolution. This Official Statement does not describe the terms of any subsequent interest rate period or periods or any other Mode other than the initial Term Rate Mode for the Series 2009D Bonds, which terms would be set forth in a separate offering document with respect thereto. Holders and Potential Owners of the Series 2009D Bonds should not rely on this Official Statement for information while the Series 2009D Bonds are in any other Mode other than the Term Rate Mode, but should look solely to the offering documents to be used in connection with any such Mode change for a description of any other Mode.*

#### **Certain Definitions**

*Act* means the Charter of the City and County of San Francisco, as supplemented and amended, all enactments of the Board adopted pursuant thereto, and all laws of the State of California incorporated therein by reference.

*Aggregate Maximum Annual Debt Service* means the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Bonds of a Series.

*Airport* means the San Francisco International Airport, located in San Mateo County, State of California, together with all additions, betterments, extensions and improvements thereto. Unless otherwise specifically provided in any Supplemental Resolution, the term shall include all other airports, airfields, landing places and places for the take-off and landing of aircraft, together with related facilities and property, located elsewhere, which are hereafter owned, controlled or operated by the Commission or over which the Commission has possession, management, supervision or control.

*Airport Consultant* means a firm or firms of national recognition with knowledge and experience in the field of advising the management of airports as to the planning, development, operation and management of airports and aviation facilities, selected and employed by the Commission from time to time.

*Alternate Liquidity Facility* means a Liquidity Facility with respect to a Series of Variable Rate Bonds issued or executed in accordance with the Resolution which shall have a term of not less than six months and shall have substantially the same material terms as the Liquidity Facility it is replacing.

*Alternate Liquidity Provider* means the person or entity obligated to make a payment or payments with respect to any Series of Variable Rate Bonds under an Alternate Liquidity Facility.

*Alternate Rate* means for a Series of Variable Rate Bonds in the Term Rate Mode, the Alternate Term Rate.

*Alternate Term Rate* means for a Series of Variable Rate Bonds in the Term Rate Mode, an index published or provided by Kenny Information Systems (or a similar information service selected by the Commission if Kenny Information Systems ceases to operate), which index is based on yield evaluations at par of bonds, the interest on which is excluded from gross income for purposes of Federal income taxation and are not subject to a “minimum tax” or similar tax under the Code (unless all tax-exempt bonds are subject to such tax). The bonds upon which the index is based shall include not less than five “high grade” component issuers selected by Kenny Information Systems (or a similar information service selected by the Commission if Kenny Information Systems ceases to operate) which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time-to-time by Kenny Information Systems (or a similar information service selected by the Commission if Kenny Information Systems ceases to operate) in its discretion. The yield evaluation period for the index shall be a one year evaluation.

*Amortized Bonds* means the maximum principal amount of any existing or proposed Commercial Paper Program authorized by the Commission to be outstanding at any one time.

*Annual Debt Service* means the amount scheduled to become due and payable on the outstanding Bonds or any one or more Series thereof in any Fiscal Year as (i) interest, plus (ii) principal at maturity, plus (iii) mandatory sinking fund redemptions. For purposes of calculating Annual Debt Service, the following assumptions shall be used:

- (a) All principal payments and mandatory sinking fund redemptions shall be made as and when the same shall become due;
- (b) Outstanding Variable Rate Bonds shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the average of the actual rates on such Bonds for each day during the 365 consecutive days (or any lesser period such Bonds have been outstanding) ending on the last day of the month next preceding the date of computation, or at the effective fixed annual rate thereon as a result of an interest rate swap with respect to such Bonds;
- (c) Variable Rate Bonds proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the estimated initial rate or rates thereon, as set forth in a certificate of a financial consultant dated within 30 days prior to the date of delivery of such Bonds, or at the effective fixed annual rate thereon as a result of an interest rate swap with respect to such Bonds;
- (d) Amortized Bonds shall be deemed to be amortized on a level debt service basis over a 20-year period beginning on the date of calculation at the Index Rate;
- (e) Payments of principal of and interest on Repayment Obligations shall be deemed to be payments of principal of and interest on Bonds to the extent provided in the Resolution; and
- (f) Capitalized interest on any Bonds and accrued interest paid on the date of initial delivery of any series of Bonds shall be excluded from the calculation of Annual Debt Service if cash and/or Permitted Investments have been irrevocably deposited with and are held by the Trustee or other fiduciary for the owners of such Bonds sufficient to pay such interest.

*Annual Service Payments* means amounts paid to the City pursuant to the Charter, including but not limited to the amounts paid pursuant to that certain Settlement Agreement, made and entered into as of July 1, 1981, by and among the City and certain regular airline users of the Airport.



*Authorized Denominations* means with respect to a Series of Variable Rate Bonds in a Term Rate Mode or a Fixed Rate Mode, \$5,000 and any integral multiple thereof.

*Bond Insurance Policy* means a municipal bond insurance policy insuring the payment of principal of and interest on all or a portion of the Variable Rate Bonds of a Series.

*Bond Insurer* means the provider of a Bond Insurance Policy.

*Bonds* means any evidences of indebtedness for borrowed money issued from time to time by the Commission by the Resolution or by Supplemental Resolution, including but not limited to bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein and Repayment Obligations to the extent provided in the Resolution.

*Business Day* means, with respect to any Series of Variable Rate Bonds, a day on which the principal office of the Trustee, any Paying Agent, the Remarketing Agent, the Credit Provider, if any, with respect to that Series of Bonds, the Liquidity Provider, if any, with respect to that Series of Bonds, or banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

*Closing Date* means the date upon which a Series of Variable Rate Bonds is initially issued and delivered in exchange for the proceeds representing the Purchase Price of such Series of Variable Rate Bonds paid by the original purchaser thereof.

*Costs of Issuance* means payment of, or reimbursement of the Commission for, all reasonable costs incurred by the Commission in connection with the issuance of a Series of Variable Rate Bonds, including, but not limited to: (a) counsel fees related to the issuance of such Series of Variable Rate Bonds (including bond counsel, co-bond counsel, disclosure counsel, Trustee's counsel and the City Attorney); (b) financial advisor fees incurred in connection with the issuance of such Series of Variable Rate Bonds; (c) rating agency fees; (d) fees of any Credit Provider or Liquidity Provider for the provision of a Credit Facility or Liquidity Facility, as applicable; (e) the initial fees and expenses of the Trustee, the Registrar, the Authenticating Agent, Remarketing Agents and any Series Escrow Agent; (f) accountant fees and any escrow verification fees related to the issuance of such Series of Variable Rate Bonds; (g) printing and publication costs; (h) costs of engineering and feasibility studies necessary to the issuance of such Series of Variable Rate Bonds; and (i) any other cost incurred in connection with the issuance of the Variable Rate Bonds that constitutes an "issuance cost" within the meaning of Section 147(g) of the Code.

*Credit Facility* means a letter of credit, line of credit, standby purchase agreement, municipal bond insurance policy, surety bond or other financial instrument which obligates a third party to pay or provide funds for the payment of the principal or purchase price of and/or interest on any Bonds and which is designated as a Credit Facility in the Supplemental Resolution authorizing the issuance of such Bonds.

*Credit Provider* means the person or entity obligated to make a payment or payments with respect to any Bonds under a Credit Facility.

*Credit Provider Bonds* means any Variable Rate Bonds registered in the name of a Credit Provider, or its nominee or agent, pursuant to the 1991 Master Resolution.

*Draw* means a request for payment in accordance with the terms of a Credit Facility, a Liquidity Facility or an Alternate Liquidity Facility, as the case may be; to "Draw" means to request such payment.

*Expiration Date* means the stated expiration date of a Liquidity Facility or Alternate Liquidity Facility, as the case may be, as it may be extended from time to time as provided therein, as the case may be, or any earlier date on which such Liquidity Facility or Alternate Liquidity Facility shall terminate, expire or be cancelled.

*Expiration Tender Date* means the day five (5) Business Days prior to the Expiration Date.

*Electronic Means* means telecopy, telegraph, telex, facsimile transmission, email transmission or other similar electronic means of communication of a written image, and shall include a telephonic communication promptly confirmed in writing or by electronic transmission of a written image.

*Event of Default* means any one or more of the events described hereinafter under the caption "Events of Default".

*Fiscal Year* means the one-year period beginning on July 1 of each year and ending on June 30 of the succeeding year, or such other one-year period as the Commission shall designate as its Fiscal Year.

*Government Certificates* means evidences of ownership of proportionate interests in future principal or interest payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interests must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, or any person claiming through the custodian, or any person to whom the custodian may be obligated.

*Government Obligations* means direct and general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

*Holder, Bondholder, Owner and Bondowner* mean the person or persons in whose name any Bond or Bonds are registered on the records maintained by the Registrar or, in the case of bearer obligations, who hold any Bond or Bonds, and shall include any Credit Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Bond pursuant to the Resolution.

*Independent Auditor* means a firm or firms of independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing selected or employed by the City.

*Index Rate* means a fixed annual interest rate equal to the rate most recently published by *The Bond Buyer* as the 25-Bond Revenue Index of revenue bonds maturing in 30 years, or a successor index designated by the Commission.

*Indexing Agent* means Municipal Market Data, Boston, Massachusetts, a Thomson Financial Services Company or its successor or a similar information service selected by the Commission if Municipal Market Data ceases to exist.

*Insolvent* shall be used to describe the Trustee, any Paying Agent, Authenticating Agent, Registrar, other agent appointed under the 1991 Master Resolution or any Credit Provider, if (a) such person shall have instituted proceedings to be adjudicated a bankrupt or insolvent, shall have consented to the institution of bankruptcy or insolvency proceedings against it, shall have filed a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall have consented to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator or other similar official of itself or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to the entry of an order for relief under the federal Bankruptcy Code or shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due; or (b) a decree or order by a court having jurisdiction in the premises adjudging such person as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such person under the federal Bankruptcy Code or any other similar applicable federal or state law or for relief under the federal Bankruptcy Code after an involuntary petition has been filed against such person, or appointing a receiver, liquidator, assignee, trustee or sequestrator or other similar official of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, shall have been entered and shall have continued unstayed and in effect for a period of 90 consecutive days.

*Interest Accrual Period* means the period during which a Series of Variable Rate Bonds accrues interest payable on any Interest Payment Date applicable thereto. With respect to a Series of Variable Rate Bonds in a Term Rate Mode, the Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from (and including) the date of original authentication and delivery of such Variable Rate Bond, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Variable Rate Bond, interest is in default or overdue on the Variable Rate Bonds, such Variable Rate Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Variable Rate Bonds.

*Interest Payment Date* means each date on which interest is to be paid and is (without duplication): (i) with respect to a Series of Variable Rate Bonds bearing interest in the Term Rate Mode, each Term Rate Interest Payment Date for such Variable Rate Bond; (ii) any Mode Change Date, (iii) each Mandatory Purchase date; and (iv) each Maturity Date.

*Interest Period* means, with respect to a Series of Variable Rate Bonds in the Term Rate Mode, the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that such Variable Rate Bonds shall be in the Term Rate Mode as established by the Commission pursuant to the 1991 Master Resolution, thereafter, the period from (and including) the beginning date of each successive interest rate period selected for such Variable Rate Bonds by the Commission pursuant to the 1991 Master Resolution while it is in the Term Rate Mode to (but excluding) the ending date for such period selected for such Variable Rate Bonds by the Commission. Each Interest Period for a Series of Variable Rate Bonds in the Term Rate Mode shall end on a Stated Interest Payment Date occurring not earlier than three (3) months after the commencement of such Interest Period or on such other date as may be provided in a Series Sale Resolution.

*Liquidity Facility* means a line of credit, standby bond purchase agreement or other financial instrument that obligates a third party to pay or provide funds for the payment of the purchase price of any Variable Rate Bonds and which is designated as a Liquidity Facility in the Supplemental Resolution authorizing the issuance of such Variable Rate Bonds.

*Liquidity Facility Agreement* means any agreement executed and delivered by a Liquidity Provider and the Commission in connection with the issuance or execution of a Liquidity Facility with respect to a Series of Variable Rate Bonds, which agreement, among other matters, sets forth the terms under which the Liquidity Facility will be provided and the provisions for payment of the Purchase Price of Variable Rate Bonds and/or for reimbursement of amounts paid by the Liquidity Provider under the Liquidity Facility, or, if an Alternate Liquidity Facility has been provided, the corresponding agreement, if any, executed and delivered in connection with such Alternate Liquidity Facility.

*Liquidity Provider* means the person or entity obligated to make a payment or payments with respect to any Series of Variable Rate Bonds under a Liquidity Facility and which is designated as a Liquidity Provider in a Series Sale Resolution relating to such Series of Variable Rate Bonds or an Alternate Liquidity Provider if an Alternate Liquidity Facility shall be in effect with respect to such Series of Variable Rate Bonds. Unless the context otherwise requires, the term "Liquidity Provider," whenever used in the 1991 Master Resolution with respect to certain Variable Rate Bonds or a Series of Variable Rate Bonds, shall refer only to the Liquidity Provider providing a Liquidity Facility with respect to such Variable Rate Bonds or Series of Variable Rate Bonds.

*Liquidity Provider Bonds* means any Variable Rate Bonds registered in the name of a Liquidity Provider, or its nominee or agent, pursuant to the 1991 Master Resolution.

*Liquidity Provider Interest Rate* means the interest rate, not to exceed the maximum interest rate permitted by law, payable on Liquidity Provider Bonds of a Series and determined pursuant to the related Liquidity Facility Agreement.

*Mandatory Purchase Date* means (i) any Mode Change Date, (ii) the Substitution Tender Date, and (iii) the date described under “DESCRIPTION OF THE SERIES 2009D BONDS – General”.

*Mandatory Sinking Fund Payment* means a principal amount of Variable Rate Bonds of a Series which is subject to mandatory redemption on a Mandatory Sinking Fund Redemption Date.

*Mandatory Sinking Fund Redemption Date* means each May 1 upon which Variable Rate Bonds of a Series are subject to mandatory redemption under the Supplemental Resolutions.

*Maturity Date* means, with respect to any Variable Rate Bond or Series of Variable Rate Bonds, the date specified in a Series Sale Resolution relating to such Variable Rate Bond or Series of Variable Rate Bonds upon which such Variable Rate Bond or Series of Variable Rate Bonds mature, and, upon a change to the Fixed Rate Mode, any Serial Maturity Date established pursuant to the 1991 Master Resolution.

*Maximum Annual Debt Service* means the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Bonds.

*Maximum Rate* means, on any day and with respect to any Series 2009D Bonds, the lesser of (i) the highest interest rate which may be borne by such Series 2009D Bonds under State law, or (ii) 12%.

*Maximum Series Annual Debt Service* means the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of a single series of Bonds.

*Mode* means the period of time that all Variable Rate Bonds of a Series bear interest at Daily Rates, Weekly Rates, Auction Rates, Commercial Paper Rates, Term Rates or a Fixed Rate, and, as the context may require, means the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Auction Mode, the Term Rate Mode or the Fixed Rate Mode, as such terms are defined in the 1991 Master Resolution.

*Mode Change Date* means with respect to any Series of Variable Rate Bonds in a particular Mode, the day on which another Mode for such Series of Variable Rate Bonds begins.

*Net Revenues* means Revenues less Operation and Maintenance Expenses.

*Notice Parties* means the Commission, the Trustee, the Remarketing Agent, if any, the Paying Agent, the Credit Provider, if any, and the Liquidity Provider, if any.

*Operation and Maintenance Expenses* means, for any period, all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses shall not include: (a) the principal of, premium, if any, or interest on any Bonds, Subordinate Bonds or general obligation bonds issued by the City for Airport purposes; (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments; (f) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Airport which, under generally accepted accounting principles, are properly chargeable to the capital account or the reserve for depreciation; and (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Airport properties. Operation and Maintenance Expenses shall include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission, as now provided in the Charter.

*Outstanding* means, as of any date of determination, all Bonds of such Series which have been executed and delivered under the 1991 Master Resolution except: (a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (b) Bonds which are deemed paid and no longer Outstanding as provided in the 1991

Master Resolution or in any Supplemental Resolution authorizing the issuance thereof; (c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the 1991 Master Resolution or of any Supplemental Resolution authorizing the issuance thereof; and (d) for purposes of any consent or other action to be taken under the 1991 Master Resolution by the Holders of a specified percentage of Principal Amount of Bonds of a Series or all Series, Bonds held by or for the account of the Commission.

*Participating Series* means the Issue 1 Bonds and any Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account.

*Paying Agent* means, with respect to the Series 2009D Bonds, The Bank of New York Mellon Trust Company, N.A., and its successors and assigns and any other person or entity which may at any time be substituted for it.

*Permitted Investments* means and includes any of the following, if and to the extent the same are at the time legal for the investment of the Commission's money:

- (a) Government Obligations and Government Certificates.
- (b) Obligations issued or guaranteed by any of the following:
  - (i) Federal Home Loan Banks System;
  - (ii) Export-Import Bank of the United States;
  - (iii) Federal Financing Bank;
  - (iv) Government National Mortgage Association;
  - (v) Farmers Home Administration;
  - (vi) Federal Home Loan Mortgage Corporation;
  - (vii) Federal Housing Administration;
  - (viii) Private Export Funding Corporation;
  - (ix) Federal National Mortgage Association;
  - (x) Federal Farm Credit System;
  - (xi) Resolution Funding Corporation;
  - (xii) Student Loan Marketing Association; and
  - (xiii) any other instrumentality or agency of the United States.

