

SFO

San Francisco International Airport

**Official Statement**

**Airport Commission**

**City and County of San Francisco**

**San Francisco International Airport**

**Second Series Revenue Bonds**

**Series 2010F/G**

SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE BONDS SERIES 2010F/G







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 Kutak Rock LLP and Ronald E. Lee, Esq., Co-Bond Counsel to the Commission, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the 2010F/G Bonds is excluded from gross income for federal income tax purposes, except for interest on any 2010F Bond for any period during which such 2010F Bond is held by a "substantial user" of the facilities financed and refinanced by the 2010F Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Co-Bond Counsel are further of the opinion that interest on the Series 2010F/G Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Co-Bond Counsel are further of the opinion that interest on the 2010F/G Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

**\$128,460,000**  
**AIRPORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**  
**SAN FRANCISCO INTERNATIONAL AIRPORT**  
**SECOND SERIES REVENUE BONDS**  
**SERIES 2010F/G**

**\$121,360,000**  
**Series 2010F**  
**(Non-AMT/Private Activity)**

**\$7,100,000**  
**Series 2010G**  
**(Non-AMT/Governmental Purpose)**

**Dated: Date of Delivery**

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

The Airport Commission (the "Commission") of the City and County of San Francisco will issue \$128,460,000 aggregate principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2010F/G, comprised of: \$121,360,000 principal amount of Series 2010F Bonds (the "2010F Bonds") and \$7,100,000 principal amount of Series 2010G Bonds (the "2010G Bonds," and together with the 2010F Bonds, the "2010F/G 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 2010F/G Bonds will mature on the dates shown on the inside cover. See "DESCRIPTION OF THE 2010F/G BONDS." The San Francisco International Airport (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."

Proceeds of the 2010F/G Bonds will be used, together with other available moneys, to: refund certain outstanding commercial paper notes of the Commission (the "Refunded Bonds"); fund a deposit into the Pooled Reserve Account (defined herein) and pay certain costs associated with the issuance of the 2010F/G Bonds. See "PLAN OF FINANCE."

The 2010F/G 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 2010F/G Bonds will be issuable only as fully registered bonds, 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 2010F/G Bonds will be made in book-entry form only, in Authorized Denominations of \$5,000 and integral multiples thereof. Purchasers of beneficial ownership interests will not receive certificates representing their interests in the 2010F/G Bonds. So long as Cede & Co. is the registered owner of the 2010F/G Bonds, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners of the 2010F/G 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.

Principal of the 2010F/G Bonds is payable upon May 1 of each year as set forth on the inside cover. Interest on the 2010F/G Bonds is payable on each May 1 and November 1, commencing November 1, 2010. So long as Cede & Co. is the registered owner of any 2010F/G Bonds, payment of principal and interest will be made to Cede & Co. as nominee for DTC, which is required in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. See APPENDIX B—"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

**The 2010F Bonds are subject to optional and mandatory sinking fund redemption prior to their respective stated maturities. The 2010G Bonds are subject to optional redemption prior to maturity. The 2010G Bonds are not subject to mandatory sinking fund redemption. See "DESCRIPTION OF THE 2010F/G BONDS—Redemption Provisions."**

THE 2010F/G BONDS ARE SPECIAL OBLIGATIONS OF THE COMMISSION, PAYABLE AS TO PRINCIPAL, INTEREST AND REDEMPTION PREMIUM, IF ANY, 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 OF OR INTEREST ON THE 2010F/G BONDS. NO HOLDER OF A 2010F/G 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 PRINCIPAL OF THE 2010F/G BONDS OR THE INTEREST THEREON. THE COMMISSION HAS NO TAXING POWER WHATSOEVER.

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 2010F/G Bonds are offered when, as and if issued by the Commission and received by the Underwriters, subject to the approval of legality by Kutak Rock LLP, Denver, Colorado, and Ronald E. Lee, Esq., Davis, 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 Underwriters by their counsel Hawkins Delafield & Wood LLP, San Francisco, California. It is expected that the 2010F/G Bonds will be delivered through the facilities of DTC on or about August 5, 2010, in New York, New York against payment therefor.*

**Morgan Stanley**  
**Wedbush Securities Inc.** **Citi**



**\$128,460,000**  
**AIRPORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**  
**SAN FRANCISCO INTERNATIONAL AIRPORT**  
**SECOND SERIES REVENUE REFUNDING BONDS**  
**SERIES 2010F/G**

**\$121,360,000**  
**Series 2010F**  
**(Non-Amt/Private Activity)**

**\$7,100,000**  
**Series 2010G**  
**(Non-AMT/Governmental Purpose)**

**MATURITY SCHEDULE**

**\$121,360,000 2010F Bonds**

\$61,500,000 5.000% Term Bond due May 1, 2035—Price:100.000%—Yield<sup>††</sup>:5.000%—CUSIP No.<sup>†</sup>:79765A6W1  
 \$59,860,000 5.000% Term Bond due May 1, 2040—Price: 99.531%—Yield<sup>††</sup> 5.030%—CUSIP No.<sup>†</sup>: 79765A6X9

**\$7,100,000 2010G Bonds**

Principal Payment Date (May 1)	Principal	Interest Rate	Initial Reoffering Yield	CUSIP No. <sup>†</sup>
2040	\$7,100,000	5.00%	5.030%	79765A6Y7

<sup>†</sup> Copyright 2010, 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. None of the Commission or the Underwriters take any responsibility for the accuracy of such CUSIP numbers

<sup>††</sup> Initial reoffering yields and prices were provided by the Underwriters.

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**Information Provided by the Commission and by Third Parties.** This Official Statement presents information with respect to the Commission and the Airport.

The information contained herein has been obtained from officers, employees and records of the Commission and from other sources believed to be reliable.

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 2010F/G Bonds.

**Limitation Regarding Offering.** 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 2010F/G 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 Underwriters. 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 2010F/G Bonds by any person in any jurisdiction where such offer, solicitation or sale would be unlawful. 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.

**Forward-Looking Statements.** 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.

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

**No Securities Registration.** The 2010F/G 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 2010F/G Bonds have not been registered or qualified under the securities laws of any state.

**Ratings of Other Parties.** This Official Statement contains information concerning the ratings assigned by the Moody’s Investors Service, Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch, Inc. for the Credit Providers, Liquidity Providers, the Swap Counterparties and the Guarantors of the Swap Counterparties, if any (each as defined herein). Such ratings reflect only the view of the agency giving such rating and are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by such rating agencies. None of the Commission or the Underwriters takes any responsibility for the accuracy of such ratings, gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>		
INTRODUCTION .....	1	Passenger Traffic .....	37
PLAN OF FINANCE .....	2	Cargo Traffic and Landed Weight .....	44
Additional Notes or Bonds .....	2	Competition .....	46
ESTIMATED SOURCES AND USES OF FUNDS .....	2	Airline Agreements .....	48
DESCRIPTION OF THE 2010F/G BONDS .....	3	Certain Federal and State Laws and Regulations .....	53
General .....	3	Noise Mitigation and Variance .....	55
Transfer and Exchange .....	3	Employee Relations .....	56
Redemption Provisions .....	3	Hazardous Material Management .....	56
Redemption Procedures .....	4	CAPITAL PROJECTS AND PLANNING .....	57
Defeasance .....	5	AIRPORT'S FINANCIAL AND RELATED	
SECURITY FOR THE 2010F/G BONDS .....	5	INFORMATION .....	58
Authority for Issuance .....	5	General .....	58
Source of Payment; Pledge of Net Revenues .....	5	City Budget Process .....	59
Rate Covenant .....	6	Operating Revenues .....	59
Contingency Account .....	7	Passenger Facility Charge .....	61
Flow of Funds .....	7	Concessions .....	62
Flow of Funds Chart .....	9	Principal Revenue Sources .....	66
Additional Bonds .....	10	Off-Airport Parking Facilities .....	67
Reserve Fund; Reserve Account Surety Bonds .....	11	SFOTEC .....	67
Contingent Payment Obligations .....	14	Interest Rate Swaps .....	67
No Acceleration .....	14	Operating Expenses .....	72
Other Debt Issuance .....	14	Payments to the City .....	72
CERTAIN RISK FACTORS .....	16	Risk Management and Insurance .....	80
Uncertainties of the Aviation Industry .....	16	Investment of Airport Funds .....	80
Airport Security .....	17	Currently Outstanding Bonds .....	82
Worldwide Health Concerns .....	17	Debt Service Requirements .....	83
Climate Change Issues .....	18	Historical Debt Service Coverage .....	84
Seismic Risks .....	19	Current and Future Financings .....	85
Airport Market Access .....	19	AIRLINE INFORMATION .....	86
Credit Risk of Financial Institutions Providing Credit		ABSENCE OF MATERIAL LITIGATION .....	86
Enhancement, Liquidity Support and Other		General .....	86
Financial Products Relating to Airport Bonds .....	20	Other Matters .....	87
Variable Rate Debt and Credit and Liquidity Provider		RATINGS .....	87
Downgrades .....	21	UNDERWRITING .....	87
Competition .....	21	2010F Bonds .....	88
Uncertainties of Projections, Forecasts and		2010G Bonds .....	88
Assumptions .....	22	TAX MATTERS .....	88
Limitation of Remedies .....	22	General .....	88
Initiative, Referendum and Charter Amendments .....	22	Backup Withholding .....	88
IRS Correspondence Examination of Issue 31B/C .....	23	Changes in Federal and State Tax Law .....	89
Risk of Tax Audit of Municipal Issuers .....	23	Tax Treatment of Original Issue Discount .....	89
Future Legislation .....	23	APPROVAL OF LEGAL PROCEEDINGS .....	90
SAN FRANCISCO INTERNATIONAL AIRPORT .....	23	PROFESSIONALS INVOLVED IN THE OFFERING .....	90
Introduction .....	23	FINANCIAL STATEMENTS .....	90
Organization and Management .....	24	CONTINUING DISCLOSURE .....	90
Airport Senior Management and Legal Counsel .....	24	MISCELLANEOUS .....	91
Current Airport Facilities .....	26		
Airport Security .....	31		
Airline Service .....	32		

**APPENDICES**

APPENDIX A – FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2009 AND 2008 (WITH INDEPENDENT AUDITORS’ REPORT THEREON)..... A-1

APPENDIX B – INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM ..... B-1

APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION ..... C-1

APPENDIX D – SUMMARIES OF CERTAIN PROVISIONS OF THE 1981 SETTLEMENT AGREEMENT, THE LEASE AND USE AGREEMENTS, THE LEASE AND OPERATING AGREEMENTS AND THE 2011 LEASE AND USE AGREEMENTS ..... D-1

APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE ..... E-1

APPENDIX F – INFORMATION REGARDING THE RESERVE ACCOUNT SURETY BONDS ..... F-1

APPENDIX G – PROPOSED FORM OF OPINION OF CO-BOND COUNSEL ..... G-1

**INDEX OF TABLES**

	<u>Page</u>
Estimated Sources and Uses of Funds .....	2
Mandatory Sinking Fund Redemption.....	4
Flow of Funds Chart.....	9
Pooled Reserve Account Balance.....	12
2009 Reserve Account Balance.....	13
Airport Market Access.....	19
Outstanding Variable Rate Tender Option Bonds and Commercial Paper Notes.....	20
Current Members of the Commission.....	24
Air Carriers Reporting Air Traffic at the Airport .....	36
Passenger Traffic .....	37
Total Enplanements by Airline.....	39
Domestic Enplanements by Airline .....	41
International Enplanements by Airline .....	42
International Enplanements by Destination.....	43
Air Cargo On and Off.....	44
Total Landed Weight by Airline.....	46
Comparison of Bay Area Airports Total Passenger Traffic.....	47
Comparison of Bay Area Airports Total Air Cargo.....	48
Summary of Airport Financial Results .....	58
Historical and Current Landing Fees and Terminal Rentals.....	60
PFC Collections Designated as Revenues by the Commission for Payment of Debt Service on Outstanding Bonds....	61
Advertising Lease Option Period.....	63
Principal Airport Concessionaires .....	65
Ten Highest Revenue Producers.....	66
Interest Rate Swap Policy Maximum Net Termination Exposure.....	69
Summary of Interest Rate Swap Agreements.....	71
Summary of Payments Made by the Airport to the City.....	73
City and County of San Francisco Employees’ Retirement System.....	75
Airport Contributions to the Retirement System .....	76
Airport Contributions to the Health Care System.....	77
Annual OPEB Allocation for the Airport .....	79
Airport Pooled Investment Fund .....	81
Currently Outstanding Bonds .....	82
Debt Service Schedule.....	83
Historical Debt Service Coverage.....	84
Mandatory Tender Dates .....	85



## OFFICIAL STATEMENT

**\$128,460,000**  
**AIRPORT COMMISSION**  
**CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**  
**SAN FRANCISCO INTERNATIONAL AIRPORT**  
**SECOND SERIES REVENUE BONDS**  
**SERIES 2010F/G**

**\$121,360,000**  
**Series 2010F**  
**(Non-AMT/Private Activity)**

**\$7,100,000**  
**Series 2010G**  
**(Non-AMT/Governmental Purpose)**

### INTRODUCTION

This Official Statement, including the cover page hereof and Appendices, is furnished in connection with the offering by the Airport Commission of the City and County of San Francisco (the "Commission") of \$128,460,000 aggregate principal amount of its Second Series Revenue Bonds, Series 2010F/G, comprised of: \$121,360,000 principal amount of Series 2010F Bonds (the "2010F Bonds") and \$7,100,000 principal amount of Series 2010G Bonds (the "2010G Bonds," and together with the 2010F Bonds, the "2010F/G 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 2010F/G 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. 97-0104, adopted by the Commission on April 15, 1997, Resolution No. 03-0220, adopted by the Commission on October 21, 2003, Resolution No. 08-0035 adopted by the Commission on February 19, 2008; and Resolution No. 09-0137 adopted by the Commission on June 22, 2009. 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 (the "Trustee") for the 2010F/G Bonds. The 2010F/G 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 2010F/G Bonds will be used, together with other available moneys, to: refund certain outstanding commercial paper notes previously issued by the Commission (the "Refunded Bonds"); fund a deposit into the Pooled Reserve Account (defined herein) and pay certain costs associated with the issuance of the 2010F/G Bonds. See "PLAN OF FINANCE—2010F/G Bonds."

The 2010F/G Bonds will mature on the dates, in the amounts and bear interest at the rates shown on the inside cover of this Official Statement.

The Commission expects to issue additional Bonds from time to time to remarket Bonds subject to mandatory tender and to finance and refinance other Airport capital improvements. See "PLAN OF FINANCE" 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 2010F/G 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, which, as of June 30, 2010, were outstanding in the amount of \$4.247 billion. See "SECURITY FOR THE 2010F/G BONDS" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Currently Outstanding Bonds."

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 2010F/G Bonds, see “CERTAIN RISK FACTORS.”

This Official Statement, including the exhibits hereto, contains brief descriptions or summaries of, among other things, the 2010F/G Bonds, the 1991 Master Resolution, the Swap Agreements, the Continuing Disclosure Certificate of the Commission, the Existing Lease Agreements and the 2011 Lease Agreements, each by and among the Commission and certain airline tenants of the Airport and the Reserve Account Surety Bonds. Any description or summary in this Official Statement of any such document is qualified in its entirety by reference to each such document.

## PLAN OF FINANCE

The Commission expects to apply a portion of the proceeds from the sale of the 2010F/G Bonds, together with certain other available moneys, to refund \$121,885,000 million aggregate principal amount of outstanding commercial paper notes (the “Refunded Bonds”). Such proceeds of the 2010F/G Bonds will be deposited in the Commercial Paper Bank Payment Account established under the 1999 Master Resolution.

The amounts deposited into the Commercial Paper Bank Payment Account will be used to reimburse the letter of credit bank on August 5, 2010 for amounts advanced under the letter of credit securing the Refunded Bonds. See “SECURITY FOR THE 2010F/G BONDS—Other Debt Issuance—*Subordinate Bonds*.” Following the issuance of the 2010F/G Bonds, approximately \$6.7 million of commercial paper notes will remain Outstanding.

### Additional Notes or Bonds

The Commission expects to remarket Bonds subject to mandatory tender for purchase on September 15, 2010 in the approximate principal amount of \$175,000,000.

The Commission also expects to issue additional Bonds in the future to remarket other Bonds subject to mandatory tender for purchase and to finance and refinance other capital projects. 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 2010F/G Bonds. See also “PLAN OF FINANCE.”

	<u>2010F Bonds</u>	<u>2010G Bonds</u>	<u>Total</u>
SOURCES OF FUNDS:			
Principal Amount of 2010F/G Bonds .....	\$121,360,000.00	\$7,100,000.00	\$128,460,000.00
Less: Original Issue Discount .....	(280,743.40)	(33,299.00)	(314,042.40)
Other Funds of the Airport .....	<u>30,650.49</u>	<u>1,080.03</u>	<u>31,730.52</u>
TOTAL .....	121,109,907.09	7,067,781.03	128,177,688.12
USES OF FUNDS:			
Deposit to Commercial Paper Bank Payment Account <sup>(1)</sup> .....	115,195,651.49	6,721,081.03	121,916,732.52
Deposit to Pooled Reserve Account .....	4,483,577.78	262,305.56	4,745,883.34
Underwriters’ Discount .....	658,651.04	38,533.47	697,184.51
Costs of Issuance <sup>(2)</sup> .....	<u>772,026.78</u>	<u>45,860.97</u>	<u>817,887.75</u>
TOTAL .....	\$121,109,907.09	\$7,067,781.03	\$128,177,688.12

(1) Represents proceeds of the 2010F/G Bonds and other funds that will be used to refund the Refunded Bonds. See “PLAN OF FINANCE.”

(2) Includes fees and costs of Co-Bond Counsel, Disclosure Counsel, the Co-Financial Advisors and the Trustee, printing costs, rating agency fees, and other miscellaneous costs of issuance.

## DESCRIPTION OF THE 2010F/G BONDS

### General

The 2010F/G Bonds will be dated the date of delivery and will bear interest at the rates and mature in the amounts and on the dates shown on the inside cover of this Official Statement. Interest on the 2010F/G Bonds will be payable on May 1 and November 1 of each year, commencing November 1, 2010 (each an “Interest Payment Date”). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The 2010F/G 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 2010F/G 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 2010F/G Bonds (“Beneficial Owners”) will not receive certificates representing their interests in the 2010F/G 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 2010F/G 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.”

### Transfer and Exchange

The 2010F/G Bonds will be issued only as fully registered securities, with the privilege of transfer or exchange for the 2010F/G Bonds of an equal or aggregate principal amount of the 2010F/G 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 2010F/G Bonds are in book-entry only form, beneficial ownership interests in the 2010F/G 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.”

### Redemption Provisions

#### *Optional Redemption of 2010F/G Bonds*

The 2010F/G Bonds are each subject to redemption prior to their respective stated maturity dates, at the option of the Commission, from any source of available funds (other than mandatory sinking fund payments) as a whole or in part, in Authorized Denominations (and by lot within a maturity if less than all of the Bonds of a Series and of such maturity are then called for redemption) on any Business Day on or after May 1, 2020, at a redemption price equal to 100% of the principal amount of the 2010F/G Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

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### *Mandatory Sinking Fund Redemption*

2010F Bonds. The 2010F Bonds maturing on May 1, 2035 are also subject to redemption prior to their stated maturity dates, in part, by lot, from mandatory sinking fund payments, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date of redemption, without premium, as set forth below:

#### **\$61,500,000 2010F Bonds**

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Payment
2030	\$9,040,000
2031	9,495,000
2032	9,970,000
2033	10,465,000
2034	10,990,000
2035†	11,540,000

† Maturity.

The 2010F Bonds maturing on May 1, 2040 are also subject to redemption prior to their stated maturity dates, in part, by lot, from mandatory sinking fund payments, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date of redemption, without premium, as set forth below:

#### **\$59,860,000 2010F Bonds**

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Payment
2036	\$12,115,000
2037	12,725,000
2038	13,360,000
2039	14,025,000
2040†	7,635,000

† Maturity.

2010G Bonds. The 2010 G Bonds are *not* subject to redemption prior to the stated maturity date, from mandatory sinking fund payments.

### **Redemption Procedures**

#### *Notice of Redemption*

The Trustee is required to give notice of redemption by first class mail or electronic means, at least 30 days but not more than 60 days prior to the redemption date, to the registered owners of the affected Series of 2010F/G Bonds to be redeemed, all organizations registered with the Securities and Exchange Commission as securities depositories, at least two information services of national recognition which disseminate redemption information with respect to municipal securities. In addition, the Commission has covenanted to give notice of optional, unscheduled and contingent bond calls with respect to the Series of 2010F/G Bonds to the Municipal Securities Rulemaking Board and to provide a copy of such notice to the Trustee. See APPENDIX F--“SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE.”

So long as the 2010F/G Bonds are in book-entry only form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the 2010F/G Bonds, and not directly to the Beneficial Owners.

Any notice of optional redemption may be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption. Such cancellation does not constitute an event of default under the 1991 Master Resolution.

#### *Selection of 2010F/G Bonds for Redemption*

If less than all of a maturity of 2010F/G Bonds is to be redeemed, the 2010F/G Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall determine. If any 2010F/G Bonds are to be optionally redeemed or purchased and cancelled by the Commission prior to maturity, the principal amount of such 2010F/G Bonds redeemed or purchased shall be credited against the maturity amount of such 2010F/G Bonds in such manner as the Commission shall determine.

#### **Defeasance**

Upon deposit by the Commission with the Trustee, at or before maturity, of money or noncallable Government Securities which, together with the earnings thereon, are sufficient to pay the principal amount, or redemption price of any particular Bonds, or portions thereof, becoming due, together with all interest accruing thereon to the due date or redemption date, and if the Commission pays or makes provision for payment of all fees, costs, and expenses of the Trustee due or to become due with respect to such Bonds, all liability of the Commission with respect to such Bonds (or portions thereof) will cease and such Bonds (or portions thereof) will be deemed not to be Outstanding under the 1991 Master Resolution. The Owner or Owners of such Bonds (or portions thereof) will be restricted exclusively to the money or Government Securities so deposited, together with any earnings thereon, for payment of such Bonds. If such Bonds are to be redeemed prior to maturity, irrevocable notice of such redemption must have been given as provided in the 1991 Master Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION."

### **SECURITY FOR THE 2010F/G BONDS**

#### **Authority for Issuance**

The 2010F/G 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 2010F/G 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 2010F/G 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; and (h) the proceeds of any sale of land, buildings or equipment.

“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 2010F/G Bonds are special obligations of the Commission, payable as to principal, interest and redemption premium, if any, 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 of or interest on the 2010F/G Bonds. No owner of a 2010F/G 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 principal of the 2010F/G 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 2010F/G 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, 2010, the balance in the Contingency Account available for transfer, as described below, was not less than \$92.7 million, which was equal to approximately 24.8% 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 2010F/G 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. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City."

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 "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps");

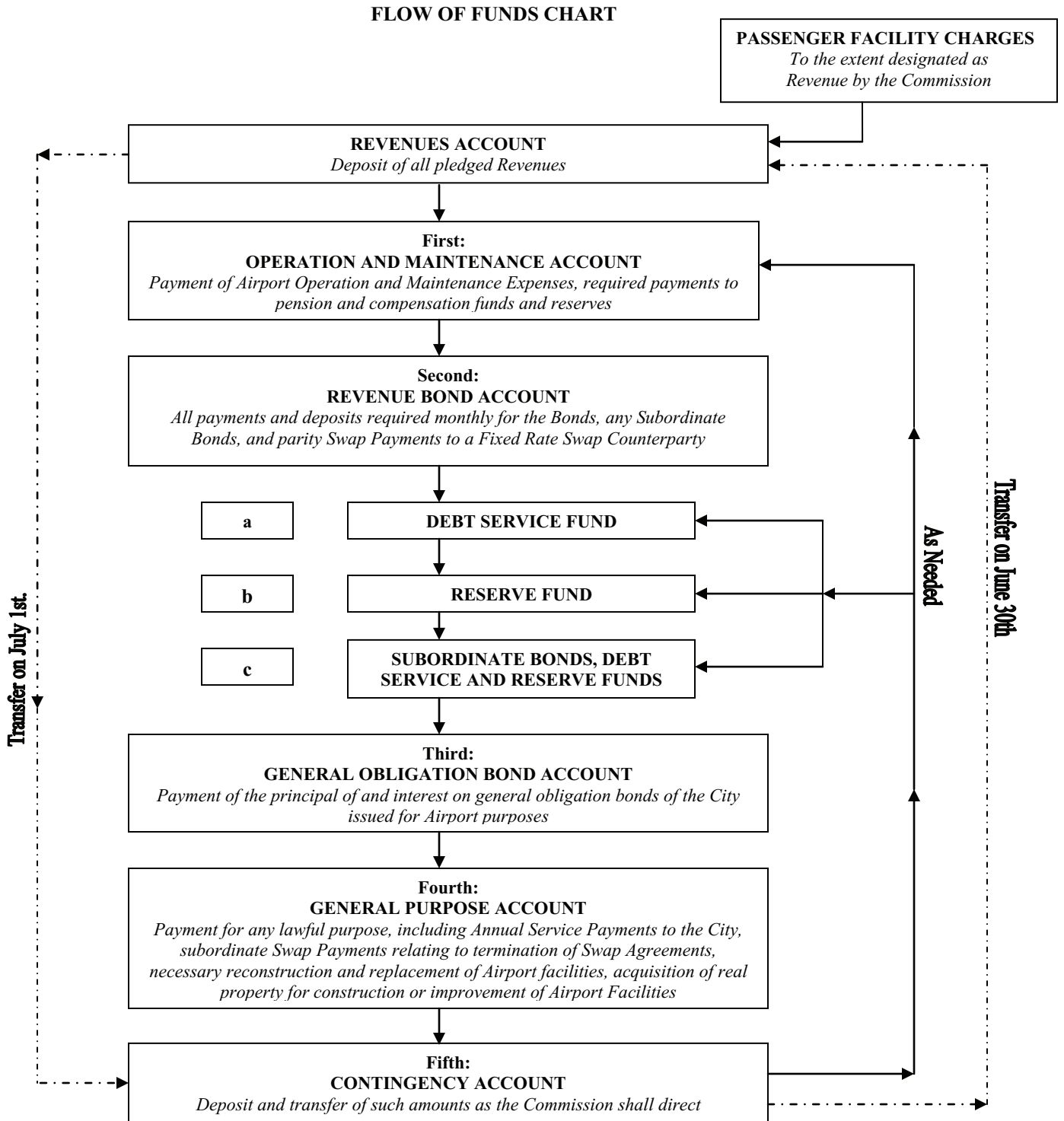
*Third*: to the General Obligation Bond Account, the amount required to pay the principal of and interest on general obligation bonds of the City issued for Airport purposes (there are no general obligation bonds outstanding for Airport purposes);

*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 2010F/G 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 2010F/G 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 \$5.84 billion principal amount of such refunding Bonds.

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 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 2010F/G 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."

In connection with the issuance of the 2010F/G Bonds, an Airport Consultant will deliver the certificate described in subparagraphs (a)(i) and (a)(ii) above to the Trustee.

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**

##### *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. **The 2010F/G Bonds when issued will be designated as a Pooled Reserve Account Participating Series and will be 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 36D and Issue 37D Bonds, the Series 2008A Notes and the Series 2009A, Series 2009B, Series 2009C, Series 2009D, Series 2010A and Series 2010D Bonds. Separate reserve accounts were established for the Issue 36D and Issue 37D Bonds, the Series 2008A Notes and the Series 2009A, Series 2009B and Series 2009D Bonds; the Series 2009C Bonds and the Series 2010D Bonds are secured by a 2009 Reserve Account established under the 1991 Master Indenture (the “2009 Reserve Account”); and as permitted under the 1991 Master Resolution, the Commission determined that it would not establish a reserve account for the Issue 36A Bonds, the Issue 36B Bonds or the Series 2010A Bonds. The Issue 36A and Issue 36B Bonds and the Series 2010A Bonds are each secured by separate irrevocable direct-pay letters of credit.

A deficiency in any of the other reserve accounts may require the Commission to apply Net Revenues to cure such deficiency and thereby reduce Net Revenues available to pay the 2010F/G Bonds. Any amounts on deposit in the Pooled Reserve Account in excess of the Pooled Reserve Requirement may be withdrawn by the Commission.

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. (now known as Assured Guaranty Municipal 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., in the aggregate amount of \$96.2 million 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 and Accounts–*Application and Valuation of the Reserve Accounts.*”

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

As of June 30, 2010, the Pooled Reserve Requirement was \$288.2 million and the balance in the Pooled Reserve Account, which includes cash and securities in the amount of \$243.3 million and surety bonds in the aggregate amount of \$144.9 million, was \$388.3 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 the nation’s monoline bond insurance companies that issued the surety bonds on deposit in the Pooled Reserve Account. The Commission has supplemented surety bonds from Ambac and Syncora, whose claims-paying ability ratings are below investment grade and the long-term ratings of the Airport with cash. Excluding surety bonds issued by Ambac and Syncora, which have long-term ratings below investment grade and below the long-term ratings of the Airport, the balance in the Pooled Reserve Account is \$309.2 million, and excluding the FGIC and MBIA surety bonds that are guaranteed by National, the balance in the Pooled Reserve Account is \$252.3 million.

Pooled Reserve Account Balance <sup>†</sup>	
As June 30, 2010	
Cash and Permitted Investments	\$243.3 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	39.8 million
SUBTOTAL SURETY BONDS	\$144.9 million
TOTAL	\$388.3 million

<sup>†</sup> Table does not total due to rounding.

Following the issuance of the 2010F/G Bonds, the Pooled Reserve Requirement will be \$292.9 million. The Commission will deposit proceeds from the issuance of the 2010F/G Bonds in the amount of \$4.746 million into the Pooled Reserve Account to bring the amount on deposit therein equal to \$393.0 million, an amount in excess of the Pooled Reserve Requirement.

Amounts on deposit in the Pooled Reserve Account may be used solely for the purposes of (i) paying interest, principal or mandatory sinking fund payments on the Participating Series of Bonds whenever any moneys then credited to the debt service funds with respect to such Participating Series of Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any surety bonds or other credit facilities credited to the Participating Series Reserve Account for any payments thereunder. In the event that the balance in the Participating Series Reserve Account is diminished below the Pooled Reserve Requirement, the Trustee is required to immediately notify the Commission of such deficiency and the Commission is required under the 1991 Master Resolution to replenish the 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 may be secured by the Pooled Reserve Account, the 2009 Reserve Account (described below), a separate reserve account, or might not be secured by any debt service reserve account, as the Commission shall determine. Any amounts on deposit in the Pooled Account in excess of the Pooled Reserve Requirement may be withdrawn by the Commission. **1991 Master Resolution does not require that any Series of Bonds be secured by a debt service reserve account.**



*2009 Reserve Account*

Pursuant to the 1991 Master Indenture, a 2009 Reserve Account (the “2009 Reserve Account”) was 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 2009C and 2010D Bonds are secured by the 2009 Reserve Account. **The 2010F/G Bonds will not be secured by the 2009 Reserve Account.**

The reserve requirement for the 2009 Reserve Account (the “2009 Reserve Requirement”) is 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 allocable issue price of such Series if such Series is sold with more than a *de minimis* (2%) amount of original issue discount), in each case as determined from time to time, and with respect to all 2009 Reserve Account Series is the aggregate of such amounts for each individual Series. As of June 30 2010, the 2009 Reserve Requirement was \$21.5 million.

2009 Reserve Account Balance	
As of June 30, 2010	
Cash and Permitted Investments	\$18.9 million
Assured (FSA) <sup>†</sup> Surety Bond	<u>3.4 million</u>
	\$22.3 million

<sup>†</sup> Assured Guaranty Municipal Corp. formerly, Financial Security Assurance Inc. (“FSA”).

For information regarding Assured Guaranty Municipal Corp., see APPENDIX F—“INFORMATION REGARDING THE RESERVE ACCOUNT SURETY BONDS—2009 RESERVE ACCOUNT SURETY BONDS.”

Amounts on deposit in the 2009 Reserve Account may be used solely for the purposes of (i) paying interest, principal or mandatory sinking fund payments on any 2009 Reserve Account Series of Bonds whenever any moneys then credited to the debt service funds with respect to such 2009 Reserve Account Series of Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any surety bonds or other credit facilities credited to the 2009 Reserve Account for any payments thereunder. In the event that the balance in the 2009 Reserve Account is diminished below the 2009 Reserve Requirement, the Trustee is required to immediately notify the Commission of such deficiency and the Commission is required under the 1991 Master Resolution to replenish the 2009 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. The 1991 Master Resolution authorizes the Commission to obtain credit facilities, including surety bonds, in place of funding the 2009 Reserve Account with Cash and Permitted Investments. **There is no requirement under the 1991 Master Resolution that the rating on any Credit Facility deposited in the 2009 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 and Accounts—*Application and Valuation of the Reserve Accounts.*” Future Series of Bonds may be secured by the 2009 Reserve Account, the Pooled Reserve Account, a separate reserve account, or might not be secured by any debt service reserve account, as the Commission shall determine. Any amounts on deposit in the 2009 Reserve Account in excess of the 2009 Reserve Requirement may be withdrawn by the Commission. **The 1991 Master Resolution does not require that any Series of Bonds be secured by a debt service 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 has 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 2010A 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 2010F/G 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."

Following the issuance of the Series 2010F/G Bonds, approximately \$6.7 million of Commercial Paper Notes will remain outstanding. See "PLAN OF FINANCE."

#### *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*.”

## **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 2010F/G Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2010F/G Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the 2010F/G 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 2010F/G Bonds, or in the ability of the Commission to make timely payments of principal of or interest on the 2010F/G Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.*

### **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 fares, 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—Airline Agreements—*Potential Effects of an Airline Bankruptcy*” and “—*Competition*.”

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—Airline Agreements—*Potential Effects of an Airline Bankruptcy*.”

#### *Bankruptcy of Airlines Operating at the Airport*

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—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.

On January 5, 2010, Mesa Airlines (a U.S. Airlines affiliate) and on January 19, 2010, Japan Airlines, each filed for protection under Chapters 11 and 15 of the U.S. Bankruptcy Code, respectively. For Fiscal Years 2007-08 and 2008-09 each of these airlines represented less than 1% of total enplanements at the Airport. Each of Mesa Airlines and Japan Airlines has deposited with the Commission a letter of credit to secure their performance under the applicable Lease Agreement. For additional information, see "SAN FRANCISCO INTERNATIONAL AIRPORT—Airline Agreements—*Potential Effects of an Airline Bankruptcy.*" Since the bankruptcy filings, both Japan Airlines and Mesa have continued to operate at the Airport.

