



SFO

San Francisco International Airport

Official Statement

Airport Commission

City and County of San Francisco

San Francisco International Airport

Second Series Revenue Refunding Bonds

Series 2011C/D/E

SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE REFUNDING BONDS SERIES 2011C/D/E





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

Moody's: A1

S&P: A+

Fitch: A+

(See "RATINGS")

In the opinion of Orrick, Herrington & Sutcliffe LLP and Lofton & Jennings, Co-Bond Counsel to the Commission, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2011C Bonds and the 2011D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any 2011C Bond for any period that such 2011C Bond is held by a "substantial user" of the facilities financed or refinanced by the 2011C Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel observe that interest on the 2011C Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. In the further opinion of Co-Bond Counsel, interest on the 2011D Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Co-Bond Counsel observe that interest on the 2011D Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

In the opinion of Co-Bond Counsel, interest on the 2011E Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code.

Co-Bond Counsel are also of the opinion that interest on the 2011C/D/E Bonds is exempt from State of California personal income taxes. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2011C/D/E Bonds. See "TAX MATTERS."

\$350,415,000

**AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE REFUNDING BONDS
SERIES 2011C/D/E**

\$163,720,000
Series 2011C
(AMT)

\$124,110,000
Series 2011D
(Non-AMT/Governmental Purpose)

\$62,585,000
Series 2011E
(Taxable)

Dated: Date of Delivery**Due: As shown on the inside cover**

The Airport Commission (the "Commission") of the City and County of San Francisco (the "City") will issue \$350,415,000 aggregate principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds of the above Series (the "2011C/D/E Bonds"). The San Francisco International Airport (the "Airport") is a department of the City. The Bank of New York Mellon Trust Company, N.A. has been appointed by the Commission to act as Trustee for the Bonds.

The Commission will use the proceeds of the 2011C/D/E Bonds, together with other available moneys, to refund certain outstanding Bonds of the Commission, to make any required deposit to the Original Reserve Account, and to pay costs associated with the issuance of the 2011C/D/E Bonds.

The 2011C/D/E Bonds will mature on the dates and bear interest at the rates shown on the inside cover of this Official Statement. Interest on the 2011C/D/E Bonds is payable each May 1 and November 1, commencing November 1, 2011.

The 2011C/D/E Bonds are subject to optional redemption prior to their stated maturity dates.

The 2011C/D/E Bonds will be issued 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"). So long as Cede & Co. is the registered owner of any 2011C/D/E 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.

The 2011C/D/E Bonds are special, limited 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 is pledged to the payment of the principal of or interest or redemption premium, if any, on the 2011C/D/E Bonds. No holder of a 2011C/D/E Bond shall have the right to compel the exercise of the taxing power of the City and County of San Francisco to pay the principal of the 2011C/D/E Bonds or the interest or redemption premium, if any, thereon. The Commission has no taxing power whatsoever.

The 2011C/D/E Bonds are offered when, as and if issued by the Commission and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, Co-Bond Counsel to the Commission, and certain other conditions. Certain legal matters will be passed upon for the Commission by Nixon Peabody LLP, San Francisco, California, Disclosure Counsel and by the City Attorney, and for the Underwriters by their counsel Hawkins Delafield & Wood LLP, San Francisco, California. The Airport expects to deliver the 2011C/D/E Bonds through the facilities of DTC on or about July 21, 2011, in New York, New York against payment therefor.

Barclays Capital**BofA Merrill Lynch****J.P. Morgan**

Dated: June 30, 2011

\$350,415,000
AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE REFUNDING BONDS
SERIES 2011C/D/E

\$163,720,000
Series 2011C
(AMT)

\$124,110,000
Series 2011D
(Non-AMT/Governmental Purpose)

\$62,585,000
Series 2011E
(Taxable)

MATURITY SCHEDULE

\$163,720,000 2011C Bonds

Principal Payment Date (May 1)	Principal	Interest Rate	Initial Reoffering Yield ⁽¹⁾	CUSIP No. ⁽²⁾
2019	\$ 6,000,000	5.000%	3.910%	79766DAA7
2020	28,660,000	5.000	4.160	79766DAB5
2021	38,160,000	5.000	4.380	79766DAC3
2022	34,985,000	5.000	4.590 ⁽³⁾	79766DAD1
2023	36,885,000	5.000	4.750 ⁽³⁾	79766DAE9
2024	9,290,000	5.000	4.900 ⁽³⁾	79766DAF6
2025	9,740,000	5.000	5.020	79766DAG4