(c) Pre-refunded municipal obligations rated in the highest rating category by at least two Rating Agencies and meeting the following conditions:

- (i) such obligations are: (A) not subject to redemption prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;
- (ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal and premium payments of such obligations;
- (iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;
- (iv) the Government Obligations or Government Certificates serving as security for the obligations have been irrevocably deposited with and are held by an escrow agent or trustee; and
- (v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

(d) Direct and general long-term obligations of any State of the United States of America or the District of Columbia (a “State”) to the payment of which the full faith and credit of such State is pledged and that are rated in either of the two highest rating categories by at least two Rating Agencies.

(e) Direct and general short-term obligations of any State to the payment of which the full faith and credit of such State is pledged and that are rated in the highest rating category by at least two Rating Agencies.

(f) Interest-bearing demand or time deposits with, or interests in money market portfolios rated in the highest rating category by at least two Rating Agencies issued by, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (“FDIC”). Such deposits or interests must either be: (i) continuously and fully insured by FDIC; (ii) if they have a maturity of one year or less, with or issued by banks that are rated in one of the two highest short term rating categories by at least two Rating Agencies; (iii) if they have a maturity longer than one year, with or issued by banks that are rated in one of the two highest rating categories by at least two Rating Agencies; or (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party must have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral must be free from all other third party liens.

(g) Eurodollar time deposits issued by a bank with a deposit rating in one of the two highest short-term deposit rating categories by at least two Rating Agencies.

(h) Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest rating categories by at least two Rating Agencies.

(i) Repurchase agreements with maturities of either (A) 30 days or less, or (B) longer than 30 days and not longer than one year provided that the collateral subject to such agreements are marked to market daily, entered into with financial institutions such as banks or trust companies organized under State or federal law, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated investment grade (“A” or better) by at least two Rating Agencies. The repurchase agreement must be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition. The repurchase agreement securities and, to the extent necessary, Government Obligations and Government Certificates or obligations described in paragraph (b), exclusive of accrued interest, shall be maintained in an amount at least equal to the amount invested in the repurchase agreements. In addition, the provisions of the repurchase agreement shall meet the following additional criteria:

(1) the third party (who shall not be the provider of the collateral) has possession of the repurchase agreement securities and the Government Obligations and Government Certificates;

(2) failure to maintain the requisite collateral levels will require the third party having possession of the securities to liquidate the securities immediately; and

(3) the third party having possession of the securities has a perfected, first priority security interest in the securities.

(j) Prime commercial paper of a corporation, finance company or banking institution rated in the highest short-term rating category by at least two Rating Agencies.

(k) Public housing bonds issued by public agencies which are either: (i) fully guaranteed by the United States of America; or (ii) temporary notes, preliminary loan notes or project notes secured by a requisition or

payment agreement with the United States of America; or (iii) state or public agency or municipality obligations rated in the highest credit rating category by at least two Rating Agencies.

(l) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, as amended, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that has been rated in the highest rating category by at least two Rating Agencies.

(m) Money market accounts of any state or federal bank, or bank whose holding parent company is, rated in the top two short-term or long-term rating categories by at least two Rating Agencies.

(n) Investment agreements the issuer of which is rated in one of the two highest rating categories by at least two Rating Agencies.

(o) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments otherwise permitted in paragraphs (a) through (m) above.

(p) Any other debt or fixed income security specified by the Commission (except securities of the City and any agency, department, commission or instrumentality thereof other than the Commission) and rated in the highest category by at least two Rating Agencies.

(q) Bankers acceptances of a banking institution rated in the highest short-term rating category by at least two Rating Agencies, not exceeding 270 days maturity or 40% of moneys invested pursuant to the 1991 Master Resolution. No more than 20% of moneys invested pursuant to the 1991 Master Resolution shall be invested in the bankers acceptances of any one commercial bank pursuant to this paragraph (q).

*Principal Amount* means, as of any date of calculation, (i) with respect to any capital appreciation Bond or compound interest Bond, the accreted value thereof, and (ii) with respect to any other Bonds, the stated principal amount thereof.

*Principal Payment Date* means any May 1 upon which the principal amount of Variable Rate Bonds is due, including any Maturity Date, any Serial Maturity Date, any Mandatory Sinking Fund Redemption Date or any redemption date.

*Purchase Date* means, with respect a Series of Variable Rate Bonds in the Weekly Mode, any Business Day selected by the Owner of any Variable Rate Bond of such Series pursuant to the provisions of the 1991 Master Resolution.

*Purchase Price* means (i) an amount equal to the principal amount of any Variable Rate Bonds of a Series purchased on any Purchase Date, plus, in the case of any purchase of Variable Rate Bond of a Series in the Daily Mode, Weekly Mode or Term Rate Mode, accrued interest, if any, to the Purchase Date, or (ii) an amount equal to the principal amount of any Variable Rate Bond of a Series purchased on a Mandatory Purchase Date, plus, accrued interest, if any, to the Mandatory Purchase Date.

*Rate Determination Date* means the date on which the interest rate or rates, as applicable, on a Series of Variable Rate Bonds shall be determined, which, in the case of the Term Rate Mode, shall be a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent for such Series of Variable Rate Bonds.

*Rating Agency* means Fitch, Moody's and Standard & Poor's or any other nationally recognized credit rating agency specified in a Supplemental Resolution; provided, however, that the term "Rating Agency" shall in any event include Fitch, Moody's or Standard & Poor's, respectively, during such time that such rating agency maintains a credit rating on any series of Bonds Outstanding under the 1991 Master Resolution.

*Rating Confirmation Notice* means a notice from Moody's, Standard & Poor's or Fitch, as appropriate, confirming that the rating on a Series of Variable Rate Bonds will not be withdrawn (other than a withdrawal of a short term rating upon a change to a Term Rate Mode or Fixed Rate Mode) as a result of the action proposed to be taken.

*Record Date* means, with respect to a Series of Variable Rate Bonds in a Term Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

*Remarketing Agent* means the remarketing agent, if any, for a Series of Variable Rate Bonds designated in a Series Sale Resolution authorizing the issuance thereof and any investment banking firm which may at any time be substituted in its place. Unless the context otherwise requires, the term "Remarketing Agent," whenever used in this Appendix C, shall refer only to the Remarketing Agent with respect to Series 2009D Bonds, such Variable Rate Bonds or Series of Variable Rate Bonds. Initially, there will be no Remarketing Agent for the Series 2009D Bonds.

*Repayment Obligation* means an obligation under a written agreement between the Commission and a Credit Provider or Liquidity Provider to reimburse such Credit Provider or Liquidity Provider for amounts paid under or pursuant to a Credit Facility or Liquidity Facility, as applicable, for the payment of the principal or purchase price of and/or interest on any Bonds.

*Revenues* means all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport, as determined in accordance with generally accepted accounting principles. Revenues shall not include: (i) interest income on, and any profit realized from, the investment of moneys in (A) the Construction Fund or any other construction fund funded from proceeds of any Subordinate Bonds, or (B) the Debt Service Fund which constitute capitalized interest, to the extent required to be paid into the Debt Service Fund, or (C) the Reserve Fund if and to the extent there is any deficiency therein; (ii) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds; (iii) Special Facility Revenues and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenues by the Commission; (iv) any passenger facility charge or similar charge levied by or on behalf of the Commission against passengers, unless all or a portion thereof are designated as Revenues by the Commission; (v) grants-in-aid, donations and/or bequests; (vi) insurance proceeds which are not deemed to be Revenues in accordance with generally accepted accounting principles; (vii) the proceeds of any condemnation award; (viii) the proceeds of any sale of land, buildings or equipment; and (ix) any money received by or for the account of the Commission from the levy or collection of taxes upon any property in the City.

*Series of Bonds or Bonds of a Series or Series* shall mean a series of Bonds issued pursuant to the 1991 Master Resolution.

*Special Facility* means any existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or a part of any facility or structure at the Airport and designated as such by the Commission.

*Special Facility Bonds* means any bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued by the Commission to finance a Special Facility, the principal of, premium, if any, and interest on which are payable from and secured by Special Facility Revenues derived from such Special Facility, and not from or by Net Revenues.

*Special Facility Revenues* means the revenues earned by the Commission from or with respect to any Special Facility and designated as such by the Commission.

*Stated Interest Payment Date* means May 1, 2010 and each May 1 and November 1 thereafter until the first Mandatory Purchase Date, and the first Mandatory Purchase Date.

*Subordinate Bonds* means any evidences of indebtedness for borrowed money issued from time to time by the Commission pursuant to the 1991 Master Resolution, including but not limited to bonds, notes, bond



anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein, with a pledge of, lien on, and security interest in Net Revenues which are junior and subordinate to those of the Bonds whether then issued or thereafter to be issued.

*Substitution Date* means the date on which an Alternate Liquidity Facility is to be substituted for a Liquidity Facility, or a Liquidity Facility is otherwise modified or reduced such that the Purchase Price of any Variable Rate Bonds of the applicable Series will no longer be payable from such Liquidity Facility.

*Substitution Tender Date* means the date five (5) Business Days prior to the Substitution Date.

*Supplemental Resolution* means a resolution supplementing or amending the provisions of the 1991 Master Resolution which is adopted by the Commission pursuant to Article IX of the 1991 Master Resolution.

*Term Rate* means the per annum interest rate for a Variable Rate Bond in the Term Rate Mode determined by the applicable Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which will result in a sale of the Series of Variable Rate Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Commission in writing delivered to the Remarketing Agent before such Rate Determination Date.

*Term Rate Interest Payment Date* means, with respect to a Series of Variable Rate Bonds in the Term Rate Mode and for the current Interest Period for such Series of Variable Rate Bonds, each Stated Interest Payment Date occurring in such Period (beginning with the first Stated Interest Payment Date that occurs no earlier than three (3) months after the commencement of such Period or such other date as may be specified in a Series Sale Resolution).

*Term Rate Mode* means the Mode during which a Series of Variable Rate Bonds bears interest at the Term Rate.

*Transfer* means (i) the amount deposited on the last Business Day of any Fiscal Year from the Contingency Account into the Revenues Account, plus (ii) any amounts withdrawn from the Contingency Account during such Fiscal Year for the purposes specified in the 1991 Master Resolution, less (iii) any amounts deposited in the Contingency Account from Revenues during such Fiscal Year.

*Trustee* means, with respect to the Series 2009D Bonds, The Bank of New York Mellon Trust Company, N.A., and its successors and assigns and any other person or entity which may at any time be substituted for it, as successor trustee and paying agent under the Resolution.

*2009 Reserve Account* means the 2009 Reserve Account established in the Reserve Fund pursuant to the Refunding Series Sale Resolution for the 2009C Bonds as security for the Series 2009C Bonds and any other 2009 Reserve Account Series designated by Supplemental Resolution or Refunding Series Sale Resolution as being secured by the 2009 Reserve Account.

*2009 Reserve Account Series* means the Series 2009C Bonds and any other Series of Bonds designated by Supplemental Resolution or Refunding Series Sale Resolution as being secured by the 2009 Reserve Account.

*2009 Reserve Requirement* means an amount with respect to each 2009 Reserve Account Series equal to the lesser of: (i) Maximum Annual Debt Service for such Series of Bonds, (ii) 125% of average Annual Debt Service for such Series of Bonds, and (iii) 10% of the outstanding principal amount of such Series, (or issue price of such Series if such Series is sold with more than a de minimus amount of original issue discount or premium), in each case as determined from time to time, and with respect to all 2009 Reserve Account Series means the aggregate of such amounts for each individual 2009 Reserve Account Series.

*2009C Bonds* means the San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009C.

*Variable Rate Bonds* means one or more Series of variable rate bonds authorized by the Supplemental Resolutions to be issued under the 1991 Master Resolution, in the aggregate principal amounts specified in one or more Series Sale Resolutions. Variable Rate Bonds may bear interest at Daily Rates, Weekly Rates, Auction Rates, Commercial Paper Rates, Term Rates or a Fixed Rate, as such terms are defined in the 1991 Master Resolution.

### **Pledge of Revenues**

The Bonds are revenue bonds, are not secured by any taxing power of the Commission (which as of the date hereof has no taxing power) and are payable as to principal, purchase price, if any, premium, if any, and interest, exclusively from, and are secured by a pledge of, lien on and security interest in Net Revenues of the Airport. Net Revenues constitute a trust fund for the security and payment of the principal of, purchase price, if any, premium, if any, and interest on, the Bonds. The Commission has assigned to the Trustee for the benefit of the Bondholders all of its right, title and interest in, the following:

- (a) Amounts on deposit from time to time in the funds and accounts created pursuant to the 1991 Master Resolution, including the earnings thereon, subject to the provisions of the 1991 Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein; *provided, however*, that there expressly is excluded from any pledge, assignment, lien or security interest created by the 1991 Master Resolution, Revenues appropriated, transferred, deposited, expended or used for the payment of Operation and Maintenance Expenses;
- (b) Amounts constituting Net Revenues; and
- (c) Any and all other property of any kind from time to time by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security for the Bonds, by the Commission or anyone on its behalf or with its written consent in favor of the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the 1991 Master Resolution.

The pledge of Net Revenues and other moneys and property made in the 1991 Master Resolution is irrevocable until all of the Bonds have been paid and retired.

All Bonds issued and outstanding under the 1991 Master Resolution are and will be equally and ratably secured with all other outstanding Bonds, with the same right, lien, preference and priority with respect to Net Revenues, without preference, priority or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds. All Bonds of a particular Series will in all respects be equally and ratably secured and will have the same right, lien and preference established under the 1991 Master Resolution for the benefit of such Series of Bonds, including, without limitation, rights in any related account in the Construction Fund, the Debt Service Fund or the Reserve Fund. Amounts drawn under a Credit Facility with respect to particular Series of Bonds and all other amounts held in funds or accounts established with respect to such Bonds pursuant to the provisions of the 1991 Master Resolution and of any Supplemental Resolution will be applied solely to make payments on such Bonds.

### **Revenue Fund; Allocation of Net Revenues**

The Airport Revenue Fund has been heretofore created and is held by the Treasurer of the City. The 1991 Master Resolution establishes the following accounts within the Revenue Fund:

- Revenues Account
- Operation and Maintenance Account
- Revenue Bond Account

General Obligation Bond Account  
General Purpose Account  
Contingency Account

The entire gross Revenues of the Commission must be set aside and deposited in the Revenues Account in the Airport Revenue Fund as received. On the first Business Day of each month, moneys in the Revenues Account will be set aside and applied for the following purposes in the following amounts and order of priority, each priority to be fully satisfied before the next priority in order:

**First: Operation and Maintenance Account.** In the Operation and Maintenance Account an amount equal to one-twelfth (1/12th) of the estimated Operation and Maintenance Expenses for the then-current Fiscal Year as set forth in the budget of the Airport for such Fiscal Year as finally approved by the Commission. In the event that the balance in the Operation and Maintenance Account at any time is insufficient to make any required payments therefrom, additional amounts at least sufficient to make such payments will immediately be deposited in the Operation and Maintenance Account from the Revenues Account, and may be credited against the next succeeding monthly deposit upon the written direction of the Commission to the Treasurer of the City.

**Second: Revenue Bond Account.** In the Revenue Bond Account such amount as is necessary:

- (a) to make all payments and deposits required to be made during such month into the Debt Service Fund and the Reserve Fund and the accounts therein in the amounts and at the times required by the 1991 Master Resolution and by any Supplemental Resolution with respect to the Bonds; and
- (b) to make all payments and deposits required to be made during such month into any funds and accounts created to pay or secure the payment of the principal or purchase price of or interest or redemption premium on any Subordinate Bonds in the amounts and at the times required by the resolutions and other agreements authorizing the issuance and providing the terms and conditions thereof.

**Third: General Obligation Bond Account.** In the General Obligation Bond Account an amount equal to one-sixth (1/6) of the aggregate amount of interest coming due on the next succeeding interest payment date, plus one-twelfth (1/12) of the aggregate amount of principal coming due on the next succeeding principal payment date, with respect to general obligation bonds of the City issued for Airport purposes.

**Fourth: General Purpose Account.** In the General Purpose Account an amount at least equal to the payments estimated to be made therefrom during such month.

**Fifth: Contingency Account.** In the Contingency Account such amount, if any, as shall be directed by the Commission from time to time.

### **Construction Fund**

The 1991 Master Resolution creates the Construction Fund as a separate fund to be maintained and accounted for by the Treasurer of the City. Moneys in the Construction Fund will be used for the purposes for which Bonds are authorized to be issued, including but not limited to the payment of principal and purchase price of and interest and redemption premium on the Bonds and the costs of issuance and sale thereof. A separate account will be created within the Construction Fund with respect to each Series of Bonds. Amounts in the Construction Fund may be invested in any Permitted Investment, in accordance with the policies and procedures of the Treasurer.

### **Costs of Issuance Fund**

The 1991 Master Resolution creates the Costs of Issuance Fund as a separate fund to be maintained and accounted for by the Trustee. A separate account will be created within the Costs of Issuance Fund with respect to each Series of Bonds. Monies deposited in each Costs of Issuance Account shall be used only for the authorized costs of issuing such Series of Bonds. Any balance remaining in any Costs of Issuance Account is to be transferred to the appropriate account in the Construction Fund, no later than one year following the date of issuance of each such Series of Bonds. Amounts in the Costs of Issuance Fund may be invested in any Permitted Investment.