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.*"

### **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, such as the attempted December 25, 2009 terror plot, 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."

### **Worldwide Health Concerns**

In fall 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. This strain apparently is the first to be communicable from human-to-human, and thus poses a potential risk of an international influenza pandemic. This flu strain has caused deaths to many whom were healthy young adults. Travel restrictions, as well as other public health measures, may be imposed to limit the spread of this flu. In spring 2003, there was a similar 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.

Future pandemics 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 the Airport, and whether any such effects will be material.

## 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, the 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 passed Assembly Bill 32, the “California Global Warming Solutions Act of 2006,” 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.

In 2008, the Board of Supervisors adopted and the Mayor signed into law Ordinance No. 81-08 entitled “Climate Change Goals and Action Plan” that mandates the achievement of the following GHG emission targets by each City department.

25% below the 1990 emission level by 2017  
40% below the 1990 emission level by 2025  
80% below the 1990 emission level by 2050

The Commission has established various initiatives at the Airport, including installation of preconditioned air and 400Hz power supply systems for aircraft at ITC, implementation of various energy and fuel efficiency measures and programs and installation of solar panels, to achieve the goal of carbon neutrality by 2020.

The Airport is unable to predict what additional federal, State and local 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.

### 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*.”

### Airport Market Access

The Commission has Outstanding the following Bonds (collectively, the “Mandatory Tender Bonds”) that are subject to mandatory tender for purchase:

<u>Bonds</u>	<u>Mandatory Tender Date</u>	<u>Outstanding Principal Amount</u>
Series 2009A Bonds	September 15, 2010	\$92,500,000 <sup>†</sup>
Series 2009B Bonds	September 15, 2010	82,500,000 <sup>†</sup>
Series 2008A-3 Notes	May 1, 2011	41,065,000
Series 2008A-4 Notes	May 1, 2012	25,460,000
Series 2009D Notes	December 4, 2012	88,190,000

<sup>†</sup> The Commission expects to remarket these Mandatory Tender Bonds as fixed rate Bonds on September 15, 2010 in order to provide proceeds to pay the purchase price on the Mandatory Tender Date. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Current and Future Financings–*Tender Bonds–Series 2009A/B Bonds*.”

**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, including the 2010F/G Bonds.**

**There are no credit or liquidity facilities in place to pay the Purchase Price of 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 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 any Mandatory Tender Bonds, 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 2010F/G 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. However, the Commission cannot provide any assurance that it will continue to 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 outstanding approximately \$735 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 36A</u>	<u>Issue 36B</u>	<u>Issue 36C/D</u>	<u>Issue 37C/D</u>	<u>Commercial Paper</u>	<u>Series 2010A</u>
Principal Amount	\$100,000,000	\$40,620,000	\$68,830,000	\$109,585,000	\$200,000,000 <sup>(1)</sup>	\$215,970,000
Type	LOC <sup>(2)</sup>	LOC <sup>(2)</sup>	SBPA <sup>(3)</sup>	SBPA <sup>(3)</sup>	LOC <sup>(2)</sup>	LOC <sup>(2)</sup>
Expiration Date	May 7, 2013	May 6, 2011	May 15, 2013	May 15, 2013	May 9, 2011	February 8, 2013
Insurer	N/A	N/A	AGM <sup>(4)</sup>	AGM <sup>(4)</sup>	N/A	N/A
Rating <sup>(5)</sup>			Aa3/AAA	Aa3/AAA		
Credit/Liquidity Provider	Wells Fargo <sup>(6)</sup>	UBOC <sup>(7)</sup>	Dexia <sup>(8)</sup>	Dexia <sup>(8)</sup>	State Street <sup>(9)</sup>	JPMorgan <sup>(10)</sup>
Credit/Liquidity Provider Ratings <sup>(5)</sup>						
Short-Term	P-1/A-1+/F1+	P-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/AA/AA-	A2/A+/A	A1/A/A+	A1/A/A+	A1/A+/A+	Aa1/AA-/AA-

(1) Following issuance of the 2010F/G Bonds, approximately \$6.7 million of commercial paper notes will remain outstanding. See “PLAN OF FINANCE.”

(2) Letter of Credit.

(3) Standby Bond Purchase Agreement.

(4) Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

(5) As of June 30, 2010. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. None of the Commission or the Underwriters takes any responsibility for the accuracy of such ratings, or gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.

(6) Wells Fargo Bank, National Association.

(7) Union Bank, N.A.

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

(9) State Street Bank and Trust Company.

(10) JPMorgan Chase Bank, N.A.

### **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 bonds 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 2010F/G 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.***

#### **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, including 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. See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps."

#### **Competition**

Metropolitan Oakland International Airport (the "Oakland Airport") and Norman Y. Mineta San Jose Airport (the "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 and a proposed high speed rail line could affect passenger and cargo demand at the Airport. For a discussion of such airports see "SAN FRANCISCO INTERNATIONAL AIRPORT—Competition."

On November 4, 2008, the voters of the State approved Proposition 1A, the "Safe, Reliable High-Speed Passenger Train Bond Act" authorizing the issuance of \$9.95 billion in bonds to finance construction of high-speed train service linking Southern California, the Sacramento San Joaquin Valley and the San Francisco bay area. The Metropolitan Transportation Commission retained SH&E, an aviation consulting firm to study the impact of high-speed rail on the airports in the San Francisco bay area. SH&E released a report that forecasts that by 2035, the San Jose Airport could lose 12% of its projected passengers, Oakland Airport could lose 9% and the Airport could lose 4%. The Commission is unable to predict the effect high-speed rail, if and when completed, will have on total passenger traffic and revenues of the Airport or whether that impact would be material.

## **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 and State 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 Kutak Rock LLP and Ronald E. Lee, Esq., Co-Bond Counsel, concurrently with the execution and delivery of the 2010F/G 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 2010F/G Bonds will be similarly qualified. Co-Bond Counsel expects 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 2010F/G 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 2010F/G 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.

### **IRS Correspondence Examination of Issue 31B/C**

The Commission believes that in January 2010, the Internal Revenue Service (the “IRS”) began sending Information Document Requests to most of the major airports in the nation requesting general information with respect to their tax-exempt bond issues.

On March 18, 2010, the Airport’s finance staff received such an Information Document Request with respect to the Commission’s San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 31B/C. The request is described as a correspondence examination, and requests only general information and no supporting documentation. The request states that the IRS has no reason to believe that the financing fails to comply with any applicable Federal tax law requirements. The Airport provided a timely response to the request.

### **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 2010F/G 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 2010F/G Bonds. See “TAX MATTERS.”

### **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 2009 from the Airports Council International (the “ACI”), the Airport ranked 10th in the United States in terms of passengers and 15th in terms of air cargo tonnage. According to 2009 U.S. Department of Transportation (“U.S. DOT”) Statistics, the Airport is also a major domestic origin and destination point (7th 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. Guggenhime	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 10 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. Mr. Martin is the president of the California Airports Council (the “CAC”), a Statewide consortium of 30 commercial airports that was formed in December 2009. 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, and the Bureau of Design and Construction. Effective January 15, 2010, Mr. Wong assumed direct supervision, on an interim basis, of the Facilities division. 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.

*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 ("NLAs") 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 2009, approximately 74% of the arrivals at the Airport were on time, up from approximately 69% for calendar year 2008, 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 2009, with approximately 84% of on-time arrivals at Oakland, which operates one runway, and approximately 84% 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 2009, approximately 78% of the Airport's departures were on time, up from approximately 73% for calendar year 2008, according to the U.S. DOT On-Time Departure Performance Statistics. This compares to approximately 84% of on-time departures for Oakland and approximately 86% 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 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.

## *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 generates 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 Terminals 1 and 3 are under long-term exclusive lease by six airlines pursuant to airline Lease and Use Agreements that were executed in 1981 and expire on June 30, 2011 (the “1981 Leases”). See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements.” The Airport’s remaining 35 operational gates are used by airlines on a month-to-month exclusive use or common use basis. The Airport obtained control of these 35 gates when airlines consolidated and the Airport acquired airline improvements. As a result of its rights under the 1981 Leases and its control of gates which are not subject to the 1981 Leases, the Airport has been able to accommodate new airlines as necessary. See “CAPITAL PROJECTS AND PLANNING.” The Airport and 25 of the

airlines operating at the Airport have executed a new ten-year Lease and Use Agreement that will take effect on July 1, 2011 (the “2011 Leases”) and will provide for the more efficient use and allocation of gate resources. Under the 2011 Lease, the gates in Terminals 1 and 3 will no longer be leased exclusively to any airline, but will be used by airlines on a preferential or common use basis. Gates assigned to an airline for preferential use are allocated on an annual basis in accordance with a formula taking into account each airline’s scheduled seats. Gates can thus be recaptured by the Airport annually from airlines with decreasing traffic and allocated to other airlines with increasing traffic. Any preferential use gate can also be used by any airline when it is not actively being used by the airline to which it is allocated. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–2011 Lease Agreements” and APPENDIX D–“SUMMARIES OF CERTAIN PROVISIONS OF THE 1981 SETTLEMENT AGREEMENT, THE LEASE AND USE AGREEMENTS, THE LEASE AND OPERATING AGREEMENTS AND THE 2011 LEASE AND USE AGREEMENTS–SUMMARY OF CERTAIN PROVISIONS OF THE 2011 LEASE AND USE AGREEMENTS.”

#### *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 Company LLC (“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 132,500 total usable barrels (representing approximately 2.4 days of operations based upon 2009 consumption); above-ground storage tanks owned by SFO Fuel, operated by Chevron Corporation (“Chevron”) and located on ground sublet from SFO Fuel pursuant to a tank farm sublease (the “SFO Fuel/Chevron Tank Farm”), with total storage capacity of approximately 104,000 usable barrels (representing approximately 1.9 days of operations based upon 2009 consumption); and other related facilities. The Chevron tanks are operated and maintained by Chevron.

In fall 2009, SFO Fuel and Chevron reported to the EPA that there was inadequate emergency fuel storage secondary containment at the SFO Fuel/Chevron Tank Farm and therefore, it was out of compliance with provisions of the Clean Water Act that requires aboveground petroleum storage facilities have secondary containment of at least the volume of the largest tank, in this case 90,000 barrels plus various miscellaneous regulated adjustments. ***There have not been any spills or releases of fuel at the SFO Fuel/Chevron Tank Farm.*** In response, SFO Fuel and Chevron reduced the amount of fuel being stored in the tanks to the volume that the current emergency system can contain. SFO Fuel and Chevron are spending approximately \$1 million to enhance secondary containment at the SFO Fuel/Chevron Tank Farm in the unlikely event of a spill, and expect to spend an additional \$2 million on geosynthetic clay lining to protect a leak within the facility from absorbing into the earth and contaminating groundwater. This project is expected to be completed in fall 2010. The costs of this project will be paid for by SFO Fuel/Chevron and ***not*** by the Airport.

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 186,000 total barrels (representing approximately 3.3 days of operations based on 2009 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 offers its tenants broadband, local and long-distance services from AT&T through diverse Central Offices and Minimum Points of Entry (MPOE). This network configuration uses an OC-48 Synchronous Optical Network (“SONET”) technology to deliver diverse, redundant, and continuous services to the airlines, tenants and the Commission. The Airport

operates a Gigabyte Ethernet Network that supports an extensive array of Common-Use Terminal Equipment (CUTE) 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 cell telephones. In addition, the Airport has the capability to manually perform passenger processing and baggage transport in the event of emergencies.

Through a concessionaire, 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. T-Mobile is the current Wi-Fi provider at the Airport. Commencing September 1, 2010, Wi-Fi service at the Airport will be provided free of charge.

#### *Medical Clinic*

In May 2009, the Airport rededicated the Dr. Lawrence A. Smookler Medical Clinic, operated by St. Mary’s Medical Center. This state-of-the-art full-service clinic is located in the ITC and provides urgent care and emergency medical services for passengers and Airport employees and occupational services to Airport employees. In addition, the clinic staff works closely with the emergency responders at the Airport and area county health departments in on-going tabletop and field exercises addressing earthquake, air crash, terrorism and contagious disease outbreak preparedness.

#### *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 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 sponsored 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.

On May 4, 2010, the Commission approved Amendment No. 1 to the Lease, Use and Operating Agreement (“Amendment No. 1”) with BART for its remaining 43 years. Pursuant to Amendment No. 1, the one-way surcharge for non-airline Airport employees will revert to \$1.50 and in exchange, the Airport will: (i) contribute up to \$112,000 to BART to help offset its programming and equipment costs to implement the changes; (ii) provide BART with a continuously updated list of active Airport badged employees; (iii) build, staff, maintain, and operate a BART information booth near the entrance of the Airport BART station; (iv) install, operate and maintain eight display monitors in the Airport with real-time BART train information in addition to other Airport information;



(v) participate in a joint marketing barter program with BART; (vi) permit BART advertising rights within the Airport BART station; (vii) permit BART to pay rent monthly instead of annually in advance; and (viii) eliminate the requirement that BART post a \$2.3 million security deposit. The Commission estimates that the effect of the revisions contained in Amendment No. 1 to annual revenues is approximately equal to the \$1.1 million BART will forgo by reverting to the \$1.50 surcharge for non-airline Airport employees. Amendment No. 1 is expected to be submitted to the Board of Supervisors for approval in summer 2010.

#### *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 current 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 replaced and relocated with a tower designed in accordance with the current seismic code.

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. To date, Congress has appropriated \$22.95 million to the FAA to fund tower planning, design activities and a portion of the construction costs at the Airport. The Airport and the FAA are negotiating an “Other Transaction Agreement” (an “OTA”) that will provide federal funding for the full replacement cost of the existing control tower, which is currently estimated at \$60 million to \$70 million. At the request of the Airport, the OTA will also assign project management responsibility to the Airport. Following activation of the new control tower, the Airport will be responsible for the demolition of the existing control tower. The current Capital Plan provides for the renovation of Terminal 2 and Boarding Area D, as well as the demolition of the existing control tower, including the required seismic upgrades for Boarding Area D. The Capital Plan also includes the current appropriations and the anticipated additional 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, and the project is expected to be completed 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 were 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. Four GE CTX 9400 explosive detection baggage machines will be installed in T2 when it is reopened for passenger traffic in spring 2011. 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.

The Airport is one of 19 domestic airports in the nation where the whole-body electromagnetic imaging screening machines are being used by the TSA, although, under certain circumstances, passengers may still opt to be screened through the current metal detector system. The costs of acquisition and installation of the whole-body imaging machines at the Airport is paid for by the TSA.

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*

For Fiscal Year 2009-10 to date, the Airport is served by 49 passenger and seven cargo only airlines. Domestic passenger air carriers provide scheduled non-stop service to 69 destinations and scheduled one-stop service to an additional 20 destinations within the United States. Twenty-nine passenger airlines provide nonstop scheduled passenger service to 29 international airport destinations and one-stop service to an additional 10 international destinations.

During Fiscal Year 2008-09, the Airport was served by 49 passenger and 10 cargo only airlines. Domestic passenger air carriers provided scheduled non-stop service to 73 airport destinations and scheduled one-stop service to an additional 34 destinations within 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 40.6% of the Airport's total enplanements during Fiscal Year 2008-09, audited results for Fiscal Year 2008-09 indicated that payments by United Airlines accounted for approximately 23% of the Airport's operating revenues and approximately 20% of total revenues. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Principal Revenue Sources."

On May 2, 2010, the board of directors of United Airlines and Continental Airlines approved a stock-swap transaction that will combine the two airlines. The transaction requires approval from the United States Justice Department, the shareholders of each company and other regulatory entities. The transaction, if approved, is expected to be completed in the fourth quarter of 2010. Due to the increasing market share of other airlines, the declining market share of United Airlines at the Airport and the low seat capacity overlap between United Airlines and Continental Airlines (less than 10%), the effect of this merger will have a neutral effect on traffic patterns at the Airport.

#### *Low Cost and Low Fare Carriers*

For Fiscal Year 2009-10 to date, six airlines at the Airport offered low-cost carrier service:

- AirTran Airways
- Frontier Airlines
- jetBlue Airways
- Southwest Airlines
- Sun Country 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 2009-10 and Fiscal Year 2010-11.

- In July 2009, AeroMexico launched five weekly non-stop seasonal flights from the Airport to Hermosillo, Mexico; and Virgin America through September 2009, added a third daily flight to Boston, Massachusetts.
- On August 16, 2009, Southwest Airlines added a sixth daily flight between the Airport and Orange County, California.
- United Airlines commenced daily non-stop service between the Airport and Pittsburgh, Pennsylvania on September 2, 2009 and one new non-stop service to Kansas City, Missouri on October 1, 2009.
- jetBlue Airways commenced daily non-stop service between the Airport and Fort Lauderdale, Florida on November 17, 2009.

- On November 18, 2009, Virgin America commenced two daily non-stop flights between the Airport and Fort Lauderdale, Florida.
- 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 continue.
- On December 17, 2009, United Airlines launched seasonal daily non-stop service between the Airport and Bozeman, Montana through April 2010.
- On January 5, 2010, jetBlue Airways added a second daily flight from the Airport to Boston, Massachusetts, a second daily flight from the Airport to New York, New York, and two additional daily flights from the Airport to Long Beach, California.
- On February 11, 2010, United Airlines initiated daily non-stop service between the Airport and St. Louis, Missouri.
- On March 28, 2010, United Airlines reinstated a second daily non-stop flight from the Airport to Tokyo (Narita), Japan and a daily non-stop flight from the Airport to Osaka, Japan; reinstated a second daily nonstop flight from the Airport to London, England and added a second daily nonstop flight from the Airport to Frankfurt, Germany through the summer season.
- On May 2, 2010, WestJet reinstated service at the Airport with daily non-stop seasonal service to Calgary, Canada and three-times per week, seasonal non-stop service to Edmonton, Canada through October 2010; and Air Canada commenced daily seasonal non-stop service from the Airport to Montreal, Canada through October 2010 and added a fourth daily non-stop flight to Toronto, Canada through October 2010. On May 12, 2010, Air Berlin initiated twice weekly non-stop service from the Airport to Düsseldorf, Germany through October 22, 2010. On May 20, 2010, Sun Country Airlines initiated seasonal, four times per week service from the Airport to Minneapolis, Minnesota through September 2010.
- On June 2, 2010, Swiss International Air Line initiated six times per week, non-stop service between the Airport and Zurich Switzerland. On June 6, 2010, Alaska Airlines commenced daily seasonal service from the Airport to Anchorage, Alaska through August 21, 2010. On June 9, 2010, United Airlines commenced daily summer service from the Airport to Anchorage, Alaska through August 30, 2010. On June 10, 2010, Delta Airlines added twice daily flights from the Airport to Los Angeles, California. On June 20, 2010, Sun Country Airlines initiated seasonal, daily “red-eye” service from the Airport to Minneapolis, Minnesota through September 6, 2010. On June 22, 2010, Air France added a second non-stop, three times per week flight to Paris, France through September 4, 2010. On June 23, 2010, Virgin America initiated daily, non-stop service from the Airport to Toronto, Canada. On June 28, 2010, WestJet commenced daily non-stop seasonal service from the Airport to Vancouver, Canada through October 2010.
- On July 1, 2010, LAN Airlines initiated four-times per week service from the Airport to Lima, Peru.

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

The following is a description of new service that commenced during 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.

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The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during Fiscal Year 2009-10.

### AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT (Fiscal Year 2009-10)

#### Domestic Passenger Air Carriers

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

#### Foreign Flag Carriers

Aer Lingus<sup>(8)</sup>  
 Aero Mexico  
 Air Canada<sup>\*</sup>  
 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 Airways<sup>†^</sup>  
 China Airlines<sup>\*^</sup>  
 Emirates Airlines<sup>^</sup>  
 EVA Airways<sup>†^</sup>  
 Japan Airlines<sup>\*(9)^</sup>  
 KLM Royal Dutch Airlines<sup>^</sup>

#### Foreign Flag Carriers (continued)

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

#### Cargo Only Carriers

ABX Air  
 Air Cargo Carriers  
 Ameriflight  
 Evergreen International  
 Federal Express<sup>\*^</sup>  
 Kalitta Air  
 Nippon Cargo Airlines

#### Regional/Commuter Air Carriers<sup>(10)</sup>

American Eagle Airlines (American Airlines)<sup>(11)</sup>  
 Horizon Air (Alaska Airlines)  
 Mesa Airlines (US Airways)<sup>(12)</sup>  
 Mesaba Airlines (Delta Airlines)  
 SkyWest Airlines (Delta Connection and United Express)<sup>(13)</sup>

#### Seasonal/Charter Air Carriers

Air Berlin  
 Allegiant Air  
 Miami Air International  
 Thomas Cook Airlines  
 World Airways

\* Indicates a Signatory Airline to 1981 Lease and Use Agreement.

† Indicates a Signatory Airline to a 1999 Operating Agreement. See "--Airline Agreements."

^ Indicates a Signatory Airline to the 2011 Lease and Use Agreement.

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

(2) On May 2, 2010, the board of directors of United Airlines and Continental Airlines approved a stock-swap transaction that will combine the two airlines. The transaction requires approval from the United States Justice Department and the shareholders of each company. The transaction, if approved, is expected to be completed in the fourth quarter of 2010.

(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. Northwest was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010.

(4) 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 Chapter 11 bankruptcy case. Republic continues to operate the Frontier brand as a wholly-owned subsidiary.

(5) 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 was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand.

(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 ceased operations at the Airport on October 25, 2009.

(9) Japan Airlines filed for bankruptcy protection in January 2010 and continues operations at the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT--Airline Agreements--Potential Effects of an Airline Bankruptcy."

(10) 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.

(11) American Eagle Airlines ceased operations at the Airport on November 18, 2009.

(12) Mesa Airlines filed for Chapter 11 bankruptcy protection in January 2010 and continues operations at the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT--Airline Agreements--Potential Effects of an Airline Bankruptcy."

(13) 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 7th most active airport in the United States in terms of domestic origin and destination passengers, according to 2009 U.S. DOT statistics. For calendar year 2009, the Airport was ranked the 10th most active airport in the United States in terms of total passengers, according to final 2009 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 with the first 11 months (July through May) of Fiscal Year 2008-09, scheduled passenger aircraft arrivals and departures increased 1.7%, domestic passenger traffic (enplanements and deplanements) increased by 6.1%, international passenger traffic decreased by 0.3% and total passenger traffic increased by 4.6% during the first 11 months (July through May) of Fiscal Year 2009-10.

Compared to May 2009, scheduled aircraft arrivals and departures increased by 2.0%, domestic passenger traffic (enplanements and deplanements) increased by 4.7%, international passenger traffic decreased by 12.4% and total passenger traffic increased by 6.4% during May 2010.

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 % Change	
	Total	% Change	Domestic	% Change	International	% Change		
<i>First 11 Months 2009-10*</i>	336,697	1.7%	26,939,664	6.1%	7,664,908	(0.3%)	34,604,572	4.6%
<i>First 11 Months 2008-09*</i>	330,982	–	25,383,356	–	7,685,176	–	33,068,532	–
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 during Fiscal Year 2008-09 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 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.

During the first 11 months (July through May) of Fiscal Year 2009-10, total enplanements increased by 772,971 (4.7%) compared to total enplanements during the first 11 months (July through May) of Fiscal Year 2008-09.

Total enplanements at the Airport for May 2010 were 1,687,216, an increase of 6.0% compared to May 2009.

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Total enplanements for the Airport's 10 most active airlines for Fiscal Years 2004-05 through 2008-09 and for the first 11 months (July through May) of Fiscal Year 2008-09 and Fiscal Year 2009-10 are shown in the table below.

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

Airline	2004-05	2005-06	2006-07	2007-08	2008-09*	% of 2008-09*(1)	First 11 Months (July through May)	
							2008-09*	2009-10*
United Airlines <sup>(2)(3)</sup>	7,866,210	7,978,010	8,240,285	8,037,171	7,403,585	40.6%	6,718,065	6,793,940
American Airlines <sup>(4)</sup>	1,571,228	1,691,295	1,734,119	1,751,201	1,676,029	9.2	1,527,719	1,481,638
Southwest Airlines <sup>(5)</sup>	—	—	—	737,484	1,203,425	6.6	1,072,914	1,338,892
Virgin America <sup>(6)</sup>	—	—	—	526,131	1,044,365	5.7	946,519	1,163,395
Delta Air Lines <sup>(7)(8)</sup>	926,574	1,003,587	863,454	974,886	901,108	4.9	814,288	1,000,266
US Airways <sup>(9)</sup>	486,721	410,160	405,969	855,866	852,915	4.7	774,884	711,988
Continental Airlines <sup>(3)</sup>	563,361	608,801	647,065	666,619	685,283	3.8	616,756	658,030
Northwest Airlines <sup>(8)</sup>	626,655	662,438	705,553	697,199	664,339	3.6	596,075	394,115
Alaska Airlines <sup>(10)</sup>	624,460	633,759	722,039	739,167	576,352	3.2	580,992	500,193
Air Canada <sup>(11)</sup>	276,063	294,189	304,935	299,111	273,870	1.5	244,098	242,433
America West Airlines <sup>(12)</sup>	493,556	413,690	466,831	—	—	—	—	—
ATA Airlines <sup>(13)</sup>	362,997	—	—	—	—	—	—	—
British Airways <sup>(14)</sup>	—	219,630	—	—	—	—	—	—
Frontier Airlines <sup>(15)</sup>	—	—	267,714	—	—	—	—	—
SUBTOTAL	13,797,825	13,884,559	14,357,964	15,284,835	15,281,271	83.8	13,892,310	14,284,890
All others	2,451,268	2,605,786	2,596,014	3,008,654	2,943,793	16.2	2,598,828	2,979,219
TOTAL	16,249,093	16,490,345	16,953,978	18,373,489	18,225,064	100.0%	16,491,138	17,264,109
Percentage Change	5.5%	1.5%	2.8%	8.4%	(0.8%)		—	4.7%

<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 Express. On January 6, 2009, United Airlines ceased flying Ted as a separate brand.

(3) On May 2, 2010, the board of directors of United Airlines and Continental Airlines approved a stock-swap transaction that will combine the two airlines. The transaction requires approval from the United States Justice Department and the shareholders of each company. The transaction, if approved, is expected to be completed in the fourth quarter of 2010.

(4) Includes enplanements for American Eagle Airlines, the American Airlines regional affiliate.

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

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

(7) 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 Connection. 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.

(8) 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 was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand.

(9) 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.

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

(11) 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.

(12) 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.

(13) 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.

(14) British Airways was not one of the 10 most active airlines at the Airport by total enplanements for Fiscal Years 2004-05 and 2006-07 through 2008-09.

(15) 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 Chapter 11 bankruptcy case. Republic continues to operate the Frontier band as a wholly-owned subsidiary.

Source: San Francisco Airport Commission.



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

During the first 11 months (July through May) of Fiscal Year 2009-10, domestic enplanements increased by 786,797 (6.2%) compared to domestic enplanements during the first 11 months (July through May) of Fiscal Year 2008-09.

Domestic enplaned passengers at the Airport during May 2010 were 1,293,910, an increase of 6.4%, compared to May 2009.

Domestic and international enplanements for the 10 most active airlines for Fiscal Year 2004-05 through 2008-09 and for the first 11 months (July through May) of Fiscal Year 2008-09 and Fiscal Year 2009-10 are shown in the tables on the following pages.

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

Airline	2004-05	2005-06	2006-07	2007-08	2008-09*	% of 2008-09*	First 11 Months (July through May)	
							2008-09*	2009-10*
United Airlines <sup>(1)(2)</sup>	6,458,884	6,484,061	6,637,448	6,332,254	5,885,426	42.0%	5,341,799	5,630,545
American Airlines <sup>(3)</sup>	1,571,228	1,691,295	1,734,119	1,751,201	1,676,029	12.0	1,527,719	1,481,638
Southwest Airlines <sup>(4)</sup>	—	—	—	737,484	1,203,425	8.6	1,072,914	1,338,892
Virgin America <sup>(5)</sup>	—	—	—	526,131	1,044,365	7.5	946,519	1,163,395
Delta Air Lines <sup>(6)(7)</sup>	926,574	1,003,587	863,454	974,886	901,108	6.4	814,288	1,000,266
US Airways <sup>(8)</sup>	486,721	410,163	405,969	726,553	852,915	6.1	744,844	711,988
Continental Airlines <sup>(2)</sup>	563,361	608,801	647,065	666,619	685,283	4.9	616,756	658,030
Northwest Airlines <sup>(7)</sup>	550,684	586,412	626,177	618,791	590,711	4.2	529,068	350,424
Alaska Airlines <sup>(9)</sup>	481,554	480,529	516,549	568,594	480,106	3.4	492,664	432,669
jetBlue Airways <sup>(10)</sup>	—	—	—	231,871	194,925	1.4	171,699	282,331
America West Airlines <sup>(11)</sup>	493,556	413,690	466,831	—	—	—	—	—
Frontier Airlines <sup>(12)</sup>	151,303	177,698	267,714	—	—	—	—	—
ATA Airlines <sup>(13)</sup>	362,997	174,716	—	—	—	—	—	—
AirTran Airways <sup>(14)</sup>	—	—	99,266	—	—	—	—	—
SUBTOTAL	12,046,862	12,030,952	12,265,592	13,108,679	13,514,293	96.5	12,288,270	13,050,178
All others	272,800	312,470	344,382	698,804	489,557	3.5	383,591	408,480
TOTAL	12,319,662	12,343,422	12,608,974	13,807,246	14,003,850	100.0%	12,671,861	13,458,658
Percentage Change	5.2%	0.2%	2.2%	9.5%	1.4%		—	6.2%

† Restated.

\* Preliminary.

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

(2) On May 2, 2010, the board of directors of United Airlines and Continental Airlines approved a stock-swap transaction that will combine the two airlines. The transaction requires approval from the United States Justice Department and the shareholders of each company. The transaction, if approved, is expected to be completed in the fourth quarter of 2010.

(3) Includes enplanements for American Eagle Airlines, the American Airlines regional affiliate.

(4) Southwest Airlines reinstated 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 Connection. 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.

(7) 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. Northwest was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand.

(8) 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.

(9) 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.

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

(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) 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 Chapter 11 bankruptcy case. Republic continues to operate the Frontier brand as a wholly-owned subsidiary.

(13) 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.

(14) AirTran Airways was not one of the 10 most active airlines at the Airport for Fiscal Years 2004-05, 2005-06, 2007-08 and 2008-09.

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.

During the first 11 months (July through May) of Fiscal Year 2009-10, international enplanements decreased by 13,826 (-0.4%) compared to international enplanements during the first 11 months (July through May) of Fiscal Year 2008-09.

International enplaned passengers at the Airport during May 2010 was 393,306, an increase of 11.6% compared to May 2009.

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

Airline	2004-05	2005-06	2006-07	2007-08	2008-09*	% of 2008-09*(1)	First 11 Months (July through May)	
							2008-09*	2009-10*
United Airlines <sup>(2)</sup>	1,407,326	1,493,949	1,602,835	1,602,837	1,518,159	36.0%	1,376,266	1,326,988
Air Canada <sup>(3)</sup>	276,063	294,189	304,697	299,111	273,870	6.5	244,098	242,433
Cathay Pacific Airlines	122,050	122,106	123,209	209,269	225,033	5.3	205,046	212,241
Lufthansa Airlines	208,014	218,875	229,988	210,009	205,397	4.9	186,734	186,317
British Airways	215,515	219,630	215,231	210,877	203,875	4.8	184,227	176,639
Singapore Airlines	181,401	198,100	196,350	184,504	167,300	4.0	151,797	152,718
EVA Airways	124,246	142,180	153,162	153,203	141,140	3.3	128,721	138,109
China Airlines	122,004	128,159	128,259	121,574	116,172	2.8	105,027	110,106
Philippine Airlines	120,146	120,087	126,437	128,298	114,808	2.7	104,051	102,168
Virgin Atlantic Airways <sup>(4)</sup>	—	—	—	—	106,266	2.5	96,089	96,744
Alaska Airlines <sup>(5)</sup>	194,882	207,445	205,490	216,222	—	—	—	—
SUBTOTAL	2,971,647	3,095,343	3,208,758	3,335,904	3,072,020	72.8	2,782,056	2,744,463
All others	957,784	1,051,560	1,136,246	1,230,111	1,149,194	27.2	1,037,221	1,060,988
TOTAL	3,929,431	4,146,903	4,345,004	4,566,015	4,221,214	100.0%	3,819,277	3,805,451
Percentage Change	6.5%	5.5%	4.8%	5.1%	(7.6%)		—	(0.4%)

<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. On May 2, 2010, the board of directors of United Airlines and Continental Airlines approved a stock-swap transaction that will combine the two airlines. The transaction requires approval from the United States Justice Department and the shareholders of each company. The transaction, if approved, is expected to be completed in the fourth quarter of 2010.

(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 with the first 11 months (July through May) of Fiscal Year 2008-09, enplanements to Asia and the Middle East increased by 2.9% (representing 10.4% of total enplanements and 47.0% of international enplanements); enplanements to Canada increased by 2.6% (representing 3.1% of total enplanements and 14.2% of international enplanements); enplanements to Europe decreased by 8.3% (representing 5.4% of total enplanements and 24.7% of international enplanements); enplanements to Mexico, the Caribbean and Central America increased by 2.7% (representing 1.9% of total enplanements and 8.7% of international enplanements); and enplanements to Australia and Oceania decreased by 0.7% (representing 1.2% of total enplanements and 5.5% of international enplanements) during the first 11 months (July through May) of Fiscal Year 2009-10.

Compared to May 2009, enplanements to Asia and the Middle East increased by 21.4% (representing 11.3% of total enplanements and 48.5% of international enplanements); enplanements to Canada increased by 9.3% (representing 3.4% of total enplanements and 14.6% of international enplanements); enplanements to Europe decreased by 4.8% (representing 5.9% of total enplanements and 25.5% of international enplanements); enplanements to Mexico, the Caribbean and Central America decreased by 40.0% (representing 1.8% of total enplanements and 7.7% of international enplanements); and enplanements to Australia and Oceania decreased by 8.7% (representing 0.9% of total enplanements and 3.7% of international enplanements) during May 2010.