\$124,110,000 2011D Bonds

Principal Payment Date (May 1)	Principal	Interest Rate	Initial Reoffering Yield ⁽¹⁾	CUSIP No. ⁽²⁾
2022	\$ 7,005,000	5.000%	3.790 ⁽³⁾	79766DAH2
2023	7,335,000	5.000	3.950 ⁽³⁾	79766DAJ8
2024	35,955,000	5.000	4.150 ⁽³⁾	79766DAK5
2025	20,670,000	5.000	4.300 ⁽³⁾	79766DAL3
2026	21,725,000	5.000	4.410 ⁽³⁾	79766DAM1
2027	5,700,000	5.000	4.490 ⁽³⁾	79766DAN9
2028	5,980,000	5.000	4.570 ⁽³⁾	79766DAP4
2029	6,270,000	5.000	4.650 ⁽³⁾	79766DAQ2
2030	6,575,000	5.000	4.740 ⁽³⁾	79766DAR0
2031	6,895,000	5.000	4.810 ⁽³⁾	79766DAS8

\$62,585,000 2011E Bonds

Principal Payment Date (May 1)	Principal	Interest Rate	Initial Reoffering Yield ⁽¹⁾	CUSIP No. ⁽²⁾
2012	\$ 2,335,000	0.700%	0.700%	79766DAT6
2013	3,325,000	1.507	1.507	79766DAU3
2014	6,140,000	2.021	2.021	79766DAV1
2015	13,195,000	2.626	2.626	79766DAW9
2016	17,870,000	3.026	3.026	79766DAX7
2017	6,960,000	3.429	3.429	79766DAY5
2018	7,135,000	3.779	3.779	79766DAZ2
2019	4,820,000	4.080	4.080	79766DBA6
2020	805,000	4.480	4.480	79766DBB4

⁽¹⁾The Underwriters provided the initial reoffering yields.

⁽²⁾CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. Neither the Commission nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

⁽³⁾Priced to call at 100% on May 1, 2021.

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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 2011C/D/E 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 2011C/D/E Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the City or the Commission. 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 2011C/D/E 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 or complete 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 regional, 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 2011C/D/E 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 2011C/D/E 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, Inc., Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch, Inc. for the Credit Providers, the 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, the City 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.

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OFFICIAL STATEMENT

\$350,415,000

**AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE REFUNDING BONDS
SERIES 2011C/D/E**

\$163,720,000
Series 2011C
(AMT)

\$124,110,000
Series 2011D
(Non-AMT/Governmental
Purpose)

\$62,585,000
Series 2011E
(Taxable)

INTRODUCTION

The Airport Commission of the City and County of San Francisco (the "Commission") is issuing \$350,415,000 aggregate principal amount of its Second Series Revenue Refunding Bonds, Series 2011C/D/E, comprised of: \$163,720,000 principal amount of Series 2011C Bonds (the "2011C Bonds"), \$124,110,000 principal amount of Series 2011D Bonds (the "2011D Bonds") and \$62,585,000 principal amount of Series 2011E Bonds (the "2011E Bonds" and, together with the 2011C Bonds and the 2011D Bonds, the "2011C/D/E Bonds"). All capitalized terms used and not defined in this Official Statement have the meanings given those terms in the 1991 Master Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions."

The Commission authorized the 2011C/D/E Bonds under Resolution No. 91-0210, which the Commission adopted on December 3, 1991 (the "1991 Resolution"). The Commission has supplemented and amended the 1991 Resolution by, among other resolutions: Resolution No. 10-0304 and Resolution No. 10-0307, both of which the Commission adopted on October 5, 2010. The 1991 Resolution, as supplemented and amended, is referred to in this Official Statement as the "1991 Master Resolution." The Commission appointed The Bank of New York Mellon Trust Company, N.A. to act as trustee (the "Trustee") for the 2011C/D/E Bonds. The 2011C/D/E Bonds, together with all Bonds that the Commission has issued and will issue pursuant to the 1991 Master Resolution, are referred to as the "Bonds." For a summary of the Commission's Outstanding Bonds, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Currently Outstanding Bonds."

The Commission will use the proceeds of the 2011C/D/E Bonds, together with other available moneys, to refund certain outstanding Bonds of the Commission, to make any required deposit to the Original Reserve Account, and pay costs associated with the issuance of the 2011C/D/E Bonds. See "REFUNDING PLAN."