### **Debt Service Holding Fund**

The 1991 Master Resolution creates the Debt Service Holding Fund as a separate fund to be maintained and accounted for by the Trustee, which is not pledged to the payment of the Bonds, but is established for the convenience of the Commission in the administration and investment of monies delivered to the Trustee prior to the time the Commission is required to make deposits into the Debt Service Fund and the series principal and interest accounts therein as required by the 1991 Master Resolution. The Commission may at any time, deliver to the Trustee monies for deposit in the Debt Service Holding Fund, to be held and invested therein as directed by the Commission. Upon the order of the Commission, monies in the Debt Service Holding Fund and investment earnings thereon may be invested in any Permitted Investment, transferred to the Debt Service Fund and the series principal and interest accounts therein, or returned to the Commission.

### **Debt Service and Reserve Funds**

The 1991 Master Resolution establishes the following funds and accounts to be held by the Trustee:

Debt Service Fund  
Reserve Fund

The Commission will establish separate accounts within the Debt Service Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Debt Service Fund and the accounts therein will be held in trust and applied to pay principal and purchase price of and interest and redemption premium on such Bonds, in the amounts, at the times and in the manner set forth in the 1991 Master Resolution and in the Supplemental Resolutions with respect thereto; provided, however, that each Supplemental Resolution must require to the extent practicable that amounts be accumulated in the applicable accounts in the Debt Service Fund so that moneys sufficient to make any regularly scheduled payment of principal of or interest on the Bonds are on deposit therein at least one month prior thereto. Moneys in the accounts in the Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto.

The Commission may establish a separate account or accounts in the Reserve Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Reserve Fund and the accounts therein will be held in trust for the benefit and security of the Holders of the Bonds to which such accounts are pledged, and will not be available to pay or secure the payment of any other Bonds. Each account in the Reserve Fund will be funded and replenished in the amounts, at the times and in the manner provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto, including without limitation through the use of a Credit Facility. Moneys in the respective accounts in the Reserve Fund will be applied to pay and secure the payment of such Bonds as provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto. Moneys in an account in the Reserve Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto.

If and to the extent provided in any Supplemental Resolution authorizing the issuance of a Series of Bonds, interest rate swap payments may be paid directly out of, and interest rate swap receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds.

### *Issue 1 Reserve Account*

The 1991 Master Resolution establishes the “Issue 1 Reserve Account” as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account. ***The Series 2009D Bonds are not a Participating Series and are not secured by the Issue 1 Reserve Account.***

### *2009 Reserve Account*

If the 2009C Bonds are issued, the Refunding Series Sale Resolution for the 2009C Bonds is expected to establish the “2009 Reserve Account” as security for the 2009C Bonds and any other 2009 Reserve Account Series designated by Supplemental Resolution or by a Refunding Series Sale Resolution as being secured by the 2009 Reserve Account. ***The Series 2009D Bonds are not a 2009 Reserve Account Series and are not secured by the 2009 Reserve Account.*** The 2009 Reserve Account would be required to be funded at the 2009 Reserve Requirement. The moneys in said account would be used solely for the purpose of paying principal, interest or mandatory sinking fund payments on the Series of Bonds secured by such reserve account is established whenever any moneys then credited to the accounts within the Debt Service Fund for such Series of Bonds are insufficient for such purposes.

### *Separate Reserve Accounts for Bonds not Designated as Participating Series*

Unless otherwise provided in a Refunding Series Sale Resolution, each Series of Variable Rate Bonds will be a Participating Series or a 2009 Reserve Account Series, or will be secured by a Series Reserve Account. The amount in each Series Reserve Account will be established and maintained at an amount equal to the Series Reserve Requirement which will be Maximum Series Annual Debt Service or such other amount as shall be set forth in a Series Sale Resolution. In the event the Airport Director or his designee determines that a Series of Variable Rate Bonds will not be a Participating Series or a 2009 Reserve Account Series, the Resolution creates for such Series of Variable Rate Bonds a separate reserve account within the Reserve Fund held by the Trustee. ***The Series 2009D Bonds are secured by a separate reserve account within the Reserve Fund.*** The moneys in said account will be used solely for the purpose of paying interest, principal or Mandatory Sinking Fund Payments on the Series of Variable Rate Bonds for which such reserve account is established or to reimburse the applicable Credit Provider for Draws on the applicable Credit Facility pursuant to the 1991 Master Resolution whenever any moneys then credited to the accounts within the Debt Service Fund for such Series of Variable Rate Bonds are insufficient for such purposes.

### *Application and Valuation of the Reserve Accounts*

The moneys in the Issue 1 Reserve Account and any separate Series Reserve Account (each a “Reserve Account”) are to be used solely for the purposes of paying interest, principal or mandatory sinking fund payments on the Bonds to which such accounts are pledged whenever any moneys then credited to the accounts within the Debt Service Fund for the applicable Series of Bonds are insufficient for such purposes and to pay one or more Credit Providers principal due with respect to any Credit Facility deposited in the Reserve Account for the applicable Series of Bonds to the extent that such payment will cause the amount available to be drawn under the related Credit Facility or Credit Facilities to be reinstated in an amount at least equal to the amount of such payment. In the event that the Trustee is required to apply amounts in a Reserve Account to pay interest, principal or mandatory sinking fund payments on the Bonds to which such accounts are pledged, the Trustee will apply all amounts (the “Cash Amount”) in such Reserve Account, other than amounts available pursuant to draws on Credit Facilities deposited in such Reserve Account, to such payments before drawing on any such Credit Facility. If after exhausting the Cash Amount, the Trustee has insufficient moneys to pay interest, principal or mandatory sinking fund payments on the applicable Series of Bonds, the Trustee will draw on the Credit Facilities deposited in the Reserve Account on a pro rata basis to the extent required to remedy the remaining deficiency.

If at any time the balance in (1) the Issue 1 Reserve Account shall for any reason be diminished below an amount equal to the Aggregate Maximum Annual Debt Service on the then outstanding Bonds of the Participating Series, or (2) any Series Reserve Account shall for any reason be diminished below the amount required to be on deposit therein, the Trustee is required to immediately notify the Commission of such deficiency, and the Commission is required to cause the applicable Reserve Account to be replenished by transfers from available Net Revenues over a period not to exceed twelve months from the date the Commission receives notice from the Trustee of such deficiency.

Subject to the terms and conditions of the 1991 Master Resolution, each Reserve Account is to be replenished from available Net Revenues in the following order of priority, each requirement to be satisfied in full before the next requirement in priority: (1) on a pro rata basis, payments to Credit Providers of principal then due with respect to any Credit Facility deposited in such Reserve Account to the extent that such payments will cause the amounts available to be drawn under such Credit Facility or Credit Facilities to be reinstated in an amount at least equal to such payments; and (2) other amounts required to be deposited in such Reserve Account to increase the amount therein to the Aggregate Maximum Annual Debt Service on the then outstanding Bonds to which such accounts are pledged.

Under the 1991 Master Resolution, the Trustee is required to determine the amount in each Reserve Account from time to time but not less frequently than annually. Permitted Investments in each Reserve Account are to be valued at cost plus accreted value. In the event that the Trustee determines on any valuation date that the amount in each Reserve Account exceeds Aggregate Maximum Annual Debt Service on all then outstanding Bonds to which such accounts are pledged, upon the request of the Commission, the Trustee will transfer the amount of such excess to the Treasurer for deposit in the applicable Revenues Account.

In the event Bonds of a Series are to be redeemed in whole or in part pursuant to the 1991 Master Resolution, or the Commission notifies the Trustee in writing of its intention to refund Bonds of a Series in whole or in part, the Trustee is required to value the amount in the Reserve Account applicable to such Bonds, and if the Trustee determines that the amount in the applicable Reserve Account exceeds Aggregate Maximum Annual Debt Service on the Bonds to which such accounts are pledged to remain outstanding after such redemption or refunding, upon the request of the Commission, the Trustee will transfer the amount of such excess in accordance with such request.

At its option, the Commission may at any time substitute a Credit Facility meeting the requirements of the 1991 Master Resolution for amounts on deposit in each Reserve Account. The 1991 Master Resolution requires that the substitution of a Credit Facility for amounts on deposit in each Reserve Account not cause the then-current ratings on the Bonds to which such accounts are pledged to be downgraded or withdrawn. In the event that after the substitution of a Credit Facility for all or any part of the amounts on deposit in a Reserve Account, the amount in such Reserve Account is greater than the amount required to be on deposit therein, upon the request of an authorized Commission representative, the Trustee will transfer such excess to the Commission to be used solely for Airport purposes. The 1991 Master Resolution further requires that any such Credit Facility provided in the form of a surety bond be issued by an institution then rated in the highest rating category, without regard to subcategories, by Moody's and Standard & Poor's, and that any such Credit Facility provided in the form of a letter of credit be issued by an institution then rated in at least the second highest rating category, without regard to subcategories, by Moody's and Standard & Poor's.

Any draw on any Credit Facility on deposit in a Reserve Account shall be made only after all the funds in such Reserve Account have been expended. In such event, draws on each Credit Facility shall be made on a pro rata basis to fund the insufficiency. The 1991 Master Resolution provides that a Reserve Account shall be replenished in the following priority: (i) principal of each Credit Facility shall be paid from first available Net Revenues on a pro rata basis to the extent that such payments will cause the amounts available to be drawn under each Credit Facility to be reinstated in an amount at least equal to such payments; and (ii) after all such amounts are paid in full, amounts necessary to fund a Reserve Account to the required level, after taking into account the amounts available under each Credit Facility shall be deposited from next available Net Revenues.

### *Permitted Investments*

Amounts in the Debt Service Accounts are to be invested in Permitted Investments described in clause (a) or (b) of the definition thereof maturing on or before the Bond payment date on which the proceeds of such Permitted Investments are intended to be applied for the purposes of the Debt Service Account to which such Permitted Investments are allocated. Amounts in each Reserve Account are to be invested in Permitted Investments described in clause (a) or (b) of the definition thereof maturing no later than seven years after the date of purchase of the Permitted Investment. For a further description of the Permitted Investments with respect to the Series 2009D Bonds, see also “Summary of the Supplemental Resolutions – Application of the 2009D Debt Service Account” in this Appendix C.

### **Issuance of Additional Series of Bonds**

#### *General Requirements*

Whenever the Commission determines to issue any additional Bonds, the Commission is required to adopt a Supplemental Resolution authorizing the issuance of such Series of Bonds and to deliver to the Trustee (i) a certificate to the effect that the Commission is not then in default under the terms and provisions of the 1991 Master Resolution or any Supplemental Resolution; (ii) an opinion of bond counsel to the effect that such Series of Bonds has been duly authorized in conformity with law and all prior proceedings of the Commission; and (iii) certain other items specified by the 1991 Master Resolution or the Supplemental Resolution or which may be reasonably requested by the Commission or the Trustee.

#### *Additional Bonds Test*

The Commission is not permitted to issue any Series of Bonds (other than refunding Bonds) unless the Trustee has been provided with either:

- (a) a certificate of an Airport Consultant dated within 30 days prior to the date of delivery of the Bonds stating that:
  - (i) for the period, if any, from and including the first full Fiscal Year following the issuance of such additional Bonds through and including the last Fiscal Year during any part of which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and
  - (ii) for the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, (1) projected Net Revenues in each such Fiscal Year will be at least sufficient to make all required payments and deposits in such Fiscal Year into the Revenue Bond Account and the General Obligation Bond Account pursuant to the 1991 Master Resolution, and to make the Annual Service Payment to the City and (2) projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year; or
- (b) a certificate of an Independent Auditor stating that Net Revenues, together with any Transfer, in the most recently completed Fiscal Year were at least equal to 125% of the sum of (i) Annual Debt Service on the Bonds in such Fiscal Year, plus (ii) Maximum Annual Debt Service on the Bonds proposed to be issued.

For purposes of (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of Maximum Annual Debt Service on the Bonds. In determining projected Net Revenues for purposes of (a) above, the Airport Consultant may take into account reasonably anticipated changes in Revenues and Operation and Maintenance Expenses over such period. In determining Annual Debt Service for purposes of (a) or (b) above, Bonds that will be paid or discharged immediately after the issuance of the Series of Bonds proposed to be issued will be disregarded, and Variable Rate Bonds will be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to 1.25 times the rate determined pursuant to paragraphs (b) and (c), as the case may be, of the definition of “Annual Debt Service” herein.

In the event that the Commission proposes to assume any indebtedness for borrowed money in connection with assuming the possession, management, supervision and control of any airport or other revenue-producing facilities, such indebtedness may constitute additional Bonds under the 1991 Master Resolution entitled to an equal pledge of and lien on Net Revenues as the Bonds provided that the requirements of the 1991 Master Resolution relating to additional Bonds are satisfied with respect to the assumption of such indebtedness.

### **Refunding Bonds**

The Commission may issue Bonds for the purpose of refunding any Bonds or Subordinate Bonds. The Commission is permitted to issue such refunding Bonds only (i) upon compliance with the additional Bonds test established by the 1991 Master Resolution, or (ii) if the Commission provides the Trustee with a certificate of an Airport Consultant or financial consultant that (A) aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding after the issuance of such refunding Bonds will be less than aggregate Annual Debt Service in each such Fiscal Year in which Bonds are outstanding prior to the issuance of such refunding Bonds, and (B) Maximum Annual Debt Service with respect to all Bonds to be outstanding after issuance of such refunding Bonds will not exceed Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance.

### **Repayment Obligations**

If so provided in the applicable Supplemental Resolution and in the written agreement between the Commission and the Credit Provider or Liquidity Provider, as applicable, a Repayment Obligation may be accorded the status of a Bond solely for purposes of the 1991 Master Resolution, provided, however, that the Credit Facility or Liquidity Provider, as applicable, with respect thereto shall not constitute a bond for any other purpose, including without limitation for purposes of the Charter. The Credit Provider or Liquidity Provider, as applicable, shall be deemed to be the Holder of such Bond, and such Bond shall be deemed to have been issued as of the original date of the Bond or Bonds for which such Credit Facility or Liquidity Provider, as applicable, was provided. Notwithstanding the stated terms of the Repayment Obligation, the Bond deemed to be held by the Credit Provider or Liquidity Provider, as applicable, shall be deemed to be amortized on a level debt service basis at the Index Rate over a period equal to the lesser of (a) 20 years, or (b) the period ending on the later of (i) the final maturity date of the Bonds payable from or secured by such Credit Facility or Liquidity Provider, as applicable, or (ii) the date the Repayment Obligation is due under the terms of the written agreement with respect thereto, with principal payable annually commencing on the next Principal Payment Date with respect to such Bonds and interest payable semiannually commencing on the next Interest Payment Date with respect to such Bonds. Such Bond shall be deemed to bear interest at the rate provided in the written agreement with respect to the Repayment Obligation. Any amount which becomes due and payable on the Repayment Obligation under the written agreement with respect thereto (but not earlier than 15 years from the date such Repayment Obligation is incurred) and which is in excess of the amount deemed to be principal of and interest on a Bond shall be junior and subordinate to the Bonds. The rights of a Credit Provider or Liquidity Provider, as applicable, under the 1991 Master Resolution shall be in addition to any rights of subrogation which the Credit Provider or Liquidity Provider, as applicable, may otherwise have or be granted under law or pursuant to any Supplemental Resolution. Notwithstanding anything in the 1991 Master Resolution to the contrary, a Bond and an unreimbursed Repayment Obligation arising with respect to such Bond shall not be deemed to be Outstanding at the same time.



## **Subordinate Bonds**

The Commission may issue, at any time while any of the Bonds are outstanding, Subordinate Bonds with a pledge of, lien on, and security interest in Net Revenues which are junior and subordinate to those of the Bonds. The principal and purchase price of and interest, redemption premium and reserve fund requirements on such Subordinate Bonds will be payable from time to time out of Net Revenues only if all amounts then required to have been paid or deposited from Net Revenues with respect to principal, purchase price, redemption premium, interest and reserve fund requirements on the Bonds then outstanding or thereafter to be outstanding shall have been paid or deposited as required in the 1991 Master Resolution and any Supplemental Resolution.

## **Special Facility Bonds**

The Commission may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or part of any facility or structure at the Airport as a Special Facility, (b) provide that revenues earned by the Commission from or with respect to such Special Facility shall constitute Special Facility Revenues and shall not be included as Revenues, and (c) issue Special Facility Bonds for the purpose of acquiring, constructing, renovating, or improving such Special Facility, or providing financing to a third party for such purposes. Principal, purchase price, if any, redemption premium, if any, and interest with respect to Special Facility Bonds shall be payable from and secured by the Special Facility Revenues, and not from or by Net Revenues.

No Special Facility Bonds shall be issued by the Commission unless an Airport Consultant has certified (i) that the estimated Special Facility Revenues with respect to the proposed Special Facility will be at least sufficient to pay the principal, or purchase price, interest, and all sinking fund, reserve fund and other payments required with respect to Special Facility Bonds when due, and to pay all costs of operating and maintaining the Special Facility not paid by a party other than the Commission; (ii) that estimated Net Revenues calculated without including the Special Facility Revenues and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses will be sufficient so that the Commission will be in compliance with the rate covenant (see "Certain Covenants - Rate Covenant") during each of the five Fiscal Years immediately following the issuance of the Special Facility Bonds; and (iii) no Event of Default exists.