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

Destination	2004-05	2005-06	2006-07	2007-08	2008-09*	% of 2008-09		First 11 Months (July through May)	
						International Enplanements*†	Total Enplanements*(1)	2008-09*	2009-10*
Asia/Middle East	1,842,975	1,915,999	1,984,911	2,102,630	1,913,830	45.3%	10.5%	1,736,773	1,787,581
Europe	1,079,706	1,091,871	1,105,556	1,172,857	1,134,359	26.9	6.2	1,024,094	938,460
Canada	510,172	564,028	634,381	650,149	585,492	13.9	3.2	526,222	539,830
Mexico/Caribbean/ Central America	357,066	402,001	380,016	393,747	358,282	8.5	2.0	322,121	330,978
Australia/Oceania	139,512	173,004	240,140	246,632	229,251	5.4	1.3	210,067	208,602
TOTAL	3,929,431	4,146,903	4,345,004	4,566,009	4,221,214	100.0%	23.2%	3,819,277	3,805,451
Percentage Change	6.5%	5.5%	4.8%	5.1%	(7.6%)			-	(0.4%)

\* 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.

Compared with the first 11 months (July through May) of Fiscal Year 2008-09, total cargo tonnage increased 9,708 metric tons (2.5%); domestic cargo and mail traffic tonnage decreased 1,123 metric tons (-8.4%) and international cargo and mail traffic tonnage increased 7,331 metric tons (32.7%) during the first 11 months (July through May) of Fiscal Year 2009-10.

Total cargo tonnage in May 2010 increased 6,207 metric tons (17.3%), domestic cargo and mail traffic decreased 1,123 metric tons (-8.4%) and international cargo and mail traffic increased 7,331 metric tons (32.7%) compared to May 2009.

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)**

<u>Fiscal Year</u>	<u>Freight and Express</u>	<u>U.S. and Foreign Mail</u>	<u>Total Cargo</u>	<u>Percent Change</u>
<i>First 11 Months 2009-10*</i>	345,019	46,665	391,684	2.5%
<i>First 11 Months 2008-09*</i>	329,809	52,168	381,976	–
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 Connection, 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 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 up 0.3% during the first 11 months (July through May) of Fiscal Year 2009-10 when compared to the first 11 months of Fiscal Year 2008-09. United Airlines total landed weight (including the landed weight for the SkyWest/United Airlines flights) was up 0.5%; American Airlines (including American Eagle flights) was down 2.1%; Southwest Airlines was up 10.5%; Virgin America was up 20.7%; Delta Air Lines (including SkyWest/Delta Connection, Express Jet Airlines and Mesaba Airlines) was up 35.7%; US Airways including Mesa Airlines) was down 8.3%; Northwest Airlines was down 31.4%; Alaska Airlines (including Horizon Air) was down 19.3%; Continental Airlines was up 2.8%; and British Airways was up 4.0% during the first 11 months (July through May) of Fiscal Year 2009-10 when compared to the first 11 months of Fiscal Year 2008-09.

Total landed weight at the Airport was up 1.6% during May 2010 when compared to May 2009. United Airlines total landed weight (including the landed weight for the SkyWest/United Airlines flights) was up 5.9%; American Airlines (including American Eagle flights) was down 6.2%; Southwest Airlines was down 3.3%; Virgin America was up 1.6%; Delta Air Lines (including SkyWest/Delta Connection, Express Jet Airlines and Mesaba Airlines) was up 100.2%; US Airways including Mesa Airlines) was down 18.1%; Alaska Airlines (including Horizon Air) was down 19.5%; Continental Airlines was down 3.3%; and British Airways was unchanged during May 2010 when compared to May 2009.

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 and for the first 11 months (July through May) of Fiscal Years 2008-09 and 2009-10 are shown in the table below.

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**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)	First 11 Months (July through May)	
							2008-09	2009-10
United Airlines <sup>(2)(3)</sup>	12,321,417	12,313,098	12,554,535	12,453,327	11,400,406	40.0%	10,597,011	10,644,773
American Airlines <sup>(4)</sup>	2,349,163	2,323,210	2,404,396	2,326,973	2,189,754	7.7	2,008,418	1,965,707
Southwest Airlines <sup>(5)</sup>	—	—	—	1,020,894	1,692,068	5.9	1,533,996	1,695,508
Virgin America <sup>(6)</sup>	—	—	—	798,792	1,375,840	4.8	1,239,876	1,497,147
Delta Air Lines <sup>(7)(8)</sup>	1,310,551	1,458,610	1,153,206	1,211,760	1,014,116	3.6	921,664	1,250,352
US Airways <sup>(9)</sup>	591,450	509,699	479,417	1,058,981	1,000,392	3.5	912,474	837,012
Northwest Airlines <sup>(8)</sup>	817,113	836,418	872,979	847,587	818,617	2.9	735,073	504,215
Alaska Airlines <sup>(10)</sup>	936,116	944,781	1,101,771	1,040,205	787,777	2.8	726,580	586,270
Continental Airlines <sup>(3)</sup>	645,957	665,174	707,835	722,688	720,030	2.5	652,658	670,630
British Airways	458,010	453,600	454,060	456,120	452,340	1.6	414,540	398,160
Japan Airlines	522,270	575,820	565,740	—	—	—	—	—
America West Airlines <sup>(11)</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	19,742,290	20,049,774
All others	6,508,299	6,559,969	6,893,679	7,484,887	7,036,388	28.1	6,249,030	6,030,493
TOTAL	27,144,395	27,173,308	27,799,981	29,404,733	28,487,728	100.0%	25,991,320	26,080,267
Percentage Change	0.6%	0.1%	2.3%	5.8%	(3.2%)	—	—	0.3%

† 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 Express. On January 6, 2009, United Airlines ceased flying Ted as a separate brand.

(3) On May 2, 2010, the board of directors of United Airlines and Continental Airlines approved a stock-swap transaction that will combine the two airlines. The transaction requires approval from the United States Justice Department and the shareholders of each company. The transaction, if approved, is expected to be completed in the fourth quarter of 2010.

(4) Includes enplanements for American Eagle, the American Airlines regional affiliate.

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

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

(7) 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 Connection. 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 carriers. In May 2006, Delta ceased flying Song as a separate brand.

(8) 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 was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand.

(9) 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.

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

(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.

Source: San Francisco Airport Commission.

## Competition

According to final 2009 data from the ACI, the Airport is the principal airport in the San Francisco Bay Area and the second largest international gateway on the west coast. The San Francisco Bay Area is also served by Metropolitan Oakland International Airport (OAK) and Norman Y. Mineta San Jose International Airport (SJC).

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 May 2010, international passenger traffic at the Airport increased 12.4% compared to an increase of 15.8% at LAX for the same period.

### *Passenger Traffic*

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.

The following table summarizes comparative passenger traffic data at the three Bay Area airports for the last five Fiscal Years.

### **COMPARISON OF BAY AREA AIRPORTS TOTAL PASSENGER TRAFFIC (Enplanements and Deplanements) (Fiscal Years)**

<u>Airport</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	
					<u>Number*</u>	<u>% Change*</u>
San Francisco	32,648,635	32,987,672	33,855,382	36,709,405	36,475,612	(0.6%)
Oakland	14,306,309	14,368,493	14,533,825	13,627,030	9,923,785	(27.2%)
San Jose	<u>10,727,145</u>	<u>10,851,853</u>	<u>10,653,817</u>	<u>10,380,825</u>	<u>8,821,452</u>	<u>(15.0%)</u>
TOTAL BAY AREA	57,682,089	58,208,196	59,043,024	60,715,492	55,220,849	(9.0%)
Percentage Change	—	0.9%	1.4%	2.58%	(9.0%)	

\* Preliminary, subject to change.

Sources: San Francisco Airport Commission, the Metropolitan Oakland International Airport and the Norman Y. Mineta San Jose International Airport.

### *Air Cargo*

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 June of 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.

The following table summarizes comparative air cargo data at the three Bay Area airports for the last five Fiscal Years.

**COMPARISON OF BAY AREA AIRPORTS TOTAL AIR CARGO**  
(in metric tons)  
(Fiscal Years)

<u>Airport</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	
					<u>Tons*</u>	<u>% Change*</u>
San Francisco	587,518	593,571	572,326	550,526	420,784	(23.6%)
Oakland	677,466	674,038	667,608	658,827	549,951	(16.5%)
San Jose	<u>102,302</u>	<u>95,157</u>	<u>85,424</u>	<u>80,130</u>	<u>62,502</u>	<u>(22.0%)</u>
TOTAL BAY AREA	1,367,403	1,364,177	1,325,358	1,289,483	1,033,192	(19.9%)
Percentage Change	–	(0.2%)	(2.8%)	(2.7%)	(19.9%)	

\* Preliminary, subject to change.

Sources: San Francisco Airport Commission, the Metropolitan Oakland International Airport and the Norman Y. Mineta San Jose International Airport.

During with the first 11 months (July thorough May) of Fiscal Year 2009-10 (the most recent period for which information is available for all three airports), the Airport accounted for approximately 43.9% of total air cargo at the three San Francisco Bay Area Airports, compared with 39.6% for the first 11 months (July through May) of Fiscal Year 2008-09. Oakland accounted for approximately 50.8% and San Jose accounted for approximately 5.2% of the total air cargo in the Bay Area during the first 11 months (July through May) of Fiscal Year 2009-10. The Airport handled approximately 24.1% of domestic loaded and unloaded cargo and approximately 95.4% of the Bay Area’s international loaded and unloaded air cargo during the first 11 months (July thorough May) of Fiscal Year 2009-10.

During May 2010, the Airport accounted for approximately 42.4% of total air cargo at the three San Francisco Bay Area Airports, compared with 38.1% for May 2009. Oakland accounted for approximately 53.2% and San Jose accounted for approximately 4.4% of the total air cargo in the Bay Area during May 2010. The Airport handled approximately 22.0% of domestic loaded and unloaded cargo and approximately 93.9% of the Bay Area’s international loaded and unloaded air cargo during May 2010.

**Airline Agreements**

Three types of agreements (collectively referred to as the “Existing Lease Agreements”) are currently in effect between the City, acting through the Commission, and certain airlines operating at the Airport: the original Lease and Use Agreements (the “1981 Lease”), the amended Lease and Use Agreements (the “Amended 1981 Lease”), and the Lease and Operating Agreements (the “1999 Operating Agreements”). The Existing Lease Agreements expire on June 30, 2011, and are discussed in greater detail under “*Existing Lease Agreements*” below. The City and 25 airlines have also entered into a new ten-year Lease and Use Agreement effective July 1, 2011 (the “2011 Lease”) which is discussed under “*2011 Lease Agreement*” below. The Existing Lease Agreements and 2011 Leases are collectively referred to as the “Lease Agreements.” The airlines that are parties to an Existing Lease Agreement or a 2011 Lease are referred to as “Signatory Airlines.” Non-signatory airlines operate at the Airport under month-to-month operating permits or on an itinerant basis.

As a result of litigation begun in 1979 between the City and certain airlines regarding the operation and finances of the Airport, the City entered into a Settlement Agreement in 1981 (the “Settlement Agreement”) and the 1981 Lease with 20 original Signatory Airlines. As a result of airline combinations and bankruptcies, and subsequent signatories to the 1981 Lease, 13 airlines currently operating at the Airport signed the 1981 Lease prior to 1999. In connection with the opening of the ITC in 2000, eight of the original Signatory Airlines entered into the Amended 1981 Lease in order to operate in the ITC with its joint use facilities and equipment. In addition, 11 of the 23 non-signatory foreign flag carriers currently operating at the Airport executed the 1999 Operating Agreement, which are substantially similar to the Amended 1981 Lease, in order to operate in the ITC. Thus, of 24 Signatory Airlines currently operating at the Airport, five do not lease space in the ITC and remain parties to the original 1981

Lease, and 19 have signed either the Amended 1981 Lease or the 1999 Operating Agreement in order to lease space in the ITC. Although the Amended 1981 Lease and the 1999 Operating Agreement differ from the 1981 Lease with respect to the use of the ITC, all of the Existing Lease Agreements incorporate the same provisions with regard to airline review of proposed capital projects and the calculation and periodic adjustment of terminal rentals and landing fees.

#### *Settlement Agreement*

The Settlement Agreement prohibits the Commission and the City from taking any action to cause payment to the City, directly or indirectly, of any Airport revenues except as permitted under the Settlement Agreement and the Existing Lease Agreements. The Settlement Agreement requires the Commission to make an Annual Service Payment from the Airport Revenue Fund to the City's General Fund each Fiscal Year through Fiscal Year 2010-11, equal to the greater of: (i) \$5 million, and (ii) 15% of "Concession Revenues" (as defined in the Existing Lease Agreements). The Annual Service Payment constitutes full satisfaction of all obligations of the Airport, the Commission, and the Signatory Airlines for all indirect services, management and facilities provided by the City to the Airport, for debt service on certain City airport general obligation bonds (all of which have been retired), and for a return on City investment in the Airport prior to 1981. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City."

The Settlement Agreement and the Existing Lease Agreements also permit the Commission to reimburse the City for the cost of direct services provided by the City to the Commission, such as services provided by the Police Department, the Fire Department, the City Attorney, the City Controller, the Water Department, the Department of Public Works, the Purchasing Department, and other City departments. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City."

The Settlement Agreement also provides that, except as provided in the Existing 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 Existing Lease Agreements, capital improvements are required to be financed primarily through the issuance of Airport revenue bonds.

#### *Existing Lease Agreements*

The Existing Lease Agreements expire on June 30, 2011.

The Commission may terminate a Signatory Airline's Existing 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 Existing Lease Agreements govern the use of exclusive-use and common-use ramp, terminal, baggage claim, ticketing and gate areas. Under the Existing 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 the 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 2008-09, airline landing fees and terminal rental payments under the Existing Lease Agreements represented approximately 44.2% 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 Existing 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 Existing 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 Existing 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 Existing 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 Existing Lease Agreements.

Airline Review of Capital Improvements. Under the Existing 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 (\$212,005 in 2010 dollars based on the Implicit Price Deflator, and approximately \$241,239 in 2010 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 (\$636,016 in 2010 dollars based on the Implicit Price Deflator, and \$723,718 in 2010 dollars based on the Consumer Price Index) are subject to certain review procedures established under the Existing 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 (\$4,240,105 in 2010 dollars based on the Implicit Price Deflator, and \$4,824,786 in 2010 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 1981 Leases, 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 1981 Leases and 1999 Operating 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.

Security Deposit. Each Signatory Airline is required to post security with the Commission to guaranty its performance and payment under its Existing 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 Existing 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.

#### *2011 Lease Agreements*

The City and 25 airlines operating at the Airport have signed, and the Commission and the City's Board of Supervisors have approved, the 2011 Leases that will take effect on July 1, 2011, and expire on June 30, 2021. Other airlines are expected to sign a 2011 Lease prior to its effective date and during its term.

Current Business Relationship Preserved. The 2011 Leases extend most aspects of the current business relationship between the City, the Commission and the Signatory Airlines by incorporating and preserving the main provisions of the Settlement Agreement with respect to continuation of the Annual Service Payment, and the requirement to finance capital improvements primarily through the issuance of Airport revenue bonds.

The 2011 Leases also preserve the residual rate-setting methodology based on the existing six cost centers, the process for annual and mid-year adjustment of terminal rentals and landing fees, and the process for airline review of capital improvements. The 2011 Leases retain the joint use character, procedures and management protocols currently in place with respect to the all gates, holdrooms, ticket counters and baggage systems in the ITC. Finally, the 2011 Leases preserve the cross-default provisions from the Existing Lease Agreements (which provide that a default under any other agreement with a Signatory Airline is a default under its Existing Lease Agreement) and the Airport's cross-termination remedy (which enable the Airport to terminate any other agreement with a Signatory Airline that is in default under its Existing Lease Agreement). These provisions enhance the Airport's leverage in an airline bankruptcy.

New Provisions. The 2011 Leases include the following changes:

- As security for their performance under the 2011 Leases, all Signatory Airlines will be required to deposit an amount equal to two months of terminal area rentals, landing fees, and usage fees. This will result in a reduction of total security deposits held by the Airport. For the 25 airlines that have executed the 2011 Leases to date, the reduction in the total security deposits held by the Airport will decline from approximately \$133 million under the Existing Lease Agreements, to approximately \$45 million under the 2011 Leases.
- Signatory Airlines will be required to pay all terminal rentals and landing fees when due without waiting for an Airport invoice. This will accelerate the receipt of revenues by the Airport by approximately 30 days, and will reduce the total monthly average outstanding amount due from all airlines.
- Airlines that are not Signatory Airlines or an Affiliate Airline (as defined in the 2011 Leases) of a Signatory Airline will pay a 25% premium on landing fees.

- Signatory Airlines will be granted a mid-term opportunity to relinquish up to 20% of their exclusive use space, effective July 1, 2016.
- The gates in domestic Terminals 1 and 3 will no longer be leased exclusively to any airline, but will be used by airlines on a preferential or common use basis. Gates assigned to an airline for preferential use will be allocated on an annual basis in accordance with a formula taking into account each airline's scheduled seats. Gates can thus be recaptured by the Airport annually from airlines with decreasing traffic and allocated to other airlines with increasing traffic. Any preferential use gate can also be used by any airline when it is not actively being used by the airline to which it is allocated. See APPENDIX D—"SUMMARIES OF CERTAIN PROVISIONS OF THE 1981 SETTLEMENT AGREEMENT, THE LEASE AND USE AGREEMENTS, THE LEASE AND OPERATING AGREEMENTS AND THE 2011 LEASE AND USE AGREEMENTS—SUMMARY OF CERTAIN PROVISIONS OF THE 2011 LEASE AND USE AGREEMENTS."
- While some ticket counters, office space and baggage handling facilities will be designated for common use in Terminals 1 and 3 by any airline, most of such support facilities will continue to be leased on an exclusive use basis to Signatory Airlines. The 2011 Leases, however, permit the Airport to recapture unneeded support facilities from a Signatory Airline at any time if the number of preferential use gates allocated to such airline is reduced. These provisions will allow the Airport to continue receiving terminal rentals on unused support facilities until they are needed by another airline, at which time the Airport can recapture and relet them to the new airline.
- Under the 2011 Leases, the Airport will have the right to require the temporary accommodation of a requesting airline in a Signatory Airline's exclusive use space (including ticket counters, baggage facilities and the rendering of customary ground services), if the Signatory Airline has adequate facilities and certain other conditions are met. Before invoking these accommodation powers, however, the Airport must first attempt to accommodate the airline needing space with preferential use gates, common use facilities, joint use space, or other available space.

Incentives for Early Execution of 2011 Leases. In order to encourage the airlines to execute the 2011 Lease 17 months before the expiration of the Existing Lease Agreements, the Airport agreed to the following incentives:

- The Commission allowed the Signatory Airlines to amend their Existing Lease Agreements to relinquish unneeded exclusive use space one year early, effective July 1, 2010. Accordingly, to date, 20 Signatory Airlines have returned approximately 160,080 square feet of leased space to the Airport, which can be relet to other airlines or tenants, or used for other purposes. In the short term, the return of space is a factor in the 128% increase in terminal rentals from an average of \$100.61 per square foot in Fiscal Year 2009-10 to \$113.54 in Fiscal Year 2010-11.
- The Commission adopted a policy statement committing not to proceed with the redevelopment of Terminal 1 and Boarding Area B until necessary in terms of forecasted passenger traffic and airline gate requirements that reasonably cannot be accommodated at other existing gates. The Airport will use commercially reasonable efforts to obtain written commitments from airlines to lease space in these redeveloped facilities prior to proceeding with the capital project, and will endeavor to phase the redevelopment to match the demand for space. Until passenger traffic and demand for gates justify the complete redevelopment of Terminal 1 and Boarding Area B, the Airport will continue to maintain and repair these facilities in order to prolong their useful lives and ensure their safe operation.
- Airport management established a goal of limiting airline cost per enplaned passenger to no more than \$18.90, in constant Fiscal Year 2007-08 dollars, for a five-year period from Fiscal Year 2011-12 through Fiscal Year 2015-16.

### *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 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 administers 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 grant funds for the programs described above and for prior programs, 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 dwellings have been 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 within the noise contour 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 1,327 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 1940s through the early 1960s. 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 annually updated by Airport staff and approved by the Commission based upon available funding sources, anticipated capital needs, airline feedback, and project priority. The FAA administers the Airport Improvement Program (the “AIP”) and grants are made available to airport operators in the form of entitlement funds and discretionary funds. The majority of the grant funds received by the Commission are AIP grants. However, the Airport also receives grants from the Transportation Security Administration (TSA) and the Federal Highway Administration (FHWA).

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 2010-11 and Fiscal Year 2014-15. These revisions were approved by the Commission in February 2010, and resulted in a five-year Capital Plan that includes an aggregate of approximately \$768.2 million in projects, of which approximately \$225 million is expected to be financed through the issuance of Bonds. Approximately \$271.7 million in projects in the Capital Plan are expected to be funded with grants, approximately \$49.5 million are expected to be funded with Passenger Facility Charges allocated to fund capital projects and the remainder is expected to be funded with existing capital funds, including proceeds from the Series 2009E Bonds. Projects included in the Capital Plan may not have necessarily received financing authorization from the Commission or the Board of Supervisors, but are included for Airport planning purposes.

The new projects in the Capital Plan include renovations to Boarding Area E in Terminal 3, common use system improvements and the baggage handling system. The continuing projects previously in the Capital Plan consist of on-going maintenance and upgrades to critical facilities, such as runways, taxiways and utility systems, and 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). This 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.

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 2010-11, the capital project review threshold is \$630,016. 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—Airline Agreements—Existing Lease Agreements—Airline Review of Capital Improvements” and “—2011 Lease Agreements.”

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 A–“FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008 (WITH INDEPENDENT AUDITORS’ REPORT THEREON).” The financial statements include 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.*”

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

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Aviation Revenues	\$303,015	\$263,422 <sup>(2)</sup>	\$296,368	\$306,348	\$315,777
Concession Revenues <sup>(1)</sup>	131,182	143,051	155,653	172,947	178,995
Net Sales and Services	<u>43,117</u>	<u>48,869</u>	<u>51,893</u>	<u>56,476</u>	<u>56,511</u>
Total Operating Revenues	477,314	455,342	503,914	535,771	551,283
Total Operating Expenses <sup>(3)</sup>	<u>(418,993)<sup>(4)</sup></u>	<u>(432,811)</u>	<u>(431,059)</u>	<u>(451,258)</u>	<u>(478,589)</u>
Operating Income	58,321	22,531	72,855	84,513	72,694
Nonoperating Revenue (Expense) <sup>(5)</sup>	<u>(127,121)</u>	<u>(92,234)</u>	<u>(94,590)</u>	<u>(102,978)</u>	<u>(119,634)</u>
Income (Loss) Before Operating Transfer	(68,800)	(69,703)	(21,735)	(18,465)	(46,940)
Capital Contributions <sup>(6)</sup>	34,893	48,544	46,902	41,060	29,780
Loss Due to Asset Impairment	(50,043) <sup>(7)</sup>	–	–	–	–
Transfer to the City	(19,677)	(21,458)	(23,348)	(25,942)	(26,849)
Transfer from the City	<u>4,611<sup>(8)</sup></u>	<u>(55)<sup>(9)</sup></u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Changes in Net Assets</b>	<u>(\$99,016)<sup>(10)</sup></u>	<u>(\$42,672)</u>	<u>\$1,819</u>	<u>(\$3,347)</u>	<u>(\$44,009)</u>

(1) Also includes parking and transportation revenues.

(2) 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 Existing Lease and Use Agreements. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Existing Lease Agreements–Residual Methodology.*”

(3) Includes depreciation and amortization expense in the amounts of \$161.6 million for Fiscal Year 2004-05, \$162.0 million for Fiscal Year 2005-06, \$142.8 million for Fiscal Year 2006-07, \$151.1 million for Fiscal Year 2007-08 and \$158.2 million for Fiscal Year 2008-09.

(4) 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.

(5) Includes interest expense in the amount of \$209.4 million for Fiscal Year 2004-05, \$200.3 million for Fiscal Year 2005-06, \$193.7 million for Fiscal Year 2006-07, \$200.3 million for Fiscal Year 2007-08 and \$204.7 million for Fiscal Year 2008-09.

(6) Represents federal grant funds.

(7) 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.

(8) 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.*”

(9) 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.*”

(10) The net loss is primarily 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

### *General*

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 revenues 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.

### *Fiscal Year 2009-10*

The revised operating budget for the Airport for Fiscal Year 2009-10 is \$712.0 million. Budgeted total revenues in the amount of \$712.0 million, include aviation revenues (\$323.7 million), parking and transportation (\$75.1 million), concessions (\$99.7 million), other non-aviation revenues (\$74.5 million) and non-operating revenues (\$139.1 million). Budgeted expenditures for Fiscal Year 2009-10 total \$712.0 million, include personal costs (\$150.0 million), other current expenses, materials, supplies, fixed charges and equipment (\$37.7 million), services of other departments (\$50.7 million), the annual service payments (\$26.2 million), and facilities maintenance project appropriation (\$4.0 million).

### *Fiscal Year 2010-11*

On February 18, 2010, the Commission adopted its proposed operating budget for Fiscal Year 2010-11.

The proposed operating budget for the Airport for Fiscal Year 2010-11 is \$737.7 million. Proposed total revenues in the amount of \$737.7 million include aviation revenues (\$344.6 million), parking, transportation, and concessions (\$186.8 million), other non-aviation revenues (\$78.8 million) and non-operating revenues (\$127.5 million). Proposed total expenditures for Fiscal Year 2010-11 total \$737.7 million, include personnel costs (\$215.8 million), other current expenses, materials, supplies, fixed charges and equipment, and contribution to surety bond fund (\$106.7 million), debt service (\$328.3 million), services of other departments (\$52.4 million), the annual service payments (\$28.5 million), and facilities maintenance project appropriation (\$6.0 million).

The proposed operating budget has been submitted to the Mayor and Board of Supervisors for review and approval is expected in August 2010.

## 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—Airline Agreements—Existing Lease Agreements."

### *Terminal Rental Rates and Landing Fees*

For Fiscal Year 2010-11, annual terminal rental rates range from \$198.61 per square foot for Category I space (ticket counters and hold rooms) to \$19.86 per square foot for Category V space (unenclosed or covered areas at ramp level) space, with an average rate per square foot of \$113.54. For Fiscal Year 2009-10, annual terminal



rental rates range from \$176.11 per square foot for Category I space to \$17.61 per square foot for Category V 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 2010-11 is \$3.59 per thousand pounds of landed weight compared to \$3.15 per thousand pounds of landed weight for Fiscal Year 2009-10. Operators without a lease or operating permit pay a supplemental landing fee charge of \$0.36 per thousand pounds of landed weight. For Fiscal Year 2010-11, the minimum landing fee for fixed wing aircraft was \$158 compared to \$140 for Fiscal Year 2009-10.

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 \$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>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Landing Fees (per 1,000 pounds)	\$3.336	\$3.010	\$3.000	\$3.150	\$3.590
Minimum Landing Fee (fixed wing)	123	127	134	140	158
Minimum Landing Fee (rotary)	62	64	67	70	79
Average Terminal Rental Rate (per square foot)	94.61	91.60	95.85	100.61	113.54

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 2009-10, 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 2009-10 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
05/18/10	87.2	2010-11

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 exercised its final five year option to extend its lease pursuant to the Concession Support Program and the Airport exercised the first of its two one-year discretionary options to extend the DFS Group lease. The DFS Group lease expires on December 31, 2017.

Other Retail. During Fiscal Year 2009-10, the Airport opened new retail and services establishments in 10 additional locations, including Soundbalance, a technology lifestyle store; See's Candies, Destination Green, a store featuring products from companies with a commitment to green living; Hudson News & Discover; The Gallerie, an accessories store offering Kenneth Cole Reaction, Fossil and Indulgences brand merchandise opened at the Airport, The Sunglass Hut and a Starbucks.

#### *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*

Since 2003, the Commission has operated its food and beverage program in a manner 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," targets food and beverage companies that deliver a high quality dining experience, and is 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. 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.

In connection with the planned re-opening of Terminal 2 in spring 2011, the Commission continued the San Francisco Marketplace program for the development of approximately 16,975 leasable square feet of food and beverage establishments. The new restaurants selected will each have a “sustainable food” focus. The Commission approved leases with the selected restaurants in spring 2010.

*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.

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.

<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
April 1, 2011 through March 31, 2014	6,535,000

*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 \$32.2 million in revenue in Fiscal Year 2008-09. This represents an approximately 10.2% increase compared to rental car revenues of approximately \$29.3 million generated in Fiscal Year 2007-08, 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 million and for Fiscal Year 2008-09 was \$42.39 million.

*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.

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**PRINCIPAL AIRPORT CONCESSIONAIRES<sup>†</sup>**

Concessionaire	Concession	Lease Expiration Date	FY 2008-09 Concession Revenue (\$ in thousands) <sup>†</sup>	Projected FY 2009-10 MAG or Estimated Percentage Rent (\$ in thousands) <sup>†*</sup>	Projected FY 2010-11 MAG or Estimated Percentage Rent (\$ in thousands)
New South Parking- California	Public Parking	6/30/11 <sup>(1)</sup>	\$68,355	\$71,646	\$72,339
DFS Group, L.P.	Duty Free and General Merchandise	12/31/17	26,400	26,400	26,400
Hertz Corporation	Rental Car	12/31/13 <sup>(2)</sup>	11,024	10,412	10,791
EAN, LLC <sup>(3)</sup>	Rental Car	12/31/13 <sup>(2)</sup>	7,798	8,746	8,849
Avis Budget Rental Car, LLC <sup>(4)</sup>	Rental Car	12/31/13 <sup>(2)</sup>	9,155	8,225	8,582
Clear Channel Airports	Advertising	3/31/11	5,856	6,397	6,535
Travellex America, Inc.	Currency Exchange/ATM	12/9/12	4,215	4,128	4,128
DTG Operations Rental Car <sup>(5)</sup>	Rental Car	12/31/13 <sup>(2)</sup>	3,782	3,842	4,000
Pacific Gateway Concessions LLC	General Merchandise	Various <sup>(6)</sup>	4,546	4,128	3,812
D. Lew Enterprises	Food and Beverages	Various <sup>(7)</sup>	1,569	1,539	1,617
Bay Area Restaurant Group	Food and Beverages	Various <sup>(8)</sup>	1,499	1,589	1,509
Fox Rent-A-Car, Inc.	Rental Car	12/31/13 <sup>(2)</sup>	996	1,334	1,325
Host International - Retail	General Merchandise	11/30/13	1,294	1,451 <sup>\$</sup>	1,305
Books Inc.	General Merchandise	12/15/10	1,140	1,140	1,140 <sup>(11)</sup>
T-Mobile	WiFi and Wireless Phone Service	2/28/10 (WiFi Service) <sup>(9)</sup> 6/30/14 (Wireless Phone)	2,318	2,518 <sup>(10)</sup>	467
SUB TOTAL			149,947	\$153,495	\$152,799
Other Revenue <sup>(12)</sup>			29,049		
TOTAL CONCESSION REVENUE			\$178,996		

<sup>†</sup> See also, “-Concessions-Retail Program.”

\* Preliminary.

(1) The terms of this lease include two one-year options to extend. The Commission exercised the first one-year option to extend the Lease through June 30, 2011.

(2) 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.

(4) 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.

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

(6) Pacific Gateway Concessions LLC operates several locations within the Airport, each with a different expiration date.

(7) Includes leases for Il Fornaio in the International Terminal expiring on November 9, 2010, and in the domestic terminals for the Yankee Pier Restaurant expiring on December 26, 2014 and Perry’s Restaurant expiring on August 4, 2015.

(8) Bay Area Restaurant Group operates various restaurants within the Airport. The leases expire on March 14, 2015, April 10, 2015 and December 6, 2014, respectively, from the commencement date at each location.

(9) The Commission has issued a request for proposals to provide WiFi service at the Airport. Until a new concessionaire is selected, WiFi service will continue to be provided by T-Mobile on a month-to-month contract.

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

(11) Assumes Books Inc. will continue operations into calendar year 2011 in “hold-over” status.

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

Source: San Francisco Airport Commission.

In Fiscal Year 2008-09, terminal concession revenues (which excludes revenues for parking and other ground transportation) were approximately \$101.0 million, an approximately 5.0% increase compared to the previous Fiscal Year's revenues of approximately \$96.3 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 23% of total operating revenue in Fiscal Year 2008-09. For the purpose of this table, the term "revenues" includes all amounts paid to the Airport by a company, including Concession Revenues, rent, utilities, etc.

### TEN HIGHEST REVENUE PRODUCERS

Company	FY 2007-08 Revenues (\$ in thousands)	FY 2008-09 <sup>(1)</sup>		
		Revenues (\$ in thousands)	Percent of Operating Revenue <sup>(2)</sup>	Percent of Total Revenue
United Airlines <sup>(3)</sup>	\$128,823	\$124,663	22.61%	19.27%
New South Parking-California <sup>(4)</sup>	65,726	68,355	12.40	10.57
DFS Group, L.P.	26,732	26,877	4.88	4.15
American Airlines	24,900	23,634	4.29	3.65
Hertz Corporation	21,831	20,436	3.71	3.16
Avis Budget Car Rental, LLC <sup>(5)</sup>	–	17,806	3.23	2.75
Avis Rent-A-Car, Inc.	14,292	–	–	–
EAN, LLC <sup>(6)</sup>	–	14,346	2.60	2.22
Signature Flight Support	11,691	11,440	2.08	1.77
Southwest Airlines	–	9,536	1.73	1.47
Delta Air Lines	13,063	9,506	1.72	1.47
Northwest Airlines	10,495	–	–	–
Alamo Rent-A-Car, Inc.	<u>9,363</u>	–	–	–
SUBTOTAL TEN HIGHEST	326,916	326,599	59.22	50.49
Other Operating Revenue	<u>198,935</u>	<u>224,684</u>	<u>40.76</u>	<u>34.73</u>
TOTAL OPERATING REVENUE	535,771	551,283	100.00%	85.22
Other Revenue <sup>(8)</sup>	36,195 <sup>(9)</sup>	26,748 <sup>(10)</sup>		4.13
PFC Collections <sup>(11)</sup>	<u>69,476</u>	<u>68,845</u>		<u>10.64</u>
<b>TOTAL AIRPORT REVENUE</b>	<b>\$641,442</b>	<b>\$646,876</b>		<b>100.00%</b>

(1) Revenue is audited and includes operating and non-operating income and credit adjustments.