The 2011C/D/E 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 will secure the 2011C/D/E Bonds 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 May 31, 2011, were outstanding in the amount of approximately \$4.241 billion. See "SECURITY FOR THE 2011C/D/E BONDS" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Currently Outstanding Bonds." The 2011C/D/E Bonds will also be secured by the Original Reserve Account. See "SECURITY FOR THE 2011C/D/E BONDS—Reserve Fund; Reserve Accounts; Credit Facilities—*Original Reserve Account*."

This Official Statement contains brief descriptions or summaries of, among other things, the 2011C/D/E Bonds, the 1991 Master Resolution, the 2011 Lease and Use Agreements, the Reserve Account Credit Facilities, the Swap Agreements and the Continuing Disclosure Certificate of the Commission. Any description or summary in this Official Statement of any such document is qualified in its entirety by reference to each such document.

REFUNDING PLAN

Refunded Bonds

The Commission will apply a portion of the proceeds from the sale of the 2011C/D/E Bonds, together with certain other available moneys, to establish an irrevocable escrow to refund \$357,825,000 aggregate principal amount of the Outstanding Bonds listed and identified as the Refunded Bonds on ANNEX I—"LIST OF REFUNDED BONDS" (collectively, the "Refunded Bonds").

The portion of the proceeds of the 2011C/D/E Bonds that will be used to refund the Refunded Bonds will be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent") pursuant to an Escrow Agreement, dated as of July 1, 2011 (the "Escrow Agreement") by and between the Commission and the Escrow Agent.

The amounts deposited under the Escrow Agreement, together with certain other available moneys, including certain amounts currently held pursuant to the 1991 Master Resolution, will be held by the Escrow Agent and will be in an amount sufficient to pay the redemption price of, including premium, if any, or purchase price of, as applicable, and interest on the Refunded Bonds upon redemption or mandatory tender thereof. Amounts so deposited may be invested in United States Treasury securities. The Refunded Bonds will be called for redemption or mandatory tender on the dates and at the prices set forth on ANNEX I—"LIST OF REFUNDED BONDS." See also "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

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ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds from the sale of the 2011C/D/E Bonds. See also “REFUNDING PLAN.”

	<u>2011C</u>	<u>2011D</u>	<u>2011E</u>	<u>Total</u>
SOURCES OF FUNDS:				
Principal Amount of 2011C/D/E Bonds	\$163,720,00.00	\$124,110,000.00	\$62,585,000.00	\$350,415,000.00
Plus: Net Original Issue Premium	5,930,712.60	6,721,861.20	--	12,652,573.80
Other Funds of the Airport	2,126,925.00	1,609,853.13	4,139,761.13	7,876,539.26
TOTAL	<u>\$171,777,637.60</u>	<u>\$132,441,714.33</u>	<u>\$66,724,761.13</u>	<u>\$370,944,113.06</u>
USES OF FUNDS:				
Deposit to Escrow Funds ⁽¹⁾	\$170,366,925.00	\$131,369,853.13	\$63,569,306.53	\$365,306,084.66
Deposit to Original Reserve Account	--	--	2,685,364.25	2,685,364.25
Underwriters’ Discount	849,482.80	643,961.11	244,196.78	1,737,640.69
Costs of Issuance ⁽²⁾	561,229.80	427,900.09	225,893.57	1,215,023.46
TOTAL	<u>\$171,777,637.60</u>	<u>\$132,441,714.33</u>	<u>\$66,724,761.13</u>	<u>\$370,944,113.06</u>

(1) Represents proceeds of the 2011C/D/E Bonds and other funds that will be deposited in the Escrow Funds to refund the Refunded Bonds. See “REFUNDING PLAN—Refunded Bonds.”

(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 2011C/D/E BONDS

General

The 2011C/D/E 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 2011C/D/E Bonds will be payable on May 1 and November 1 of each year, commencing November 1, 2011 (each an “Interest Payment Date”). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The 2011C/D/E 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 2011C/D/E 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 2011C/D/E Bonds (“Beneficial Owners”) will not receive certificates representing their interests in the 2011C/D/E 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 2011C/D/E 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.”

Redemption Provisions

Optional Redemption of 2011C Bonds and 2011D Bonds

The 2011C Bonds and the 2011D Bonds maturing on and after May 1, 2022 are 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, on any Business Day on or after May 1, 2021, at a redemption price equal to 100% of the principal amount of the 2011C Bonds or the 2011D Bonds called for redemption, together with accrued interest to the date fixed for redemption.