Upon the payment in full or other discharge of the Special Facility Bonds, Special Facility Revenues with respect to the Special Facility shall be included as Revenues.

## **Certain Covenants**

### *Punctual Payment*

The Commission will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the 1991 Master Resolution and any applicable Supplemental Resolution, and it will faithfully observe and perform all of the conditions, covenants and requirements of the 1991 Master Resolution and all Supplemental Resolutions and of the Bonds.

### *Negative Pledge*

The Commission will not create any pledge, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Revenues or Net Revenues except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest granted by the 1991 Master Resolution for the benefit of the Bonds.

### *Rate Covenant*

The Commission has covenanted that it will establish and at all times maintain rentals, rates, fees and charges for the use of the Airport and for the services rendered by the Commission in connection with the Airport so that:

- (a) Net Revenues in each Fiscal Year will be at least sufficient (i) to make all required payments and deposits into the Revenue Bond Account and the General Obligation Bond Account pursuant to the 1991 Master Resolution, and (ii) to make the Annual Service Payment to the City; and
- (b) Net Revenues, together with any Transfer, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year.

The Commission covenants in the 1991 Master Resolution that if Net Revenues, together with any Transfer, in any Fiscal Year are less than the amount specified in clause (b) above, the Commission will retain and direct an Airport Consultant to make recommendations as to the revision of the Commission's business operations and its schedule of rentals, rates, fees and charges for the use of the Airport and for services rendered by the Commission in connection with the Airport, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Commission shall take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Revenues, together with any Transfer, in the amount specified in clause (b) above in the next succeeding Fiscal Year.

In the event that Net Revenues for any Fiscal Year are less than the amount specified in clause (b) above, but the Commission promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by the previous paragraph, such deficiency in Net Revenues will not constitute an Event of Default under the provisions of Section 7.01(d) of 1991 Master Resolution. Nevertheless, if after taking the measures required in the previous paragraph to revise the schedule of rentals, rates, fees and charges, Net Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Commission for such Fiscal Year) are less than the amount specified in clause (b) above, such deficiency in Net Revenues will constitute an Event of Default under the provisions of Section 7.01(e) 1991 Master Resolution.

### *Operation and Maintenance of the Airport*

The Commission has covenanted that it will operate and maintain the Airport as a revenue producing enterprise in accordance with the Act. The Commission will make such repairs to the Airport as are necessary or appropriate in the prudent management thereof. The Commission has also covenanted that it will operate and maintain the Airport in a manner which will entitle it at all times to charge and collect fees, charges and rentals in accordance with Airport use agreements, if any, or as otherwise permitted by law, and the Commission will take all reasonable measures permitted by law to enforce prompt payment to it of such fees, charges and rentals when and as due. The Commission will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Airport or upon any part thereof, or upon the revenues from the operation thereof, when the same become due, as well as any lawful claim for labor, materials or supplies which, if unpaid, might by law become a lien or charge upon the Airport or such revenues, or which might impair the security of the Bonds. Notwithstanding the foregoing, the Commission need not pay or discharge any tax, assessment or other governmental charge or claim for labor, materials or supplies, if and so long as the Commission contests the validity or application thereof in good faith. The Commission will continuously operate the Airport so that all lawful orders of the FAA and any other governmental agency or authority having jurisdiction in the premises will be complied with, but the Commission is not required to comply with any such orders so long as the validity or application thereof is being contested in good faith.

### *Maintenance of Powers; Retention of Assets*

The Commission has covenanted that it will use its best efforts to keep the Airport open for landings and takeoffs of commercial aircraft using facilities similar to those at the Airport and to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to hinder, delay or imperil either the payment of the indebtedness evidenced by any of the Bonds or any other obligation secured by the 1991 Master Resolution or the performance or observance of any of the covenants contained therein. The Commission has also covenanted that it will not dispose of assets necessary to operate the Airport in the manner and at the levels of activity required to enable it to perform its covenants contained in the 1991 Master Resolution.

### *Insurance*

Subject in each case to the condition that insurance is obtainable at reasonable rates from responsible insurers and upon reasonable terms and conditions:

- (a) The Commission will procure or provide and maintain, at all times while any of the Bonds shall be outstanding, insurance or qualified self-insurance on the Airport against such risks as are usually insured by other major airports. Such insurance or qualified self-insurance shall be in an adequate amount as to the risk insured against as determined by the Commission. The Commission is not required to carry insurance or qualified self-insurance against losses caused by land movement, including but not limited to seismic activity.
- (b) Any qualified self-insurance must be established in accordance with applicable law; must include reserves or reinsurance in amounts which the Commission determines to be adequate to protect against risks assumed under such qualified self-insurance, including without limitation any potential retained liability in the event of the termination of such qualified self-insurance; and must be reviewed at least once every 12 months by an insurance consultant who will deliver to the Commission a report on the adequacy of the reserves established or reinsurance provided thereunder. If the insurance consultant determines that such reserves or reinsurance are inadequate, it will make a recommendation as to the amount of reserves or reinsurance that should be established and maintained, and the Commission will comply with such recommendation unless it can establish to the satisfaction of, and receive a certification from, the insurance consultant that a lower amount is reasonable to provide adequate protection to the Airport and the Commission.
- (c) The Commission will secure and maintain adequate fidelity insurance or bonds on all officers and employees handling or responsible for funds of the Commission, except to the extent that such insurance is provided by the City.
- (d) Within 120 days after the close of each Fiscal Year, the Commission will file with the Trustee a certificate containing a summary of all insurance policies and qualified self-insurance then in effect with respect to the Airport and the Commission.
- (e) The proceeds of any insurance on the Airport will be applied solely for Airport purposes.

### *Financial Records and Statements*

The Commission will maintain, or cause to be maintained, proper books and records in which full and correct entries shall be made in accordance with generally accepted accounting principles, of all its business and affairs. The Commission will have an annual audit made by an independent auditor and will within 120 days after the end of each of its Fiscal Years furnish to the Trustee copies of the audited financial statements of the Commission for such Fiscal Year.

### *Tax Covenants*

The Commission covenants that, if applicable, it will make no use of the proceeds of any Series of Bonds or take any other action or permit any other action to be taken that would affect adversely the exclusion from gross income of interest on such Series of Bonds for federal income tax purposes or, if applicable, the non-preference status of such interest for federal alternative minimum income tax purposes.

### *Limitation on Covered Obligations*

The Commission covenants and agrees that it will not issue or incur any obligation for borrowed money payable from Net Revenues (i) which is subject to optional or mandatory purchase or tender for purchase prior to maturity (other than at the option of the Commission), or (ii) which matures in less than 365 days from the date of issuance thereof (collectively, "Covered Obligations") to the extent the aggregate principal amount of all such Covered Obligations, at the time of issuance or incurrence thereof, would exceed 40% of the aggregate principal amount of all obligations of the Commission for borrowed money payable from Net Revenues then outstanding. The limitation in the foregoing sentence shall not apply to Covered Obligations described in (i) the scheduled maturity of which is not subject to acceleration. The credit or liquidity facility in connection with any Covered Obligation any portion of the repayment or reimbursement obligation with respect to which is on a parity with the Bonds shall be subject to the limitations thereon described in the section entitled "Repayment Obligations" above.

### **Events of Default**

The 1991 Master Resolution provides that "Event of Default" with respect to a Series of Bonds means any one of the following events:

- (a) if payment by the Commission in respect of any installment of interest on any Bond of such Series is not made in full when the same becomes due and payable;
- (b) if payment by the Commission in respect of the principal or accreted value of any Bond of such Series is not made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;
- (c) if payment of the purchase price of any Bond tendered for optional or mandatory purchase in accordance with the provisions of the Supplemental Resolution providing for the issuance of such Bond is not made in full as and when due;
- (d) if the Commission fails to observe or perform any other covenant or agreement on its part under the 1991 Master Resolution (other than the covenant or agreement to maintain rentals, rates, fees and charges sufficient to meet the rate covenant with respect to the Bonds), for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Commission by the Trustee, or to the Commission and the Trustee by the Holders of at least 25% in aggregate Principal Amount of Bonds of such Series then outstanding; provided, however, that if the breach of covenant or agreement is one which cannot be completely remedied within the 60 days after written notice has been given, it shall not be an Event of Default with respect to such Series as long as the Commission has taken active steps within the 60 days after written notice has been given to remedy the failure and is diligently pursuing such remedy;
- (e) if the Commission is required pursuant to the rate covenant contained in the 1991 Master Resolution to take measures to revise the schedule of rentals, rates, fees and charges for the use of the Airport, and Net Revenues, together with any Transfer, for the Fiscal Year in which such adjustments are made are less than the amount required by the rate covenant with respect to the Bonds (See "Certain Covenants - Rate Covenant");

- (f) if either the Commission or the City institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Commission or of any substantial part of its property, or fails to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or consents to entry of an order for relief under the federal Bankruptcy Code or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due;
- (g) the occurrence of any other Event of Default with respect to such Series of Bonds as is provided in a Supplemental Resolution.

An Event of Default with respect to one Series of Bonds will not in and of itself constitute an Event of Default with respect to any other Series of Bonds unless such event or condition on its own constitutes an Event of Default with respect to such other Series of Bonds pursuant to the 1991 Master Resolution.

### **No Acceleration**

The Bonds are not subject to acceleration under any circumstance or for any reason, including without limitation upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution or any Supplemental Resolution. Moreover, the Bonds will not be subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default to the extent the redemption or purchase price is payable from Net Revenues.

### **Remedies Upon Default**

Upon the occurrence and continuance of an Event of Default with respect to one or more Series of Bonds, the Trustee may, or upon the written request of the Holders of not less than a majority in aggregate Principal Amount of the Bonds of all such Series together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the 1991 Master Resolution and under the Act and such Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, deems expedient, including but not limited to:

- (a) Actions to recover money or damages due and owing;
- (b) Actions to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of such Bonds; and
- (c) Enforcement of any other right of such Bondholders conferred by law, including the Act, or by the 1991 Master Resolution, including without limitation by suit, action, injunction, mandamus or other proceedings to enforce and compel the performance by the Commission of actions required by the Act or the 1991 Master Resolution, including the fixing, changing and collection of fees or other charges.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than 25% in aggregate Principal Amount of the Bonds of one or more Series, shall upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the 1991 Master Resolution by any acts or omissions to act which may be unlawful or in violation of the 1991 Master Resolution, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions of the 1991 Master Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds of each Series not making such request.

Notwithstanding anything else in the 1991 Master Resolution to the contrary, the remedies provided for with respect to obtaining moneys on deposit in funds or accounts shall be limited to the funds or accounts pledged to the applicable Series of Bonds with respect to which an Event of Default exists. Furthermore, while a Credit Facility with respect to any Bonds is in effect, a Supplemental Resolution may provide that so long as the Credit Provider is not Insolvent and is not in default under the Credit Facility, no right, power or remedy under the 1991 Master Resolution with respect to such Bonds may be pursued without the prior written consent of the Credit Provider.

If an Event of Default with respect to one or more but not all Series of Bonds outstanding shall have occurred and be continuing, the Holders of a majority in aggregate principal amount of the Bonds of such one or more Series then outstanding shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to funds or assets solely securing such one or more Series in connection with the enforcement of the terms and conditions of the 1991 Master Resolution; provided, that such direction is in accordance with law and the provisions of the 1991 Master Resolution (including any indemnity to the Trustee as provided in the 1991 Master Resolution) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders of each Series of Bonds not joining in such direction; and provided further, that the Trustee shall have discretion to take any other action under the 1991 Master Resolution which it may deem proper and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect to all Series of Bonds shall have occurred and be continuing, the Holders of a majority in aggregate Principal Amount of all Bonds then outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting any proceeding to be taken with respect to Net Revenues or other assets securing all Bonds in connection with the enforcement of the terms and conditions of the 1991 Master Resolution; provided, that such direction is in accordance with law and the provisions of the 1991 Master Resolution (including indemnity to the Trustee as provided in the 1991 Master Resolution) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Holders of Bonds not joining in such direction; and provided further, that the Trustee shall have discretion to take any other action under the 1991 Master Resolution which it may deem proper and which is not inconsistent with such direction by Holders of Bonds.

The 1991 Master Resolution provides that no Holder of any Bond of a Series shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the 1991 Master Resolution unless:

- (a) an Event of Default has occurred with respect to such Series and the Trustee is deemed to have notice of such Event of Default, the Trustee has actual knowledge of such Event of Default or the Trustee has been notified in writing of such Event of Default by the Commission or by the Holders of at least 25% in aggregate Principal Amount of all such Series of Bonds with respect to which an Event of Default has occurred;
- (b) the Holders of at least a majority in aggregate Principal Amount of Bonds of all such Series then outstanding with respect to which an Event of Default has occurred shall have made written request to the Trustee to proceed to exercise the powers granted under the 1991 Master Resolution or to institute such action, suit or proceeding in its own name;
- (c) such Holders of Bonds shall have offered the Trustee indemnity as provided under the 1991 Master Resolution; and
- (d) the Trustee shall have failed or refused to exercise the powers granted under the 1991 Master Resolution or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

No one or more Holders of Bonds of such Series shall have any right in any manner whatsoever to affect, disturb or prejudice the security of, or to enforce any right under, the 1991 Master Resolution except for the equal benefit of the Holders of all Bonds of such Series then outstanding.

No Holder of any Bond of such Series may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the 1991 Master Resolution on the moneys, funds and properties pledged thereunder for the equal and ratable benefit of all Holders of Bonds of such Series.

### **Defeasance**

Payment of any Bonds may be provided for by the deposit with the Trustee, in trust, of moneys, noncallable Government Obligations, noncallable Government Certificates, certain types of pre-refunded municipal obligations or any combination thereof. Provided that the moneys and the maturing principal and interest income on any securities so deposited will be sufficient and available without reinvestment to pay when due the principal, whether at maturity or upon fixed redemption dates, or purchase price and premium, if any, and interest on such Bonds, and provision for any required notice of redemption prior to maturity has been made, such Bonds will no longer be deemed outstanding under the 1991 Master Resolution. No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any tax-exempt Bond is made subject to federal income taxes.

### **Modification or Amendment of the 1991 Master Resolution**

The 1991 Master Resolution and the rights and obligations of the Commission and of the Holders of the Bonds may be modified or amended at any time by a Supplemental Resolution with the written consent, without a meeting, of the Holders of a majority in aggregate Principal Amount of the outstanding Bonds of all Series affected. No such modification or amendment may (i) extend the stated maturity of or time or change the currency for paying the principal or purchase price of, premium, if any, or interest on any Bond or reduce the Principal Amount or purchase price of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond; (ii) except as expressly permitted by the 1991 Master Resolution, prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then outstanding not receiving such preference or priority; or (iii) permit the creation of a lien not expressly permitted by the 1991 Master Resolution upon or pledge of Net Revenues ranking prior to or on a parity with the lien of the 1991 Master Resolution or reduce the aggregate Principal Amount of Bonds then outstanding the consent of the Holders of which is required to authorize such Supplemental Resolution, without the consent of the Holders of all Bonds then outstanding.

The 1991 Master Resolution and the rights and obligations of the Commission and of the Holders of the Bonds may also be modified or amended at any time by a Supplemental Resolution, without the consent of any Bondholders, for one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the 1991 Master Resolution;
- (b) to correct or supplement any provision of the 1991 Master Resolution which may be inconsistent with any other provision of the 1991 Master Resolution or to make any other provisions with respect to matters or questions arising thereunder that will not have a material adverse effect on the interests of the Holders;
- (c) to grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;
- (d) to secure additional revenues or provide additional security or reserves for payment of any Bonds;
- (e) to preserve the excludability of interest on any Bonds from gross income for purposes of federal income taxes, or to change the tax covenants set forth in the 1991 Master Resolution, pursuant to an opinion of nationally recognized bond counsel that such action will not affect adversely such excludability;

- (f) to provide for the issuance of, and to set the terms and conditions of, each additional Series of Bonds, including covenants and provisions with respect thereto which do not violate the terms of the 1991 Master Resolution;
- (g) to add requirements the compliance with which is required by a Rating Agency in connection with issuing a rating with respect to any Series of Bonds;
- (h) to confirm, as further assurance, any interest of the Trustee in and to Net Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the Commission provided pursuant to the 1991 Master Resolution;
- (i) to comply with the requirements of the Trust Indenture Act of 1939, as amended, to the extent applicable;
- (j) to provide for uncertificated Bonds or for the issuance of coupon or bearer Bonds or Bonds registered only as to principal;
- (k) to accommodate the use of a Credit Facility for specific Bonds or a Series of Bonds;
- (l) to designate any other airports, airfields, landing places or places for the take-off and landing of aircraft, together with related facilities or property, which are hereafter owned, controlled or operated by the Commission or over which the Commission has possession, management, supervision or control as not a part of the Airport; and
- (m) to make any other change or addition to the 1991 Master Resolution which, in the opinion of nationally recognized bond counsel, will not have a material adverse effect on the interests of the Holders of the Bonds.

### **Rights and Duties of the Trustee**

The Trustee may resign at any time. Written notice of such resignation must be given to the Commission and such resignation will take effect upon the later of the date 90 days after receipt of such notice by the Commission and the date of the appointment, qualification and acceptance of a successor Trustee. In the event a successor Trustee has not been appointed and qualified within 60 days after the date notice of resignation is given, the Trustee or the Commission may apply to any court of competent jurisdiction for the appointment of a successor Trustee to act until such time as a successor is appointed.