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

(3) Includes revenues generated by Ted.

(4) 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."

(5) Effective January 1, 2009, Avis Rent-A-Car Inc. and Budget Rent-A Car, Inc. were merged as Avis Budget Car Rental, LLC.

(6) Effective January 1, 2009, Alamo Rent-A-Car, Inc., Vanguard Car Rental USA, INC. Enterprise Rent-A-Car, Inc. and National Rent-A-Car, Inc. merged as EAN, LLC.

(7) 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.

(8) Includes interest and other non-operating revenue.

(9) Includes investment income in the amount of \$29.8 million and settlement income in the amount of \$5.0 million in Fiscal Year 2007-08.

(10) Includes investment income in the amount of \$22.8 million.

(11) See "SECURITY FOR THE 2010F/G 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. In Fiscal Year 2008-09, parking volume decreased by approximately 1.5%, however revenues increased by approximately 3.3% or \$2.2 million due to an increase in long-term parking rate of \$1 per day and an increase in hourly parking rates of \$1 per day in November 2008. 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.” The Commission and its swap advisors actively monitor the credit standing of the Airport’s various swap counterparties.

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 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**

<u>Counterparty Credit Ratings</u>	<u>Counterparty Maximum Net Termination Exposure</u>	<u>Maximum Net Termination Exposure (Uncollateralized)</u>	<u>Total Maximum Net Termination Exposure</u>
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 counterparty to the Issue 36A-D interest rate swap agreements is JPMorgan Chase Bank, N.A. (“JPMorgan”) with respect to an aggregate notional amount of \$289,756,000. As of June 30, 2010, JPMorgan was rated “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. (now known as Assured Guaranty Municipal Corp. (“AGM”)) 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 JPMorgan 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 Merrill are guaranteed by Merrill Lynch & Co. which, as of June 30, 2010, 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.

2010A Bonds. The Commission entered into two forward starting interest rate swap agreements in connection with the issuance of the 2010A Bonds (formerly referred to as the Issue 35 Bonds). The counterparties to the Series 2010A 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 June 30, 2010, the payment obligations of DEPFA were rated “A3” by Moody’s, “BBB” by Standard & Poor’s and “A-” by Fitch. Given the decline in ratings for DEPFA, the Airport and its advisors have reviewed this interest rate swap agreement in contemplation of a potential optional termination by the Airport. Instead, the Airport has negotiated more favorable terms with respect to this swap which will remain in effect until such time as DEPFA’s ratings recover adequately. These measures include the posting of collateral by DEPFA in an amount in excess of \$4 million, even though that swap currently has a favorable termination value to DEPFA in excess of \$13.3 million as of June 30, 2010.

The payment obligations of Goldman are guaranteed by the Goldman Sachs Group, which, as of June 30, 2010, were rated “Aa3” by Moody’s, “A” by Standard & Poor’s and “A+” by Fitch.

Pursuant to these swap agreements, commencing February 1, 2010 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 2010A Bonds. The Commission will be obligated to make a monthly fixed rate payment to the counterparties as set forth below. These Series 2010A 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 2010A 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.

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	JPMorgan Chase Bank, N.A.	Aa1/AA-/AA-	FGIC/National <sup>(2)</sup>	3.444%	(\$8,273,543.57)	May 1, 2026
	02/10/05	69,930,000	JPMorgan Chase Bank, N.A.	Aa1/AA-/AA-	FGIC/National <sup>(2)</sup>	3.445	(8,273,027.89)	May 1, 2026
		139,930,000					(16,546,571.46)	
<b>Issue 36C</b>								
	02/10/05	30,000,000	JPMorgan Chase & Co. <sup>(3)</sup>	Aa1/AA-/AA-	AGM <sup>(2)</sup>	3.444	(3,545,804.39)	May 1, 2026
<b>Issue 36D</b>								
	02/10/05	29,970,000	JPMorgan Chase & Co. <sup>(3)</sup>	Aa1/AA-/AA-	AGM <sup>(2)</sup>	3.445	(3,545,583.38)	May 1, 2026
<b>Issue 37B</b>								
	05/15/08	79,684,000	Merrill Lynch Capital Services, Inc./ Merrill Lynch & Co.	A2/A/A+	AGM <sup>(4)</sup>	3.898	(14,406,604.04)	May 1, 2029
<b>Issue 37C</b>								
	05/15/08	89,856,000	JPMorgan Chase & Co. <sup>(3)</sup>	Aa1/AA-/AA-	AGM	3.898	(16,245,708.69)	May 1, 2029
<b>2010A</b>								
	02/01/10	71,973,000	Depfa BANK plc, New York Branch	A3/BBB/A- <sup>(5)</sup>		3.895	(13,334,585.70)	May 1, 2030
	02/01/10	143,947,000	Goldman Sachs Group, Inc.	Aa3/A/A+		3.925	(27,212,875.02)	May 1, 2030
		215,920,000					(40,547,460.72)	
	<b>TOTAL</b>	<b>\$585,360,000</b>					<b>(\$94,837,732.68)</b>	

(1) As of June 30, 2010. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or verified by the rating agencies. None of the Commission or the Underwriters takes any responsibility for the accuracy of such ratings, or gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.

(2) 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.

(3) The original counterparty to this swap agreement was Bear Stearns Capital Markets Inc.

(4) 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.

(5) Given the decline in ratings for DEPPA, the Airport and its advisors have reviewed this interest rate swap agreement in contemplation of a potential optional termination by the Airport. Instead, the Airport has negotiated more favorable terms with respect to this swap which will remain in effect until such time as DEPPA's ratings recover adequately. These measures include the posting of collateral by DEPPA in an amount in excess of \$4 million, even though that swap currently has a favorable termination value to DEPPA as of June 30, 2010.

Source: The fair values of the swaps were calculated by an independent third consultant to the Airport who does not have a vested interest in the Swap Agreements.

## Operating Expenses

Fiscal Year 2008-09 operating expenses of \$478 million reflected a 6.1% increase from Fiscal Year 2007-08 operating expenses of \$451.3 million. The operating expenses in Fiscal Year 2006-07 were \$431.1 million. See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION."

The increase in total operating expenses in Fiscal Year 2008-09 in the amount of \$27.3 million was primarily due to base wage increases required by various Memoranda of Understanding between the City and the various bargaining units (\$14.3 million), an increase in other post-employment benefit obligations (\$1.4 million), increases in depreciation and amortization due to the addition of capital assets placed in service (\$7.1 million), increases in contractual service costs as a result of increase expenditures in international marketing services by the San Francisco Visitors Bureau and cost escalation in the New Park South Parking services contract and operation of the SFO shuttle bus service (\$3.3 million).

Based on the forecast for the third quarter (January through March) of Fiscal Year 2009-10, operating expenses are \$662.0 million or 7% lower than the budget. Total operating expenses for Fiscal Year 2009-10 are projected to be less than budgeted primarily due to lower spending for contractual service (\$15.3 million) and lower debt service (\$27.2 million).

### *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—Airline Agreements—Existing 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 2010F/G BONDS—Flow of Funds." The amount of Annual Service Payment for each of the last five fiscal years is set forth below.

Although the Annual Service Payment has been grandfathered under the FAA's 1999 *Policies and Procedures Concerning the Use of Airport Revenue*, there is no assurance that the grandfathered status will continue indefinitely. The FAA or new federal legislation may change or revoke this status. See "San Francisco International Airport—Airline Agreements—Existing Lease Agreements." 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 reimburse the City's General Fund for the cost of direct services provided by other City departments to the Airport, such as 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 and State Laws and Regulations—*Federal Law Prohibiting Revenue Diversion.*”

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

Fiscal Year	Annual Service Payment	Reimbursement for Direct Services					Subtotal	Total
		Police	Fire	Other <sup>(1)</sup>	Utility Costs			
2008-09	\$26.8	\$36.2	\$15.8	\$12.5	\$36.8 <sup>(2)</sup>	\$101.3	\$128.1	
2007-08	25.9	31.5	14.0	11.3	35.9 <sup>(3)</sup>	92.7	118.6	
2006-07	23.3	31.4	13.6	14.0	34.0 <sup>(4)</sup>	93.0	116.3	
2005-06	21.4	29.6	12.9	14.8	33.3 <sup>(5)</sup>	90.6	112.0	
2004-05	19.7	27.8	11.3	13.9	32.9 <sup>(6)</sup>	85.9	105.6	

- (1) Represents costs of direct services provided by the City Attorney, City Treasurer, City Controller, City Purchasing Agent and other City departments.
- (2) Approximately \$15.4 million in utility costs were recovered from Airport tenants.
- (3) Approximately \$14.3 million in utility costs were recovered from Airport tenants.
- (4) Approximately \$13.7 million in utility costs were recovered from Airport tenants.
- (5) Approximately \$14.0 million in utility costs were recovered from Airport tenants.
- (6) Approximately \$13.7 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 the Deferred Compensation Plan. 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 described below. The independent consulting actuary is Cheiron, a nationally recognized firm selected by the Retirement Board pursuant to a competitive process. The Deferred Compensation Plan is a plan and trust established independent of the primary defined benefit plan, funded solely by members on a voluntary basis and unrelated to the funding by the City to the defined benefit plan. The Deferred Compensation Plan bears responsibility for its own costs and the actuary and consulting actuary firm have no duties with reference to such plan.

Membership in the Retirement System includes City employees, including those of 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 estimates that the total active membership as of June 30, 2009 was 34,961, including 4,096 vested members, 890 reciprocal members and 56 active Deferred Retirement Option Plan (“DROP”) participants, compared to 35,396 members a year earlier. During Fiscal 2009-10, the 1,327 full-time Airport employees represent 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, 2009 was issued in January 2010. 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 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 33 Airport police officers’ historical service from CalPERS to SFERS effective July 1, 2009, authorized by the voters of 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.” In Fiscal Year 2008-09, total employer contributions to the Retirement System were \$119.75 million which was 4.99% of that portion of a member’s Pensionable Salary.

The table on the next page summarizes Retirement System actual contributions for Fiscal Years 2004-05 through 2008-09. 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 2004-05 through 2008-09  
 (\$ in thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee and Employer Contribution†	Employer Contribution Rates†
2004-05	\$13,135,263	\$12,659,698	\$11,765,737	108.0%	\$248,029	4.48%
2005-06	14,497,022	13,597,646	12,515,463	109.0	289,226	6.58
2006-07	16,952,044	14,929,287	13,541,388	110.0	308,348	6.24
2007-08	15,832,521	15,941,390	15,358,824	103.8	319,183	5.91
2008-09	11,866,729	16,004,730	16,498,649	97.0	312,715	4.99

† Employer Contribution rates for Fiscal Years 2009-10 and 2010-11 are 9.49% and 13.56%, respectively.  
 Sources: Retirement System audited financial statements and supplemental schedules June 30, 2009, 2008, 2007, 2006 and 2005 and Retirement System Actuarial Valuation reports as of July 1, 2005, July 1, 2006, July 1, 2007, July 1, 2008 and July 1, 2009.

The employer contribution rate for Fiscal Year 2009-10 is 9.49% of Pensionable Salary. The Airport is required to contribute at an actuarially determined rate. As of July 1, 2009, the date of the last actuarial valuation, the funded ratio for the plan was 97.0%. The Airport's required contributions for the last five Fiscal Years and for Fiscal Year 2010-11 are set forth below.

#### **AIRPORT CONTRIBUTIONS TO THE RETIREMENT SYSTEM**

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Airport Contribution</u>
2005-06	6.58%	\$7.4 million
2006-07	6.24	9.1 million
2007-08	5.91	9.1 million
2008-09	4.99	8.8 million
2009-10	9.49	12.1 million
2010-11	13.56	17.4 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 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. Information regarding the investment policy of the Retirement System, a description of asset allocation targets, current investments and the Annual Report of the Retirement System are available upon request from 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.

*Recent Changes in the Economic Environment and the Impact on the Retirement System.* The market value of the Retirement System was approximately \$11.98 billion as of June 30, 2009. The \$3.9 billion difference between the approximately \$15.8 billion market value as of June 30, 2008 and the approximately \$11.9 billion market value as of June 30, 2009 reflects, among other things, participant and employer contributions, benefit payments and a decline on a time-weighted basis of approximately 22% in the market value of assets held by the Retirement System from June 30, 2008. Despite the Plan's losses in fiscal year 2009, the Retirement Board and its consulting actuary concur that the Plan remains in a strong financial position to meet its obligations to the Plan participants and beneficiaries.

As of December 31, 2009, the Retirement System estimated that the market value of its assets has increased to \$13.4 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 of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. The estimated market value of \$13.4 billion has not been subject to an independent audit.

The Retirement System investment portfolio is structured to focus on long-term performance, and the Retirement System actively manages its investment portfolio, including periodic review of its investment policy and asset allocation strategy. The Retirement System continues to review its investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Because the values of individual investments fluctuate based on volatile market conditions, the amount of losses, if any, that the Retirement System will recognize in future actuarial valuations cannot be determined. Market fluctuations are an expected investment risk for a pension fund and the value of the Retirement System investment portfolio changes periodically.

A decline in the actuarial value of assets over time, without a commensurate decline in the actuarial value of liabilities, will result in an increase in the contribution rates for the City and the Commission. No assurance can be provided by the City or the Commission that contribution rates will not continue to increase. 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.

**Medical Benefits.** Medical benefits for eligible active Airport and other City employees, retired employees, eligible dependents and surviving spouses and domestic partners of covered City retirees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System") pursuant to the Charter. 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"). However, the City is not required to fund medical benefits for the Other Beneficiaries. 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<sup>(1)</sup>**  
(\$ in millions)

<u>Fiscal Year</u>	<u>Active Employees</u>	<u>Retirees</u>	<u>Total</u>
2005-06	\$14.188	\$6.669	\$20.857
2006-07	15.794	7.037 <sup>(2)</sup>	22.831
2007-08	17.396	7.621 <sup>(3)</sup>	25.017
2008-09	19.031	8.139	27.169 <sup>(4)</sup>
2009-10	N/A	N/A	27.793 <sup>(5)</sup>
2010-11	N/A	N/A	30.401 <sup>(6)</sup>

(1) Historical information has been restated to capture a more comprehensive allocation of Health Service System costs, including contributions made for Fire and Police, and to apply a more consistent methodology identifying direct and allocable costs prorated between active employees and retirees for each Fiscal Year.

(2) Includes \$6.294 million to provide postretirement benefits on a pay-as-you-go basis.

(3) Includes \$7.046 million to provide postretirement benefits on a pay-as-you-go basis.

(4) Includes \$7.216 million to provide postretirement benefits on a pay-as-you-go basis.

(5) Budgeted.

(6) Proposed Budget.

Source: San Francisco Airport Commission.

The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven-member Health Service Board is composed of members of the 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 numbers.

The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the Other Beneficiaries (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. 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. The report is also posted on the Health Service System website at myhss.org.

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, including the Airport (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. 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.

The City was required to begin 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. This reporting requirement is defined in the Governmental Accounting Standards Board (“GASB”) 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 does not require that affected government agencies, including the City and the Airport, actually fund any portion of the OPEB, rather GASB 45 required that government agencies start to record and report a portion of the liability in each year if they do not fund the OPEB. GASB 45 also requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the financial statements.

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 \$4.0 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 City has determined a City-wide Annual Required Contribution (the “ARC”), interest on net OPEB Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City’s actuaries. The City’s allocation of the OPEB related costs to Airport for the year ended June 30, 2009 is based upon the Airport’s percentage of City-wide payroll costs.

The following table shows the components of the City’s annual OPEB allocation for Airport for the year, for the amount contributed to the plan, and changes in the City’s net OPEB obligation (in thousands):

	<u>2009</u>	<u>2008</u>
Annual Required Contribution (ARC)	\$24,009	\$22,459
Interest on net OPEB Obligation	744	–
Adjustment to ARC	<u>(551)</u>	<u>–</u>
Annual OPEB Cost (expense)	24,202	22,459
Contribution Made	<u>(7,389)</u>	<u>(7,046)</u>
Increase in Net OPEB Obligation	\$16,813	\$15,413
Net OPEB Obligation - beginning of year	\$15,413	–
Net OPEB Obligation - end of year	<u>\$32,226</u>	<u>\$15,413</u>



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 \$1 billion, 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 \$250,000 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 June 30, 2010 to be approximately 695 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 book values, as of June 30, 2010, 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. The book value of the amounts in the Airport pool as of June 30, 2010 was approximately \$751.0 million.

**AIRPORT POOLED INVESTMENT FUND**  
**(As of June 30, 2010)**

Funds in Airport Pool		Book Value Investment Distribution as of June 30, 2010	
Construction Funds	\$362.9 million	U.S. Treasury Liquidity Guarantee Program	\$205.2 million
Operating Fund	182.8 million	FNMA Notes	114.7 million
Contingency Account	92.6 million	Fed Farm Credit Bank Note	106.3 million
PFC Funds	111.3 million	U.S. Treasury Notes	82.2 million
Revenue Fund	<u>1.4 million</u>	FHLMC Bonds	76.1 million
TOTAL	\$751.0 million	FHLB Notes	61.8 million
		U.S. Treasury Bills	45.5 million
		FHLB Multistep	21.5 million
		FHLMC Notes	18.8 million
		Public Time	13.7 million
		Collateralized Negotiable Certificates of Deposit	<u>5.2 million</u>
		TOTAL	\$751.0 million

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## Currently Outstanding Bonds

The Commission has currently Outstanding \$4,246,890,000 in aggregate principal amount of Second Series Revenue Bonds (exclusive of the 2010F/G Bonds). See “INTRODUCTION” and “PLAN OF FINANCE.”

Series	Dated Date	Original Principal Amount Issued	Outstanding Principal (as of June 30, 2010)	Purpose
Issue 15A (AMT)	January 1, 1998	\$263,355,000	\$133,665,000	New Money
Issue 15B (Non-AMT)	January 1, 1998	236,645,000	60,880,000	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	39,130,000	New Money
Issue 20 (Non-AMT)	October 1, 1998	267,985,000	47,950,000	Refunding
Issue 21 (Non-AMT)	October 1, 1998	82,015,000	23,575,000	New Money
Issue 22 (AMT)	December 1, 1998	125,000,000	66,860,000	New Money
Issue 23A (AMT)	May 1, 1999	168,335,000	91,290,000	New Money
Issue 26A (AMT)	December 1, 2000	87,230,000	3,050,000	New Money
Issue 27A (AMT)	June 15, 2001	210,995,000	179,200,000	Refunding
Issue 27B (Non-AMT)	June 15, 2001	277,530,000	177,295,000	Refunding
Issue 28A (AMT)	February 15, 2002	116,640,000	101,495,000	Refunding
Issue 28B (Non-AMT)	February 15, 2002	151,210,000	52,995,000	Refunding
Issue 28C (Non-AMT)	February 15, 2002	97,150,000	32,710,000	Refunding
Issue 29A (AMT)	February 5, 2003	31,870,000	21,530,000	Refunding
Issue 29B (Non-AMT)	February 5, 2003	125,105,000	95,130,000	Refunding
Issue 30 (Non-AMT)	February 10, 2004	34,820,000	34,820,000	Refunding
Issue 31F (Taxable)	February 10, 2005	111,695,000	100,640,000	Refunding
Issue 32F (Non-AMT)	November 16, 2006	260,115,000	260,115,000	Refunding
Issue 32G (Non-AMT)	November 16, 2006	158,195,000	158,195,000	Refunding
Issue 32H (AMT)	November 16, 2006	34,690,000	12,935,000	Refunding
Issue 34C (AMT)	March 27, 2008	79,170,000	54,020,000	Refunding
Issue 34D (Non-AMT)	March 27, 2008	81,170,000	81,170,000	Refunding
Issue 34E (AMT)	March 27, 2008	299,365,000	256,705,000	Refunding
Issue 34F (Private Activity/Non-AMT)	March 27, 2008	16,645,000	16,645,000	Refunding
Issue 36A (Non-AMT/Private Activity) <sup>(1)</sup>	May 8, 2008	100,000,000	100,000,000	Refunding
Issue 36B (Non-AMT/Private Activity) <sup>(1)</sup>	May 8, 2008	40,620,000	40,620,000	Refunding
Issue 36C (Non-AMT/Private Activity) <sup>(1)</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/Private Activity) <sup>(1)</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)	November 13, 2008	226,735,000	66,525,000	Refunding
Series 2009A Bonds (Non-AMT/Private Activity) <sup>(2)</sup>	September 3, 2009	92,500,000	92,500,000	Refunding
Series 2009B Bonds (Non-AMT/Private Activity) <sup>(2)</sup>	September 3, 2009	82,500,000	82,500,000	Refunding
Series 2009C Bonds (Non-AMT/Private Activity)	November 3, 2009	132,915,000	132,915,000	Refunding
Series 2009D Bonds (Non-AMT/Private Activity)	November 4, 2009	88,190,000	88,190,000	Refunding
Series 2009E Bonds (Non-AMT/Private Activity)	November 18, 2009	485,800,000	485,800,000	New Money
Series 2010A Bonds (AMT)	February 10, 2010	215,970,000	215,970,000	Refunding
Series 2010C Bonds (Non-AMT/Govt. Purpose)	April 7, 2010	345,735,000	345,735,000	Refunding
Series 2010D Bonds (Non-AMT/Private Activity)	April 7, 2010	89,860,000	89,860,000	Refunding
Series 2010E Bonds (Taxable)	April 7, 2010	<u>182,970,000</u>	<u>182,970,000</u>	Refunding
TOTAL		\$5,955,175,000	\$4,246,890,000	

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

(2) The Commission expects to remarket these Mandatory Tender Bonds as fixed rate bonds in advance of the September 15, 2010 mandatory tender date in order to provide proceeds to pay the purchase price on such mandatory tender date. See “Current and Future Financings–Tender Bonds–Series 2009A/B Bonds.”

**Debt Service Requirements**

The following table presents the annual debt service requirements for the Outstanding Bonds, based upon monthly deposits, following the issuance of the 2010F/G Bonds.

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

Fiscal Year Ending June 30	Debt Service on Outstanding Bonds <sup>(2)</sup>	2010F Bonds		2010G Bonds		Total	Total 2010F/G Bonds	Total Outstanding Debt Service
		Principal	Interest	Principal	Interest			
2011	\$322,536,615	—	\$5,494,911	—	\$321,472	\$321,472	\$5,816,383	\$328,352,998
2012	337,344,974	—	6,068,000	—	355,000	355,000	6,423,000	343,767,974
2013	347,499,134	—	6,068,000	—	355,000	355,000	6,423,000	353,922,134
2014	359,334,191	—	6,068,000	—	355,000	355,000	6,423,000	365,757,191
2015	364,889,230	—	6,068,000	—	355,000	355,000	6,423,000	371,312,230
2016	365,782,946	—	6,068,000	—	355,000	355,000	6,423,000	372,205,946
2017	364,462,173	—	6,068,000	—	355,000	355,000	6,423,000	370,885,173
2018	364,103,795	—	6,068,000	—	355,000	355,000	6,423,000	370,526,795
2019	364,272,214	—	6,068,000	—	355,000	355,000	6,423,000	370,695,214
2020	363,973,639	—	6,068,000	—	355,000	355,000	6,423,000	370,396,639
2021	361,374,439	—	6,068,000	—	355,000	355,000	6,423,000	367,797,439
2022	358,191,277	—	6,068,000	—	355,000	355,000	6,423,000	364,614,277
2023	358,339,092	—	6,068,000	—	355,000	355,000	6,423,000	364,762,092
2024	355,629,822	—	6,068,000	—	355,000	355,000	6,423,000	362,052,822
2025	336,065,074	—	6,068,000	—	355,000	355,000	6,423,000	342,488,074
2026	301,970,588	—	6,068,000	—	355,000	355,000	6,423,000	308,393,588
2027	250,857,148	—	6,068,000	—	355,000	355,000	6,423,000	257,280,148
2028	241,626,349	—	6,068,000	—	355,000	355,000	6,423,000	248,049,349
2029	183,646,729	\$1,506,667	6,068,000	7,574,667	355,000	355,000	7,929,667	191,576,396
2030	125,853,750	9,115,833	5,992,667	15,108,500	355,000	355,000	15,463,500	141,317,250
2031	74,435,117	9,574,167	5,536,875	15,111,042	355,000	355,000	15,466,042	89,901,159
2032	52,850,894	10,052,500	5,058,167	15,110,667	355,000	355,000	15,465,667	68,316,560
2033	37,981,700	10,552,500	4,555,542	15,108,042	355,000	355,000	15,463,042	53,444,742
2034	37,981,783	11,081,667	4,027,917	15,109,584	355,000	355,000	15,464,583	53,446,367
2035	37,984,183	11,635,833	3,473,833	15,109,666	355,000	355,000	15,464,667	53,448,850
2036	37,981,583	12,216,667	2,892,042	15,108,709	355,000	355,000	15,463,708	53,445,292
2037	37,981,767	12,830,833	2,281,208	15,112,041	355,000	355,000	15,467,042	53,448,808
2038	37,982,550	13,470,833	1,639,667	15,110,500	355,000	355,000	15,465,500	53,448,050
2039	31,649,833	12,960,000	966,125	13,956,125	355,000	355,000	15,464,458	47,114,292
2040	—	6,362,500	318,125	6,680,625	295,833	295,833	12,893,125	12,893,125
TOTAL	\$6,814,582,590	\$121,360,000	\$1,461,078	\$272,821,078	\$10,557,306	\$17,657,306	\$290,478,383	\$7,105,060,973

† Mandatory sinking fund payment.

†† Maturity. (Footnotes appear on the following page)

(Footnotes to the previous page)

- (1) Gross debt service.
- (2) Includes debt service on San Francisco International Airport Second Series Revenue Bonds Issues 15A through 30, Issue 31F, Issue 32F/H, Issue 34C/D/E/F, Series 2009C, Series 2009E and Series 2010C/D/E 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, 2011 through May 1, 2012, inclusive. Following each mandatory tender date, 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 calculated at an assumed interest rate equal to 0.75% until the mandatory tender date on September 15, 2010. The Series 2009A/B Bonds are expected to be remarketed as fixed rate bonds in advance of September 15, 2010 in order to provide proceeds to pay the purchase price of these Bonds on such mandatory tender date. The debt service on the Series 2009D Notes is calculated at an assumed interest rate equal to 2.25% until the mandatory tender date on December 4, 2012. Following such mandatory tender date, the debt service on the Series 2009D Notes is calculated at an assumed interest rate equal to 3.00%. The 2010A Bonds were issued as variable rate securities and the debt service on such Bonds is calculated at assumed interest rates: debt service on the 2010A-1 Bonds and the 2010A-2 is calculated at an assumed interest rates equal to 3.925% plus ancillary fees equal to 1.45% until May 1, 2013 and thereafter at an assumed interest rate equal to 3.925% plus ancillary fees equal to 1.10%; and debt service on the Issue 2010A-3 Bonds is calculated at an assumed interest rate equal to 3.895% plus ancillary fees equal to 1.45% until May 1, 2013 and thereafter at an assumed interest rate equal to 3.895% plus ancillary fees equal to 1.10%. Debt service on the 2010A 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 1.45% until May 1, 2013 and thereafter fees equal to 1.10%.

### 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 2004-05 through 2008-09.

<b>HISTORICAL DEBT SERVICE COVERAGE<sup>†</sup></b>					
<b>(Fiscal Year)</b>					
<b>(\$ in thousands)</b>					
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Net Revenues <sup>(1)</sup>	\$304,729	\$297,165	\$302,070	\$316,726	\$302,528
Transfer from the Contingency Account <sup>(2)</sup>	<u>92,699</u>	<u>92,584</u>	<u>92,609</u>	<u>92,658</u>	<u>92,417</u>
<b>TOTAL AVAILABLE FOR DEBT SERVICE</b>	<b>\$397,428</b>	<b>\$389,749</b>	<b>\$394,679</b>	<b>\$409,384</b>	<b>\$394,944</b>
Total Annual Debt Service <sup>(3)</sup>	\$285,985	\$278,544	\$272,161	290,349	266,577
Historical Debt Service Coverage per the 1991 Master Resolution <sup>(4)</sup>	139.0%	139.9%	145.0%	141.0%	148.2%
Historical Debt Service Coverage Excluding Transfer	106.6%	106.7%	111.0%	109.1%	113.5%

<sup>†</sup> Restated.

- (1) 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 2004-05 in the amount of \$68.4 million, for Fiscal Year 2005-06 in the amount of \$67.7 million, for Fiscal Year 2006-07 in the amount of \$58.4 million, for Fiscal Year 2007-08 in the amount of \$54.4 million and for Fiscal Year 2008-09 in the amount of \$51.0 million).
- (2) Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year. See “SECURITY FOR THE 2010F/G BONDS—Contingency Account.”
- (3) Annual Debt Service net of accrued and capitalized interest.
- (4) Net Revenues plus Transfer divided by total Annual Debt Service. Must not be less than 125% pursuant to the 1991 Master Resolution. See “SECURITY FOR THE 2010F/G BONDS—Rate Covenant.”

Source: San Francisco Airport Commission.



## Current and Future Financings

### *Tender Bonds*

Since 2008, the Commission has issued several series of bonds that are subject to mandatory tender for purchase (collectively, the “Mandatory Tender Bonds”) in order to remarket or refund variable rate debt as described below. The Commission expects to refund such Mandatory Tender Bonds on their respective mandatory tender dates with long-term fixed rate bonds, variable rate bonds or other tender bonds.

The mandatory tender dates for the Mandatory Tender Bonds are set forth below:

<u>Bonds</u>	<u>Mandatory Tender Date</u>	<u>Outstanding Principal Amount</u>
Series 2009A Bonds	September 15, 2010	\$92,500,000 <sup>†</sup>
Series 2009B Bonds	September 15, 2010	82,500,000 <sup>†</sup>
Series 2008A-3 Notes	May 1, 2011	41,065,000
Series 2008A-4 Notes	May 1, 2012	25,460,000
Series 2009D Bonds	December 4, 2012	88,190,000

<sup>†</sup> The Commission expects to remarket these Bonds into a fixed rate in advance of September 15, 2010 in order to provide proceeds to pay the purchase price of these Mandatory Tender Bonds on such Mandatory Tender Date.

If the Commission is unable to pay the purchase price of the Mandatory Tender Bonds upon the respective mandatory tender date, such Mandatory Tender Bonds would be subject to mandatory redemption. Payment of the principal of the Mandatory Tender 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 Resolution, including the 2010F/G Bonds. Failure to pay such Mandatory Tender 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 each Series tender bonds on their respective mandatory date. See also “CERTAIN RISK FACTORS–Airport Market Access.”

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 the American Recovery and Reinvestment Act of 2009, enacted on February 19, 2009 (“ARRA”), that permits state and local government issuers, such as the Commission, to convert, 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, to bonds the interest on which *is not* a specific preference item for such purposes, thereby resulting in debt service savings. 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 34A and 34B. The Series 2009A/B Bonds are subject to mandatory tender by the Owners thereof for purchase by the Commission on September 15, 2010.

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 remarket the Series 2009A/B Bonds into a fixed rate on September 15, 2010 in order to provide proceeds to pay the purchase price of the Series 2009A/B Bonds on the mandatory tender date.

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 \$99,945,000 were subject to mandatory tender by the Owners thereof for purchase by the Commission on May 1, 2010, and were refunded with a portion of the proceeds of the 2010D Bonds. Series 2008A Notes in the aggregate principal amount of \$41,065,000 are subject to mandatory tender for purchase on May 1, 2011 and Series 2008A Notes in the aggregate principal amount of \$25,460,000 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.

Series 2009D Bonds. On November 4, 2009, the Commission issued its Airport Commission of the City and County of San Francisco San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009D in the aggregate principal amount of \$88,190,000 (the "Series 2009D Bonds"). The Series 2009D Bonds were issued to 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"). The Series 2009D Bonds are subject to mandatory tender for purchase on December 4, 2012. The obligation of the Commission to purchase Series 2009D Bonds upon mandatory tender is not secured by any liquidity or credit facility.

## **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 and file limited information 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 2010F/G Bonds or the issuance and delivery thereof, the existence of the Commission, the title of the officers thereof who shall execute the 2010F/G Bonds to their respective offices, or the pledge of Net Revenues to the payment of the 2010F/G 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**

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the 2010F/G 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 2010F/G Bonds.

Moody's Investors Service ("Moody's") has assigned a rating of "A1" to the 2010F/G 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 2010F/G Bonds and Fitch, Inc., doing business as Fitch Ratings ("Fitch") has assigned a rating of "A+" to the 2010F/G Bonds.

## **UNDERWRITING**

Morgan Stanley & Co. Incorporated, Wedbush Securities Inc. and Citigroup Global Markets Inc. (collectively, the "Underwriters") may offer and sell the 2010F/G Bonds to certain dealers and other at prices lower than the public offering prices set forth on the inside cover page.

The purchase contract pursuant to which Morgan Stanley & Co. Incorporated, on its own behalf and as representative of the Underwriters, are purchasing the 2010F/G Bonds provides that the Underwriters will purchase all of the 2010F/G Bonds if any are purchased. Under the terms of the purchase contract, the obligation of the Underwriters to make the purchase is subject to certain terms and conditions set forth in the purchase contract.

*The following information has been provided by Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. for inclusion in this Official Statement and the Commission cannot and does not make any representations as to its accuracy or completeness.*

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an Underwriter of the 2010F/G Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the 2010F/G Bonds.

## **2010F Bonds**

The 2010F Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$120,420,605.56 (representing the principal amount of the 2010F Bonds, less an original issue discount equal to \$280,743.40 and less an Underwriters' discount equal to \$658,651.04.

## **2010G Bonds**

The 2010G Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$7,028,167.53 (representing the principal amount of the 2010G Bonds, less an original issue discount equal to \$33,299.00 and less an Underwriters' discount equal to \$38,533.47.

## **TAX MATTERS**

### **General**

In the opinion of Kutak Rock LLP and Ronald E. Lee, Esq., Co-Bond Counsel to the Commission, under existing laws, regulations, rulings and judicial decisions, interest on the 2010F/G Bonds is excluded from gross income for federal income tax purposes, except for interest on any 2010F Bond for any period during which such 2010F Bond is held by a "substantial user" of the facilities financed or refinanced by the 2010F Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Co-Bond Counsel are further of the opinion that interest on the 2010F/G Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax.