Make-Whole Optional Redemption of the 2011E Bonds

The 2011E Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Commission, from any source of available funds, as a whole or in part, in Authorized Denominations, on any Business Day at a redemption price equal to 100% of the principal amount of 2011E Bonds called for redemption, plus the Make-Whole Premium (as defined below), if any, together with accrued interest to the date fixed for redemption.

For purposes of the foregoing paragraph, the following terms are defined as follows:

“Make-Whole Premium” means, with respect to any 2011E Bond to be redeemed, an amount calculated by an Independent Banking Institution (as defined below) equal to the positive difference, if any, between:

- (1) The sum of the present values, calculated as of the date fixed for redemption of:
 - (a) Each interest payment that, but for the redemption, would have been payable on the 2011E Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such 2011E Bond (excluding any accrued interest for the period prior to the date fixed for redemption); plus
 - (b) The principal amount that, but for such redemption, would have been payable on the maturity date of the 2011E Bond or portion thereof being redeemed; minus
- (2) The principal amount of the 2011E Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (1) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve (12) 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined below), plus 25 basis points.

“Comparable Treasury Yield” means the yield which represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Bond being redeemed. The Comparable Treasury Yield will be determined as of the 10th Business Day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the 2011E Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (a) closest to and greater than the remaining term to maturity of the 2011E Bonds being redeemed; and (b) closest to and less than the remaining term to maturity of the 2011E Bonds being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Comparable Treasury Issue” means the United States Treasury security selected by the Independent Banking Institution as having a maturity comparable to the remaining term to maturity of the 2011E Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the 2011E Bonds being redeemed.

“Independent Banking Institution” means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the Commission (which may be one of the Underwriters). If the Commission fails to appoint an Independent Banking Institution at least 30 days prior to the date fixed for redemption, or if the Independent Banking Institution appointed by the Commission is unwilling or unable to determine the Comparable Treasury Yield, the Comparable Treasury Yield will be determined by an Independent Banking Institution designated by the Trustee.

“Comparable Treasury Price” means, with respect to any date on which a 2011E Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on the 10th Business Day preceding the date fixed for redemption.

“Reference Treasury Dealer” means a primary United States Government securities dealer in the United States appointed by the Commission and reasonably acceptable to the Independent Banking Institution (which may be one of the Underwriters). If the Commission fails to select the Reference Treasury Dealers within a reasonable period of time, the Trustee will select the Reference Treasury Dealers in consultation with the Commission.

Selection of 2011 C/D/E Bonds for Redemption

Partial Redemption of 2011C Bonds and 2011D Bonds. If less than all of a maturity of the 2011C Bonds or the 2011D Bonds is to be redeemed, the 2011C Bonds or 2011D Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall determine.

Partial Redemption of 2011E Bonds. If less than all of a maturity of the 2011E Bonds is to be redeemed, the Trustee will select the 2011E Bonds to be redeemed, from the outstanding 2011E Bonds of such maturity not previously called for redemption, on a pro rata basis, which will be calculated based on the following formula: (principal of the 2011E Bonds of a maturity to be redeemed) x (principal amount of 2011E Bonds of such maturity owned by an owner) / (total principal amount of 2011E Bonds of such maturity Outstanding immediately prior to the date of redemption). The result of such calculation will be rounded down to the next lower integral multiple of \$1,000; provided, that the portion of any 2011E Bonds to be redeemed will be in Authorized Denominations and all 2011E Bonds of a maturity remaining outstanding following such redemption will be in Authorized Denominations of the 2011E Bonds.

If the 2011E Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the 2011E Bonds, partial redemptions will be done in accordance with DTC procedures. It is the Commission’s intent that redemption allocations made by DTC be made in accordance with these same proportional provisions. However, the Commission can provide no assurance that DTC will allocate redemptions among beneficial owners on such a proportional basis.

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 2011C/D/E

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. See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE."

So long as the 2011C/D/E 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 2011C/D/E Bonds, and not directly to the Beneficial Owners.

Any notice of optional redemption may be cancelled and annulled by the Commission for any reason on or prior to the date fixed for redemption. Such cancellation would not constitute an event of default under the 1991 Master Resolution.