In addition, the Trustee may be removed at any time by the Commission so long as (i) no Event of Default has occurred and is continuing and (ii) the Commission determines that the removal of the Trustee will not have an adverse effect upon the rights or interests of the Holders of Bonds. Subject to clause (ii) of the preceding sentence, in the event the Trustee becomes Insolvent, the Commission may remove the Trustee by written notice effective immediately upon the appointment, qualification and appointment of a successor Trustee.

In the event the Trustee resigns, is removed, is dissolved, becomes Insolvent or otherwise becomes incapable to act as the Trustee, the Commission is entitled to appoint a successor Trustee. In any event, no removal or resignation of the Trustee will be effective until a successor trustee has accepted appointment by the Commission.

Unless otherwise ordered by a court or regulatory body, or unless required by law, any successor Trustee will be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business within the State of California and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000; provided, such an institution is willing, qualified and able to accept the trust upon reasonable or customary terms.



The recitals, statements and representations contained in the 1991 Master Resolution or in any Bond are to be taken and construed as made by and on the part of the Commission and not by the Trustee, and the Trustee neither assumes nor has any responsibility for the correctness of the same other than the Trustee's certification of authentication of any Bonds as to which it is authenticating agent.

Except as otherwise provided in the 1991 Master Resolution, the Trustee is under no duty of inquiry with respect to any default which constitutes, or with notice or lapse of time or both would constitute, an Event of Default without actual knowledge of the Trustee or receipt by the Trustee of written notice of such default from the Commission or any Holder of Bonds.

Except as expressly required under the 1991 Master Resolution, the Trustee is not required to institute any suit or action or other proceeding in which it may be a defendant, nor is it required to take any steps to enforce its rights and expose it to liability, unless and until it has been indemnified, to its satisfaction, against any and all reasonable costs and against all liability and damages. The Trustee nevertheless, may begin suit, or appear in and defend suit, or do anything else which in its judgment is proper to be done by it as the Trustee, without prior assurance of indemnity, and in such case the Commission is required to reimburse the Trustee for all reasonable costs and for all liability and damages suffered by the Trustee in connection therewith, except for the Trustee's own negligent action, its own negligent failure to act, its own willful misconduct or self-dealing constituting a breach of trust under applicable law.

In the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely upon and will be protected in acting or refraining from acting in reliance upon any document reasonably believed by it to be genuine and to have been signed or presented by the proper officials of the Commission, the Treasurer, the City, an Airport Consultant, an Independent Auditor or the Holders of Bonds or agents or attorneys of such holders; provided, in the case of any such document specifically required to be furnished to the Trustee under the 1991 Master Resolution, the Trustee shall be under a duty to examine the same to determine whether it conforms to the requirements of the 1991 Master Resolution. The Trustee is not bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, facsimile transmission, bond or other paper or document submitted to the Trustee.

### **SUMMARY OF THE SUPPLEMENTAL RESOLUTIONS**

The following is a summary of certain provisions contained in the Supplemental Resolutions, as the same may have been subsequently amended or supplemented, and is not to be considered as a full statement thereof. Reference is made to each of these Supplemental Resolutions and to the 1991 Master Resolution for full details of the terms of the Bonds, the application of revenues therefor, and the security provisions pertaining thereto. See also "DESCRIPTION OF THE SERIES 2009D BONDS" in the front portion of this Official Statement for a summary of the provisions related to the Series 2009D Bonds while they are in a Term Rate Mode.

#### **Funds and Accounts**

The 1991 Master Resolution establishes the following funds and accounts:

Within the Costs of Issuance Fund (held by the Trustee):

2009D Bonds Costs of Issuance Account

Within the Purchase Fund (held by the Trustee):

2009D Bonds Remarketing Proceeds Account

2009D Bonds Liquidity Facility Purchase Account

Within the Debt Service Fund (held by the Trustee):

2009D Bonds Interest Account

2009D Bonds Principal Account

2009D Bonds Redemption Account

Within the Reserve Fund (held by the Trustee):  
2009D Bonds Reserve Account

Within the Rebate Fund (held by the Trustee):  
2009D Bonds Rebate Account

### **2009D Costs of Issuance Accounts**

The 1991 Master Resolution requires the Trustee to apply moneys in the 2009D Bonds Costs of Issuance Account (the “2009D Costs of Issuance Account”) to the payment of costs of issuance of the Series 2009D Bonds. Amounts in the 2009D Costs of Issuance Account may be invested in any Permitted Investment.

### **Application of 2009D Debt Service Account**

The 2009D Bonds Interest Account, the 2009D Bonds Principal Account, and the 2009D Bonds Redemption Account are sometimes referred to herein as the 2009D Debt Service Accounts. The Supplemental Resolutions require the Trustee to apply moneys in the 2009D Bonds Interest Account to the payment of interest on the Series 2009D Bonds when due, as applicable, including accrued interest on any Series 2009D Bonds purchased or redeemed prior to maturity. The Supplemental Resolutions require the Trustee to apply moneys in the 2009D Bonds Principal Account to the payment of the Principal Amount of the Series 2009D Bonds when due, as applicable, and the payment of mandatory sinking fund payments on Series 2009D Term Bonds, as applicable

The Commission may, from time to time, purchase any Series 2009D Bonds out of available moneys of the Commission at such prices as the Commission may determine plus accrued interest thereon. At the discretion of the Commission, the Trustee will apply mandatory sinking fund payments, as rapidly as may be practicable, to the purchase of Series 2009D Bonds at public or private sale as and when and at such prices (including brokerage and other expenses, but excluding accrued interest on Series 2009D Term Bonds, which is payable from the Interest Account) as the Commission may in its discretion determine, but not to exceed the par value thereof. All Series 2009D Bonds purchased or redeemed under the provisions of the 1991 Master Resolution will be delivered to, and canceled and destroyed by, the Trustee and shall not be reissued.

The Trustee is required to apply moneys in the 2009D Bonds Redemption Account to the payment of the redemption price of the Series 2009D Bonds called for redemption. Accrued interest on Series 2009D Bonds redeemed pursuant to the 1991 Master Resolution will be paid from the 2009D Bonds Interest Account.

In the event that the amount on deposit in any 2009D Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the Series 2009D Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the 2009D Reserve Account to the 2009D Bonds Interest Account, 2009D Bonds Principal Account, or 2009D Bonds Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

### **Permitted Investments**

Amounts in each 2009D Debt Service Account shall be invested in Permitted Investments described in clauses (a) or (b) of the definition of Permitted Investments maturing on or before the Payment Date on which the proceeds of such Permitted Investments are intended to be applied for the purposes of the 2009D Debt Service Account to which such Permitted Investments are allocated. Amounts in any Series Reserve Account shall be invested in Permitted Investments described in clauses (a) or (b) of the definition of Permitted Investments maturing no later than seven years after the date of purchase of said Permitted Investment. Amounts in a Series Remarketing Proceeds Account, and Liquidity Facility Purchase Account shall be held uninvested.

The Trustee or the Paying Agent, as the case may be, may commingle any moneys held by it under the 1991 Master Resolution for any Series of Variable Rate Bonds, except moneys derived from a Draw under a Liquidity Facility and amounts held in a Series Remarketing Proceeds Account, and Series Liquidity Facility

Purchase Account, each of which shall be held separate and apart of all other Funds and Accounts and not commingled with any other Funds or Accounts or investments of moneys therein.

### **Deposits of Net Revenues in 2009D Bonds Debt Service Accounts**

The Supplemental Resolutions require the Treasurer to allocate and transfer to the Trustee for deposit in the 2009D Debt Service Account amounts from Net Revenues, as follows:

- (a) With respect to Series 2009D Bonds in a Term Rate Mode and any Interest Rate Swaps payable from the 2009D Bonds Interest Account with more than forty (40) days between regularly scheduled payment dates, Net Revenues and any Swap Receipts shall be deposited in the 2009D Bonds Interest Account on or before the second Business Day of each month, in approximately equal monthly installments, so that the aggregate amount on deposit in the 2009D Bonds Interest Account on the next succeeding Interest Payment Date for the Series 2009D Bonds and regularly scheduled payment date for such Interest Rate Swaps is at least equal to the aggregate net amount of interest due and payable on such Interest Payment Date and the net amount due and payable on such regularly scheduled payment date for such Interest Rate Swaps; provided, however, that no moneys need be deposited in the 2009D Bonds Interest Account except to the extent that such moneys are required for the payment of interest to become due on such Series 2009D Bonds on the next succeeding Interest Payment Date or on such Interest Rate Swaps on the next regularly scheduled payment date therefor, after the application of the moneys then on deposit in the 2009D Bonds Interest Account; and provided, further, that subject to the preceding proviso, during the period preceding the first Interest Payment Date with respect to the Series 2009D Bonds and the first regularly scheduled payment date with respect to any Interest Rate Swaps, the amount of each monthly installment of Net Revenues and Swap Receipts, if applicable, with respect to the Series 2009D Bonds shall be equal to the product of a fraction the numerator of which is one and the denominator of which is the number of whole calendar months from the date of issuance of the Series 2009D Bonds to the first Interest Payment Date on such Series 2009D Bonds minus one, and the aggregate amount of interest becoming due and payable on such Series 2009D Bonds on said Interest Payment Date, and with respect to any Interest Rate Swaps shall be equal to the product of a fraction the numerator of which is one and the denominator of which is the number of whole calendar months from the date of execution of such Interest Rate Swap to the first regularly scheduled payment date on such Interest Rate Swap minus one, and the aggregate amount of becoming due and payable on such Interest Rate Swap on such regularly scheduled payment date thereon.
- (b) In the 2009D Bonds Principal Account, in approximately equal monthly installments, commencing on the second Business Day of the month determined pursuant to a Series Sale Resolution or Bond Purchase Contract, an amount equal to at least one twelfth (1/12) of the aggregate Principal Amount becoming due and payable on any Outstanding Series 2009D Bonds on the next succeeding Principal Payment Date, until there shall have been accumulated in the 2009D Bonds Principal Account for such Series 2009D Bonds an amount sufficient to pay the Principal Amount of all serial Series 2009D Bonds maturing by their terms on the next Principal Payment Date.
- (c) The Treasurer shall also transfer to the Trustee for deposit in the 2009D Bonds Principal Account, in approximately equal monthly installments, commencing on or before the second Business Day of the month determined pursuant to a Series Sale Resolution or Bond Purchase Contract, prior to the first Mandatory Sinking Fund Redemption Date, an amount equal to at least one twelfth (1/12) of the Mandatory Sinking Fund Payment required to be made pursuant to the applicable Series Sale Resolution for such Series on the next succeeding Mandatory Sinking Fund Redemption Date, as such Mandatory Sinking Fund

Payments and Mandatory Sinking Fund Redemption Dates may be set forth in a Series Sale Resolution or Bond Purchase Contract for such Series.

### **Series 2009D Bonds Purchase Accounts**

The Supplemental Resolutions further require the Trustee to establish and hold separate accounts within the Purchase Fund designated as the 2009D Bonds Remarketing Proceeds Account and the 2009D Bonds Liquidity Facility Purchase Account.

Upon receipt of the proceeds of a remarketing of Series 2009D Bonds, the Paying Agent shall deposit such proceeds in the 2009D Bonds Remarketing Proceeds Account for application to the Purchase Price of such Series 2009D Bonds. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Liquidity Provider Bonds, the Paying Agent shall immediately pay such proceeds to the Liquidity Provider as the case may be, to the extent of any amount owing to such Liquidity Provider.

Liquidity Provider Bonds shall remain Outstanding in the hands of the Liquidity Provider until the Liquidity Provider is paid all amounts due with respect to such Series 2009D Bonds in accordance with the Liquidity Facility Agreement. Furthermore, Series 2009D Bonds, the principal of which was paid with proceeds of a Draw on a Liquidity Facility, which Draw has not been reimbursed, shall remain Outstanding until the Liquidity Provider is reimbursed in full for such Draw.

Upon receipt from the Trustee of the immediately available funds from a Liquidity Facility which are transferred to the Paying Agent pursuant to the 1991 Master Resolution, the Paying Agent shall deposit such money in the 2009D Bonds Liquidity Facility Purchase Account for application to the Purchase Price of the Series 2009D Bonds to the extent that the moneys on deposit in the 2009D Bonds Remarketing Proceeds Account shall not be sufficient. Any amounts deposited in the 2009D Bonds Liquidity Facility Purchase Account for the Series 2009D Bonds and not needed with respect to any Purchase Date or Mandatory Purchase Date for the payment of the Purchase Price for any Series 2009D Bonds shall be immediately returned to the Liquidity Provider.

### **Issuance of Variable Rate Bonds**

The Supplemental Resolutions authorize the issuance of one or more Series of Variable Rate Bonds under the 1991 Master Resolution, in the aggregate principal amounts specified in the applicable Series Sale Resolutions. Variable Rate Bonds are authorized to be issued in the Auction Mode, Commercial Paper Mode, Daily Mode, Fixed Rate Mode, Weekly Mode or Term Rate Mode (all as defined in the 1991 Master Resolution). *This Official Statement only contains information concerning the Series 2009D Bonds while in a Term Rate Mode. Holders and Potential Owners of the Series 2009D Bonds should not rely on this Official Statement for information concerning the Series 2009D Bonds in any Mode other than the Term Rate Mode, but should look solely to the offering documents to be used in connection with any such Mode change for a description of any other Mode.*

### **Determination and Notice of Term Rate; Payment of Interest**

Once a Series of Variable Rate Bonds is changed to the Term Rate Mode, such Variable Rate Bonds shall continue in the Term Rate Mode until changed to another Mode in accordance with the 1991 Master Resolution. The Term Rate shall be determined by the Remarketing Agent not later than 4:00 p.m., New York City time, on the Rate Determination Date, and the Remarketing Agent shall make the Term Rate available by telephone to any Notice Party requesting such rate. The Remarketing Agent shall give prompt written notice of the Term Rate to the Commission and the Paying Agent. The Term Rate shall be the minimum rate which, in the sole judgment of the Remarketing Agent, will result in a sale of the Series of Variable Rate Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Commission in writing delivered to the Remarketing Agent before such Rate Determination Date. If a new Interest Period is not selected by the Commission prior to such Rate Determination Date (for a reason other than a court prohibiting such selection) the new Interest Period shall be the same length as the current Interest Period (or such lesser period as shall be necessary to comply with the next sentence and paragraph). No Interest Period in the Term Rate Mode may extend beyond the applicable Maturity Date.

A Series of Variable Rate Bonds, on the date such Variable Rate Bonds are changed to the Term Rate Mode and while such Variable Rate Bonds are in the Term Rate Mode, do not have to be secured by a Credit Facility if so determined by the Commission as provided in the 1991 Master Resolution. If, however, such Series of Variable Rate Bonds are secured by the Credit Facility, then, notwithstanding anything to the contrary contained herein, no Interest Period for such Variable Rate Bond may extend beyond the Expiration Tender Date

### **Alternate Rates**

The following provisions shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for any Variable Rate Bond or Series of Variable Rate Bonds or (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to a Variable Rate Bond or Series of Variable Rate Bonds (or the selection by the Commission of the Interest Periods for a Series of Variable Rate Bonds in the Term Rate Mode) shall be held to be unenforceable by a court of law of competent jurisdiction. These provisions shall continue to apply until such time as the Remarketing Agent (or the Commission if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Commission, if applicable) shall again make such determination at such time as there is delivered to the Remarketing Agent and the Commission an Opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations. The following shall be the methods by which the interest rates and, in the case of the Commercial Paper Mode and the Term Rate Mode, the Interest Periods, shall be determined for a Series of Variable Rate Bonds as to which either of the events described in clauses (i) or (ii) shall be applicable. Such methods shall be applicable from and after the date either of the events described in clauses (i) or (ii) first become applicable to such Variable Rate Bond or Variable Rate Bonds until such time as the events described in clauses (i) or (ii) are no longer applicable to such Variable Rate Bond or Variable Rate Bonds. These provisions shall not apply if the Commission fails to select an Interest Period for a Series of Variable Rate Bonds in the Term Rate Mode for a reason other than as described in clause (ii) above.

If such Variable Rate Bond is in the Term Rate Mode and if (i) such Variable Rate Bond is secured by a Credit Facility, it will be changed automatically to the Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the Remarketing Agent in accordance with the 1991 Master Resolution; (ii) if such Variable Rate Bond is not secured by a Credit Facility, then such Variable Rate Bond shall stay in the Term Rate Mode for subsequent Interest Periods, each beginning on the last Stated Interest Payment Date and ending on the next Stated Interest Payment Date, and shall bear interest at the Alternate Term Rate in effect at the beginning of each such Interest Period. Notwithstanding the foregoing, if for any reason the Commission is unable to remarket the Series 2009D Bonds in a new Interest Rate Period at the end of the initial Term Rate Mode, the Series 2009D Bonds will be subject to mandatory redemption on the last day of the initial Term Rate Mode. See “DESCRIPTION OF THE SERIES 2009D BONDS” in the forepart of this Official Statement.