The opinions described in the preceding paragraph assume the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the 2010F/G Bonds. Failure to comply with such requirements could cause interest on the 2010F/G Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2010F/G Bonds. The Commission will covenant to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the 2010F/G Bonds.

Co-Bond Counsel are of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the 2010F/G Bonds is exempt from State of California personal income taxes.

The accrual or receipt of interest on the 2010F/G Bonds may otherwise affect the federal income tax liability of the owners of the 2010F/G Bonds. The extent of these other tax consequences will depend upon such owners' particular tax status and other items of income or deduction. Co-Bond Counsel have expressed no opinion regarding any such consequences. Purchasers of the 2010F/G Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the 2010F/G Bonds.

### **Backup Withholding**

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the 2010F/G Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the 2010F/G Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

## **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the 2010F/G Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2010F/G Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2010F/G Bonds or the market value thereof would be impacted thereby. Purchasers of the 2010F/G Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2010F/G Bonds and Co-Bond Counsel have expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

## **Tax Treatment of Original Issue Discount**

The 2010F Bonds maturing on May 1, 2040 and the 2010G Bonds maturing on May 1, 2040 (collectively, the "Discount Bonds") are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described under "–General" above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.



## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters incident to the authorization, issuance and sale of the 2010F/G Bonds are subject to the approval of Kutak Rock LLP and Ronald E. Lee, Esq., 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 Underwriters by Hawkins Delafield & Wood LLP, San Francisco, California, Underwriters' Counsel. Co-Bond Counsel expect to deliver separate opinions at the time of issuance of the 2010F/G Bonds each 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 2010F/G Bonds.

The Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel and Underwriters' Counsel will receive compensation with respect to the 2010F/G Bonds which is contingent upon the sale and delivery of the 2010F/G Bonds.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Commission for Fiscal Year 2008-09 and Fiscal Year 2007-08, 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 financial statements also include the 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 2010F/G 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 2009-10, 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 underwriters of the 2010F/G 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.

## 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 Swap Agreements, the Continuing Disclosure Certificate, the Existing Lease Agreements, the 2011 Lease Agreements, the purchase contract pursuant to which the Underwriters are purchasing the 2010F/G Bonds, and the Reserve Account Surety 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 Underwriters. 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

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**APPENDIX A**

**FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY  
CHARGES JUNE 30, 2009 AND 2008 (WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Financial Statements with  
Schedule of Passenger Facility Charge Revenues and Expenditures  
June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)





KPMG LLP  
55 Second Street  
San Francisco, CA 94105

AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statements of Net Assets	27
Statements of Revenues, Expenses, and Changes in Net Assets	29
Statements of Cash Flows	30
Notes to Financial Statements	32
Schedule of Passenger Facility Charge Revenues and Expenditures	66
Notes to Schedule of Passenger Facility Charge Revenues and Expenditures	67
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	68
Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance	70
Schedule of Findings and Responses	72

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, 2009 and 2008, 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, 2009 and 2008, the changes in its 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, 2009 and 2008, and changes in its 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 30, 2009, 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 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.

KPMG LLP

October 30, 2009

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis

June 30, 2009 and 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, 2009 with comparative data for the fiscal year ended June 30, 2008. 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 information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

**Highlights of Airline Operations at the Airport**

Strong passenger traffic growth experienced at San Francisco International Airport (SFO) throughout fiscal year 2008 continued into early fiscal year 2009, and then began a downward trend as airlines reduced capacity in response to record-high fuel costs and softening demand. The onset of the global recession in the fall of 2008 prompted airlines to make additional rounds of capacity reductions following the end of the peak summer travel season. Overall load factors (ratio of passengers to seats available) increased slightly, indicating that the capacity declines kept pace with softening travel demand.

International seat capacity decreased primarily from service reductions by Alaska Airlines, United Airlines and some foreign flag carriers. Domestic capacity increased slightly, with legacy carrier declines offset by growth from low-cost carriers (LCC) Southwest Airlines and Virgin America. Enplanement growth from these two low-cost carriers fully offset overall enplanement declines through November 2008, and then partially offset declines through the remainder of the fiscal year. Declining enplanement levels were also moderated by airline fare promotions to boost ticket sales for 2009 spring and summer travel and new service that was introduced beginning in the spring of 2009. Airlines that introduced new or increased service included Southwest Airlines, Virgin America, Jet Blue and United Airlines domestically, and Emirates, Mexicana, Aeromexico and West Jet internationally.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

Overall, the aforementioned factors resulted in an enplanement decline of 0.8% for fiscal year 2009 as compared to the prior year. This compares to greater fiscal year-over-year enplanement declines of 27.1% and 15.0% at Oakland International Airport and Mineta San Jose International Airport respectively, resulting in a Bay Area passenger market share increase of 5.6 percentage points for SFO to 66.1%. SFO's enplanements in each month of the fiscal year also fared better than the U.S. carrier national average decline of 8.1% fiscal year-over-year to date through May 2009<sup>1</sup>.

**Passenger and Other Traffic Activity**

Domestic enplanements increased by 1.4% during fiscal year 2009, which was the result of strong growth from LCCs Southwest Airlines and Virgin America. Southwest Airlines started the fiscal year with 35 average daily flights and grew to 43, while Virgin America started the fiscal year with 29 average daily flights and grew to 33. International enplanements declined by 7.6% compared to the prior fiscal year, with a nearly flat first quarter and a sharp decline of 10.0% from October through June due to the onset of capacity reductions by airlines in response to softening demand caused by the global recession. Overall load factors increased slightly fiscal year-over-year by 0.7 percentage points to 78.7%. Cargo tonnage declined by 23.6% compared to the prior fiscal year, with international imports being the leading component of the decline. Total aviation operations decreased 3.0% compared to prior fiscal year levels. Aircraft landed weight, which determines revenue generated by landing fees, ended fiscal year 2009 at 3.2% below prior fiscal year levels.

The following table presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2009, 2008, and 2007:

	FY 2009	FY 2008 <sup>2</sup>	FY 2007 <sup>2</sup>	% Change FY 2009	% Change FY 2008
Flight operations	379,200	390,830	365,642	(3.0)%	6.9%
Landing weight (in 000 lbs.)	28,487,728	29,422,214	27,799,981	(3.2)	5.8
Total passengers	36,733,910	37,119,597	34,346,413	(1.0)	8.1
Total enplaned and deplaned passengers	36,475,612	36,707,637	33,855,382	(0.6)	8.4
Enplaned passengers	18,225,064	18,373,489	16,953,978	(0.8)	8.4
Deplaned passengers	18,250,548	18,334,148	16,901,404	(0.5)	8.5
Domestic passengers	28,030,334	27,558,930	25,159,432	1.7	9.5
International passengers	8,445,278	9,148,707	8,695,950	(7.7)	5.2
Cargo and U.S. mail tonnage (in metric tons)	420,784	550,526	572,326	(23.6)	(3.8)

<sup>1</sup> Source: U.S. Department of Transportation, Bureau of Transportation Statistics (available data through May 2009).

<sup>2</sup> Numbers updated to include revised data received subsequent to the 2008 and 2007 fiscal year end.

(Continued)

**Fiscal Year 2009**

**Passenger Traffic**

Compared to the previous fiscal year, passenger enplanements in fiscal year 2009 decreased by 0.8% from 18.4 million to 18.2 million passengers. International passenger enplanements declined 7.6%, while domestic enplanements increased 1.4%, which represents a 12.9 and 7.8 percentage point decline from the 2008 fiscal year-over-year growth rate in the international and domestic sectors respectively. The entirety of the decrease in passenger numbers was international with an enplanement decrease of 344,801 offset by a domestic enplanement increase of 196,376. In the prior fiscal year, international enplanements increased by 221,011 comprising 16% of the prior fiscal year-over-year increase.

The domestic enplanement growth was on a 0.4% increase in seat capacity, primarily from LCCs Southwest Airlines and Virgin America, which fully offset domestic capacity reductions of other carriers. International enplanement declines were on an 8.0% decrease in capacity, primarily from service cancellations to Taipei and Nagoya and seasonal service reductions to Frankfurt and Toronto by United, frequency reduction to Dublin by Aer Lingus, down-gauging of aircraft by some foreign flag carriers, reductions in short-haul flights to Canada and Mexico by Alaska, Air Canada and United, and cessation of service by Jet Airways. Load factors increased in the domestic sector by 0.8% to 78.4% and in the international sector by 0.4% to 79.8%.

**Flight Operations**

During fiscal year 2009, the number of aircraft operations (takeoffs and landings) decreased by 11,630 flights or 3.0% from prior fiscal year levels. Commercial traffic decreased by 2.0%, or 7,535 flights. Civil and military traffic decreased by 20.2%, or 4,095 flights.

Scheduled airline passenger and cargo landings decreased by 1.1% with a decrease in landed weight for these landings of 3.2% compared to the prior fiscal year. Domestic passenger landings and landed weight were both nearly flat fiscal year-over-year. The ratio of domestic aircraft seat capacity per landing was relatively stable year-over-year at approximately 120 seats per landing. This was influenced by an increase in usage of narrow body aircraft by LCCs Southwest Airlines, Virgin America and Jet Blue, and the decrease of wide body and higher capacity narrow body aircraft usage primarily by United and Delta. In the domestic sector, narrow body aircraft landings increased by 2.0%, while wide body aircraft landings decreased by 8.0%.

In the international market, the 6.5% decrease in landed weight was greater than the 4.6% decrease in landings, indicating a trend in smaller aircraft size. The fleet mix on shorter-haul international flights to Canada and Mexico shifted with reductions in narrow body aircraft from Alaska, Air Canada and United, while regional jet service on some Canada routes increased. International wide body aircraft landings decreased by 4.6%, narrow body aircraft landings decreased by 23.8%, while commuter landings increased by 50.5%. Commuter landings overall (domestic and international) were flat year-over-year, with the increase in regional jet service to Canada by Skywest/United Express and Air Canada offsetting domestic decreases from Delta Connection.

Cargo-only landings declined at a rate of 14.1%, which is indicative of the trend in weakening cargo traffic observed throughout fiscal year 2009.

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis

June 30, 2009 and 2008

**Cargo Tonnage**

Fiscal year 2009 cargo and U.S. mail tonnage decreased by 129,742 metric tons or 23.6%. Mail tonnage decreased by 6,205 metric tons or 10.0% and cargo volume excluding mail decreased by 123,536 metric tons or 25.3%. Domestic cargo volume decreased by 24.6%, while international cargo decreased by 25.8%. The leading component of the tonnage declines was international imports, which was likely a result of decreased consumer spending in the U.S. Cargo-only airlines, which carried 26.6% of cargo tonnage, showed a fiscal year-over-year decrease in tonnage of 25.3%. Airlines with passenger only or mixed passenger and freight operations showed a decrease of 22.9%.

**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 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.

(Continued)

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%.

**Financial Highlights, Fiscal Year 2009**

- The assets of the Airport exceeded liabilities at the close of the fiscal year by \$269.4 million.
- Total revenue bonds payable of the Airport decreased by \$379.8 million.
- New notes were issued at the amount of \$314.9 million.
- Operating revenues were \$551.3 million.
- Operating expenses were \$478.6 million.
- Nonoperating expenses net of revenues from nonoperating sources (including revenues of \$68.8 million from passenger facility charges) were \$119.6 million.
- Capital contributions from Airport Improvement Program (AIP) were \$29.8 million.
- Annual service payment to the City for the fiscal year was \$26.8 million.
- Net assets decreased by \$44.0 million.

**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.

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

**Fiscal Year 2009**

Total net assets serve as an indicator of the Airport's financial position. The Airport's assets exceeded liabilities by \$269.4 million and \$313.4 million as of June 30, 2009 and June 30, 2008, respectively, representing a 14.0% decrease or \$44.0 million. Unrestricted net assets represent 84.0% and 80.7% of total net assets as of June 30, 2009 and June 30, 2008, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 0.8% from \$342.9 million on June 30, 2008 to \$345.6 million on June 30, 2009 due principally to an increase in the Airport's cash and investments held in the City Treasury generated from Airport operations.

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 the passenger facility fees (PFC) account held in the City Treasury; in fiscal year 2009, collections of PFC revenues outpaced expenditures of PFC funded capital projects, resulting in an incremental growth of \$9.5 million in PFC cash and investments.

Noncurrent assets which is principally noncurrent accounts receivable decreased by \$0.3 million from \$0.5 million in 2008 to \$0.2 million in 2009 due to the account becoming current.

Noncurrent restricted assets increased from \$338.5 million in fiscal year 2008 to \$367.1 million in fiscal year 2009 because of additional deposits to the debt service reserve fund of \$23.0 million from bond proceeds and increase in federal grants receivable of \$5.6 million.

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 0.5% in fiscal year 2009 due to depreciation and deletions of certain capital assets.

Current liabilities payable from unrestricted assets increased by 7.3% from \$183.5 million as of June 30, 2008 to \$196.9 million as of June 30, 2009 primarily due to the increase in current maturities of the Airport's long-term debt and timing of payment of other current obligations.

Current liabilities payable from restricted assets increased by 133.0% from \$73.7 million as of June 30, 2008 to \$171.7 million as of June 30, 2009 primarily because of issuance of additional commercial paper notes during fiscal year 2009 and increased construction activities.

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 related sick leave and workers' compensation liabilities and other post employment benefits obligation. Noncurrent liabilities decreased by 1.2% in fiscal year 2009 primarily due to the maturity of long-term bonds payable.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

- 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.

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

**Net Asset Summary**

A condensed summary of the Airport's net assets for the fiscal years 2009, 2008, and 2007 is shown below (in thousands):

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

	FY 2009	FY 2008	FY 2007	FY 2009 Increase (decrease)	FY 2008 Increase (decrease)
<b>Assets:</b>					
Unrestricted current assets	\$ 345,640	342,930	306,897	2,710	36,033
Restricted assets available for current outlay	83,198	69,647	55,930	13,551	13,717
Noncurrent assets	181	529	4,215	(348)	(3,686)
Noncurrent restricted assets	367,070	338,543	318,170	28,527	20,373
Capital assets, net	3,584,425	3,600,632	3,640,941	(16,207)	(40,309)
Unamortized bond issuance costs	38,997	45,171	44,947	(6,174)	224
<b>Total assets</b>	<b>4,419,511</b>	<b>4,397,452</b>	<b>4,371,100</b>	<b>22,059</b>	<b>26,352</b>
<b>Liabilities:</b>					
Current liabilities payable from unrestricted assets	196,917	183,461	176,163	13,456	7,298
Current liabilities payable from restricted assets	171,733	73,688	48,840	98,045	24,848
Noncurrent liabilities	3,781,475	3,826,908	3,829,555	(45,433)	(2,447)
<b>Total liabilities</b>	<b>4,150,125</b>	<b>4,084,057</b>	<b>4,054,558</b>	<b>66,068</b>	<b>29,699</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	(222,948)	(177,974)	(122,134)	(44,974)	(55,840)
Restricted for debt service	243,247	220,132	1,590,200	23,115	61,112
Restricted for capital projects	22,804	18,212	34,641	4,592	(16,429)
Unrestricted	226,283	253,025	2,452,155	(26,742)	7,810
<b>Total net assets</b>	<b>\$ 269,386</b>	<b>\$ 313,395</b>	<b>\$ 316,742</b>	<b>(44,009)</b>	<b>(3,347)</b>

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

As of June 30, 2009, the Airport's net assets invested in capital assets, net of related debt were a negative \$222.9 million, compared to a negative \$178.0 million in the prior year because of the residual effect of the Airport depreciating its capital assets faster than the repayment of its bonded debt.

**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 was principally due to the increase in cash and investments in City Treasury generated from increased receipts of PFCs.

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)

**Highlights of Changes in Net Assets**

The following table shows a condensed summary of changes in net assets for fiscal years 2009, 2008, and 2007 (in thousands):

	FY 2009	FY 2008	FY 2007	FY 2009 increase (decrease)	FY 2008 increase (decrease)	FY 2007 increase (decrease)
Operating revenues	\$ 551,283	535,771	503,914	15,512	31,857	31,857
Operating expenses	478,589	451,258	431,059	27,331	20,199	20,199
Operating income	72,694	84,513	72,855	(11,819)	11,658	11,658
Other nonoperating expenses, net	(119,634)	(102,978)	(94,590)	(16,656)	(8,388)	(8,388)
Loss before transfers, contributions, and special item	(46,940)	(18,465)	(21,735)	(28,475)	3,270	3,270
Transfers to the City and County of San Francisco	(26,849)	(25,942)	(23,348)	(907)	(2,594)	(2,594)
Deficiency before capital contributions	(73,789)	(44,407)	(45,083)	(29,382)	676	676
Capital contributions	29,780	41,060	46,902	(11,280)	(5,842)	(5,842)
Changes in net assets	(44,009)	(3,347)	1,819	(40,662)	(5,166)	(5,166)
Total net assets at beginning of year	313,395	316,742	314,923	(3,347)	1,819	1,819
Total net assets at end of year	\$ 269,386	313,395	316,742	(44,009)	(3,347)	(3,347)





**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

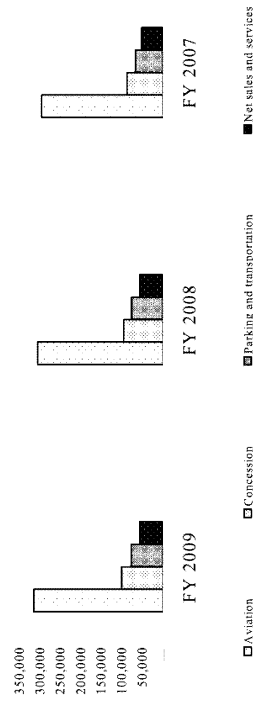
During fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007, revenues realized from the following sources equal or exceed 5% of the Airport's total operating revenues:

	FY 2009	FY 2008	FY 2007
United Airlines	14.8%	22.7%	21.1%
New South Park	11.8	6.3	—
AMPCO Parking Systems	—	—	9.0

The following shows a comparative summary of operating revenues for fiscal years 2009, 2008, and 2007:

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

	FY 2009	FY 2008	FY 2007	FY 2009 percentage increase	FY 2008 percentage (decrease)	FY 2007 percentage (decrease)
Aviation	\$ 315,777	306,348	296,368	3.1%	3.1%	3.4%
Concession	101,099	96,268	88,225	5.0	9.1	9.1
Parking and transportation	77,896	76,679	67,428	1.6	13.7	13.7
Net sales and services	56,511	56,476	51,893	0.1	8.8	8.8
<b>Total operating revenues</b>	<b>\$ 551,283</b>	<b>\$ 535,771</b>	<b>\$ 503,914</b>	<b>2.9%</b>	<b>6.3%</b>	<b>6.3%</b>



**Fiscal Year 2009**

Operating revenues increased by 2.9% from \$535.8 million in fiscal year 2008 to \$551.3 million in fiscal year 2009. Increases were seen in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 3.1% from \$306.3 million in fiscal year 2008 to \$315.8 million in fiscal year 2009 primarily due to airline terminal rentals, other aviation rentals and employee parking, offset by declines in landing fee revenue and other revenues. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds decreased 0.3% from \$3.01 in 2008 to \$3.00 in 2009 while airline average annual terminal rent per square foot increased 4.6% from \$91.60 in 2008 to \$95.85 in 2009. Before the aforementioned net overcharge adjustment, revenue from landing fees decreased by \$3.2 million, reflecting the 3.2% decline in airline landed weight, while terminal rentals increased by \$6.1 million primarily from the increase in the average terminal rental rate. The impact of the overcharge adjustment was positive by \$6.3 million as the overcharge dropped from \$6.6 million in fiscal year 2008 to \$0.3 million in fiscal year 2009. Other aviation revenues were flat, with an increase of \$0.2 million or 0.2%. Aviation lease revenue increased by \$0.9 million and employee parking increased by \$0.3 million. These increases were offset by declines in jet bridge fees of \$0.7 million due to the decrease in cost recovery fees and a \$0.3 million decrease in cargo rentals. Aircraft parking and fixed base operations (general aviation) also had slight revenue declines.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free retail merchandise (gifts, candy, tobacco, and news) and rental car concessions increased by 5.0% from \$96.3 million in fiscal year 2008 to \$101.1 million in fiscal year 2009 even though enplaned and deplaned passengers decreased by 0.6%. Revenue from rental car activity increased by \$3.0 million or 10.1%, primarily due to new rental car concession leases that included higher Minimum Annual Guarantee (MAG) rents. Telephone revenues increased \$1.2 million or 51.6% reflecting higher sales for Wi-Fi services. Food and beverage revenues increased \$0.5 million or 4.5% reflecting a new concession in the International Terminal, general price increases for most concessionaires and increased domestic enplanements. Retail merchandise sales activity decreased by approximately 8.6%, revenue increased \$0.7 million or 2.0%. The sales decline was primarily related to Duty Free Shops, reflecting the decline in international passengers; however DFS' rent was flat as MAG was paid in both years. Other retail declined by 5.0%, with most concessionaires paying MAGs that included cost of living increases. Additionally, several locations that were under percentage rent only during build-out last fiscal year went on full MAG in fiscal year 2009. These increases were offset by \$0.6 million of net miscellaneous changes, primarily a decrease in advertising revenues related to the recession.

Parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 1.6% from \$76.7 million in fiscal year 2008 to \$77.9 million in fiscal year 2009. Although parking exits declined by 1.5%, parking revenues increased by \$2.2 million or 3.3%. The increase resulted from a long-term parking fee increase of \$1 per day and an hourly parking increase of \$1 per hour in November 2008. The increase in parking was offset by a \$0.8 million or 8.0% decrease in ground transportation trip fees. Ground transportation trips declined by 14.3% offset by an average 3.8% increase in ground transportation fees.

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 were nearly flat, with an increase of 0.1% in fiscal year 2009 compared to fiscal year 2008. Rental car facility structure rent increased \$1.3 million or 12.5% as the result of new rental car leases effective January 2009. Miscellaneous terminal fees increased by \$0.6 million or 32.9% from two new fees, a concession tenant marketing fee of \$1 per square foot and rent related to the opening of the secure connector between Terminal 3 and the International Terminal Boarding Area G, as well as an increase in domestic terminal food

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

court cleaning fees. The increases were offset by a \$0.9 million or 3.8% decrease in the passenger facility fee (AirTrain fee charged on rental car contracts) due to a 9.6% decline in rental car contracts offset by a \$1 per contract fee increase, and a \$0.9 million decrease in miscellaneous revenue, which is variable.

**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 Wi-Fi 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

(Continued)

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.

**Operating Expenses**

The following shows a comparative summary of operating expenses for fiscal years 2009, 2008, and 2007 (in thousands):

	FY 2009	FY 2008	FY 2007	Percentage increase (decrease) FY 2009	Percentage increase (decrease) FY 2008
Personnel	\$ 199,519	185,238	163,945	7.7%	13.0%
Depreciation and amortization	158,216	151,121	142,807	4.7	5.8
Contractual services	55,258	51,914	53,148	6.4	(2.3)
Light, heat, and power	19,306	18,893	18,515	2.2	2.0
Services provided by other City departments	11,422	10,863	12,425	5.1	(12.6)
Repairs and maintenance	17,523	15,848	14,481	10.6	9.4
Materials and supplies	11,435	11,319	11,016	1.0	2.8
General and administrative	1,198	1,610	8,663	(25.6)	(81.4)
Amortization of bond issuance costs	4,550	4,288	3,560	6.1	20.4
Environmental cleanup expenses	162	164	2,499	(1.2)	(93.4)
	\$ 478,589	451,258	431,059	6.1%	4.7%

**Fiscal Year 2009**

Total operating expenses increased by 6.1% or \$27.3 million to \$478.6 million in fiscal year 2009 from \$451.3 million in fiscal year 2008. Changes in the different operating expense categories are discussed below.

Personnel costs increased \$14.3 million or 7.7% from \$185.2 million in fiscal year 2008 to \$199.5 million in fiscal year 2009, primarily due to base wage increases required by various Memoranda of Understanding (MOU) agreements between the City and its labor unions and increase in other post employment benefits obligation from \$15.4 million in fiscal year 2008 to \$16.8 million in fiscal year 2009. (see notes 2(b) and 9(b)).

Depreciation and amortization increased by 4.7% from \$151.1 million in fiscal year 2008 to \$158.2 million in fiscal year 2009 due to the addition of capital assets placed in service.

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

Contractual services costs increased by 6.4% from \$51.9 million in fiscal year 2008 to \$55.2 million in fiscal year 2009, due to the increase in expenditures for international marketing services by the San Francisco Convention and Visitor Bureau and cost escalation in the New South Park parking services contract, and SFO Shuttle bus contract.

The costs of services provided by other City departments increased 5.1% from \$10.9 million in fiscal year 2008 to \$11.4 million in fiscal year 2009 primarily due to one-time expenditures for a new enterprise human resources management system offset by a decrease in legal expenses.

Repairs and maintenance costs increased by 10.6% from \$15.8 million in fiscal year 2008 to \$17.5 million in fiscal year 2009 due to increased maintenance cost for the AirTrain, escalators, elevators, and moving walkways in the various terminal areas.

General and administrative costs decreased by 25.6% from \$1.6 million in fiscal year 2008 to \$1.2 million in fiscal year 2009 principally due to a reversal of a provision for loss contingencies relating to certain litigation.

**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 costs 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.

Costs of 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)

Repairs and maintenance costs 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.

Costs of 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.

18 (Continued)

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

**Nonoperating Revenues and Expenses**

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2009, 2008, and 2007 (in thousands):

	FY 2009	FY 2008	FY 2007	Percentage increase (decrease) FY 2009	Percentage increase (decrease) FY 2008
Nonoperating revenues:					
Passenger facility charges	\$ 68,845	69,476	64,277	(0.9)%	8.1%
Investment income	22,805	29,368	36,272	(22.3)	(19.0)
Other	3,943	6,827	2,655	(42.2)	157.1
Total	95,593	105,671	103,204	(9.5)%	2.4%
Nonoperating expenses:					
Interest expense	204,746	200,323	193,773	2.2%	3.4%
Write-offs, loss on disposal, and other	10,481	8,526	4,021	23.9	107.1
Total	215,227	208,849	197,794	3.2%	5.5%
	<u>\$ (119,634)</u>	<u>(102,978)</u>	<u>(94,590)</u>	<u>16.2%</u>	<u>8.9%</u>

**Fiscal Year 2009**

Nonoperating revenues consist primarily of 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 \$68.8 million during this fiscal year a decrease of 0.9% compared to the \$69.5 million received the prior fiscal year because of the decrease in passenger traffic. 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 4.30% in 2008 to 2.57% in 2009.

Other nonoperating revenue is principally due to the reversal of a provision for loss contingencies relating to certain litigation. (see note 12c)

In fiscal year 2009, transfers to the City and County of San Francisco (City) increased by \$0.9 million, 3.5% 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 \$29.8 million.

19 (Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

**Fiscal Year 2008**

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense and loss on disposal of capital assets. PFCs 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 litigation. (see note 12c)

In fiscal year 2008, transfers to the 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.

**Fiscal Year 2009**

**Capital Acquisitions and Construction**

Under the Lease and Use Agreement, 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 Agreement also provides for airline review of capital projects meeting the dollar thresholds established in the Agreement.

The year's major capital additions included:

	<u>Amount</u>
Terminal 2 Renovation	\$ 61,882,291
Secure Connector Terminal 3 to Boarding Area G	11,759,559
Runway 28R-10L Overlay and Reconstruction	8,793,030
Taxiways A and B Reconstruction	8,425,734
Upgrade International Terminal Building Baggage Handling System	5,603,450
Hunters Point Wetlands Restoration	4,045,000
Electrical Distribution Cable Replacement	3,065,647
Runway 28L-10R Overlay and Reconstruction	2,522,237
Southwest Baggage Screening Renovation	2,300,000
Boarding Area B; Apron Reconstruction	2,202,955
Pavement Replacement and Construction, Phase II	2,179,625
Superbay Hangar Improvements	1,760,280
Rehabilitation of Airport Cooling towers	1,691,415
Terminal Upper Viaduct Improvement	1,588,051
Central Plant Boiler Improvement	1,394,693
Electrical Substation Security System	1,364,188
<b>Total</b>	<u>\$ 120,578,175</u>

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

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

**Fiscal Year 2008**

**Capital Acquisitions and Construction**

Under the Lease and Use Agreement, 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 Agreement also provides for airline review of capital projects meeting the dollar thresholds established in the Agreement.

The year's major capital additions included:

	<u>Amount</u>
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
<b>Total</b>	<u>\$ 92,543,495</u>

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

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

**Fiscal Year 2009**

***Long-Term Debt Administration***

During fiscal year 2009, turmoil in the global financial markets continued to affect the Airport's financing considerations. Moody's, Standard and Poor's, and Fitch (collectively, the Rating Agencies) each downgraded the claims paying ability and financial strength ratings of most of the nation's monoline municipal bond insurance companies and many other financial institutions, including several that provided credit enhancement, liquidity support and other financial products relating to the Airport's Bonds. While the Airport had relatively limited exposure to Lehman Brothers Holdings Inc. (LBHI), LBHI's filing for Chapter 11 bankruptcy on September 15, 2008, in tandem with other market developments, collectively resulted in significant disruption to the floating interest rate on the Airport's second series variable rate revenue refunding bonds. Furthermore, LBHI's subsidiary, Lehman Brothers Special Financing Inc. (LBSF), was the counterparty on \$173.6 million of interest rate swaps hedging the Airport's Issue 37A bonds. The bankruptcy of LBHI constituted an event of default with LBSF and created an optional termination right for the Airport. Accordingly, to help stabilize its variable interest expense, and reduce exposure to LBSF, the Airport issued \$314.9 million of second series revenue notes Series 2008A and 2008B (2008A/B Notes) on October 30, 2008 and December 3, 2008, respectively. The 2008A/B Notes refunded Issues 37A/B and paid for the termination payments of three swaps (including two with LBHI) that had hedged Issue 37A.

The Airport converted the tax status of \$266.7 million of Issue 36A/B/C and 37C second series variable rate revenue refunding bonds, from Alternative Minimum Tax (AMT) to Non-AMT on June 2, 2009. The conversions were permitted under tax provisions within the American Recovery and Reinvestment Act of 2009 (ARRA), the economic stimulus package enacted by Congress and signed into law by President Obama on February 17, 2009. The conversions required existing bondholders to surrender the bonds to remarketing agents, who remarketed the converted bonds to new investors. Due to the more favorable tax implications for investors, Non-AMT bonds typically have lower interest rates than AMT bonds and appeal to a wider investor base.

Further descriptions are set forth below. A series of refunding bonds (the Issue 35 Bonds) may be issued on or about February 1, 2010, for debt service savings. While the Airport has not issued long-term new money bonds since 2002, the Airport expects to finance approximately \$648 million in infrastructure projects during fiscal years 2010 and 2011 with long-term bonds.

On October 30, 2008, the Airport issued its Second Series Revenue Notes Series 2008A in the principal amount of \$226.7 million. The Series 2008A Notes are subject to AMT, and proceeds were used to refund Issue 37A, fund the termination of three associated Issue 37A swaps, and pay costs of issuance.

On December 3, 2008, the Airport issued its Second Series Revenue Notes Series 2008B in the principal amount of \$88.2 million. The Series 2008B Notes are subject to AMT, and proceeds were used to purchase and place the Issue 37B Bonds into a trust, and pay costs of issuance.

On June 2, 2009, the Airport converted \$266.7 million of Issue 36A/B/C and 37C Second Series Revenue Notes from AMT to Non-AMT.

The majority of the Airport's variable rate demand bonds are hedged using interest rate swaps. Pursuant to these swap agreements, the Airport receives a monthly variable rate payment from each counterparty that approximates the variable interest rates the Airport pays on the associated variable rate demand 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. The Commission's outstanding interest rate swaps were initially structured to hedge Issue 31F, Issue 32, and Issue 33. In tandem with the refunding of Issue 37A on October 30, 2008, the Commission terminated three of its outstanding swaps. As a result, the Airport ended fiscal year 2009 with six swaps outstanding in the notional amount of \$369.4 million. As of June 30, 2009, these swaps are hedging Issues 36A-D, Issue 37C and a portion of Issues 34A/B, either directly or indirectly. The Airport has two forward-starting swaps totaling \$215.9 million which take effect in February 2010, that are intended to hedge the planned Issue 35 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 2009, 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 1991 Master Bond Resolution.

**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.



**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis

June 30, 2009 and 2008

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 AMT 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 AMT 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 AMT 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 AMT 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 AMT 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 AMT 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 AMT 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 36C/D in the principal amount of \$68.8 million. The Issue 36C Bonds are subject to AMT 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.

24

(Continued)

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 2009**

***Credit Ratings and Bond Insurance***

The Airport's underlying bond ratings were affirmed by all Rating Agencies in conjunction with the issuance of the Series 2008A and Series 2008B Notes and the conversions of the Issue 36A/B/C and 37C Bonds to non-AMT. Moody's, S&P, and Fitch maintained their long-term ratings of "A1," "A," and "A," respectively. The 2008B Notes, which are subject to mandatory tender for purchase by the Airport twelve-months from their issue date, received short-term ratings of "MIG-1," "SP-1<sup>+</sup>" and "F1," respectively.

The Airport, in connection with the sale of most of the Airport's outstanding revenue bond issues, purchased municipal bond insurance rated "AAA" (at the time of the bond issue) to guarantee the payment of principal and interest when due. Accordingly, the downgrade of various bond insurance companies by the credit rating agencies throughout fiscal year 2009 caused the Airport's insured ratings to decline in tandem with the bond insurer's ratings.

Subsequent to June 30, 2009, one of the bond insurance companies was downgraded by the credit rating agencies.