Transfer and Exchange

The 2011C/D/E Bonds will be issued only as fully registered securities, with the privilege of transfer or exchange for the 2011C/D/E Bonds of an equal or aggregate principal amount of the 2011C/D/E 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 2011C/D/E Bonds are in book-entry only form, beneficial ownership interests in the 2011C/D/E 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."

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. This is referred to in this Official Statement as a "Defeasance." Upon a Defeasance of Bonds, 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."

Defeasance of any 2011E Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the 2011E Bond. See "TAX MATTERS—2011E Taxable Bonds—*Defeasance of 2011E Bonds.*"

SECURITY FOR THE 2011C/D/E BONDS

Authority for Issuance

The 2011C/D/E 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.

Pledge of Net Revenues; Source of Payment

Pledge of Net Revenues

The 2011C/D/E 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. The payment of the principal of and interest on the 2011C/D/E 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. For a description of the Airport’s revenues, see “AIRPORT’S FINANCIAL AND RELATED INFORMATION.”

Net Revenues are defined in the 1991 Master Resolution as “Revenues” less “Operation and Maintenance Expenses.” “Revenues,” in turn, 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 (“GAAP”). 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 GAAP. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest on the Bonds or Subordinate Bonds (including Commercial Paper Notes); (b) any allowance, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission 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 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, reclassification, revaluation or other disposition of any Airport properties.

Pursuant to Section 5450 *et seq.* 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 2011C/D/E 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.

Certain Adjustments to “Revenues” and “Operation and Maintenance Expenses”

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. 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 in 2001. The Commission later received approval from the FAA to extend the PFC collection period through January 1, 2017. The Commission submitted a draft of a new PFC application to the FAA in October 2010. The Airport is working with the FAA to finalize this application for FAA review and approval.

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 2001-02 are described under “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.” The Commission expects to continue to designate a substantial portion of PFCs as Revenues in each Fiscal Year during which such PFCs are authorized to be applied to pay debt service on Bonds. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.”

The term “Operation and Maintenance Expenses” is defined in the 1991 Master Resolution 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.” For example, if the Commission pays operating expenses from proceeds of borrowed money or from grant moneys rather than from current revenues, it can reduce “Operation and Maintenance Expenses” and thereby artificially increase “Net Revenues” for purposes of satisfaction of the rate covenant and additional bonds tests under the 1991 Master Resolution. The Commission did this in the aftermath of the extraordinary events of September 11, 2001. The Commission effectively funded a portion of its operating expenses in the aggregate amount of \$33 million from proceeds of its commercial paper program in Fiscal Years 2001-02 and 2002-03. The commercial paper was later refunded with long-term debt. This provided critical relief to the airlines in terms of terminal rental rates and landing fees at the Airport during that period. The Commission has no present intention of doing anything similar.

As Revenues are determined on a modified accrual basis in accordance with GAAP, actual year-to-year receipts from terminal rentals and landing fees may differ materially from the amounts reported as “Revenues.” Terminal rental rates and landing fees must be established in advance for the upcoming Fiscal Year based on estimated revenues and expenses. Actual receipts in any given Fiscal Year are either more or less than estimated revenues, as are actual costs relative to estimated costs. Due to the residual nature of the 2011 Lease and Use Agreements, to the extent there is an over-collection in any year (that is, receipts from the airlines exceed net costs), that excess is not included in “Revenues.” This is due to the fact that those revenues have not yet been earned. The Airport is obligated to reduce future rates and charges by a corresponding amount. Similarly, if there is an under-collection in any year, that short-fall will nonetheless be recognized as “Revenues,” as the Airport’s right to receive them has been earned (or “accrued”). The airlines are obligated under the 2011 Lease and Use Agreements to pay such deficiency from future rates and charges. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements.” The Airport uses conservative revenue and expense estimates in establishing rates and charges each year. Thus, for the last five Fiscal Years, actual receipts have exceeded actual net costs. The surplus cash has been carried forward to the next Fiscal Year.

Special Limited Obligations

The 2011C/D/E Bonds are special, limited 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 is pledged to the payment of the principal of or interest or redemption premium, if any, on the 2011C/D/E Bonds. No owner of a 2011C/D/E Bond shall have the right to compel the exercise of the taxing power of the City and County of San Francisco to pay the principal of the 2011C/D/E Bonds or the interest or redemption premium, if any, thereon. The Commission has no taxing power whatsoever.

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*.”

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. The Commission is not obligated to replenish the Contingency Account in the event any amounts are withdrawn.