### **Changes from Term Rate Mode**

Subject to the provisions of the 1991 Master Resolution, the Commission may change a Series of Variable Rate Bonds from the Term Rate Mode to another Mode (except for the Fixed Rate Mode or the Auction Mode which are described under the caption “–Change to Fixed Rate Mode” and “–Change to Auction Mode”), as follows:

*Mode Change Notice; Notice to Owners.* No later than the 45th day (or such shorter time as may be agreed to by the Commission, the Trustee, the Paying Agent and the Remarketing Agent) preceding the proposed Mode Change Date, the Commission will give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (the “Current Mode”) to another Mode (the “New Mode”) specified in such written notice as provided in the 1991 Master Resolution, and, if the change is to a Term Rate Mode, the length of the initial Interest Period as set by the Commission and whether or not the Series of Variable Rate Bonds to be changed to the Term Rate Mode will be secured by a Credit Facility (if it will be secured, then the initial Interest Period for the such Series of Variable Rate Bonds selected by the Commission cannot extend beyond the Expiration Tender Date). Notice of the proposed change in Mode is required to be given to the Owners as described under “Mandatory Tender for Purchase–Mandatory Purchase Provisions–Mandatory Purchase on Mode Change Date.”

*Conditions Precedent.* Prior to the effectiveness of any Mode change, the following conditions are required to be satisfied: (i) the Mode Change Date is required to be a Business Day; (ii) the Mode Change Date in the case of a change from a Term Rate Mode is required to be the last day of the Current Interest Period for the Series of Variable Rate Bonds; and (iii) delivery of the following to the Trustee, the Paying Agent and the Remarketing Agent, on or prior to the Mode Change Date: (a) in the case of a change from a Short-Term Mode to a Term Rate Mode or from a Term Rate Mode to a Short-Term Mode, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Trustee, the Paying Agent and the Remarketing Agent; (b) a Rating Confirmation Notice; and (c) a Credit Facility and/or a Liquidity Facility providing, collectively, for the payment of principal of, premium, if any, interest on, and Purchase Price of such Series of Variable Rate Bonds with a principal component equal to the principal amount of the Series of Variable Rate Bonds being changed, with an interest component in the case of such Credit Facility and/or Liquidity Facility equal to or greater than the Credit Facility interest coverage amount required by the 1991 Master Resolution for the applicable Mode and with an Expiration Date not earlier than five Business Days prior to the end of the initial Interest Period for such Series of Variable Rate Bonds; provided, however, that if the Series of Variable Rate Bonds are changed to a Term Rate Mode, no Credit Facility or Liquidity Facility need be applicable to the Series of Variable Rate Bonds while in the Term Rate Mode if the Commission so elects by the time it gives the notice to the Notice Parties as required by the 1991 Master Resolution.

*Determination of Interest Rates.* The New Mode for a Series of Variable Rate Bonds shall commence on the Mode Change Date for such Variable Rate Bond and the interest rate (together, in the case of a change to the Commercial Paper Mode, with the Interest Period for such Variable Rate Bond) shall be determined by the Remarketing Agent (or the Commission in the case of the Interest Period for a Variable Rate Bond changed to the Term Rate Mode) in the manner provided in the 1991 Master Resolution.

#### **Change to Fixed Rate Mode**

At the option of the Commission, a Series of Variable Rate Bonds (in Authorized Denominations) may be changed to the Fixed Rate Mode by providing written notice not less than 45 days (or such shorter time as may be agreed to by the Commission, the Trustee and the Remarketing Agent) before the proposed Mode Change Date for such Series of Variable Rate Bonds, to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. Such Notice is also required to state whether or not some or all of such Series of Variable Rate Bonds to be changed will be Serial Bonds and, if so, the applicable Serial Maturity Dates and Serial Payments, all as determined pursuant to the provisions of the 1991 Master Resolution.

*Conditions Precedent.* Prior to the effectiveness of a change to a Fixed Rate Mode the following conditions are required to be satisfied: (i) the Mode Change Date is required to be a Business Day; (ii) not less than the 30th day next preceding the Mode Change Date, the Paying Agent is required to mail a notice of such proposed change to the Owners of the Series of Variable Rate Bonds being changed stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such Owner is required to tender such Owner's Variable Rate Bonds for purchase on such proposed Mode Change Date; (iii) delivery of a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Trustee and the Remarketing Agent; and (iv) delivery of a Rating Confirmation Notice.

*Determination of Interest Rate.* Upon the change of a Series of Variable Rate Bonds to the Fixed Rate Mode, the Remarketing Agent will determine the Fixed Rate, Serial Maturity Dates, Serial Payments, Mandatory Sinking Fund Redemption Dates and Mandatory Sinking Fund Payments for such Series of Variable Rate Bonds as provided in the 1991 Master Resolution.

#### **Change to Auction Mode**

At the option of the Commission, a Series of Variable Rate Bonds, provided such Bonds are held by a depository in book-entry form and in an amount which is an Authorized Denomination for the new Interest Period, may be changed from the Term Rate Mode to an Auction Mode as follows: (i) the Mode Change Date is required to be a regularly scheduled Interest Payment Date on which interest is payable for the Interest Period from which the change is to be made; (ii) the Commission is required to give written notice of any such change to the

Remarketing Agent, the Trustee, the Auction Agent, the Market Agent, if any, and the Broker-Dealer and the Credit Provider not less than seven Business Days prior to the date on which the Trustee is required to notify the Owners of the change pursuant to the 1991 Master Resolution, with such notice specifying the Mode Change Date and the length of the initial Auction Period; together with such notice, the Commission is required to file with the Trustee an Opinion of Bond Counsel to the effect that the change of a Series of Variable Rate Bonds to an Auction Mode will not adversely affect the validity of such Series of Variable Rate Bonds or any exclusion from gross income for federal income tax purposes to which interest on such Series of Variable Rate Bonds would otherwise be entitled, provided, however, that no such change to an Auction Mode will become effective unless the Commission also files, with the Trustee, an Opinion of Bond Counsel to the same effect dated the Mode Change Date; and (iii) not less than 15 days prior to the Mode Change Date, the Trustee is required to mail a written notice of the change to the Owners of a Series of Variable Rate Bonds to be changed to an Auction Mode.

The Auction Rate for the Auction Period commencing on the Mode Change Date for a Series of Variable Rate Bonds will be the lowest rate which, in the judgment of the Broker-Dealer for a Series of Variable Rate Bonds, is necessary to enable such Series of Variable Rate Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the Mode Change Date. Such determination is conclusive and binding upon the Commission, the Trustee, the Auction Agent, the Market Agent and the Owners of such Series of Variable Rate Bonds to which such rate will be applicable. Not later than 5:00 p.m., New York City time, on the date of determination of the Auction Rate for a Series of Variable Rate Bonds, the Broker-Dealer is required to notify the Trustee, the Commission, the Market Agent and the Auction Agent of the Auction Rate by telephone, promptly confirmed in writing or by other Electronic Means.

The Commission may revoke its election to effect a change in Mode for any Series of Variable Rate Bonds to the Auction Mode by giving written notice of such revocation to the Trustee, the Remarketing Agent, the Auction Agent, the Market Agent and the Broker-Dealer at any time prior to the setting of the initial Auction Rate by the initial Broker-Dealer.

#### **Failure to Satisfy Conditions Precedent to a Mode Change**

If the conditions described in the 1991 Master Resolution are not satisfied by the applicable Mode Change Date, then the New Mode for such Series of Variable Rate Bonds will not take effect and the applicable Series of Variable Rate Bonds will remain in the Term Rate Mode, with the interest rates established in accordance with the applicable provisions of the 1991 Master Resolution on and as of the failed Mode Change Date for subsequent Interest Periods, each beginning on the last Stated Interest Payment Date and ending on the next Stated Interest Payment Date and will bear interest at the Alternate Term Rate in effect at the beginning of each such Interest Period. See “–Determination and Notice of Term Rate; Payment of Interest” and “–Alternate Rates.” Notwithstanding the foregoing, if for any reason the Commission is unable to remarket the Series 2009D Bonds in a new Interest Rate Period at the end of the initial Term Rate Mode, the Series 2009D Bonds will be subject to mandatory redemption. See “DESCRIPTION OF THE SERIES 2009D BONDS” in the forepart of this Official Statement.

#### **Mandatory Purchase Provisions**

*Mandatory Purchase on Mode Change Date.* The Series 2009D Bonds to be changed to another Mode are subject to mandatory purchase at the Purchase Price on the Mode Change Date as described below. Such Series 2009D Bonds will be delivered by the Owners (with all necessary endorsements) to the office of the Paying Agent in New York, New York, at or before 12:00 noon on the Mode Change Date and payment of the Purchase Price will be made by wire transfer in immediately available funds by the close of business on the Mode Change Date.

The Paying Agent is required to give notice of such mandatory purchase upon conversion to another Mode by mail to the Owners of the Series 2009D Bonds subject to mandatory purchase no less than 30 days prior to the Mandatory Purchase Date. The notice will state the Mandatory Purchase Date, the Purchase Price, the numbers of the Series 2009D Bonds to be purchased if less than all of the Series 2009D Bonds owned by such Owner are to be purchased and that interest on the Series 2009D Bonds subject to mandatory purchase will cease to

accrue from and after the Mandatory Purchase Date. The Trustee will give notice of mandatory purchase by Electronic Means if an Owner so requests in writing and the Trustee receives such request no later than five Business Days before the Trustee is required to give such notice. The failure to send such notice with respect to the Series 2009D Bonds as provided in the 1991 Master Resolution will not affect the validity of the mandatory purchase of any other Series 2009D Bonds with respect to which notice was so sent. Any notice sent as provided in the 1991 Master Resolution will be conclusively presumed to have been given, whether or not actually received by any Owner. The Paying Agent will give notice of such mandatory purchase upon conversion to the Fixed Rate Mode or the Auction Mode as part of the notice of change of Mode to be sent to the Owners pursuant to the 1991 Master Resolution. See “–Change to Fixed Rate Mode.”

### **Remarketing of Series 2009D Bonds**

Each Remarketing Agent shall use its best efforts to offer for sale all applicable Series 2009D Bonds required to be purchased upon change from one Mode to another Mode on the Mode Change Date.

On each Mandatory Purchase Date:

(1) unless the Remarketing Agent has notified the Paying Agent otherwise, the Remarketing Agent shall notify the Paying Agent by Electronic Means not later than 10:45 a.m., New York City time, on each such Purchase Date or Mandatory Purchase Date, of the amount of tendered Series 2009D Bonds which were successfully remarketed and the proceeds of which have been received by the Remarketing Agent, the names of the tendering Owners and the registration instructions (i.e., the names, addresses and taxpayer identification numbers of the purchasers and the desired Authorized Denominations) with respect thereto; and

(2) the Paying Agent shall authenticate new Series 2009D Bonds for the purchasers thereof which shall be available for pick up by the Remarketing Agent not later than 1:30 p.m., New York City time.

By the close of business on the Mandatory Purchase Date, the Paying Agent shall purchase tendered Series 2009D Bonds from the tendering Owners at the Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Paying Agent nor the Remarketing Agent shall be obligated to provide funds from immediately available funds on deposit in the Remarketing Proceeds Account established for such Series 2009D Bonds.

On each Mandatory Purchase Date such Series 2009D Bonds sold by the Remarketing Agent shall be delivered by the Remarketing Agent to the purchasers of those Series 2009D Bonds by 3:00 p.m., New York City time.

If Series 2009D Bonds to be purchased are not delivered by the Owners to the Paying Agent by 12:00 noon, New York City time, on the Mandatory Purchase Date, the Paying Agent shall hold any funds received for the purchase of such Series 2009D Bonds in trust in a separate account and shall pay such funds to the former Owners of such Series 2009D Bonds upon presentation of such Series 2009D Bonds. Such undelivered Series 2009D Bonds shall cease to accrue interest as to the former Owners on the Mandatory Purchase Date and moneys representing the Purchase Price shall be available against delivery of such Series 2009D Bonds at the principal corporate trust office of the Paying Agent; provided, however, that any funds which shall be so held by the Paying Agent and which remain unclaimed by the former Owner of such Series 2009D Bond not presented for purchase for a period of one (1) year after delivery of such funds to the Paying Agent, shall, to the extent permitted by law be paid to the Commission free of any trust or lien and thereafter the former Owner of such Series 2009D Bonds shall look only to the Commission and then only to the extent of the amounts so received by the Commission without any interest thereon and the Paying Agent shall have no further responsibility with respect to such moneys or payment of the Purchase Price of such Series 2009D Bonds. The Paying Agent shall authenticate a replacement Series 2009D Bond for any undelivered Note which may then be remarketed by the Remarketing Agent.



If there shall have occurred and be continuing an Event of Default described in paragraphs (a), (b) or (c) (related to the payment of principal and interest as the same becomes due and payable) under the heading “Events of Default” in this Appendix C, the Remarketing Agent shall not remarket any Series 2009D Bonds.

The Series 2009D Bonds shall not be subject to mandatory purchase pursuant to the 1991 Master Resolution unless the payment of the Purchase Price is limited to proceeds of remarketing such Series 2009D Bonds or to other amounts that do not constitute Revenues of the Commission.

### **The Remarketing Agent**

The Remarketing Agent for a Series of Variable Rate Bonds shall be designated by the Commission in a Series Sale Resolution relating to such Series of Variable Rate Bonds. Each Remarketing Agent shall remarket Variable Rate Bonds pursuant to the 1991 Master Resolution, keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the Liquidity Provider, the Commission, the Paying Agent and the Trustee at all reasonable times.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the 1991 Master Resolution by giving at least thirty (30) days’ notice to the Commission, the Trustee, the Paying Agent, and the Liquidity Provider. The Remarketing Agent may be removed at any time, at the direction of the Commission, by an instrument filed with the Remarketing Agent, the Trustee, the Paying Agent, and the Liquidity Provider and upon at least thirty (30) days’ notice to the Remarketing Agent. Any successor Remarketing Agent shall be selected by the Commission and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars (\$15,000,000), and shall be authorized by law to perform all the duties set forth in the 1991 Master Resolution. When a Liquidity Facility is in effect with respect to a Series of Variable Rate Bonds and so long as the related Liquidity Provider has not wrongfully dishonored a Draw on such Liquidity Facility, the Commission shall obtain such Liquidity Provider’s consent to the appointment of such successor Remarketing Agent. The Commission’s delivery to the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the 1991 Master Resolution and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the 1991 Master Resolution. For a further description of the Remarketing Agents with respect to the Series 2009D Bonds, see the definition of “Remarketing Agent” in this Appendix C.

### **Rights of the Bond Insurer**

The Supplemental Resolutions provide that the following provisions will apply to each Bond Insurer in the event and to the extent provided in a Series Sale Resolution with respect to the Variable Rate Bonds or Series of Variable Rate Bonds insured by such Bond Insurer, so long as (i) its Bond Insurance Policy is in effect, (ii) the Bond Insurer has not asserted that its Bond Insurance Policy is not in effect, (iii) the Bond Insurer is not in default thereunder, (iv) the Bond Insurer is not Insolvent, and (v) the Bond Insurer has not waived any such rights; provided, that such rights will continue with respect to amounts previously paid and due and owing the Bond Insurer:

(a) Any amendment to the 1991 Master Resolution requiring the consent of Owners of a Series of Variable Rate Bonds or the portion thereof secured by a Bond Insurance Policy (the “Insured Bonds”) will also require the prior written consent of the Bond Insurer with respect to such Insured Bonds.

(b) Any amendment not requiring the consent of Owners of the Insured Bonds will require the prior written consent of the Bond Insurer with respect to such Insured Bonds if its rights will be materially and adversely affected by such amendment.

(c) The prior written consent of the Bond Insurer with respect to the Insured Bonds will be a condition precedent to the deposit by the Commission of any Credit Facility in lieu of a cash deposit into the Issue 1

Reserve Account or the Series Reserve Account relating to such Insured Bonds, which consent will not be unreasonably withheld.

(d) For purposes of defaults and remedies under the 1991 Master Resolution, if an Event of Default will have occurred and be continuing, the Bond Insurer with respect to the Insured Bonds will be deemed to be the Owner of such Insured Bonds in connection with any consent or direction, appointment, request or waiver to be provided thereunder.

(e) Each Bond Insurer with respect to the Insured Bonds will have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of such Insured Bonds in accordance with the 1991 Master Resolution.

(f) Each Bond Insurer will, to the extent it makes any payment of principal or Purchase Price of or interest on the Insured Bonds it insures, become subrogated to the rights of the recipients of such payments in accordance with the terms of its Bond Insurance Policy.

(g) Principal, interest and/or Purchase Price paid by a Bond Insurer under its Bond Insurance Policy will not be deemed paid for purposes of the 1991 Master Resolution, and the Insured Bonds with respect to which such payments were made will remain Outstanding and continue to be due and owing until paid by the Commission in accordance with the 1991 Master Resolution.

(h) In the event of any defeasance of the Insured Bonds, the Commission will provide the applicable Bond Insurer with copies of all documents required by the 1991 Master Resolution to be delivered to the Trustee.

(i) The Commission will not discharge the 1991 Master Resolution unless all amounts due or to become due to each Bond Insurer have been paid in full or duly provided for.

(j) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action under the 1991 Resolution would adversely affect the security for the Bonds or the rights of the Bondholders, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Bond Insurance Policy.