**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 had 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.

25

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Management's Discussion and Analysis  
June 30, 2009 and 2008

**Fiscal Year 2010 Airline Rates and Charges**

***Rates and Charges, Fiscal Year 2010***

Terminal rental rates and airline landing fees for fiscal year 2010 have been developed as part of the annual budget process that started in October 2007. The Lease and Use Agreement 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 2010, which became effective as of July 1, 2009, are as follows:

Effective average terminal rental rate (per sq. ft.)	\$ 100.610
Scheduled aircraft with permit – landing fee rate (per 1,000 lbs.)	3.150
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	3.470

The effective average terminal rental rate increased by 5.0% from \$95.85 per sq. ft. in fiscal year 2009 to \$100.61 per sq. ft. in fiscal year 2010. The fiscal year 2010 landing fee rate for scheduled aircraft with a permit increased by 5.0% from \$3.00 per 1,000 pounds in fiscal year 2009 to \$3.15 per 1,000 pounds in fiscal year 2010 while the fiscal year 2010 landing fee rate for general aviation and itinerant aircraft increased by 5.0% from \$3.30 per 1,000 pounds in fiscal year 2009 to \$3.47 per 1,000 pounds in fiscal year 2010.

***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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Statements of Net Assets  
June 30, 2009 and 2008  
(In thousands)

	2009	2008
<b>Assets:</b>		
<b>Current assets:</b>		
Unrestricted current assets:		
Cash and investments held in City Treasury – Operating Fund	\$ 307,696	299,153
Cash – Revolving Fund	10	10
Accounts receivable (net of allowance for doubtful accounts: 2009, \$368; 2008, \$305)	33,674	38,352
Accrued interest	960	2,094
Inventories	81	73
Other current assets	3,219	3,248
<b>Total unrestricted current assets</b>	<b>345,640</b>	<b>342,930</b>
<b>Restricted assets available for current outlay:</b>		
For capital outlay:		
Cash and investments held in City Treasury	36,986	27,522
For revenue bond reserves and debt service:		
Investments with Trustee	44,955	41,814
Grants receivable	1,257	311
<b>Total restricted assets available for current outlay</b>	<b>83,198</b>	<b>69,647</b>
<b>Total current assets</b>	<b>428,838</b>	<b>412,577</b>
<b>Accounts receivable – noncurrent</b>	<b>181</b>	<b>529</b>
<b>Restricted assets:</b>		
For capital outlay:		
Cash and investments held in City Treasury	101,650	100,089
Accrued interest – City Treasury	425	829
For revenue bond reserves and debt service:		
Investments with Trustee	243,874	220,554
Grants receivable	12,509	6,869
Passenger facility charges and other receivable	8,612	10,202
<b>Total restricted assets</b>	<b>367,070</b>	<b>338,543</b>
<b>Capital assets, net</b>	<b>3,584,425</b>	<b>3,600,632</b>
<b>Unamortized bond issuance costs</b>	<b>38,997</b>	<b>45,171</b>
<b>Total assets</b>	<b>4,419,511</b>	<b>4,397,452</b>

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Statements of Net Assets  
June 30, 2009 and 2008  
(In thousands)

	2009	2008
<b>Liabilities:</b>		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities	\$ 33,698	28,995
Accrued payroll	8,512	7,726
Compensated absences	7,410	6,930
Accrued workers' compensation	1,015	948
Estimated claims payable	25	15
Due to City and County of San Francisco	—	21
Deferred aviation revenue	51,075	50,827
Rent collected in advance	13,753	14,728
Current maturities of long-term debt	81,429	73,271
Total current liabilities payable from unrestricted assets	196,917	183,461
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities	18,098	12,895
Accrued payroll	516	247
Grants received in advance	1,257	311
Accrued bond interest payable	29,296	27,301
Current maturities of long-term debt	16,286	14,934
Commercial paper	106,280	18,000
Total current liabilities payable from restricted assets	171,733	73,688
Total current liabilities	368,650	257,149
Noncurrent liabilities:		
Compensated absences, net of current portion	6,472	5,983
Accrued workers' compensation, net of current portion	4,199	3,888
Estimated claims payable, net of current portion	41	22
Other post employment benefits obligation	32,226	15,413
Notes payable	304,872	—
Long-term debt, net of current maturities	3,433,665	3,801,602
Total noncurrent liabilities	3,781,475	3,826,908
Total liabilities	4,150,125	4,084,057
Net assets:		
Invested in capital assets, net of related debt	(222,948)	(177,974)
Restricted for debt service	243,247	220,132
Restricted for capital projects	22,804	18,212
Unrestricted	226,283	253,025
Total net assets	\$ 269,386	313,395

See accompanying notes to financial statements.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Statements of Revenues, Expenses, and Changes in Net Assets  
Years ended June 30, 2009 and 2008  
(In thousands)

	2009	2008
Operating revenues:		
Aviation	\$ 315,777	306,348
Concession	101,099	96,268
Parking and transportation	77,896	76,679
Net sales and services	56,511	56,476
Total operating revenues	551,283	535,771
Operating expenses:		
Personnel	199,519	185,238
Depreciation and amortization	158,216	151,121
Contractual services	55,258	51,914
Light, heat, and power	19,306	18,893
Services provided by other City departments	11,422	10,863
Repairs and maintenance	17,523	15,848
Materials and supplies	11,435	11,319
General and administrative	1,198	1,610
Amortization of bond issuance costs	4,550	4,288
Environmental cleanup expenses	162	164
Total operating expenses	478,589	451,258
Operating income	72,694	84,513
Nonoperating revenues (expenses):		
Investment income	22,805	29,368
Interest expense	(204,746)	(200,323)
Passenger facility charges	68,845	69,476
Write-offs, loss on disposal and demolition costs	(10,481)	(8,326)
Other nonoperating revenues, net	3,943	6,827
Total nonoperating expenses, net	(119,634)	(102,978)
Loss before capital contributions and transfers	(46,940)	(18,465)
Capital contributions:		
Federal grants	29,780	41,060
Transfers to the City and County of San Francisco (note 10)	(26,849)	(25,942)
Changes in net assets	(44,009)	(3,347)
Total net assets – beginning of year	313,395	316,742
Total net assets – ending of year	\$ 269,386	313,395

See accompanying notes to financial statements.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Cash received from airline carriers, concessionaires, and others	\$ 574,731	568,026
Cash paid for employees' services	(180,574)	(168,587)
Cash paid to suppliers of goods and services	(135,268)	(129,054)
Net cash provided by operating activities	258,889	270,385
Cash flows from noncapital financing activities:		
Transfers to the City and County of San Francisco	(26,849)	(25,942)
Other noncapital financing receipts	3,942	6,827
Net cash used in noncapital financing activities	(22,907)	(19,115)
Cash flows from capital and related financing activities:		
Cash paid to escrow agent for debt refunding	(52)	(35,921)
Principal paid on revenue bonds	(88,205)	(75,510)
Interest paid on revenue bonds and commercial paper borrowings	(188,808)	(191,349)
Acquisition and construction of capital assets	(136,414)	(116,450)
Proceeds from passenger facility charges	70,435	72,594
Proceeds from commercial paper	81,506	18,000
Capital contributed by federal agencies and others	24,140	52,176
Net cash used in capital and related financing activities	(237,398)	(276,460)
Cash flows from investing activities:		
Sale of investments with Trustee	3,356,967	2,821,703
Purchases of investments with Trustee	(3,360,413)	(2,806,847)
Interest received on investments	23,852	35,152
Net cash provided by investing activities	20,406	50,008
Net increase in cash and cash equivalents	18,990	24,818
Cash and cash equivalents, beginning of year	428,424	403,606
Cash and cash equivalents, end of year	447,414	428,424
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and investments held in City Treasury -- Operating Fund	\$ 307,696	299,153
Cash -- Revolving Fund	10	10
Restricted cash and investments in City Treasury	138,636	127,611
Cash, cash equivalents, and investments	446,342	426,774
Unrealized gain on investments	1,072	1,650
Cash and cash equivalents, June 30, 2009	\$ 447,414	428,424

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	<b>2009</b>	<b>2008</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 72,694	84,513
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	158,216	151,122
Provision for doubtful accounts	63	(1,038)
Cost of issue funds from bond proceeds	(1,116)	2,303
Amortization of bond issuance costs	4,550	4,288
Changes in operating assets and liabilities:		
Accounts receivable	8,910	1,038
Inventories	(8)	(13)
Other current assets	29	(1,754)
Accounts payable and other liabilities	(2,668)	(3,510)
Accrued payroll	786	1,101
Compensated absences	969	77
Accrued workers' compensation	378	59
Other post employment benefits obligation	16,813	15,413
Deferred aviation revenue	248	6,588
Rent collected in advance	(975)	10,198
Net cash provided by operating activities	\$ 258,889	270,385
Noncash transactions:		
Accrued capital asset costs	\$ 29,290	16,437

See accompanying notes to financial statements.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

**(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 tenth busiest airport in the United States in terms of passengers and fourteenth in terms of 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. 49**

Effective July 1, 2008, the Airport has adopted the provisions of GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement establishes standards for accounting and financial reporting for pollution remediation obligations.

This Statement establishes a framework for recognition and measurement of pollution remediation liabilities that incorporates the following interrelated features:

- Obligor events;
- Components and benchmarks; and
- Measurement, including the expected cash flow technique.

The implementation of GASB 49 did not have a significant impact on the Airport for the fiscal year ending June 30, 2009.

**Governmental Accounting Standards Board (GASB) No. 45**

Effective July 1, 2007, 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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash 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.

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 the Lease and Use Agreement with the airlines. Under the Lease and Use Agreement, 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 Agreement was executed in 1981 as part of a negotiated settlement with the airlines. The majority of airlines operate under the Lease and Use Agreement that expires in 2011. All other airlines operate under month-to-month permits with the same terms and conditions as the original 1981 Lease and Use Agreement.

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 Agreement, the Airport owed the Airlines approximately \$51.1 million and \$50.8 million on June 30, 2009 and 2008, 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).



**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

**(k) Environmental Cleanup Expenses and Recoveries**

The Airport incurs costs associated with environmental cleanup activities, 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.

**(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 and investments, at fair value, held by the City in the City's pool as of June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Pooled cash and investments:		
Cash and investments held in City Treasury – operating	\$ 307,696	299,153
Cash and investments held in City Treasury – capital outlay	138,636	127,611
Total cash and investments in City Treasury	<u>\$ 446,332</u>	<u>426,764</u>

The following table shows the percentage distribution of the City's pooled investments by maturity:

Under 1	Investment maturities (in months)	
	1 – 6	6 – 12
9.9%	27.0%	8.8%
		54.3%

The restricted assets for revenue bond reserves and debt service are held by an independent trustee. As of June 30, 2009, the Airport had investments with maturities as follows (in thousands):

Investments	Credit Ratings (S&P/Moody's/ Fitch)	June 30, 2009		June 30, 2008	
		Maturities	Fair value	Maturities	Fair value
Federal Home Loan Mortgage Discount Notes	—	\$ —	—	July 3, 2008	\$ 41,819
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1=	—	40	October 29, 2008	101,002
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1=	—	42,087	November 3, 2008	43,070
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1=	—	102,125	—	—
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1=	—	98,534	—	—
Federal Home Loan Bank Discount Note	A-1+/P-1/F1=	—	43,060	July 3, 2008	56,919
Federal Home Loan Bank Discount Note	A-1+/P-1/F1=	—	1,510	—	—
Federal Home Loan Bank Discount Note	A-1+/P-1/F1=	—	1,510	—	—
U.S. Treasury Bills	Non-Rated	—	(37)	July 10, 2008	19,554
Cash		—	—	—	4
Total		\$ 288,829	—	—	\$ 262,368

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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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 of any one commercial bank. The Airport has approximately \$288.8 million and \$262.4 million in investments held by, and in the name of, the fiscal agent as of June 30, 2009 and 2008, 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 \$13,766,000 and \$7,180,000 as of June 30, 2009 and June 30, 2008, 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, 2009 and 2008, the Airport experienced no reduction to its grants receivable nor refunded any amounts to the FAA.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

**(5) Capital Assets**

Capital assets consist of the following (in thousands):

	July 1, 2008	Additions	Deletions	Transfers	June 30, 2009
Capital assets not being depreciated:					
Land	\$ 2,787	—	—	—	2,787
Construction in progress	55,150	146,639	(8,082)	(83,807)	109,900
Total capital assets not being depreciated	57,937	146,639	(8,082)	(83,807)	112,687
Capital assets being depreciated/amortized:					
Buildings, structures, and improvements	5,037,915	—	(22,528)	72,677	5,088,064
Equipment	66,835	5,740	(4,294)	10,880	79,161
Easements	139,367	—	—	250	139,617
Total capital assets being depreciated/amortized	5,244,117	5,740	(26,822)	83,807	5,306,842
Less accumulated depreciation/amortization for:					
Buildings, structures, and improvements	(1,572,935)	(148,770)	20,260	—	(1,701,445)
Equipment	(54,568)	(2,492)	4,274	—	(52,786)
Easements	(73,919)	(6,954)	—	—	(80,873)
Total accumulated depreciation/amortization	(1,701,422)	(158,216)	24,534	—	(1,835,104)
Total capital assets being depreciated/amortized, net	3,542,695	(152,476)	(2,288)	83,807	3,471,738
Total capital assets, net	\$ 3,600,632	(5,837)	(10,370)	—	3,584,425

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

	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 not being depreciated	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

Total interest cost was approximately \$207,971,000 for 2009 and \$203,151,000 for 2008, of which approximately \$3,225,000 and \$2,828,000, 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

40

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

cost input base applied on capital projects; indirect costs capitalized for the year ended June 30, 2009 and 2008 were \$6.12 million and \$8.35 million, respectively.

**(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 securing the CP. 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.

As of June 30, 2009, the outstanding principal amount of CP was \$106.28 million. The proceeds of the CP 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 2009, the interest rate for the taxable CP was 0.90%; interest rates for tax-exempt private activity (AMT) CP ranged from 0.35% to 0.55% and the interest rates on tax-exempt governmental purpose CP (non-AMT) ranged from 0.25% to 0.40%.

The following table shows the CP issuances during the fiscal year ended June 30, 2009 (in thousands):

	Interest rate	July 1, 2008	Increases	Decreases	June 30, 2009
Commercial paper (taxable)	0.90%	\$ —	1,620	—	1,620
Commercial paper (AMT)	0.35% - 0.55%	18,000	86,825	(6,885)	97,940
Commercial paper (non-AMT)	0.25% - 0.40%	—	6,720	—	6,720
Total		\$ 18,000	95,165	(6,885)	106,280

**(7) Long-Term Debt**

**(a) Second Series Revenue Refunding Bonds**

The Commission has authorized the issuance of up to \$6.8 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.

**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.

41

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
Bond Issue:			
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	<u>\$ 157,425,000</u>		

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.

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

**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:

	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
Bond Issue:			
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	<u>\$ 450,075,000</u>		

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.

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

The 34C/D/E/F Bonds have final maturity dates between May 1, 2016 and May 1, 2026. Issues 34C and 34F are Non-Callable, while 34D and 34E will be Callable on May 1, 2018.

**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.

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.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
Bond Issue:			
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 bonds were purchased on May 23, 2008 (Issues 32A and 32B) and June 13, 2009 (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.

**Second Series Revenue Bonds Issue 36C/D**

In May 2008, the Commission issued its Second Series Variable Rate Refunding Bonds Issue 36C/D in the amount of \$68.83 million to refund certain Outstanding Issue 15A fixed rate bonds and 32D and 32E auction rate securities. The Issue 36C/D Bonds are 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 36C and 36D Bonds through July 2, 2008 was 1.651% and 1.521% respectively. The final maturity of both issues is May 1, 2026.

(Continued)

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	\$ 60,885,000		

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.

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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% - 5.0000%	102%
Issue 15B	18,360,000	4.250% - 5.0000%	102%
Issue 16A	36,960,000	5.000% - 5.125%	101%
Total	<u>\$ 103,590,000</u>		

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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.

**Conversion of Second Series Variable Rate Revenue Refunding Bonds – Issue 36A/ 36B/ 36C/37C**

The American Recovery and Reinvestment Act of 2009 provides the ability for the Airport to convert AMT bonds to non-AMT bonds. In June 2009, the Airport remarketed San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds. The following series of bonds were converted: Issue 36A Bonds – principal amount of \$100.0 million, Issue 36B Bonds – principal amount of \$40.62 million, Issue 36C Bonds – principal amount of \$36.15 million, and Issue 37C Bonds – principal amount of \$89.9 million.

The Airport's remarketing agents converted the existing AMT bonds by finding new investors willing to buy new bonds on a non-AMT basis. The non-AMT proceeds were then used to pay off the AMT Issue 36A/36B/36C/37C Bonds. As a result of the converted bonds, lower interest rates and debt services were achieved due to the non-AMT tax status.

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.

(Continued)



**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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 \$102,380,000 and \$105,775,000 in Special Facilities Lease Revenue Bonds outstanding as of June 30, 2009 and June 30, 2008, respectively, for SFO Fuel Company LLC (SFO Fuel). SFO Fuel is 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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

As of June 30, 2009 and June 30, 2008, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2009	2008
<b>Second Series Revenue Bonds:</b>				
Issue 15	01/01/98	4.25% - 5.50%	243,390	246,300
Issue 16	04/01/98	4.75% - 5.50%	32,135	32,135
Issue 17	04/01/98	4.75% - 5.50%	10,755	10,755
Issue 18	07/01/98	5.00% - 6.25%	57,515	57,515
Issue 20	10/01/98	4.25% - 5.00%	206,735	221,610
Issue 21	10/01/98	4.25% - 5.00%	61,465	69,905
Issue 22	12/01/98	4.40% - 6.00%	96,465	96,465
Issue 23	05/01/99	4.40% - 5.50%	158,350	163,885
Issue 24	03/01/00	4.875% - 6.00%	94,280	97,025
Issue 25	03/01/00	4.875% - 6.00%	103,110	105,540
Issue 26	12/07/00	4.75% - 6.50%	187,225	192,155
Issue 27	07/11/01	4.00% - 5.50%	427,340	438,075
Issue 28	03/14/02	3.25% - 5.50%	210,430	225,410
Issue 29	02/05/03	3.00% - 5.50%	125,675	134,355
Issue 30	02/10/04	3.865% - 5.25%	34,820	34,820
Issue 31F	01/26/05	3.95% - 4.91%	103,815	109,315
Issue 32 F/G/H	11/16/06	4.00% - 5.25%	444,060	453,000
Issue 34A/B	04/09/08	Variable rate	175,000	175,000
Issue 34C/D/E/F	03/27/08	4.00% - 5.75%	472,105	476,350
Issue 36A/B	05/07/08	Variable rate	140,620	140,620
Issue 36C/D	05/20/08	Variable rate	68,830	68,830
Issue 37A/B	05/07/08	Variable rate	—	284,820
Issue 37C/D	05/15/08	Variable rate	109,585	109,585
Total			3,563,705	3,943,470
Less current portion			(97,715)	(88,205)
Unamortized discount			(7,749)	(8,428)
Unamortized deferred amount on refunding			(77,241)	(101,915)
Unamortized premium			52,665	56,680
		\$	3,433,665	3,801,602

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

Revenue bond debt service requirements to maturity are as follows (in thousands):

Fiscal year:	Principal	Interest	Total
2010	\$ 97,715	171,360	269,075
2011	125,855	166,839	292,694
2012	134,220	161,050	295,270
2013	127,215	154,583	281,798
2014	138,695	148,627	287,322
2015 – 2019	815,415	633,720	1,449,135
2020 – 2024	1,119,060	400,310	1,519,370
2025 – 2029	860,975	150,715	1,011,690
2030 – 2032	144,555	10,799	155,354
	<u>\$ 3,563,705</u>	<u>1,998,003</u>	<u>5,561,708</u>

(b) **Second Series Revenue Notes**

**Second Series Revenue Notes Series 2008A**

In October 2008, the Commission issued its Second Series Revenue Refunding Notes Series 2008A in the amount of \$226.74 million to refund the Issue 37A variable rate demand bonds. The Series 2008A Notes are subject to mandatory tender on May 1, 2010 (2008A-1) and 2008A-2), May 1, 2011 (2008A-3) and May 1, 2012 (2008A-4). The fixed interest rates on the Notes vary by tender date, ranging between 5.50% and 6.75%. The final maturity of the Series 2008A Notes is May 1, 2019.

The net proceeds of the 2008A Notes in the amount of \$212.37 million (after payment of \$24.56 million in reserve fund contributions, underwriting fees, and other costs of issuance), plus \$10.19 million (in prior debt service fund, premium and available debt service funds) were deposited in irrevocable escrows with the bond trustee to provide debt service payments on the refunded bonds described below until such bonds were redeemed. Swap termination payments totaled \$6.89 million and have been included in interest expense in the statement of revenues, expenses, and changes in net assets.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue Bond Issue:			
Issue 37A	\$ 205,100,000	Variable	100%
Total	<u>\$ 205,100,000</u>		

(Continued)

**Second Series Revenue Notes Series 2008B**

In December 2008, the Commission issued its Second Series Revenue Refunding Notes Series 2008B in the amount of \$88.19 million to refund the Issue 37B variable rate demand bonds. The Series 2008B Notes are subject to mandatory tender on December 1, 2009. The interest rate on the 2008B Notes is 3%. The final maturity of the Series 2008B Notes is May 1, 2029.

The net proceeds of the Series 2008B Notes in the amount of \$79.99 million (after payment of \$9.72 million in reserve fund contributions, underwriting fees and other costs of issuance), plus \$1.52 million (in premium and available debt service funds) were deposited in an irrevocable escrow with the bond trustee to provide debt service payments on the refunded bonds described below until the bonds were redeemed.

	Amount refunded	Interest rates	Redemption price
Second Series Revenue Bond Issue:			
Issue 37B	\$ 79,720,000	Variable	100%
Total	<u>\$ 79,720,000</u>		

As of June 30, 2009, long-term notes consisted of the following (in thousands):

Description	Date of issue	Interest rate	2009
Notes:			
2008 A Notes	11/23/2008	6.39%	\$ 226,735
2008 B Notes	12/17/2008	3.00%	88,190
Total			314,925
Unamortized discount			(322)
Unamortized deferred amount on refunding			(12,467)
Unamortized premium			2,736
			<u>\$ 304,872</u>

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

Long-term notes debt service requirements to maturity are as follows (in thousands):

Fiscal year:	Principal	Interest	Total
2010	\$ —	18,118	18,118
2011	8,620	17,134	25,754
2012	12,160	16,583	28,743
2013	20,015	15,806	35,821
2014	26,600	14,527	41,127
2015 – 2019	166,605	44,989	211,594
2020 – 2024	25,330	10,970	36,300
2025 – 2029	55,595	5,277	60,872
	<u>\$ 314,925</u>	<u>143,404</u>	<u>458,329</u>

52

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

(c) *Changes in Long-term Liabilities*

Long-term liability activity for the years ended June 30, 2009 and 2008 was as follows (in thousands):

	July 1, 2008	Additions	Reductions	June 30, 2009	Due within one year
Revenue bonds payable	\$ 3,943,470	—	(379,765)	3,563,705	97,715
Less unamortized discount	(8,428)	—	679	(7,749)	—
Unamortized deferred amount on refunding	(101,915)	—	24,674	(77,241)	—
Add unamortized premium	56,680	—	(4,015)	52,665	—
Total revenue bonds payable	3,889,807	—	(358,427)	3,531,380	97,715
Notes payable	\$ —	314,925	—	314,925	—
Less unamortized discount	—	(347)	25	(322)	—
Unamortized deferred amount on refunding	—	(16,047)	3,581	(12,466)	—
Add unamortized premium	—	2,867	(132)	2,735	—
Total notes payable	—	301,398	3,474	304,872	—
Other post employment benefits Obligation	15,413	16,813	—	32,226	—
Compensated absences	12,913	(9,792)	10,761	13,882	7,410
Accrued workers' compensation	4,836	(2,004)	2,382	5,214	1,015
Estimated claims payable	37	(242)	271	66	25
Total long-term liabilities	\$ 3,923,006	306,173	(341,539)	3,887,640	106,165

53

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issues 36 and 37A, respectively.

Following the refunding of Issue 37A on October 30, 2008, the three interest rate swaps in the aggregate notional amount of \$205.1 million hedging these bonds were terminated in the aggregate notional amount of \$205.1 million. The Airport paid a settlement amount in connection with the termination of the interest rate swaps in the aggregate amount of \$6.67 million from proceeds of the 2008A Notes. The settlement agreements were paid to Lehman Brothers Special Financing and to J.P. Morgan Chase & Co. (as successor to Bear Stearns Capital Markets Inc.) the parent company of J.P. Morgan Securities.

For the fiscal year ended June 30, 2009, the Airport paid a total of \$15.8 million in fixed rate payments to the swap counterparties and received \$6.26 million in floating rate payments in return, resulting in total net swap payments of \$9.54 million to the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of \$10.58 million, resulting in the Airport paying \$4.32 million more in interest on the related variable rate bonds than swap receipts from the counterparties. The effective synthetic fixed rate on the related bonds was 4.59% for the year ending June 30, 2009.

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 receipts from the counterparties. The effective synthetic fixed rate on the related bonds was 4.45% for the year ending June 30, 2008.

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 that were terminated along in connection with the refunding of the Issue 37A Bonds 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 Series 2008A Notes/Issue 37C 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 intended to hedge 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 transferred to and assumed 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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

	July 1, 2007	Additions	Reductions	June 30, 2008	Due within one year
Revenue bonds payable	\$ 3,922,300	1,255,205	(1,264,035)	3,913,470	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
Other post employment benefits obligation	—	15,413	—	15,413	—
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	1,264,087	(1,268,425)	3,923,006	96,098

**(d) 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 to be issued on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 to be issued 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, to be issued on May 15, 2008, and the planned issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 35, expected to be issued 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 rates are intended to approximate the variable interest rates on the underlying related bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below commencing on the date of issuance of the related bonds. 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 refundings of several issues of auction rate and variable rate obligations, including the Issue 32 and Issue 33 Bonds. The interest rate swaps previously associated with the Issue 32 and 33 Bonds subsequently became associated with the related San

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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, 2009:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Commission	Market value to Commission
Depra Bank PLC, New York	\$ 71,793,000	BBB/A3	3.925% \$	8,495,340
Goldman Sachs Capital Markets	143,947,000	A/Aa3	3.925% \$	16,988,977
(Aggregate notional amount)	\$ 215,740,000		\$	25,484,317

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, 2009:

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-/Aa1	3.444% \$	5,106,166
Bear Stearns Capital Markets, Inc.	30,000,000	A+/Aa3	3.444	2,188,357
J.P. Morgan Chase Bank, N.A	69,930,000	AA-/Aa1	3.445	5,108,289
Bear Stearns Capital Markets, Inc.	29,970,000	A+/Aa3	3.445	2,189,267
(Aggregate notional amount)	\$ 199,900,000		\$	14,592,079

The swaps hedging the Series 2008B Notes/Issue 37C Bonds terminate by their terms on May 1, 2029, the final maturity date of the Issue 37C Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2009:

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/A2	3.898% \$	10,593,043
Bear Stearns Capital Markets, Inc.	89,856,000	A+/Aa3	3.898%	11,945,316
(Aggregate notional amount)	\$ 169,540,000		\$	22,538,359

**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 them has to that counterparty. The Airport has attempted to limit counterparty credit risk by limiting its exposure

56

(Continued)

to any single 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 variable rate indexes designed to closely approximate the variable interest rates payable on the related bonds, the chosen variable rate indexes and the actual variable interest rates on the related bonds diverged substantially for a period of time in fiscal year 2009 due to the turmoil in the financial markets. The Airport has attempted to limit 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 June 30, 2009 (S&P/Moody's)
Issue 36C	FSA	AAA/Aa3
Issue 36AB	FGIC/MBIA IL	A/Baa1
Issue 36D	FSA	AAA/Aa3
Issue 37C	FSA	AAA/Aa3
Series 2009AB	FSA	AAA/Aa3
Issue 35	Ambac	BBB/Ba3

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 \$13,058,000 and \$23,467,000 in fiscal years 2009 and 2008, 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 annual guarantee (MAG) 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 MAG for the rental car operators was modified to equal

57

(Continued)

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

10% of gross revenues. Agreement was extended to expire on December 31, 2008. Effective January 1, 2009, the rental car leases were on holdover as provided by lease provisions with higher MAG for the rental car operators. The MAG attributable to the rental car companies was approximately \$32,755,000 and \$11,533,000 for fiscal years 2009 and 2008 respectively.

Minimum future rents under noncancelable operating leases having terms in excess of one year are as follows (in thousands):

Fiscal year ending:	
2010	\$ 79,189
2011	61,030
2012	47,431
2013	44,737
2014	38,962
	\$ 271,349

During fiscal year 2002, the Airport suspended the 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 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.

**Funding Policy**

Contributions are made to the basic plan by both the Airport and its employees. Employee contributions are mandatory. Employee contribution rates for 2009, 2008, and 2007 range from 7% to 9%.

58 (Continued)

to 8% 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 4.99% in 2009, 5.91% in 2008, and 6.24% in 2007. The Airport contributed 100% of its annual contributions of \$8,765,000 in 2009, \$9,186,000 in 2008, and \$9,112,000 in 2007.

**(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 \$26,160,000 and \$24,047,000 in fiscal years 2009 and 2008, 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 \$7,216,000 and \$6,826,000 for 2009 and 2008, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. In addition, the City allocated an additional \$173,000 and \$220,000 to Airport's contribution allocation for payments made from the Health Service System for postretirement health benefits in 2009 and 2008, respectively.

The City has determined a City-wide Annual Required Contribution (ARC), interest on net Other postemployment benefits other than pensions (OPEB) Obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB related costs to Airport for the year ended June 30, 2009 based upon its percentage of City-wide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for Airport for the year, for the amount contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

	2009	2008
Annual required contribution	\$ 24,009	22,459
Interest on net OPEB obligation	744	—
Adjustment to ARC	(551)	—
Contribution made	24,202	22,459
Increase in net OPEB obligation	16,813	15,413
Net OPEB obligation – beginning of year	15,413	—
Net OPEB obligation – end of year	\$ 32,226	15,413

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 San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020.

59 (Continued)



**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

PFC collections and related interest earned for the 12 months ended June 30, 2009 are as follows (in thousands):

Amount collected	\$ 68,845
Interest earned	<u>1,483</u>
	<u>\$ 70,328</u>

Interest earned on PFC revenues is included in investment income in the accompanying financial statements.

**(12) Commitments, Litigation, and Contingencies**

**(a) Commitments**

Purchase commitments for construction, material, and services as of June 30, 2009 are as follows (in thousands):

Construction	\$ 39,043
Operating	<u>11,763</u>
Total	<u>\$ 50,806</u>

The Airport's Noise Insulation Program was implemented to mitigate the aircraft noise impact in the surrounding communities. This involved execution of a Memorandum of Understanding in 1992 with neighboring communities to insulate eligible properties and/or acquisition of easements for aircraft noise, and implementation of a supplemental program in 2000 to complete the work. 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, these components of the program were 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, 2009 and June 30, 2008, the cumulative disbursements of SFO funds under this program were approximately \$121.1 million.

**(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 Agreement. 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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

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 the City work order system totaled approximately \$101,316,000 and \$92,684,000 in fiscal years 2009 and 2008, respectively. Included in personnel operating expenses are approximately \$52,044,000 and \$45,564,000 in fiscal years 2009 and 2008, 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 \$26,849,000 and \$25,942,000 in fiscal years 2009 and 2008, 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 was 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.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

In June 2007, a jury from the San Mateo County Superior Court rendered a verdict finding the Airport in breach of the 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. In April 2008, the Court awarded the Airport \$3,430,000 in attorney fees and costs associated with successfully litigating the case. Plaintiffs appealed the judgment and the award of fees and costs. The appeal is pending.

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. The City appealed the Superior Court's decision and prevailed 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, which could approximate \$3.5 million. The Airport, which is one of two City departments sued in the case, would be responsible for 50% of any attorney's fees awarded.

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 has instituted an Enterprise Risk Management Program by implementing a comprehensive risk identification, assessment, and treatment protocol to address key risks that may adversely affect the Airport's ability to meet its business goals and objectives. 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 and automobile 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

officials' liability and employment practices 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.

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2007 resulted from the following activity (in thousands):

Balance, June 30, 2007	\$	40
Claim payments		(1,562)
Claims and changes in estimates		1,559
Balance, June 30, 2008		<u>37</u>
Claim payments		(242)
Claims and changes in estimates		271
Balance, June 30, 2009	\$	<u><u>66</u></u>

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, 2007	\$	4,777
Claim payments		(2,299)
Claims and changes in estimates		2,358
Balance, June 30, 2008		<u>4,836</u>
Claim payments		(2,004)
Claims and changes in estimates		2,382
Balance, June 30, 2009	\$	<u><u>5,214</u></u>

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Financial Statements  
June 30, 2009 and 2008

**(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 \$306,000 and \$584,000 as of June 30, 2009 and June 30, 2008, 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, 2009 or June 30, 2008, revenues realized from the following sources exceeded 5% of the Airport's total operating revenues:

	<u>2009</u>	<u>2008</u>
United Airlines	14.8%	22.7%
New South Park	11.8	6.3

**(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:	
2010	\$ 183
2011	188
2012	116
2013	118
2014	85
2015	5
	<u>5</u>
Total	\$ 695

Net operating lease expense incurred for the fiscal years ended 2009 and 2008 was approximately \$5.17 million and \$5.20 million, respectively.

**(13) Subsequent Event**

On September 3, 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009A/B in the principal amount of \$175.0 million. The Series 2009A and 2009B bonds are not subject to the Alternative Minimum Tax. Proceeds were used to purchase and hold in a trust Issue 34 A/B variable rate demand bonds previously issued by the Airport.

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Schedule of Passenger Facility Charge Revenues and Expenditures  
Years ended June 30, 2009 and 2008

(In thousands)

	Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Over (under) expenditures on approved projects
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
Fiscal year 2008 – 2009 transactions:					
Reversal of prior year passenger facility charges accrual	(8,559)	—	(8,559)	—	(8,559)
Quarter ended September 30, 2008	17,949	317	18,266	—	18,266
Quarter ended December 31, 2008	16,188	318	16,506	—	16,506
Quarter ended March 31, 2009	15,040	339	15,379	—	15,379
Quarter ended June 30, 2009	19,615	493	20,108	(61,000)	(40,892)
Unrealized gain on investments	—	16	16	—	16
Passenger facility charges accrual	8,612	—	8,612	—	8,612
Total fiscal year 2008 – 2009 transactions	68,845	1,483	70,328	(61,000)	9,328
Program to date as of June 30, 2009	\$ 475,680	11,270	486,950	(441,179)	45,771

See accompanying notes to schedule of passenger facility charge revenues and expenditures.