As of May 31, 2011, the balance in the Contingency Account available for transfer, as described below, was not less than \$92.6 million, which was equal to approximately 25% of Maximum Annual Debt Service on the Bonds as of that date. Except for transfers to the Revenues Account described in the following paragraph, the Airport has maintained approximately this balance in the Contingency Account for more than eight years, prior to which time the balance was more than \$55 million. The Airport has never drawn on the Contingency Account.

Moneys in the Contingency Account are required to be 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 2011C/D/E 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 required to be deposited back into the Contingency Account from the Revenues Account.

If the Commission withdraws funds from the Contingency Account for any purpose during any Fiscal Year and does not replenish the amounts withdrawn, this reduction in the amount in the Contingency Account may have an adverse effect on debt service coverage for such Fiscal Year and subsequent Fiscal Years. See “SECURITY FOR THE 2011C/D/E BONDS–Rate Covenant.”

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, nor have there been for more than 30 years);

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 2011 Lease and Use 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 2011 Lease and Use Agreements) and (ii) \$5 million per year. The 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, nor have there been for more than 30 years);

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

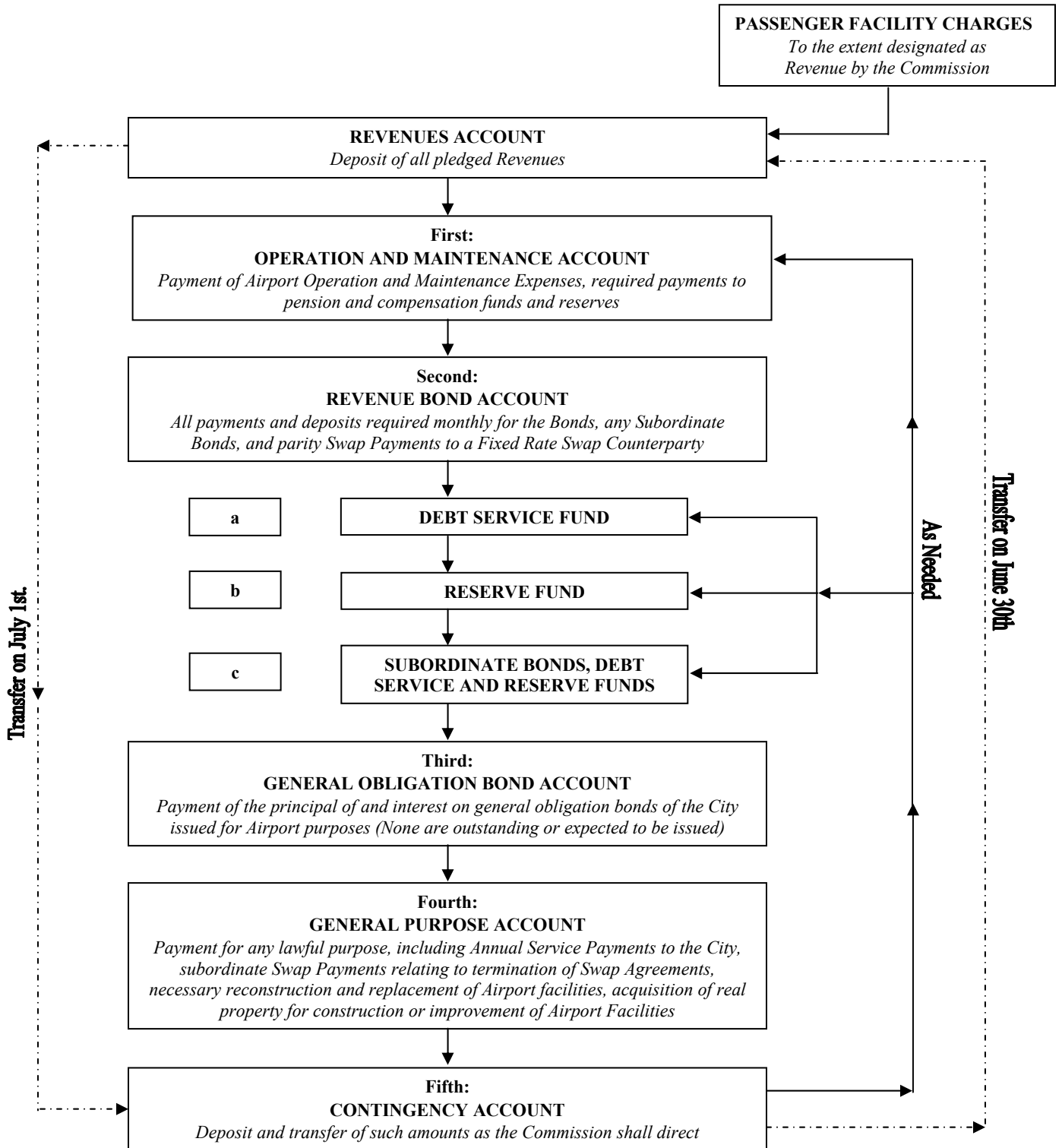
Fifth: to the Contingency Account, such amount as the Commission shall direct.