## APPENDIX D

### SUMMARIES OF CERTAIN PROVISIONS OF THE SETTLEMENT AGREEMENT, THE LEASE AND USE AGREEMENTS AND THE LEASE AND OPERATING AGREEMENTS

The following are summaries of certain provisions of the Settlement Agreement, the Original Lease and Use Agreements, the amendments thereto (collectively, the "Lease and Use Agreements") and the Lease and Operating Agreements. The Settlement Agreement was entered into by the City on the one hand, acting in its own behalf and on behalf of the Board of Supervisors of the City, the Airport Commission of the City and certain City officials, and by certain signatory airlines on the other hand. The Lease and Use Agreements and the Lease and Operating Agreements were entered into by the City, acting by and through the Commission, and by the respective signatory airlines. Such summaries do not purport to be complete and reference is hereby made to the complete text of each of the foregoing agreements, copies of which are on file and are available for examination at the offices of the Commission.

#### Settlement Agreement

Disputes between the City and various airlines regarding the operation and finances of the Airport resulted in litigation being brought against the City in 1979 by certain airlines. To accomplish the settlement of the litigation and to dispose of other disputes between the parties, the parties agreed to enter into a Settlement Agreement, and, simultaneously, the Lease and Use Agreements.

The Settlement Agreement provides for altering the airlines-Airport relationship in four major areas: (a) Payments from the Commission to the City; (b) Bond financing; (c) West of Bayshore lands; and (d) the calculation of landing fees and terminal area rentals using a "cost center" residual rate setting approach as described below under "Lease and Use Agreements."

#### *Payments from Commission to City*

The Settlement Agreement provides for payments from the Commission to the City consisting of the Annual Service Payments and certain additional payments for direct services provided by the City to the Commission.

Annual Service Payments are to be paid from the Airport Revenue Fund into the General Fund of the City for each fiscal year beginning with Fiscal Year 1981-82 through Fiscal Year 2010-11 during the term of the Lease and Use Agreements. These payments amount to the greater of (i) 15% of "Concession Revenues" as defined in the Lease and Use Agreements and (ii) \$5 million for each of the Fiscal Years 1985-86 through 2010-11. The Settlement Agreement provides that the Annual Service Payment to the City constitutes full satisfaction of all obligations of the Airport, the Commission, and the airlines party to the Settlement Agreement for any and all indirect services provided by the City to the Airport and the Commission. The Settlement Agreement also declares that the Annual Service Payment (together with certain identified payments that have now all been made) constitutes the total transfer to the City's General Fund contemplated by a provision of the Charter that calls for repayment to the City of principal and interest paid by the City on various previously issued City airport general obligation bonds plus other payments constituting investment return to the City. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City."

The Settlement Agreement further provides that the Commission, the Board of Supervisors and the City will not take any action to cause payment to the City, directly or indirectly, of any additional money from Airport revenues or from the airlines, except as permitted under the Lease and Use Agreements, other than for certain direct services provided to the Commission by the City. These include services provided by the City Attorney, the Fire Department, the Police Department, the City Controller, the Water Department, the Department of Public Works, the Purchasing Department and the City-wide risk manager.

The City and the Commission agree in the Settlement Agreement not to establish any sinking funds pertaining to general obligation or revenue bonds previously issued or to be issued for the purpose of providing capital improvements for the Airport, other than sinking funds required by covenants in resolutions or indentures relating to such bonds.

#### *Bond Financing of Capital Improvements*

Except as provided in the Lease and Use Agreements, no surcharge, special assessment or other charge, rental or fee to the airlines may be made for the funding of Airport capital improvements from current revenues.

#### *West of Bayshore Lands*

The Settlement Agreement deals with the potential development of certain Airport property west of the Bayshore Freeway. Maintenance costs of the property in its current undeveloped state are an obligation of the Commission and are included in calculations to determine landing fee rates. Provision is made for any future development of such property solely with non-Airport revenues. Except as may be provided in the Settlement Agreement and the Lease and Use Agreements, the airlines disclaim the right to any revenues from the area.

The Settlement Agreement expires by its terms on June 30, 2011.

### **Lease and Use Agreements**

All of the airlines which were involved in the litigation (see "Settlement Agreement", above) and are presently serving the Airport are signatories to the Lease and Use Agreements, with the exception of British Airways. Each of the Agreements applicable to domestic airlines has an original term commencing from July 1, 1981 and ending June 30, 2011. Certain foreign flag carriers opted for a shorter ten-year term commencing July 1, 1981, and are currently operating at the Airport pursuant to monthly permits. The Lease and Use Agreements include a number of provisions which resulted in a substantial restructuring of the financial operations of the Airport in the three major areas described below:

#### *Airport Cost Centers and Areas Categories*

The definitional portions of the Lease and Use Agreements include the description of the functional areas to be used in accounting for revenues, expenses and debt service. These functional areas are divided into six general areas: the Airfield Area, Airport Support Area, Terminal Area, Groundside Area, Utilities Area and West of Bayshore Area. Direct and indirect expenses are recorded and allocated to the appropriate cost centers. Article II of the Lease and Use Agreements describes various categories of space in the Terminal Area, including ticket counters, ticket counter back offices, administrative and operation offices, inbound/outbound baggage handling areas, and unenclosed or covered areas.

#### *Rentals and Landing Fees and their Adjustment*

The Lease and Use Agreements provide for matching revenues each year to the Commission's expenditures by adjusting aviation revenues. Differences between actual receipts and expenditures result in adjustment of Terminal Area rentals and landing fees in subsequent years. The Commission's financial statements reflect such adjustments in the year in which the difference occurs.

The Lease and Use Agreements provide the methodology for the computation of the landing fee rate and Terminal Area rental rates. Such methodology is generally directed at ensuring that revenues equal expenditures. Although the Lease and Use Agreements apply only to the airlines that have signed a Lease and Use Agreement, the City currently charges the same landing fees and rentals to non-signatory airlines which operate under permit.

Landing fees and Terminal Area rental rates are adjusted annually. Not fewer than 90 days before the end of each fiscal year, each signatory airline is required to submit to the City its landed weight forecast and notice of any proposed additions to the space in the Terminal Area it leases, for the next fiscal year. Concurrently, the City submits to the airlines its budgetary forecast for the various cost centers for the next fiscal year. The City then computes and forwards to the signatory airlines not fewer than 60 days before the end of the fiscal year its

computations made in accordance with the requirements of the Lease and Use Agreements of the landing fee rate and the Terminal Area rental rates for the next fiscal year. The signatory airlines and the City then use their best efforts to adjust the Terminal Area rentals and landing fees to their mutual satisfaction.

If at any time during the fiscal year, the actual expenses (including debt service) of the Terminal Area and the Groundside Area are projected to exceed by ten percent or more the actual revenues in the Terminal Area and Groundside Area, the Commission may, after using its best efforts to reduce expenses, and upon 60 days notice to, and in consultation with, the signatory airlines, increase the Terminal Area rentals. The Lease and Use Agreements require the signatory airlines to pay such increased rentals or such lesser amount which equals the projected deficiency for the remaining months of the then-current fiscal year. Landing fees may similarly be increased in the event the actual expenses (including debt service) of the Airfield Area and Airport Support Area are projected to exceed by ten percent or more the actual revenues in such areas.

#### *Airline Review of Capital Improvements*

Under the Lease and Use Agreements, the City agrees, with a limited exception described below, to use its best efforts to finance all capital improvements through the issuance of Airport Revenue Bonds. A “capital improvement” is defined under the Lease and Use Agreements as any item of expenditure with a cost (including design and planning costs) exceeding \$100,000 in 1981 dollars and a useful life of more than three years.

Proposed capital improvements with a cost in excess of \$300,000 in 1981 dollars are subject to certain review procedures established under the Lease and Use Agreements. A majority in interest of the signatory airlines (defined to mean more than 50% in number of the signatory airlines who, on the date in question, also account for more than 50% of the aggregate revenue aircraft landed weight landed by the signatory airlines at the Airport during the immediately preceding fiscal year) may require the Commission to defer a given capital improvement for six months so that such airlines can present their views with respect to such capital improvement. The Airport, however, may budget and spend up to \$2 million in 1981 dollars (as adjusted by a formula in the Lease and Use Agreements) per year from current revenues on capital improvements without airline approval, or a greater amount as may be approved by a majority in interest of the airlines. Capital improvements which are required by (i) a federal or state agency having jurisdiction over Airport operations, or (ii) an emergency which, if the improvements are not made, would result in the closing of the Airport within 48 hours, are not subject to the review procedures.

#### *Other Lease and Use Agreement Covenants*

The City covenants under the Lease and Use Agreements to operate the Airport in such a manner as to maximize revenues from concessionaires, lessees and other non-airline users.

The City also agrees that no charges, fees or tolls of any nature, direct or indirect, shall be charged by the Commission, directly or indirectly, against any signatory airline, its passengers, its suppliers or others for the privilege of purchasing, selling, using, storing, withdrawing, handling, consuming, loading, unloading or delivering any personal property of the airline or its suppliers or for the privilege of transporting personal property or persons to, from or on the Airport. In addition, the City agrees that no other charges, fees or tolls of any nature shall be charged by the Commission against any signatory airline or its employees or passengers for any of the premises, facilities, rights, licenses and privileges granted under the Lease and Use Agreements to the airline or its employees or passengers. However, the Commission is permitted to impose a passenger facilities charge or other similar charge on passengers not prohibited by federal law; provided, however, that any revenues generated thereby shall be deposited in the Airport Revenue Fund, and shall be used only for Airport purposes.

The airlines have each agreed to make certain accommodations to permit new entrants to operate at the Airport in the signatory airlines’ exclusive leased space. See “SAN FRANCISCO INTERNATIONAL AIRPORT—Existing Airline Agreements.”

### **Lease and Use Agreement Amendments**

The eight signatory airlines that operate out of the new International Terminal have signed an amendment to their respective Lease and Use Agreements (each a “Lease and Use Agreement Amendment”) reflecting the relocation of their respective old International Terminal premises to the new International Terminal. Each Lease and Use Agreement Amendment also provides for the change of certain types of space from exclusive use to common use, and provides a mechanism for the Airport to recapture and/or reallocate exclusive use space when necessary to accommodate new international carriers or other market changes within the industry. See “SAN FRANCISCO INTERNATIONAL AIRPORT– Existing Airline Agreements.”

### **Lease and Operating Agreements**

Sixteen non-signatory airlines have each been offered, and thirteen have signed, a Lease and Operating Agreement which is substantially similar to the Lease and Use Agreements, as amended. See “SAN FRANCISCO INTERNATIONAL AIRPORT– Existing Airline Agreements.”

## APPENDIX E

### SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE

The following is a summary of certain provisions of the Continuing Disclosure Certificate to be executed and delivered by the Commission in connection with the issuance of the Series 2009D Bonds (the “Disclosure Certificate”). This summary is not to be considered as a full statement of the Disclosure Certificate and reference is made thereto for the full details of the terms thereof.

#### **Purpose**

The Disclosure Certificate is being executed and delivered by the Commission for the benefit of the Holders and Beneficial Owners of the Series 2009D Bonds and in order to assist the Participating Underwriter in complying with SEC Rule 15c2-12(b)(5).

#### **Definitions**

In addition to the definitions set forth in the 1991 Master Resolution, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined below, the following capitalized terms have the following meanings for purposes of the Disclosure Certificate:

“Annual Disclosure Report” shall mean any Annual Disclosure Report provided by the Commission pursuant to, and as described in, the Disclosure Certificate.

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2009D Bonds, including persons holding Series 2009D Bonds through nominees, depositories or other intermediaries.

“Dissemination Agent” shall mean the Commission, or any successor Dissemination Agent designated in writing by the Commission and which has filed with the Commission a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in as such in the Disclosure Certificate.

“Participating Underwriter” shall mean the original underwriter of the Series 2009D Bonds required to comply with the Rule in connection with offering of the Series 2009D Bonds.

“Repository” shall mean any Electronic Municipal Market Access site maintained by the Municipal Securities Rulemaking Board at <http://emma.msrb.org> or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

#### **Provision of Annual Disclosure Reports**

The Commission shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the Commission’s fiscal year (which currently ends June 30), commencing with the report for the 2008-09 Fiscal Year, provide to the Repository an Annual Disclosure Report which is consistent with the requirements of the Disclosure Certificate, with a copy to the Trustee. The Annual Disclosure Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository and may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in the Disclosure Certificate; *provided* that the audited financial statements of the Commission may be submitted separately from the balance of the Annual Disclosure Report, and later than the date required above for

the filing of the Annual Disclosure Report if they are not available by that date. If the Commission's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under the Disclosure Certificate.

Not later than fifteen (15) Business Days prior to the date specified above for providing the Annual Disclosure Report to the Repository, the Commission shall provide the Annual Disclosure Report to the Dissemination Agent (if other than the Commission).

If the Commission is unable to provide to the Repository an Annual Disclosure Report by the date required above, the Commission shall send a notice, in electronic format to the Repository, in substantially the form attached to the Disclosure Certificate.

The Dissemination Agent shall file a report with the Commission (if the Commission is not the Dissemination Agent) certifying that the Annual Disclosure Report has been provided pursuant to the Disclosure Certificate and stating the date it was provided.

### **Content of Annual Disclosure Reports**

The Commission's Annual Disclosure Report shall contain or include by reference the following for the most recently ended fiscal year:

1. Audited Financial Statements of the Commission, presented in accordance with generally accepted accounting principles applicable to the Commission from time to time. If the Commission's audited financial statements are not available by the time the Annual Disclosure Report is required to be filed as described above, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

2. Air Traffic Data (number of scheduled aircraft arrivals and departures, domestic enplanements and deplanements, international enplanements and deplanements, and total passengers at the Airport; number of enplanements by carrier for top ten carriers).

3. Cargo Traffic Data (weight of air cargo on and off at the Airport).

4. Total Landed Weights (landed weight by carrier of the top ten carriers and total landed weight at the Airport).

5. Airline Service (identity of all domestic and international carriers serving the Airport during such Fiscal Year).

6. Five Highest Revenue Producing Concessionaires (name, lease expiration, minimum annual rent, if any, and concession revenues).

7. Five Highest Revenue Producers (name and revenues produced).

8. Total Outstanding Long-Term Debt of the Commission (outstanding principal amount and lien position).

9. Historical Landing Fees and Terminal Rentals.

10. Calculation of Net Revenues and compliance with the Rate Covenant (each as defined in the Resolution).

Any of all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Commission or related public entities, which have been filed with the Repository or the Securities and Exchange Commission. If the document included by reference is a final official



statement, it must be available from the Repository to the extent required by the Rule. The Commission shall clearly identify each such other document so included by reference.

### **Reporting of Significant Events**

Pursuant to the provisions of the Disclosure Certificate, the Commission shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Series 2009D Bonds, if material:

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent, or unscheduled Series 2009D Bond Calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2009D Bonds.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on credit enhancements reflecting financial difficulties.
10. substitution of credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Series 2009D Bonds.

Whenever the Commission obtains knowledge of the occurrence of a Listed Event, the Commission shall as soon as possible determine if such event would be material under applicable federal securities laws.

If the Commission determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Commission shall promptly file a notice of such occurrence with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (4) and (5) above need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2009D Bonds pursuant to the 1991 Master Resolution.

### **Termination of Reporting Obligation**

The Commission's obligations under the Disclosure Certificate shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Series 2009D Bonds or (b) if, in the opinion of nationally recognized bond counsel, the Commission ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Bonds or the Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Bonds, the Commission shall give notice of such termination in the same manner as for a Listed Event.

### **Dissemination Agent**

The Commission may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Commission.

## **Amendment; Waiver**

Notwithstanding any other provision of the Disclosure Certificate, the Commission may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions described in the first paragraph under “Provision of Annual Disclosure Reports” or described under “Content of Annual Disclosure Reports” or described in the first paragraph under “Reporting of Significant Events”, 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 2009D 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 2009D 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 2009D Bonds in the same manner as provided in the 1991 Master Resolution for amendments to the 1991 Master Resolution with the consent of the Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2009D Bonds.

In the event of any amendment or waiver of any provision of the Disclosure Certificate, the Commission shall describe such amendment in the next Annual Disclosure 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 in accounting principles, on the presentation) of financial information or operating data being presented by the Commission. 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 the same manner as for a Listed Event, and (ii) the Annual Disclosure 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.

## **Additional Information**

Nothing in the Disclosure Certificate shall be deemed to prevent the Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the Commission chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the Commission shall have no obligation under the Disclosure Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

## **Default**

In the event of a failure of the Commission to comply with any provision of the Disclosure Certificate, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Series 2009D Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Series 2009D Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Commission to comply with its obligations under the Disclosure Certificate. Failure by the Commission to comply with any provision of the Disclosure Certificate shall not be deemed an Event of Default under the 1991 Master Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the Commission to comply with the Disclosure Certificate shall be an action to compel performance.

**Duties, Immunities and Liabilities of Dissemination Agent**

The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate. The Commission agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under the Disclosure Certificate, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Commission under this paragraph shall survive resignation or removal of the Dissemination Agent and payment of the Series 2009D Bonds.

**Beneficiaries**

The Disclosure Certificate shall inure solely to the benefit of the Commission, the Trustee, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Series 2009D Bonds, and shall create no rights in any other person or entity.