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**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures  
Year ended June 30, 2009

**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, 2009, and have issued our report thereon dated October 30, 2009. 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 our 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.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

**(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.

**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 grant 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City and County of San Francisco Government Audit and Oversight Committee, the Airport Commission and the Federal Aviation Administration, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

October 30, 2009

**PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORTS**





KPMG LLP  
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San Francisco, CA 94105

on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with compliance requirements of a passenger facility charge program will not be prevented, or detected and corrected on a timely basis.

#### **Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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, 2009. 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, 2009.

#### **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 deficiency in 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 and correct noncompliance with compliance requirements of a passenger facility charge program

KPMG LLP

October 30, 2009

**AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
SAN FRANCISCO INTERNATIONAL AIRPORT**

Schedule of Findings and Responses

Year ended June 30, 2009

**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: **None reported**  
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**

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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 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G Bonds. The 2010F/G Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered 2010F/G Bond certificate will be issued for each maturity and Series of 2010F/G 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 2010F/G Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010F/G Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010F/G 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 2010F/G 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 2010F/G Bonds, except in the event that use of the book-entry system for the 2010F/G Bonds is discontinued.

To facilitate subsequent transfers, all 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments on the 2010F/G 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 2010F/G 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, 2010F/G 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, 2010F/G 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 2010F/G BONDS" in the front portion of this Official Statement. Taken together, the 1991 Master Resolution, as previously amended and supplemented, including as supplemented by Resolution No. 97-0104, adopted by the Commission on April 15, 1997, Resolution No. 03-0220, adopted by the Commission on October 21, 2003, and Resolution No. 08-0035 adopted by the Commission on February 19, 2008 (collectively, the "Supplemental Resolutions"), and any other amending and supplemental resolutions and certificates of additional terms are herein called the "Resolution." Reference is made to the Resolution for full details of the terms of the 2010F/G 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.*

#### **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.

*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 the 2010F/G Bonds, \$5,000 or 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 a Series of Bonds.

*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 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 Bonds is initially issued and delivered in exchange for the proceeds representing the Purchase Price of such Series of 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 Bonds, including, but not limited to: (a) counsel fees related to the issuance of such Series of 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 Bond; (c) rating agency fees; (d) the initial fees and expenses of the Trustee; (e) accountant fees and any escrow verification fees related to the issuance of such Series of Bonds; (f) printing and publication costs; (g) costs of engineering and feasibility studies necessary to the issuance of such Series of Bonds; and (h) any other cost incurred in connection with the issuance of such Series of 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.

*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.

*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 Payment Date* means with respect to the 2010F/G Bonds, May 1 and November 1 of each year, commencing on November 1, 2010.

*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 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.

*Net Revenues* means Revenues less Operation and Maintenance Expenses.

*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.

*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, with respect to any Series of Bonds, each date specified in the 1991 Master Resolution or in the Supplemental Resolution authorizing the issuance thereof for the payment of the principal of such Bonds either at maturity or upon prior redemption from mandatory sinking fund payments.

*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.

*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.

*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.

*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.

*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 2010F/G 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 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 2009C Bonds, the 2010D 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 Airport Commission of the City and County of San Francisco, San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009C.

*2010D Bonds* means the Airport Commission of the City and County of San Francisco, San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2010D.

*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 both principal and interest, and any premium upon redemption thereof, 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.

#### *2009 Reserve Account*

The Refunding Series Sale Resolution for the 2009C Bonds established 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 2009 Reserve Account is required to be funded at the 2009 Reserve Requirement. The moneys in said account will 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.

#### *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. Each of the 2010F Bonds and the 2010G Bonds are a Participating Series secured by the Issue 1 Reserve Account.

#### *Separate Reserve Accounts for Bonds not Designated as 2009 Reserve Account Series or Participating Series*

Unless otherwise provided in a Refunding Series Sale Resolution, each Series of Bonds will be a 2009 Reserve Account Series or a Participating 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 Refunding Series Sale Resolution.

#### *Application and Valuation of the Reserve Accounts*

The moneys in the 2009 Reserve Account, 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 any 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.

## **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 will 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 the 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) of the 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; and
- (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 2010F/G BONDS" in the front portion of this Official Statement for a summary of the provisions related to the Series 2010F/G Bonds.

### Funds and Accounts

The 1991 Master Resolution establishes the following funds and accounts:

Within the Costs of Issuance Fund:

Series 2010F Costs of Issuance Account

Series 2010G Costs of Issuance Account

Within the Debt Service Fund:

Series 2010F Interest Account

Series 2010G Interest Account

Series 2010F Principal Account

Series 2010G Principal Account

Series 2010F Redemption Account

Series 2010G Redemption Account

Within the Rebate Fund:

Refunding Series 2010F/G Rebate Account

The 1991 Master Resolution established the Issue 1 Reserve Account as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution or by the Director as being secured by the Issue 1 Reserve Account. The 2010F and the 2010G Bonds have each been designated as a Participating Series of Bonds with respect to the Issue 1 Reserve Account.

### Application of Series 2010F/G Bonds Costs of Issuance Accounts

The 1991 Master Resolution requires the Trustee to apply moneys in the Series 2010F Costs of Issuance Account and the Series 2010G Costs of Issuance Account to the payment of costs of issuance of the respective Series 2010F/G Bonds. Amounts in the Series 2010F/G Costs of Issuance Accounts may be invested in any Permitted Investment.

### Application of Series 2010F/G Debt Service Accounts

The Series 2010F Interest Account, the Series 2010F Principal Account and the Series 2010F Redemption Account are sometimes referred to herein as the Series 2010F Debt Service Accounts. The Series 2010G Interest Account, the Series 2010G Principal Account and the Series 2010G Redemption Account are sometimes referred to herein as the Series 2010G Debt Service Accounts. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2010F Interest Account and the Series 2010G Interest Account to the payment of interest on the applicable Series of Bonds when due, including accrued interest on any Bonds of such Series purchased or redeemed prior to maturity. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2010F Principal Account and the Series 2010G Principal Account to the payment of the Principal Amount of the applicable Series of Bonds when due, and the payment of mandatory sinking fund payments on Term Bonds of such Series.

The Commission may, from time to time, purchase any 2010F/G 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 2010F/G Term Bonds at public or private sale as and when and at such prices (including brokerage and other expenses, but excluding accrued interest on 2010F/G Bonds, which is payable from the Series 2010F Interest



Account or the Series 2010G Interest Account, as applicable) as the Commission may in its discretion determine, but not to exceed the par value thereof. All 2010F/G 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 Series 2010F Redemption Account and the Series 2010G Redemption Account to the payment of the redemption price of the applicable Series of Bonds called for redemption. Accrued interest on 2010F/G Bonds redeemed pursuant to the 1991 Master Resolution will be paid from the Series 2010F Interest Account or the Refunding Series 2010G Interest Account, as applicable.

In the event that the amount on deposit in any Series 2010F Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2010F Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2010F Interest Account, the Series 2010F Principal Account or the Series 2010F Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

In the event that the amount on deposit in any Series 2010G Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2010G Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2010G Interest Account, the Series 2010G Principal Account or the Series 2010G Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

#### **Rebate; Refunding Series 2010F/G Rebate Account**

The Commission will pay or cause to be paid to the United States Government the amounts required by Section 148(f) of the Code and any Regulations promulgated thereunder at the times required thereby. The 1991 Master Resolution requires the Trustee to hold any payments received from the Commission for deposit into the Series 2010F/G Rebate Account for purposes of ultimate rebate to the United States. Pending payment to the United States, moneys held in the Series 2010F/G Rebate Account are pledged to secure such payments to the United States as provided in the 1991 Master Resolution and in the Tax Certificate for the 2010F/G Bonds, and neither the Commission, the Bondholders nor any other person shall have any rights in or claim to such moneys. The 1991 Master Resolution requires the Trustee to invest all amounts held in the Series 2010F/G Rebate Account in Nonpurpose Investments (as defined in the Tax Certificate for the 2010F/G Bonds), as directed by the Commission in the Tax Certificate for the 2010F/G Bonds.

#### **Permitted Investments**

Amounts in the Series Debt Service Accounts for each Series of Refunding Bonds 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 Series Debt Service Account to which such Permitted Investments are allocated. Amounts in the 2009 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 any Series Construction Accounts may be invested in any Permitted Investment.

#### **Deposits of Net Revenues in Series Debt Service Accounts**

In accordance with the 1991 Master Resolution, the Treasurer is required, on the second Business Day of each month, to allocate and transfer to the Trustee for deposit in the Series Debt Service Accounts for each Series of 2010F/G Bonds amounts from Net Revenues, as follows:

- (a) In each Series Interest Account, in approximately equal monthly installments, an amount equal to at least one-sixth (1/6) of the aggregate amount of interest becoming due and payable on the applicable Series of 2010F/G Bonds on the next succeeding semiannual interest payment date; provided, however, that no moneys need be deposited in the Series Interest Account except to the extent that such moneys are required for the payment of

interest to become due on the applicable Series of 2010F/G Bonds on the next succeeding semiannual interest payment date, after the application of the moneys then on deposit in the applicable Refunding Series Interest Account; and provided, further, that subject to the preceding proviso, during the period preceding the first interest payment date on the applicable Series of 2010F/G Bonds, the amount of each monthly installment 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 Closing Date to the first interest payment date on the applicable Series of 2010F/G Bonds minus one, and the aggregate amount of interest becoming due and payable on the applicable Series of 2010F/G Bonds on said interest payment date.

- (b) In each Series 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 serial Bonds of the applicable Series of 2010F/G Bonds on the next succeeding Principal Payment Date, until there shall have been accumulated in the applicable Series Principal Account an amount sufficient to pay the Principal Amount of all serial Bonds of the applicable Series of 2010F/G Bonds maturing by their terms on the next Principal Payment Date.
- (c) The Treasurer shall also transfer to the Trustee for deposit in each Series 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 payment date, an amount equal to at least one twelfth (1/12) of the mandatory sinking fund payment required to be made on the next succeeding mandatory sinking fund payment date, as such mandatory sinking fund payments and mandatory sinking fund payment dates may be set forth in a Series Sale Resolution or Bond Purchase Contract for such Series.

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## APPENDIX D

### SUMMARIES OF CERTAIN PROVISIONS OF THE 1981 SETTLEMENT AGREEMENT, THE LEASE AND USE AGREEMENTS THE LEASE AND OPERATING AGREEMENTS AND THE 2011 LEASE AND USE AGREEMENTS

#### THE 1981 SETTLEMENT AGREEMENT, THE 1981 LEASE AND USE AGREEMENTS AND THE 1999 LEASE AND OPERATING AGREEMENTS

The following are summaries of certain provisions of the Settlement Agreement, the Original 1981 Lease and Use Agreements (the "1981 Lease"), the 1999 amendments thereto (the "Amended 1981 Lease," and collectively with the 1981 Lease, the "Lease and Use Agreements") and the 1999 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. The following summaries do not purport to be complete and reference is hereby made to the complete text of each document, 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 settle the litigation and to dispose of other disputes between the City and the airlines, the parties agreed to enter into a Settlement Agreement (the "1981 Settlement Agreement"), and, simultaneously, the Lease and Use Agreements.

The Settlement Agreement provides for altering the Airport-airlines relationship in four major areas: (a) Payments from the Commission to the City; (b) Bond financing and capital improvements; (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 1981 Settlement Agreement provides for payments from the Commission to the City consisting of the Annual Service Payments and reimbursement for the costs of direct services provided by City departments to the Commission.

Annual Service Payments are to be paid from the Airport Revenue Fund to the City's General Fund 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 equal the greater of (i) 15% of Concession Revenues and (ii) \$5 million for each of the Fiscal Years 1985-86 through 2010-11. "Concession Revenues" is defined in the Lease and Use Agreement as the fees and rentals collected by Commission for the right to provide and operate restaurants, car rental services, shops, advertising, courtesy vehicles, ground transportation services, parking and other services. Under the 1981 Settlement Agreement, the Annual Service Payments to the City constitute full satisfaction of all obligations of the Airport, the Commission, and the airlines for all indirect services, management and facilities provided by the City to the Airport, as well as the total transfer to the City's General Fund contemplated by a provision of the City Charter requiring reimbursement of debt service on certain City airport general obligation bonds (all of which have been retired), and a return on City investment in the Airport prior to 1981. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City" in the forefront of this Official Statement.

The 1981 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 to reimburse the City for the cost of certain direct services provided to the Commission by other City departments,

such as 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 1981 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.

Although the 1981 Settlement Agreement expires by its terms on June 30, 2011, the provisions regarding the Annual Service Payment and the development of the West of Bayshore area have been incorporated into the 2011 Lease. See Appendix E—"SUMMARY OF CERTAIN PROVISIONS OF THE 2011 LEASE AND USE AGREEMENTS—Continuation of Business Relationship." In addition, the airlines who are parties to the 1981 Settlement Agreement have waived their right based on the 1981 Settlement Agreement and the mutual release provided for therein, to challenge the continuation of the Annual Service Payment beyond June 30, 2011.

#### *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 1981 Settlement Agreement imposes certain restrictions on the development of 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. Any future development of such property, however, may be undertaken solely with non-Airport revenues and without the use of Airport staff, facilities and resources. The airlines disclaim the right to any revenues from the area.

### **Lease and Use Agreements**

All of the airlines that 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 and Qantas. 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 Space Categories*

The Lease and Use Agreements describe the six cost centers based on functional areas of the Airport to be used in accounting for revenues, expenses and debt service, as follows: 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. 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 residual rate setting at the Airport, in order to match 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. Itinerant airlines without a permit pay higher rates and fees.

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 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 as 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.

Except as otherwise provided in the Lease and Use Agreements, the Commission 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, so long as any revenues generated thereby are deposited in the Airport Revenue Fund used only for Airport purposes.

The airlines have agreed to make certain accommodations to temporarily permit new entrants to operate at the Airport in the signatory airlines' exclusive leased space. See "San Francisco International Airport–Airline Agreements."

#### *Termination or Suspension of 1981 Lease Provisions*

The Commission may terminate an airline's 1981 Lease upon the occurrence of any of the following events: the filing by the airline of any request for relief under any state insolvency statute or the Bankruptcy Act; the final adjudication of the airline as a bankrupt or a debtor pursuant to any involuntary bankruptcy or reorganization proceedings under the Bankruptcy Act; the appointment of a receiver or trustee of the airline's assets; the voluntary abandonment by the airline of its air transportation business at the Airport; the substantial uncured breach by the airline of any covenant; or the airline's failure pay in full any amount due under the 1981 Lease within 30 days of its due date.

An airline may terminate its 1981 Lease upon the occurrence of any of the following events: the issuance of a permanent injunction by any court of competent jurisdiction which remains in force for 120 days and substantially prevents the airline from using all or major portions of the Airport (provided that the Commission, if it is a party to the litigation, shall not have taken such steps as may be necessary to appeal to appropriate appellate courts); any action of any governmental authority, board, agency or officer with proper jurisdiction (1) preventing the airline from operating at the Airport, or (2) the taking, directly or indirectly, in whole or substantial part, of the airline's leased premises or the premises required for the actual operation of the airline's aircraft to and from Airport (provided that the Commission shall be entitled to provide mutually acceptable substitute facilities within sixty (60) days from the date the airline is prevented from conducting its operations); the involuntary termination by any governmental authority, board, agency or officer having jurisdiction, of airline's right to serve the Airport; or the substantial breach by the City of any of the covenants contained in the 1981 Lease and the failure of City to remedy such breach.

#### *City's Right to Suspend Part of 1981 Lease*

In the event that the Annual Service Payment cannot be made for any reason for 12 months, other than through the City's or Commission's own inaction or action not in conformance with the 1981 Lease and the 1981 Settlement Agreement, including, but not limited to, supervening legislation or court decision, the City may elect to suspend uniformly as to all signatory airlines, all or some of the provisions of the 1981 Lease relating to: the calculation and adjustment of landing fees; the right of a Majority-in-Interest of the airlines to delay capital improvements; and the City's covenant to require all users of the Airfield Area to pay for their use thereof and to credit the amounts received to the appropriate cost centers, so as to reduce the amounts needing to be collected from the signatory airlines through landing fees.

In addition, during any period of suspension of some or all of the provisions described above, the Commission may: (1) appropriate an amount equal to the then-payable Annual Service Payment for capital improvements included in its five-year capital program; and (2) adjust the level of terminal rental rates, observing in the calculations of such adjusted rental rates the cost centers and procedures for allocation of revenues, expenses, and debt service to such cost centers in accordance with the 1981 Lease, and maintaining the relationships between rental rates for each category of space described in the 1981 Lease.

During the period when the Annual Service Payments cannot be made, the Commission is required to segregate the amounts that would otherwise have been paid to the City General Fund in an identifiable, interest-bearing subaccount of the Airport Revenue Fund, to be applied to any lawful purpose of the Commission other than as security for any bond issue. To the extent monies are so segregated and applied, the Annual Service Payment will be deemed to have been satisfied.

Upon resumption of the Annual Service Payment or receipt of an equivalent amount by City's General Fund, the right of the Commission to suspend the provisions of the 1981 Lease described above will terminate and the Commission will release any segregated amounts to the Airports Revenue Fund for customary budgeting disposition. The Commission will also make any necessary adjustments to terminal rentals and landing fees.



## **1999 Lease and Operating Agreements**

In order to operate out of the International Terminal complex (“ITC”), 11 of the foreign flag carriers have signed the 1999 Lease and Operating Agreement, which 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 that allocate the facilities for use among the various airlines according to need during the day. The airlines are charged facility rentals calculated by a formula under which 80% is allocated prorata based on passenger levels, and 20% shared equally by all the ITC airlines. See “San Francisco International Airport–Airline Agreements.”

The Lease and Operating Agreements provide that the airlines have no claim against the City for any damage suffered by reason of any damage, destruction, repair or restoration of the ITC, and are not entitled to an abatement of rent in such event. The Lease and Operating Agreements also add a cross-default provision (an uncured default under any other agreement between an airline and the Commission constitutes an event of default under its Lease and Operating Agreement), and a cross-termination remedy in the Airport’s favor (upon the occurrence of an event of default, the Commission may elect to terminate any other agreement between the defaulting airline and the Commission).

All other material terms of the Lease and Operating Agreements, which expire on June 30, 2011, are substantially identical to the terms of the 1981 Lease.

## **1981 Lease and Use Agreement Amendments**

Eight signatory airlines to the 1981 Lease that have international operations in the ITC, have signed an amendment to the 1981 Lease that incorporates the necessary provisions of the 1999 Lease and Operating Agreement with respect to the joint use facilities in the ITC. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements” in the forepart of this Official Statement. The Amended 1981 Leases also expire on June 30, 2011.

## **SUMMARY OF CERTAIN PROVISIONS OF THE 2011 LEASE AND USE AGREEMENTS**

The City and County of San Francisco (the “City”), acting by and through its Airport Commission (the “Commission”), has entered into a new Lease and Use Agreement (the “2011 Lease”) with a majority of the airlines (“Signatory Airlines”) operating at the Airport. The following summary of the 2011 Leases does not purport to be complete and reference is hereby made to the complete text of the document, copies of which are on file and are available for examination at the offices of the Commission.

### **Term of Lease**

The 2011 Leases will take effect on July 1, 2011, following the expiration of the 1981 Settlement Agreement, the original 1981 Lease and Use Agreements (the “1981 Lease”), the 1999 amendments thereto (the “Amended 1981 Lease,” and collectively with the 1981 Lease, the “Lease and Use Agreements”) and the 1999 Lease and Operating Agreements on June 30, 2011. The 2011 Leases expire on June 30, 2021.

Any airline that holds over with the Commission’s consent beyond the expiration date of its 2011 Lease is deemed a month-to-month tenant, and the holdover airline will continue to pay the same rate of rentals and landing fees as Signatory Airlines, unless different rates are agreed upon. Any airline that holds over without the Commission’s consent is deemed a month-to-month tenant, and the holdover airline will pay the 25% premium on landing fees charged to other non-signatory airlines. Any holding over without the Commission’s consent also constitutes an event of default by the airline.

### **Continuation of Business Relationship**

The 2011 Leases extend most aspects of the current business relationship between the City, the Commission and the Signatory Airlines by incorporating and preserving the main provisions of the 1981 Settlement Agreement with respect to continuation of the Annual Service Payment, and the requirement to finance capital

improvements primarily through the issuance of Airport revenue bonds. See—“SUMMARIES OF CERTAIN PROVISIONS OF THE 1981 SETTLEMENT AGREEMENT, THE 1981 LEASE AND USE AGREEMENTS AND THE 1999 LEASE AND OPERATING AGREEMENTS—Settlement Agreement.”

#### *Payments from Commission to City*

The 2011 Leases provide for payments from the Commission to the City consisting of the Annual Service Payments and reimbursement for the costs of direct services provided by City departments to the Commission.

Annual Service Payments are to be paid from the Airport Revenue Fund to the City’s General Fund for each fiscal year beginning with Fiscal Year 2011-12 through Fiscal Year 2020-21 during the term of the 2011 Lease. These payments constitute full satisfaction of all obligations of the Airport, the Commission, and the airlines for all indirect services, management and facilities provided by the City to the Airport, and are equal the greater of (i) 15% of Concession Revenues and (ii) \$5 million. “Concession Revenues” is defined in the Lease and Use Agreement as the fees and rentals collected by Commission for the right to provide and operate restaurants, car rental services, shops, advertising, courtesy vehicles, ground transportation services, parking and other services. See “Airport’s Financial and Related Information—Payments to the City” in the forepart of this Official Statement.

The 2011 Lease provides that if a Signatory Airline was a signatory to the 1981 Settlement Agreement or received from the City and the Commission a release as provided in the 1981 Settlement Agreement, that such Signatory Airline waives any rights it may have either under the 1981 Settlement Agreement or by reason of such release, to challenge any Annual Service Payments made after June 30, 2011.

The 2011 Leases further provides that the Commission may continue to reimburse the City for the cost of certain direct services provided to the Airport by other City departments, such as 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.

#### *West of Bayshore Lands*

The 2011 Leases continues the restrictions on the development of 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. Any future development of such property, however, may be undertaken solely with non-Airport revenues and without the use of Airport staff, facilities and resources. The airlines disclaim the right to any revenues from the area.

#### **Signatory Airlines, Non-Signatory Airlines and Affiliates**

Any air carrier that is certified by the Secretary of Transportation, is engaged in the business of scheduled or non-scheduled commercial transportation by air of persons, property, mail, parcels and/or cargo, and signs a 2011 Lease, is considered a “Signatory Airline.”

Any air carrier that does not qualify as a Signatory Airline, may operate at the Airport under a month-to-month Operating Permit or as an itinerant airline. Airlines that are not Signatory Airlines or an Affiliate Airline of a Signatory Airline will pay a 25% premium on landing fees.

An “Affiliate Airline” is a non-Signatory Airline that is operating at the Airport under an Operating Permit and either (i) is a wholly owned subsidiary of a Signatory Airline, (ii) is a subsidiary of the same corporate parent of the Signatory Airline, (iii) shares flight codes with a Signatory Airline at the Airport, or (iv) operates cargo feeder flights at the Airport under the direction and control of a Signatory Airline. If the non-Signatory Airline is able to sell its own seats for flights at the Airport, however, it will not be classified as an Affiliate Airline of any Signatory Airline even if it may satisfy one of the criteria described above. Each 2011 Lease constitutes an agreement by a Signatory Airline to guarantee the performance of all reporting and payment obligations of its Affiliate Airline(s) to the Commission. An Affiliate Airline has no Majority-in-Interest voting rights, but is included with its Signatory Airline’s revenue aircraft arrivals for purposes of determining a Majority-in-Interest.

## **Lease of Premises**

The City leases terminal space under the 2011 Leases on various bases, including on an exclusive use basis, a preferential use basis, a joint use basis and a common use basis, with the following characteristics:

*Exclusive use space*, which includes back offices, clubs and lounges, ticket counters, and baggage handling space in domestic terminals, is leased to one Signatory Airline and is charged on a per-square-foot basis. Gates are no longer leased exclusively to one airline.

*Preferential use space*, which includes only domestic gates and holdrooms, is assigned annually to one Signatory Airline based on a formula taking into account the Signatory Airline's share of traffic at the Airport. See "—Preferential Use Gate Allocation Methodology" below. Rent for preferential use space is charged on a per-square-foot basis, with the rent for holdrooms being calculated based on the average size of all holdrooms in the applicable boarding area. The Signatory Airline to which a gate has been assigned has a preferential right to use the gate during its scheduled operations, but the Airport retains the right to let other airlines use the gate when not in active use by the assigned Signatory Airline. See "—Airport Scheduling Rights at Preferential Use Gates" below.

*Joint use space* applies primarily to gates, holdrooms, ticket counters and baggage facilities in the International Terminal, although joint use baggage systems are also located in Terminals 1 and 2. Joint use space and facilities are leased to a group of Signatory Airlines for their collective use in accordance with gate and ticket counter management protocols approved by the Airport. Rental charges are based on a formula, in accordance with which 80% of the charges are allocated prorata to the Signatory Airlines in the group based on their passenger levels, and 20% of the charges are shared equally by the Signatory Airlines in the group.

*Common use space and facilities* include gates in the domestic and international terminals, as well as ticket counters and baggage handling facilities in the domestic terminals. The Airport Director is permitted under the 2011 Leases annually to designate up to 10% of the domestic terminal gates for common use by any airline. Common use facilities are not leased to any airline, but are used as needed by airlines which pay per-use fees. Common use fees are calculated annually based on the cost of the applicable facilities divided by an average number of "turns" (i.e. periods of use). Airlines will be charged 100% of the applicable common use fee for a narrow-body aircraft and 115% of the fee for a wide-body aircraft.

As defined in the 2011 Lease, a "gate" includes the passenger holdroom, together with any or all of the following equipment if owned by the Commission: a passenger loading bridge, a 400 MHz power unit, a pre-conditioned air unit, and related equipment. The related ramp (apron) is not included in the gate, but is retained by the Commission and used by the air carrier using the related gate.

## **Designation of Common Use Gates and Facilities**

### *Common Use Gates*

The 2011 Lease provides that, no later than October 1, 2010 and October 1 of each year thereafter, the Commission is to present to the Resource Management Advisory Committee ("RMAC") (a committee composed of three representatives of the Commission and three representatives of the Signatory Airlines) for review and discussion a preliminary plan indicating the number of gates in each terminal proposed to be reserved for use as common use gates in the following Fiscal Year. Although the Director will have sole discretion, after taking into consideration any recommendations by the RMAC, to determine the total number of gates to be reserved as common use gates effective July 1, 2011 and July 1 of each Fiscal Year thereafter, such number may not exceed 10% of the total number of domestic terminal gates. Gates other than joint use gates remaining available after such determination shall be offered by the Commission to Signatory Airlines for use as preferential use gates to be allocated in accordance with the procedure described below. The Commission will notify in writing all Signatory Airlines, including Airline, of its determination with respect to common use gates no later than December 1, 2010 and December 1 of each Fiscal Year thereafter.

### *Common Use Ticket Counters and Support Facilities*

As of the effective date of the 2011 Lease, the Director will identify the initial ticket counters and support facilities to be designated for common use. Thereafter, if in the Director's reasonable discretion an adjustment to the location or number of common use ticket counters and common use support facilities would be desirable, the Director may designate additional ticket counters and support facilities for common use. The Director may also change ticket counters and support facilities from common use to joint use or exclusive use for lease to Signatory Airlines. The Commission will retain exclusive control of the use of all common use gates, common use ticket counters and common use support facilities, provided that common use facilities in the international terminal will be managed and scheduled in accordance with the applicable gate and ticket counter management protocols.

### **Preferential Use Gate Allocation Methodology**

After determination by the Airport Director of the total number of common use gates as described above, the Commission will apply the following methodology to determine the total number of preferential use gates that will be offered to each Signatory Airline during each Fiscal Year, effective July 1, 2011 and July 1 of each Fiscal Year thereafter:

(a) The Commission will first divide the number of Scheduled Seats for each Signatory Airline, including its affiliate airline(s), by the total number of Scheduled Seats for all Signatory Airlines to determine the Signatory Airline's percentage share of all Scheduled Seats ("Scheduled Seats Percentage"). "Scheduled Seats" means the average daily number of departing seats on the scheduled operations of a Signatory Airline (including its affiliate airlines) to destinations in the United States or Canada and on international flights allowed by the Commission to operate from a domestic terminal, for the month of August immediately preceding the Fiscal Year for which the determination is being made, which is computed by dividing total departing seats for the scheduled operations of a Signatory Airline (including its affiliate airlines) for the month of August by 31.

(b) The Commission will calculate the number of preferential use gates to be offered to a Signatory Airline by multiplying the Signatory Airline's Scheduled Seats Percentage by the total number of gates to be made available for preferential use, rounding the product to the nearest whole number; provided that a product less than 0.5 will not be eligible for rounding during this step.

(c) If as a result of rounding, the total number of preferential use gates to be offered to all Signatory Airlines computed as described in paragraph (b) is less than the total number of gates available for preferential use, the Commission will allocate such remaining preferential use gates to Signatory Airlines based on the unrounded results of the computations described in paragraph (b). The remaining preferential use gates will be allocated in priority order by first increasing by one the number of preferential use gates to be offered to the Signatory Airline whose unrounded product is nearest to 0.5 without equaling or exceeding 0.5 and next proceeding to increase by one the number of preferential use gates to be offered to the Signatory Airline whose unrounded product is second nearest to 0.5 without equaling or exceeding 0.5 and so on until the total number of preferential use gates to be made available to all Signatory Airlines by the Commission is reached.

(d) If as a result of rounding, the total number of preferential use gates to be offered to all Signatory Airlines computed as described in paragraph (b) exceeds the total number of preferential use gates, the Commission will reduce the number of calculated preferential use gates to be offered to Signatory Airlines based on the unrounded results of the computations described in paragraph (b). The number of over-allocated preferential use gates will be reduced in priority order by first reducing by one the number of allocated preferential use gates to the Signatory Airline whose unrounded product calculated as described in paragraph (b) is nearest to 0.5 without being less than 0.5 and next proceeding to reduce by one the number of preferential use gates to be offered to the Signatory Airline whose unrounded product calculated as described in paragraph (b) is second nearest 0.5 without being less than 0.5 and so on until the total number of preferential use gates to be made available to all Signatory Airlines by the Commission is reached.

(e) No later than December 1, 2010 and December 1 of each Fiscal Year thereafter, the Commission will provide written notice to all Signatory Airlines of its annual determination of preferential use gates as described above and will offer each Signatory Airline the opportunity to be allocated the number of preferential use gates indicated by these calculations. Each Signatory Airline will provide written notice to the Commission no later than

February 1 of each Fiscal Year either accepting or rejecting any or all of the gates offered to it by the Commission for preferential use.

(f) If a Signatory Airline does not accept the allocation of a preferential use gate by February 1 of each Fiscal Year, the Signatory Airline rejecting such gate may request the Commission allocate such preferential use gate to another Signatory Airline if, within the acceptance period, the following two conditions are met: (i) the Signatory Airline rejecting the preferential use gate has a written handling agreement with the Signatory Airline accepting allocation of the rejected preferential use gate, and (ii) the Signatory Airline accepting allocation of the rejected preferential use gate demonstrates to the Commission's satisfaction that it needs the rejected preferential use gate reasonably to accommodate the rejecting Signatory Airline's flights, in which case the gate will be allocated to that other Signatory Airline as a preferential use gate. Alternatively, if any Signatory Airline does not accept the allocation of a preferential use gate, the Commission may elect to reallocate such gate to another Signatory Airline if the Commission determines the number of common use gates is adequate to accommodate all airline operations needing to use gates at the Airport. The Commission may reallocate such gates until all gates available for use as preferential use gates are allocated to Signatory Airlines or rejected for use as preferential use gates.

(g) Any gate rejected for allocation during a Fiscal Year as a preferential use gate by all eligible Signatory Airlines may be deactivated or used during such Fiscal Year as the Commission sees fit, including, without limitation, as a common use gate, even though such election may cause the total number of common use gates to exceed ten percent of the total number of domestic terminal gates.

(f) The Commission will, in its sole discretion, determine the locations of any preferential use gates to be offered to a Signatory Airline, after taking into consideration the compatibility of such Signatory Airline's aircraft with the gate being assigned and the desirability of assigning contiguous gates within the same terminal for preferential use by any given Signatory Airline and minimizing the frequency of changes in the locations of preferential use gates, as well as any recommendations by the RMAC. By March 1, 2011 and March 1 of each Fiscal Year thereafter, the Commission will provide Signatory Airlines notice of the assignments of preferential use gates and the locations of common use gates, to be effective July 1, 2011 and July 1 of each Fiscal Year thereafter.

#### **Airport Scheduling Rights at Preferential Use Gates**

A Signatory Airline will have scheduling preference during a period of use at its preferential use gates only for an operation (arrival or departure) that occurs in accordance with a published schedule. The Commission will have the right, upon reasonable notice to a Signatory Airline, to schedule arrivals and departures by a requesting airline at a preferential use gate at all periods of time other than the Signatory Airline's periods of use of that assigned preferential use gate. In accommodating the Commission in its right to schedule such operations at a preferential use gate, the Signatory Airline will allow for use of its facilities or equipment (not including ground service equipment) at the preferential use gate or permit use of the Commission's equipment and podiums as may be required for the efficient use of the preferential use gate by a requesting airline. Whenever practical, the Commission will first consider the availability of common use gates and any recommendations of the RMAC before scheduling requesting airline arrivals and departures at any preferential use gate. Any requesting airline that is accommodated at any of a Signatory Airline's preferential use gates shall be required to pay the Commission the same charges for use of the preferential use gate that it would have been required to pay for use of a common use gate. The Commission will provide a credit to the Signatory Airline for one-half of the amount of any such gate-use payment.

#### **Airport's Rights to Accommodate Other Airlines and Recapture Space**

##### *Accommodation of Other Air Carriers in a Signatory Airline's Exclusive Use Space*

To facilitate the entry of new airlines and to maximize the utilization of facilities at the Airport, the Commission will first attempt to accommodate airlines needing space with preferential use gates as described above, common use facilities, joint use space, or uncommitted space available in the applicable terminal. If such facilities cannot adequately accommodate the requesting airline's needs, the Commission will have the right to require the temporary accommodation of a requesting airline in a Signatory Airline's exclusive use space if (i) the Signatory Airline has adequate capabilities, capacity, facilities and personnel for its own needs and the needs of the requesting

airline, (ii) the two airlines enter into an agreement and satisfy certain documentary requirements, such as fees, indemnification and insurance.

#### *Recapture of Exclusive Use Space Following Reduction in Number of Preferential Use Gates*

If the number of preferential use gates assigned to a Signatory Airline is reduced, the Commission may at any time thereafter and from time to time, after taking into account any recommendations of the RMAC, at the Commission's sole discretion and upon 30 days written notice to the Signatory Airline, terminate the Signatory Airline's rights to use all or a portion of its exclusive use space, including ticket counters and support facilities, that is reasonably required to support the operations of other airlines using the preferential use gates no longer assigned to Signatory Airline. The Commission will not terminate rights to exclusive use space that, in the Director's reasonable discretion, is required to support the Signatory Airline's continued operations at its remaining preferential use gate(s), if any.

#### *Recapture of Exclusive Use Space Following Rejection of Preferential Use Gates*

Whenever a Signatory Airline declines to accept a preferential use gate following the annual allocation of gates described above, the Commission may at any time thereafter and from time to time, after taking into account any recommendations of the RMAC, at the Commission's sole discretion and upon sixty days notice, reclaim all or a portion of the Signatory Airline's exclusive use space associated with the rejected preferential use gate, including ticket counters and support facilities, as follows:

(a) If there is another Signatory Airline that is willing to lease the reclaimed space, the two Signatory Airlines will attempt to negotiate an agreement as to any changes to the condition or layout of the space, any required sharing of support facilities, any associated costs, and any other provisions required to permit the other Signatory Airline to use the reclaimed space for its intended purpose.

(b) If the two Signatory Airlines cannot reach agreement, the Commission will join the negotiations and attempt to mediate an agreement.

(c) If the Commission is unable to mediate an agreement, the Airport Director will formulate a reasonable solution and notify both Signatory Airlines.

(e) If there is no other Signatory Airline willing to lease the reclaimed space, the space will revert to the possession and control of the Commission and may thereafter be made available by the Commission on a common use basis to other airlines, or leased on an exclusive use or preferential use basis to other Signatory Airlines or Airport tenants.

#### *Relocation of Signatory Airline Operations*

Under the 2011 Leases, the Commission has the right upon 60 days notice, to require a Signatory Airline to relocate its operations at the Airport in order to improve Airport facilities, accommodate the traveling public, or maximize the use of the terminals and related facilities by all users thereof. All reasonable moving costs resulting from relocation of a Signatory Airline in a Commission-imposed temporary reallocation of space shall be funded by the Commission; provided that if the removal and reinstallation of the Signatory Airline's trade fixtures and other movable property is possible and not unreasonable, the Signatory Airline will not be entitled to a replacement of such fixtures or property. In addition, a Signatory Airline will not be entitled to reimbursement for relocation of or within joint use space, or preferential use space resulting from the annual reallocation, acceptance or rejection of gates.

## **Rates and Charges**

#### *Airport Cost Centers and Space Categories*

The 2011 Leases generally preserve the following six cost centers based on functional areas of the Airport to be used in accounting for revenues, expenses and debt service: 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. Terminal Area space, including ticket counters, ticket counter back offices, administrative and operation offices, baggage handling areas, and unenclosed or covered areas, is classified in five space categories, each with a different rental rate.

#### *Rentals and Landing Fees and their Adjustment*

The 2011 Leases continue the residual rate setting methodology at the Airport, in order to match 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 2011 Leases provide a methodology for computing the landing fee rate and Terminal Area rental rates to ensure that revenues equal expenditures. Airlines that are not Signatory Airlines or an Affiliate Airline of a Signatory Airline will pay a 25% premium on landing fees.

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 Commission the landed weight forecast for itself and its affiliate airlines, and notice of any proposed additions to the space in the Terminal Area it leases, for the next fiscal year. Concurrently, the Commission submits to the airlines its budgetary forecast for the various cost centers for the next fiscal year. The Commission 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 2011 Leases of the landing fee rate and the Terminal Area rental rates for the next fiscal year. The Signatory Airlines and the Commission may meet to discuss the proposed rates and charges, and the Commission will give due regard to any comments offered by the Signatory Airlines on the proposed calculations. Within 30 days after the meeting, or the forwarding of the rentals and fees to the Signatory Airlines if no meeting is held, the rentals and fees, as calculated by the Commission in accordance with 2011 Lease and the 1991 Master Resolution, will become effective.

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 2011 Leases 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 2011 Leases, the Commission is limited in any Fiscal Year to appropriating from current revenues up to \$4,200,000 in 2008 dollars, as adjusted, to finance capital improvements. A Majority-in-Interest of the Signatory Airlines may approve the use of additional current revenues to fund capital improvements. The Commission must otherwise use commercially reasonable efforts to finance capital improvements in excess of such amount through the use of grants, funding from the Transportation Security Administration, and passenger facility charges, and through the issuance of Airport revenue bonds. A "capital improvement" is a single Airport addition or improvement, including equipment, which is purchased, leased or constructed at a cost of \$626,257 in 2008 dollars or more, and a useful life of more than three years. The dollars amounts are to be adjusted annually by the Implicit Price Deflator Index for Gross Domestic Product published by the U.S. Department of Commerce, Bureau of Economic Analysis.

Proposed capital improvements with a cost in excess of \$626,257 in 2008 dollars that would result in a charge to Signatory Airlines in the terminal area rentals or landing fees, are subject to certain review procedures established under the 2011 Leases. A Majority-in-Interest of the Signatory Airlines (defined as 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 proposed capital improvement for six months to give the airlines time to present their views regarding the capital improvement. Capital improvements that are (i) required by a



federal or state agency having jurisdiction over Airport operations, (ii) to be financed by the issuance of Special Revenue Bonds, or (iii) of an emergency nature, which, if not made, would result in the closing of the Airport within 48 hours, are not subject to the review procedures.

“Special Revenue Bonds” are taxable and tax-exempt obligations (such as special facility bonds) issued by the Commission, the principal of, premium, if any, and interest on which are payable from or secured in whole or substantial part by revenues other than Airport “Revenues,” as defined under the 1991 Master Resolution. The City may pledge Revenues as further security for Special Revenue Bonds, or issue general Airport revenue bonds to refund Special Revenue Bonds in accordance with the 1991 Master Resolution, if (i) the Signatory Airlines are notified in writing of the proposed pledge or issuance, and (ii) the Majority-in-Interest approves the pledge or issuance within 45 days of the notice. The Commission may not proceed with any such pledge or issuance that is not so approved by a Majority-in-Interest.

### **Security Deposit**

A Signatory Airline’s faithful performance of the 2011 Lease will be secured by a security deposit equal to two months of Terminal Area rentals, landing fees, usage fees, rates and charges. The security deposit may be in the form of a surety bond or a letter of credit to be renewed annually at the Signatory Airline’s cost, and kept in full force and effect at all times. If the Signatory Airline fails to pay any amounts due or otherwise defaults under the 2011 Lease, the Commission may draw on the Signatory Airline’s security deposit for the payment of any delinquent amounts, or to compensate the Commission for any loss or damages suffered by the Commission. The Signatory Airline is required to replenish its security deposit within 10 days.

### **Assignment and Subletting**

A Signatory Airline is not permitted to transfer or assign its leased premises, its 2011 Lease, or any right thereunder without the Director’s prior written consent. Any transfer made without the Director’s consent constitutes an event of default hereunder and will be voidable at the Director’s election. The merger of a Signatory Airline with any other entity or the transfer of any controlling ownership interest in a Signatory Airline, or the assignment or transfer of a substantial portion of the assets of a Signatory Airline, whether or not located on the leased premises will be deemed a transfer to which the consent requirements are applicable. In addition, a Signatory Airline’s entering into any operating agreement, license or other agreement where a third party, other than a subsidiary, affiliate airline, or code share partner of the Signatory Airline, is given rights or privileges to utilize portions of the leased space will be considered an attempted transfer which requires Airport consent.

However, the restrictions on asset transfers in the 2011 Lease will not apply to stock or limited liability company interest transfers of corporations or limited liability companies the stock or interests of which are traded through an exchange or over the counter. A Signatory Airline will also have the right, without first obtaining the Airport’s written consent, to assign or transfer its 2011 Lease, to an entity controlling, controlled by or under common control with such Signatory Airline, or to a successor by merger, consolidation or acquisition to all or substantially all of the assets of the Signatory Airline, if such entity or successor operates at the Airport and assumes all rights and obligations under the 2011 Lease.

### **Damage and Destruction; Condemnation/Eminent Domain**

#### *Damage and Destruction*

If any part of a Signatory Airline’s leased space is partially damaged by fire or other casualty but is not rendered untenable, the damaged space will be repaired by the parties as described below. If any part of the leased premises is so extensively damaged by fire or other casualty as to render any portion of the space untenable but capable of being repaired, the same will be repaired by the parties as described below, and the Commission will use commercially reasonable efforts to provide the Signatory Airline with comparable temporary alternative facilities sufficient to allow the Signatory Airline to continue its operations while repairs are being completed. If any part of the leased premises will be damaged by fire or other casualty, and is so extensively damaged as to render any portion of the leased premises untenable and not economically feasible to repair, the Commission will notify the Signatory Airline within 45 days after the date of such damage of its decision whether said space should be reconstructed or replaced. If the Commission elects to replace or reconstruct the affected

space, the same will be reconstructed by the parties as described below, and the Commission will use commercially reasonable efforts to provide the Signatory Airline with comparable temporary alternative facilities sufficient to allow the Signatory Airline to continue its operations while reconstruction is being completed. If the Commission elects to not reconstruct or replace the damaged leased premises, the Commission will either relocate the Signatory Airline, or if no replacement premises are available, permanently reduce the space leased to the Signatory Airline. If the Signatory Airline is not relocated and its remaining tenantable leased premises are not sufficient to maintain operations at the Airport, the Signatory Airline may terminate its 2011 Lease.

*Allocation of Responsibility for Reconstruction; No Abatement of Rent*

In the event any Signatory Airline's alterations in its exclusive or preferential use space are to be reconstructed or repaired following damage by a casualty, the Signatory Airline will use commercially reasonable efforts to repair its alterations, at its sole cost and expense, within 90 days for space that is open to the public and within 180 days for space that is not open to the public, and its 2011 Lease will continue in full force and effect. In the event any improvements in the joint use space included in the leased premises of one or more Signatory Airlines is to be reconstructed or repaired following damage by a casualty, the responsibility to repair such damage will be allocated among the applicable Signatory Airlines and the Commission in accordance with the maintenance responsibilities set forth in the 2011 Lease. Any other replacement, repair or reconstruction will be completed by the Commission.

If Signatory Airline's leased space is wholly or partially destroyed or damaged, the Signatory Airline will have no claim against the Commission for any damage suffered by reason of any such damage, destruction or repair. In addition, the Signatory Airline will not be entitled to an abatement of rent resulting from any damage, destruction or repair; provided that the Signatory Airline will not be charged rent for both untenable leased premises and temporary alternative facilities.

*Condemnation/Eminent Domain*

If all or a substantial part of a Signatory Airline's leased premises will be taken or condemned through eminent domain, the Signatory Airline may terminate its 2011 Lease upon 30 days' notice if the Commission does not notify the Signatory Airline in writing within 60 days before the date of taking that it will provide the Signatory Airline with mutually acceptable substitute facilities. If only a portion of the leased premises will be taken, the Signatory Airline will have the right to amend its 2011 Lease to remove the leased premises so taken upon 30 days' notice, if the Commission does not notify the Signatory Airline in writing within 60 days before the date of taking that it will provide the Signatory Airline with mutually acceptable substitute facilities.

**Events of Default; Termination or Suspension of 2011 Lease Provisions**

Each of the following events constitutes an Event of Default under the 2011 Lease: (i) a failure punctually to pay any amount due that continues beyond the date specified in a written notice of default from the Airport, which date will be no earlier than the tenth (10th) day after the date of the notice; provided that if two payment defaults occur, the Commission will have no obligation to give further notices and an immediate Event of Default will occur; (ii) various events of insolvency or bankruptcy relating to the Signatory Airline; (iii) an involuntary bankruptcy petition is filed against the Signatory Airline and not dismissed within 30 days; (iv) an unauthorized transfer of the 2011 Lease without the prior approval of the Commission that is not voided or rescinded within ten days after receipt of notice to the Signatory Airline; (v) the abandonment of the leased premises; (vi) a lien is filed against the lease premises as a result of an act or omission of the Signatory Airline, and is not discharged or contested within 30 days after receipt of notice; (vii) a failure to maintain the required security deposit for a period of more than three days after receipt of notice; (viii) a failure to maintain the required insurance or self-insured reserves; (ix) a failure to observe any covenant in the 2011 Lease for a period of more than ten days after receipt of notice, or failure to commence a cure within ten days after receipt of notice, followed by a failure to diligently prosecute the cure within one hundred twenty days after the notice; (x) the occurrence a default under any other agreement between the Signatory Airline and the Commission that is not cured as provided in the other agreement; or (xi) a failure timely to remit any passenger facility charges collected by the Signatory Airline.

Upon the occurrence and continuation of an Event of Default, the Commission may elect from the following remedies in addition to any other rights and remedies available to the Commission at law or in equity: (i) terminate the Signatory Airline's use of the lease premises and recover statutory damages from the Signatory Airline; (ii) not terminate the 2011 Lease and continue to collect rent as it becomes due; (iii) appoint a receiver to take possession of the leased premises and collect rents therefrom; (iv) terminate any other agreement between the Signatory Airline and the Commission; or (v) require prepayment of any amounts due under the 2011 Lease.

If a Signatory Airline fails to perform a duty under the 2011 Lease and does not cure within 3 days (as to any emergency) or 30 days (as to any non-emergency) following notice, the Commission has the right to perform such duty at the Signatory Airline's expense. The Commission also has the right to impose and collect fines from the Signatory Airlines as set forth in the Airport Rules as established and updated from time to time by the Commission.

In addition, the Commission may terminate a 2011 Lease if the Signatory Airline ceases revenue aircraft arrivals at the Airport for more than 30 consecutive days for reasons other than certain force majeure events.

A Signatory Airline may terminate its 2011 Lease upon the occurrence of any of the following events: (i) the issuance of a permanent injunction by any court of competent jurisdiction which remains in force for 180 days and substantially prevents the Signatory Airline from using all or major portions of the Airport; (ii) any action of any governmental authority, board, agency or officer with proper jurisdiction preventing the Signatory Airline from operating at the Airport; (iii) the involuntary termination by any governmental authority, board, agency or officer having jurisdiction, of Signatory Airline's right to serve the Airport; (iv) a default by the City in the performance of any material covenant, which default materially and adversely limits or prohibits the Signatory Airline's operations at the Airport, and the failure by the City to remedy such default in a timely manner as provided in the 2011 Lease; (v) if the Signatory Airline's leased premises are completely destroyed and the Commission elects not to reconstruct or replace the premises, does not relocate the Signatory Airline, and the remaining premises are not sufficient to maintain operations at the Airport; (vi) all or a substantial part of a Signatory Airline's leased premises are taken or condemned by any competent authority through exercise of its power of eminent domain, and the Commission does not notify the Signatory Airline within sixty days before the date of taking that it will provide mutually acceptable substitute facilities; or (vii) the Annual Service Payments can no longer be made and the Commission elects to suspend certain portions of the 2011 Lease. See "*City's Right to Suspend Part of 2011 Lease*" below.

In addition, each Signatory Airline will have a one-time mid-term option to request termination of its use of up to twenty percent of its exclusive use space upon ninety days notice, effective July 1, 2016. If, in the Commission's sole determination, the exclusive use space the Signatory Airline intends to vacate has independent physical access and is otherwise functional and useable by other air carriers or tenants, the Commission will not unreasonably withhold approval of the Signatory Airline's request.

#### *City's Right to Suspend Part of 2011 Lease*

In the event that the Annual Service Payment cannot be made for any reason for 12 months, other than through the City's or Commission's own inaction or action not in conformance with the 2011 Lease, including, but not limited to, supervening legislation or court decision, the City may elect to suspend uniformly as to all Signatory Airlines, all or some of the provisions of the 2011 Lease relating to: the calculation and adjustment of landing fees; the limitation on funding capital projects from current revenues; the right of a Majority-in-Interest of the Signatory Airlines to delay capital improvements; and the City's covenant to require all users of the Airfield Area to pay for their use thereof and to credit the amounts received to the appropriate cost centers, so as to reduce the amounts needing to be collected from the Signatory Airlines through landing fees. If the Commission elects to suspend any of these provisions, any Signatory Airline may terminate its 2011 Lease upon 30 days notice

In addition, during any period of suspension of some or all of the provisions described above, the Commission may: (1) appropriate an amount equal to the then-payable Annual Service Payment for capital improvements included in its five-year capital program; and (2) adjust the level of terminal rental rates, observing in the calculations of such adjusted rental rates the cost centers and procedures for allocation of revenues, expenses, and debt service to such cost centers in accordance with the 2011 Lease, and maintaining the relationships between rental rates for each category of space described in the 2011 Lease.

During the period when the Annual Service Payments cannot be made, the Commission is required to segregate the amounts that would otherwise have been paid to the City General Fund in an identifiable, interest-bearing subaccount of the Airport Revenue Fund, to be applied to any lawful purpose of the Commission other than as security for any bond issue. To the extent monies are so segregated and applied, the Annual Service Payment will be deemed to have been satisfied.

Upon resumption of the Annual Service Payment or receipt of an equivalent amount by City's General Fund, the right of the Commission to suspend the provisions of the 2011 Lease described above will terminate and the Commission will release any segregated amounts to the Airports Revenue Fund for customary budgeting disposition. The Commission will also make any necessary adjustments to terminal rentals and landing fees.

### **Limited Obligations of the City**

Any obligation or liability of the City created by or arising out of the 2011 Lease will be payable solely out of the Revenues and other lawfully available moneys of the Airport, and will not constitute a general obligation of the City or a charge upon its general fund. The 2011 Lease will not obligate the City to make any appropriation from its general fund for any payment due hereunder. No breach by the City under the 2011 Lease will impose any pecuniary liability upon the City, other than from Revenues, or be payable from or constitute a charge upon the general credit or against the taxing power of the City.

### **Other 2011 Lease Covenants**

The Commission covenants in the 2011 Leases to: (i) efficiently manage and operate the Airport on the basis of sound business and airport management principles in effect at airports of comparable size in the continental United States and with efficient and prudent control of all capital and operating expenses; (ii) use commercially reasonable efforts to operate the Airport in a manner consistent with its strategic marketing and public relations plans in order to maximize revenues from concessionaires, lessees and other non-airline users; (iii) require all users to pay for use of the airfield, with the fees paid by users other than Signatory Airlines and their Affiliate Airlines to be credited to the appropriate cost centers so as to reduce the amounts required to be collected from the Signatory Airlines and their Affiliate Airlines through landing fees.

Except as otherwise provided in the 2011 Lease or as the Commission and Signatory Airlines may subsequently agree, the Commission may not charge any Signatory Airline, its passengers, employees, furnishers of services, or suppliers, any charges, fees or tolls of any nature, direct or indirect, for any of the premises or privileges granted in the 2011 Lease. The Commission, however, may impose and use passenger facility charges in accordance with applicable law.

In the 2011 Lease, the City agrees that all Airport-related functions provided as of July 1, 2009, by City employees assigned to the Commission and working under the direct authority and control of the Director will continue to be provided by employees assigned to the Commission and may only be transferred to other City departments upon 60 days notice to the Signatory Airlines, and consideration and response to any comments, questions or objections of the Signatory Airlines to the proposed transfer of functions within 45 days of receipt. Any City department head whose department receives work relating to the Airport in a transfer of functions is to coordinate and consult with the Director at least annually to ensure that the work is performed in a manner that is efficient, meets the needs of the Airport, conforms to sound business and airport management principles, and is properly documented as required by FAA rules and regulations.

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## 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 2010F/G 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 2010F/G 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 2010F/G Bonds, including persons holding 2010F/G 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 any of the original underwriters of the 2010F/G Bonds required to comply with the Rule in connection with offering of the 2010F/G 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 2010F/G 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 2010F/G Bond Calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events adversely affecting the tax-exempt status of the 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G 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 or an obligated person with respect to the 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G 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 2010F/G Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the 2010F/G 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 2010F/G 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 2010F/G 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

#### POOLED RESERVE SURETY BONDS

*The following information under the caption “Ambac Surety Bond” has been provided by Ambac Assurance Corporation, the following information under the caption “Assured Guaranty Municipal Corp. (formerly, Financial Security Assurance Inc.)” has been provided by Assured Municipal 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 “Syncora Guarantee Inc. (formerly, 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**

Current financial disclosure for Ambac Assurance Corporation (the “Ambac”) can be obtained at <http://www.ambac.com>. Current disclosure for Ambac is not currently available.

Surety bonds were issued by 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 \$8,986,000,000 (unaudited) and statutory capital of approximately \$1,161,000,000 (unaudited) as of September 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 R, 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 for the quarterly period ended March 31, 2009, dated and filed on May 18, 2009;
4. The Company’s Current Report on Form 8-K dated and filed on June 17, 2009;
5. The Company’s Current Report on Form 8-K dated and filed on June 19, 2009;
6. The Company’s Current Report on Form 8-K dated and filed on July 27, 2009;
7. The Company’s Current Report on Form 8-K dated and filed on August 7, 2009;
8. The Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, dated and filed on August 10, 2009;
9. The Company’s Current Report on Form 8-K dated and filed on September 30, 2009;
10. The Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, dated and filed on November 9, 2009;
11. The Company’s Current Report on Form 8-K dated and filed on November 18, 2009;
12. The Company’s Current Report on Form 8-K dated and filed on November 25, 2009;
13. The Company’s Current Report on Form 8-K dated and filed on December 1, 2009; and

14. The Company's Current Report on Form 8-K dated and filed on January 5, 2010.
15. The Company's Current Report on Form 8-K dated and filed on January 7, 2010.
16. The Company's Current Report on Form 8-K dated and filed on January 29, 2010.
17. The Company's Current Report on Form 8-K dated and filed on February 3, 2010.
18. The Company's Current Report on Form 8-K dated and filed on March 8, 2010.

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 and prior to the date of closing of the Bonds 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."

#### **Assured Guaranty Municipal Corp. (formerly Known as Financial Security Assurance Inc.) Surety Bond**

Assured Guaranty Municipal Corp., formerly Financial Security Assurance Inc. ("AGM") 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 Pooled Reserve Account.

The Reserve Policies unconditionally guarantee the scheduled 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. AGM 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 AGM 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-cancellable and the premium was fully paid at the time of delivery of the applicable series of Bonds. Each Reserve Policy covers failure to pay scheduled 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.

AGM 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 AGM 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 AGM'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.

*Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)*

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an 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, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA ("Dexia"). In connection with such acquisition, Holdings' financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM 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, including withdrawal initiated at the request of AGM in its sole discretion. 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 AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

*Recent Developments*

Ratings. On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. 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.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. 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.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moody.com](http://www.moody.com), for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM'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, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

#### *Capitalization of AGM*

At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,220,015,145 and its total net unearned premium reserve was approximately \$2,228,912,193 in accordance with statutory accounting principles.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "Assured Guaranty Municipal Corp. Surety Bond (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) 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, \$5,917,178.82, and \$20,876,700.00, all expiring on May 1, 2026 are currently on deposit in the Pooled 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 New York 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*

As a financial guaranty insurance company licensed to do business in the State of New York, National is also 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 National Insurance 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 March 31, 2010, National had cash and admitted assets of \$7.0 billion (unaudited), total liabilities of \$6.3 billion (unaudited), and total surplus of \$0.7 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 March 31, 2010, prepared in accordance with generally accepted accounting principles, included in the Quarterly Report on Form 10-Q of MBIA Inc. for the quarter ended March 31, 2010, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof.

#### *Recent Litigation*

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National.

MBIA Inc. has received subpoenas or informal inquiries from a variety of regulators, including the Securities and Exchange Commission (“SEC”), the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states’ regulatory authorities, regarding a variety of subjects, including soft capital instruments, disclosures made by MBIA Inc. to underwriters and issuers of certain bonds, disclosures regarding MBIA Inc.’s structured finance exposure, trading and valuation of managed collateral, MBIA Inc.’s communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. MBIA Inc. is cooperating fully with each of these regulators and is in the process of satisfying all such requests. MBIA Inc. may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against MBIA Inc. and others. The first complaint, against MBIA Inc., AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California’s antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer’s financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between July 23, 2008 and January 6, 2009. These cases are now part of a coordinated proceeding referred to as Ambac Bond Insurance Cases. On April 8, 2009, The Olympic Club filed a complaint against MBIA Inc. in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged MBIA Inc.’s financial condition, and of a failure to adequately disclose the impact of those transactions on MBIA Inc.’s financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases in San Francisco Superior Court. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento and the Olympic Club, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured



bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. On March 1, 2010 Judge Richard A. Kramer struck the various complaints in their entirety, determining that they had not been pled with requisite specificity. Plaintiffs were given leave to re-plead.

The City of Los Angeles's second complaint named as defendants certain other financial institutions as well as bond insurers, including MBIA Inc., AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California's antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation *In re Municipal Derivatives Antitrust Litigation*, M.D.L. No. 1950; the San Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009. All five plaintiffs filed amended complaints on September 15, 2009 alleging violations of both federal and California state antitrust laws. On December 10, 2009, four additional complaints were filed against MBIA Inc. and the other defendants by the Los Angeles World Airports, the Redevelopment Agency of the City of Stockton and the Public Financing Authority of the City of Stockton (filed jointly), the County of Tulare and the Sacramento Suburban Water District. On April 28, 2010, Judge Victor Marreo denied MBIA Inc.'s motion to dismiss. MBIA Inc.'s motion for reconsideration of that decision was denied on May 3, 2010.

On March 12, 2010, the City of Phoenix, Arizona filed a complaint in the United States District Court for the District of Arizona against MBIA Inc., Ambac Financial Group, Inc. and Financial Guaranty Insurance Company relating to insurance premiums charged on municipal bonds issued by the City of Phoenix between 2004 and 2007. Plaintiff's complaint alleges pricing discrimination under Arizona insurance law and unjust enrichment. MBIA Inc.'s response is due May 28, 2010.

On April 5, 2010, Tri-City Healthcare District, a California public healthcare legislative district, filed a complaint in the Superior Court of California, County of San Francisco, against MBIA Inc., MBIA Corp., National, and certain MBIA Inc. employees, among other parties (various financial institutions and law firms). The complaint purports to state 19 causes of action (12 against MBIA Inc.) for fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, economic duress and statutory claims for unfair business practices and violation of the California False Claims Act arising from Tri-City Healthcare District's investment in auction rate securities. MBIA Inc.'s response is due May 21, 2010.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA Inc. 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. (the "Aurelius Plaintiffs"), 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 MBIA Inc. and its subsidiaries, 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 Corp. 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. On February 11, 2010, Judge Sullivan entered an order denying MBIA Inc.'s motion to dismiss.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware 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. On October 28, 2009 the, vice Chancellor Strine entered an order dismissing the case without prejudice. On December 21, 2009, plaintiffs re-commenced the action in New York State Supreme Court, and it has been assigned to Justice James A. Yates.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc. 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 MBIA Inc. 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) ordering damages in an unspecified amount. On February 17, 2010, Justice Yates denied defendants’ motion to dismiss. On February 25, 2010, MBIA Inc. filed its Notice of Appeal of the denial to the Appellate Division of the New York State Supreme Court. On April 1, 2010, MBIA Inc.’s motion to stay the case pending appeal was denied. On April 7 and April 22, 2010, respectively, the New York State Insurance Department and the Aurelius Plaintiffs each filed a motion for leave to file an amicus brief in MBIA Inc.’s appeal. On March 22, 2010, MBIA Inc. filed its opening brief with the Appellate Division. On April 21, 2010, plaintiffs filed their opposition brief. MBIA Inc. filed its reply brief on April 30, 2010. On May 6, 2010 the Appellate Division granted the New York State Insurance Department’s motion to file an amicus brief. Argument has been scheduled for June 2, 2010.

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 and Rules in New York State Supreme Court, entitled *ABN AMRO Bank N.V. et al. v. Eric Dinallo*, in his capacity as Superintendent of the New York Insurance State 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 Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department 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. and the New York State Insurance Department filed their answering papers to the Article 78 Petition on November 24, 2009 and argued that based on the record and facts, approval of Transformation and its constituent transactions was neither arbitrary nor capricious nor in violation of New York Insurance Law. On April 7, 2010, Justice Yates ordered that the Article 78 proceeding continue on a separate, expedited schedule from the other three Transformation-related litigations.

MBIA Inc. and National are defending against the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National’s ability to implement its strategy and on its business, results of operations and financial condition.

There are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

### *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, 2009;

MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010; 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 2009 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, 2009, and (2) MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010) 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.

### **Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) Surety Bonds**

Current financial disclosure for Syncora Guarantee Inc. can be obtained at <http://syncora.com>. Current disclosure for XL Capital is no longer available.

Debt service reserve policies (collectively, the "Debt Service Reserve Policies") issued by Syncora Guarantee Inc. (formerly 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.

### **2009 RESERVE ACCOUNT SURETY BOND**

***The following information regarding the 2009 Reserve Account Surety Bond on deposit in the 2009 Reserve Account is presented for informational purposes only. The 2010F/G Bonds are not secured by the 2009 Reserve Account.***

*The following information under the caption “Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)” has been provided by Assured Guaranty Municipal Corp., 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.*

#### **Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) Surety Bond**

Assured Guaranty Municipal Corp. formerly Financial Security Assurance Inc. (“AGM”) issued a municipal bond debt service reserve fund in the maximum amount of \$3,411,151 expiring on May 1, 2025 that is on deposit in the 2009 Reserve Account.

The Reserve Policy unconditionally guarantees the scheduled 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 Policy may not exceed the maximum amount set forth in the Reserve Policy. AGM 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 AGM 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.

The Reserve Policy is non-cancellable and the premium was fully paid at the time of delivery of the applicable series of Bonds. The Reserve Policy covers failure to pay scheduled 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.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an 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, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA (“Dexia”). In connection with such acquisition, Holdings’ financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the “SEC”) on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM 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, including withdrawal initiated at the request of AGM in its sole discretion. 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 AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Recent Developments*

Ratings. On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. 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.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. 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.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moody.com](http://www.moody.com), for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM'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, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

#### *Capitalization of AGM*

At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,220,015,145 and its total net unearned premium reserve was approximately \$2,228,912,193 in accordance with statutory accounting principles.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).



All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption “–Assured Guaranty Municipal Corp. Surety Bond (formerly known as Financial Security Assurance Inc.)” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under this heading “–Assured Guaranty Municipal Corp. Surety Bond (formerly known as Financial Security Assurance Inc.)”.

**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.

August 5, 2010

Airport Commission of the City  
and County of San Francisco  
San Francisco International Airport  
San Francisco, California

**\$128,460,000**  
**Airport Commission**  
**City and County of San Francisco, California**  
**San Francisco International Airport**  
**Second Series Revenue Bonds**  
**Series 2010F/G**

**\$121,360,000**  
**Series 2010F**  
**(Non-AMT/Private Activity)**

**\$7,100,000**  
**Series 2010G**  
**(Non-AMT/Governmental Purpose)**

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 City and County of San Francisco, California, San Francisco International Airport Second Series Revenue Bonds, Series 2010F in the aggregate principal amount of \$121,360,000 (the "Series 2010F Bonds") and its City and County of San Francisco, California, San Francisco International Airport Second Series Revenue Bonds, Series 2010G in the aggregate principal amount of \$7,100,000 (the "Series 2010G Bonds," and together with the Series 2010F Bonds, the "Series 2010 Bonds"), issued pursuant to the Charter of the City and County of San Francisco (the "Charter") and all laws of the State of California (the "State") 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 Series 2010 Bonds dated the date hereof (collectively, the "1991 Master Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the 1991 Master Resolution.

In connection with the issuance of the Series 2010 Bonds, we have examined the following:

- (a) copies of the 1991 Master Resolution, the Charter and the Law;
- (b) an executed copy of the Tax Certificate, dated the date hereof, relating to the Series 2010 Bonds and other matters (the "Tax Certificate");



(c) certifications of the Commission, the Airport Consultant, the Co-Financial Advisors, the Trustee, the Underwriters, and others;

(d) opinions of counsel to the Commission, the Trustee and the Underwriters; and

(e) such other documents, opinions and matters as we deemed relevant and necessary rendering the opinions set forth herein.

From such examination, we are of the opinion that:

1. The Commission is duly organized and validly existing as a commission of the City and County of San Francisco (the “City”) under and pursuant to the Charter.

2. Pursuant to the Charter and the Law, the Commission has the power and authority to issue the Series 2010 Bonds.

3. The Series 2010 Bonds have been validly authorized and issued in accordance with the Charter, the Law and the 1991 Master Resolution and represent valid and binding special limited obligations of the Commission. The Series 2010 Bonds are secured by a pledge of and lien upon and are a charge upon and are payable from the Net Revenues and certain funds and accounts provided for in the 1991 Master Resolution. The Series 2010 Bonds are not a debt of the City, 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 the Net Revenues and the funds and accounts specifically pledged to the payment thereof. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to the payment of the principal of, redemption premium, if any, or interest on the Series 2010 Bonds, and the Commission is not obligated to pay the principal of, redemption premium, if any, and interest on the Series 2010 Bonds except from Net Revenues. An owner of the Series 2010 Bonds may not compel the exercise of the taxing power of the City or the forfeiture of any of its property to pay the principal of, redemption premium, if any, or interest on the Series 2010 Bonds. The Commission has no taxing power.

4. The 1991 Master Resolution has been duly adopted by the Commission and constitutes the valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2010F Bond for any period during which such Series 2010F Bond is held by a person who is a “substantial user” of the facilities financed or refinanced by the Series 2010 Bonds or a “related person” to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Interest on the Series 2010 Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2010 Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 5 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Commission with covenants regarding federal tax law contained in the 1991 Master Resolution and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2010 Bonds to be included in gross income

retroactive to the date of issue of the Series 2010 Bonds. Although we are of the opinion that interest on the Series 2010 Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2010 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The obligations of the Commission, the security provided therefor, as contained in the Series 2010 Bonds and the 1991 Master Resolution, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the limitations on legal remedies against cities in the State of California. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated July 27, 2010, or any other offering material relating to the Series 2010 Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2010 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

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