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## APPENDIX F

### INFORMATION REGARDING THE RESERVE ACCOUNT SURETY BONDS

*The following information under the caption “Ambac Surety Bond” has been provided by Ambac Assurance Corporation, the following information under the caption “Financial Security Assurance Surety Bond” has been provided by Assured Guaranty Corp., the following information under the caption “MBIA Surety Bond” has been provided by National Public Finance Guarantee Corporation and the following information under the caption “XL Capital Surety Bonds” has been provided by Syncora Guarantee Inc. for use in this Official Statement. The Commission makes no representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.*

#### **Ambac Surety Bonds**

Surety bonds were issued by Ambac Assurance Corporation (“Ambac”) in the amount of \$20,000,000 and expiring on May 1, 2025 and in the amount of \$19,328,400 expiring on May 1, 2026, both of which are currently on deposit in the Reserve Account. Each surety bond provides that upon the later of (i) one (1) day after receipt by Ambac of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Participating Series of Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac, Ambac will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Participating Series of Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Ambac surety bond.

Pursuant to the terms of the Ambac surety bonds, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac under the terms thereof, and the Commission is required to reimburse Ambac for any draws under the Ambac surety bond with interest at a market rate. Upon such reimbursement, the Ambac surety bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Commission is subordinate to the Commission’s obligations with respect to the Bonds.

The Ambac surety bonds do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

#### *Ambac Assurance Corporation*

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,381,000,000 (unaudited) and statutory capital of approximately \$479,000,000 (unaudited) as of June 30, 2009. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Ambac Assurance has been assigned the following financial strength ratings by the following rating agencies: Caa2, developing outlook, by Moody’s Investors Service, Inc., and CC, developing outlook, by Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under this heading “–Ambac Surety Bonds.”

### *Available Information*

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at Ambac Assurance's internet website at [www.ambac.com](http://www.ambac.com) and at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared on the basis of accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance are available without charge from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

### *Incorporation of Certain Documents by Reference*

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and filed on March 16, 2009;
2. The Company's Current Report on Form 8-K dated and filed on May 11, 2009;
3. The Company's Quarterly Report on Form 10-Q dated and filed on May 18, 2009;
4. The Company's Current Report on Form 8-K dated and filed on June 19, 2009;
5. The Company's Current Report on Form 8-K dated July 21, 2009 and filed on July 27, 2009;
6. The Company's Current Report on Form 8-K dated August 6, 2009 and filed on August 7, 2009; and
7. The Company's Quarterly Report on Form 10-Q dated and filed on August 10, 2009.

Ambac Assurance's consolidated financial statements and all other information relating to Ambac Assurance and subsidiaries included in the Company's periodic reports filed with the SEC subsequent to the date of this Official Statement shall, to the extent filed (rather than furnished pursuant to Item 9 of Form 8-K), be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing of such reports.

Any statement contained in a document incorporated in this Official Statement by reference shall be modified or superseded for the purposes of this Official Statement to the extent that a statement contained in a subsequently filed document incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of all information regarding Ambac Assurance that is incorporated by reference in this Official Statement are available for inspection in the same manner as described above in "Available Information."

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

## Financial Security Assurance Surety Bond

Financial Security Assurance Inc. (“Financial Security”) issued a municipal bond debt service reserve fund in the maximum amount of \$8,989,500.00 expiring on May 1, 2029, in connection with the issuance of the Issue 37C Bonds; and a municipal bond debt service reserve fund policy in the maximum amount of \$4,737,026.05 expiring on May 1, 2029, in connection with the issuance of the Issue 37A/B Bonds that are on deposit in the Participating Series Reserve Account. On July 1, 2009, the parent company of Financial Security was acquired by Assured Guaranty, Ltd. See “–The Insurer–*Acquisition of FSA.*”

The Reserve Policies unconditionally guarantee the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Commission, provided that the aggregate amount paid under the Reserve Policies may not exceed the maximum amount set forth in the Reserve Policies. Financial Security will make such payments to the paying agent for the applicable Bonds on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Security shall have received telephone or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Issuer. The term “nonpayment” in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

Each Reserve Policy is non-callable and the premium will be fully paid at the time of delivery of the applicable series of Bonds. Each Reserve Policy covers failure to pay principal of the applicable series of Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the applicable series of Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. Each Reserve Policy shall terminate on the scheduled final maturity date of the applicable series of Bonds being issued.

Financial Security required, among other things, (i) that, so long as it has not failed to comply with its payment obligations under each Reserve Policy, it is granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the applicable series of Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Security for any draws on the applicable Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Security’s consent.

The Reserve Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### *The Insurer*

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty’s financial strength is rated “AAA” (negative outlook) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “Aa2” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” (ratings watch negative) by Fitch, Inc. (“Fitch”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

### *Recent Developments*

Ratings. On July 1, 2009, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on Assured Guaranty. At the same time, S&P revised its outlook on Assured Guaranty to negative from stable. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P’s comments.

On May 20, 2009, Moody’s issued a press release stating that it had placed the “Aa2” insurance financial strength rating of Assured Guaranty on review for possible downgrade. Subsequently, in an announcement dated July 24, 2009 entitled “Moody’s Comments on Assured’s Announcement to Guarantee and Delist FSA Debt”, Moody’s announced that it expects to conclude its review by mid-August 2009. Reference is made to the press release and the announcement, copies of which are available at [www.moody.com](http://www.moody.com), for the complete text of Moody’s comments.

In a press release dated August 10, 2009, Fitch revised its outlook on Assured Guaranty to negative from evolving. Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch’s comments.

There can be no assurance as to the outcome of Moody’s review, or as to the further action that Fitch or S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission (“SEC”) on February 26, 2009, AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which was filed by AGL with the SEC on August 10, 2009.

Acquisition of FSA. On July 1, 2009, AGL acquired the financial guaranty operations of Financial Security Assurance Holdings Ltd. (“FSA”), the parent of financial guaranty insurance company Financial Security Assurance Inc. For more information regarding the acquisition by AGL of FSA, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the SEC on July 8, 2009.

### *Capitalization of Assured Guaranty Corp.*

As of June 30, 2009, Assured Guaranty had total admitted assets of \$1,950,949,811 (unaudited), total liabilities of \$1,653,306,246 (unaudited), total surplus of \$297,643,565 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,084,906,800 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### *Incorporation of Certain Documents by Reference*

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (which was filed by AGL with the SEC on August 10, 2009); and
- the Current Reports on Form 8-K filed by AGL with the SEC relating to the periods following the fiscal year ended December 31, 2008.



All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “–Ambac Guaranty Corp. Surety Bond” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “–Ambac Guaranty Corp. Surety Bond.”

### **Financial Guaranty Surety Bond**

Financial Guaranty Insurance Company (“Financial Guaranty”) issued its Municipal Bond Debt Service Reserve Fund Policy in the maximum amount \$15,061,062.50 expiring May 1, 2020 (the “Reserve Policy”). The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Airport, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy. Financial Guaranty will make such payments to the paying agent (the “Paying Agent”) for the Bonds on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephone or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Airport. The term “nonpayment” in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-callable and the premium will be fully paid at the time of delivery of the Bonds. The Reserve Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the scheduled final maturity date of the bonds being issued.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it is granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the Airport fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty’s consent. The specific rights, if any,

granted to Financial Guaranty in connection with its issuance of the Reserve Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is not rated by Moody's, S&P or Fitch. Financial Guaranty is no longer providing updated disclosure.

### **MBIA Surety Bond**

Surety bonds issued by MBIA Corp. in the amount of \$15,033,222.50, of \$5,917,178.82, and of \$20,876,700.00, all expiring on May 1, 2026 are currently on deposit in the Reserve Account. Each MBIA surety bond provides that upon notice from the Trustee to MBIA Corp. to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Participating Series of Bonds, MBIA Corp. will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Participating Series of Bonds or the available amount of the MBIA surety bond, whichever is less. Upon the later of: (i) three (3) days after receipt by MBIA Corp. of a Demand for Payment in the form attached to the MBIA surety bond, duly executed by the Trustee; or (ii) the payment date of the Participating Series of Bonds as specified in the Demand for Payment presented by the Trustee to MBIA Corp., MBIA Corp. will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of each MBIA surety bond will be the initial face amount of said surety bond less the amount of any previous deposits by MBIA Corp. with the Trustee with respect to such surety bond which have not been reimbursed by the Commission. The Commission and MBIA Corp. have entered into a separate financial guaranty agreement in connection with each MBIA surety bond (the "Guaranty Agreements"). Pursuant to the Guaranty Agreements, the Commission is required to reimburse MBIA Corp., within one year of any deposit, for the amount of such deposit made by MBIA Corp. with the Trustee under each respective MBIA surety bond.

No optional redemption of the Participating Series of Bonds may be made until the MBIA surety bond is reinstated. The MBIA surety bond is held by the Paying Agent in the Debt Service Reserve Fund and is provided as an alternative to the Issuer depositing funds equal to the Debt Service Reserve Requirement for outstanding the Participating Series of Bonds.

On February 18, 2009, MBIA Inc., the parent holding company of MBIA Corp., announced that it had established a new U.S. public finance financial guarantee insurance company within the MBIA Inc. group by restructuring MBIA Corp. and its subsidiaries. As part of the restructuring, (i) the stock of MBIA Insurance Corp. of Illinois (which, effective March 19, 2009, was renamed National Public Finance Guarantee Corporation), an existing public finance financial guarantee insurance subsidiary of MBIA Corp., was transferred to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc. ("National Holdings"), also a subsidiary of MBIA Inc.; and (ii) effective January 1, 2009, MBIA Corp. ceded to National all of MBIA Corp.'s U.S. public finance business, including the Policy, pursuant to that certain Quota Share Reinsurance Agreement between MBIA Corp. and National (the "Reinsurance Agreement"). Pursuant to the Reinsurance Agreement, MBIA Corp. paid to National approximately \$2.89 billion (which equals the net unearned premium, loss and loss adjustment expense reserves, net of the 22 percent ceding commission that MBIA Corp. received) as a premium to reinsure the policies covered under the Reinsurance Agreement (each a "Covered Policy"). The Debt Service Reserve Fund Surety Bond is a Covered Policy. National was further capitalized with \$2.09 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which was ultimately contributed to National through National Holdings. The Reinsurance Agreement provides a cut-through provision enabling the holder of a Covered Policy to make a claim for payment directly against National. In addition, National has also issued second-to-pay policies for the benefit of the holder of a Covered Policy, granting such policyholder the right to make a claim directly against National if MBIA Corp. did not honor such claim.

*National Public Finance Guarantee Corporation (“National”)*

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of Illinois and is licensed to do business in and subject to regulation under the laws of 47 states, the District of Columbia and the Commonwealth of Puerto Rico.

The principal executive offices of National are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 765-3333.

*Regulation*

National is currently domiciled in Illinois and has announced its intention to redomesticate to New York. National is licensed in Illinois to provide fidelity, surety and miscellaneous insurance. As a result of being licensed in Illinois to transact such lines of insurance, National is authorized to provide financial guarantee insurance in Illinois. Illinois has promulgated a regulation that governs the transaction of municipal bond insurance. The regulation defines municipal bond insurance as insurance or reinsurance against financial loss by reason of nonpayment of principal, interest or other payment obligations pursuant to the terms of municipal bonds. Under the Illinois municipal bond regulation, National is permitted to transact municipal bond insurance subject to complying with the requirements set forth in the regulation, which include establishing reserves and satisfying certain risk limitations.

As a financial guaranty insurance company licensed to do business in the State of New York, National is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

*Financial Strength Ratings of National*

National’s current financial strength ratings from the major rating agencies are summarized below:

<u>Agency</u>	<u>Ratings</u>	<u>Outlook</u>
S&P	A	Outlook Developing
Moody’s	Baa1	Outlook Developing

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. National does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

*National Financial Information*

Based upon statutory financials, as of June 30, 2009, National had cash and admitted assets of \$7.1 billion (unaudited), total liabilities of \$6.8 billion (unaudited), and total surplus of \$0.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of June 30, 2009, prepared in accordance with generally accepted accounting principles, included in the Quarterly Report on Form 10-Q of MBIA Inc. for the quarter ended June 30, 2009, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof.

#### *Recent Litigation*

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against the Company and its subsidiaries, MBIA Corp. and National, entitled *Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al.*, 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P., purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries (the "Transactions"), which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, *inter alia*, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance policies issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. Defendants filed their motion to dismiss on May 6, 2009.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware against two subsidiaries of the Company, MBIA Corp. and National, entitled *Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois*, CA 4486-UCL. Plaintiffs allege that they are holders of approximately \$400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the "Notes") in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with "unreasonably small capital" (Count II), "insolvent" (Count III), and were made with an "actual intent to defraud" (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. Defendants filed their motion to dismiss on April 27, 2009.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against the Company and its subsidiaries, MBIA Corp. and National, entitled *ABN AMRO Bank N.V. et al. v. MBIA Inc. et al.* The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) damages in an unspecified amount. Defendants filed their motion to dismiss on June 11, 2009.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court against the New York Insurance Department, Eric Dinallo in his capacity as Superintendent for the Department, and MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled *ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance Department, the New York State Insurance Department, MBIA Inc. et al.* In its motions to dismiss the three above-referenced plenary actions, MBIA Inc. argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transactions approved by the Superintendent and the Department. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above.

MBIA Inc. believes that the litigation described above filed against it and its subsidiaries in connection with the Transactions is without merit and intends to contest it vigorously.

*Incorporation of Certain Documents by Reference*

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this appendix:

MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008;  
MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; and

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.'s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2009D Bonds offered hereby shall be deemed to be incorporated by reference in this appendix and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this appendix, shall be deemed to be modified or superseded for purposes of this appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this appendix.

MBIA Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.'s SEC filings (including (1) MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008, and (2) MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to National at its principal executive offices.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

**XL Capital Surety Bonds**

Debt service reserve policies (collectively, the "Debt Service Reserve Policies") issued by XL Capital Assurance Inc. ("XL Capital") in an aggregate amount equal to \$39,768,155 (collectively, the "Policy Limit") were deposited in the Reserve Fund. The Debt Service Reserve Policies provide that upon notice from the Trustee to XL Capital to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, XL Capital will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Debt Service Reserve Policies, whichever is less. Upon the later of: (i) one Business Day (as defined in Debt Service Reserve Policies) after receipt by XL Capital of a Notice of Nonpayment in the form attached to the Debt Service Reserve Policies, duly executed by the Trustee; or (ii) the payment date of the Bonds as specified in the Notice of Nonpayment presented by the Trustee to XL Capital, XL Capital will make a deposit of funds in an account designated in the Notice of Nonpayment, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Notice of Nonpayment) subject to the Policy Limit, as defined in said Debt Service Reserve Policies.

The available amount of the Debt Service Reserve Policies shall not exceed the Policy Limit less the amount of any previous deposits by XL Capital with the Trustee with respect to the debt service reserve policies which have not been reimbursed by the Commission. The Commission and the Insurer have entered into separate financial guaranty agreements in connection with the Debt Service Reserve Policies (the "Financial Guaranty Agreements"). Pursuant to the Financial Guaranty Agreements, the Commission is required to reimburse XL Capital, within 12 months of any deposit, for the amount of such deposit made by XL Capital with the Trustee under Debt Service Reserve Policies.

Under the terms of the Financial Guaranty Agreements, no optional redemption or refunding of the affected Bonds may be made until XL Capital has been reimbursed for all amounts paid under the Debt Service Reserve Policies. The Debt Service Reserve Policies will be held by the Trustee in the Reserve Fund and is provided as an alternative to the Commission depositing funds equal to the amount of the Debt Service Reserve Policies in the Reserve Fund.

The Debt Service Reserve Policies are non-cancelable.

Current disclosure for XL Capital is not available.

## APPENDIX G

### PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

Co-Bond Counsel expect to each deliver separate but identical opinions substantially in the form set forth below, subject to the matters discussed under “TAX MATTERS” in the Official Statement.

[Closing Date]

Airport Commission of the City  
and County of San Francisco  
San Francisco International Airport  
San Francisco, California

Re: Airport Commission of the City and County of San Francisco  
San Francisco International Airport  
Second Series Revenue Refunding Bonds, Series 2009D  
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel to the Airport Commission of the City and County of San Francisco (the “Commission”) in connection with the issuance by the Commission of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009D in the aggregate principal amount of \$88,190,000 (the “Bonds”), issued pursuant to the Charter of the City and County of San Francisco (the “Charter”) and all laws of the State of California supplemental thereto (collectively, the “Law”), and Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as supplemented and amended to the date hereof, including as supplemented by the Certificate of Additional Terms of the Commission relating to the Bonds dated the date hereof (collectively, the “1991 Master Resolution”).

In such connection, we have reviewed the 1991 Master Resolution, the Charter, the Tax Certificate dated the date hereof (the “Tax Certificate”), certificates of the Commission, the Airport Consultant, the Co-Financial Advisors, the Trustee, the Underwriter, and others, opinions of counsel to the Commission, the Trustee and the Underwriter, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the 1991 Master Resolution.

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 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 the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and 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 Commission. 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 1991 Master Resolution 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 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 1991 Master Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, 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 charter cities and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, 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 assets described in or as subject to the lien of the 1991 Master Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or any 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 Commission.
2. The 1991 Master Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the Commission. The 1991 Master Resolution creates a valid pledge of Net Revenues to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds, subject to the provisions of the 1991 Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.
3. The Bonds are not a debt of the City and County of San Francisco, nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except Net Revenues. Neither the faith and credit nor the taxing power of the City and County of San Francisco, the State of California or any political subdivision thereof is pledged to the payment of the principal of, redemption premium, if any, or interest on the Bonds, and the Commission is not obligated to pay the principal of, redemption premium, if any, and interest on the Bonds except from Net Revenues. The Commission has no taxing power.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the proceeds of the Bonds, or by a "related person" within the meaning of Section 147(a) of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per