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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. The Commission is providing it solely for the convenience of the reader and the Commission qualifies it in its entirety by reference to the statements under the caption “–Flow of Funds.”

FLOW OF FUNDS CHART



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 a parity lien on Net Revenues with the 2011C/D/E 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 of any such additional 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 additional events of default; have any interest and principal payment dates; be in any form (including registered, book-entry or coupon); include or exclude redemption provisions; be sold at a certain 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 the issuance of up to \$8.44 billion principal amount of refunding Bonds to refund Outstanding Bonds and commercial paper, of which the Board of Supervisors has approved the issuance of \$6.84 billion. The Commission has issued \$5.84 billion principal amount of such refunding Bonds, excluding the principal amount of the 2011C/D/E 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 from the Contingency Account, 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 2011C/D/E 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 from the Contingency Account taken into account for purposes of (a) or (b) above shall not exceed 25% of Maximum Annual Debt Service in such Fiscal Year. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Issuance of Additional Series of Bonds."

The Commission may issue Bonds for the purpose of refunding any Bonds or Subordinate Bonds upon compliance with the requirements summarized above or upon provision to the Trustee of evidence that aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding subsequent to the issuance of the refunding Bonds will be less than aggregate Annual Debt Service in each such Fiscal Year in which Bonds are

outstanding prior to the issuance of such refunding Bonds, and that Maximum Annual Debt Service with respect to all Bonds to be outstanding subsequent to the issuance of the refunding Bonds will not exceed Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance. See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Refunding Bonds.” The Airport expects that the 2011C/D/E Bonds will meet the requirements for this exception.

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 “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Liquidity Facilities and Credit Facilities.” See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Repayment Obligations.”

Reserve Fund; Reserve Accounts; Credit Facilities

The 1991 Master Resolution established the pooled “Issue 1 Reserve Account” (the “Original Reserve Account”) in the Reserve Fund as security for each series of Bonds (“Original Reserve Series”) that is designated as being secured by the Original Reserve Account. Most of the Bonds currently Outstanding under the 1991 Master Resolution have been designated as Original Reserve Series except for the Issue 36A, 36B, 36C, 36D and 37D Bonds, the Series 2008A Notes and the Series 2009C, 2009D, 2010A and 2010D Bonds.

As permitted under the 1991 Master Resolution, the Commission did not establish a reserve account for the Issue 36A Bonds, the Issue 36B Bonds or the Series 2010A Bonds. Separate reserve accounts were established for the Issue 36C, Issue 36D and Issue 37D Bonds, the Series 2008A Notes and the Series 2009D Bonds.

The 1991 Master Resolution also established the pooled “2009 Reserve Account” in the Reserve Fund as security for each series of Bonds that is designated as being secured by the 2009 Reserve Account. The Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account.

Future Series of Bonds may be secured by the Original Reserve Account, the 2009 Reserve Account or a separate reserve account, or may not be secured by any debt service reserve account, as the Commission shall determine. A deficiency in any of the reserve accounts may require the Commission to apply Net Revenues to cure such deficiency and thereby reduce Net Revenues available to pay the 2011C/D/E Bonds.

Original Reserve Account

The 2011C/D/E Bonds when issued will be an Original Reserve Series and will be secured by the Original Reserve Account.

Amounts on deposit in the Original Reserve Account may be used solely for the purposes of (i) paying interest, principal or mandatory sinking fund payments on the Original Reserve Series of Bonds whenever any moneys then credited to the debt service funds with respect to such Original Reserve Series of Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any reserve policies or other credit facilities credited to the Original Reserve Account for any payments thereunder. In the event that the balance in the Original Reserve Account is diminished below the Original 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 Original 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–“SUMMARY OF CERTAIN

PROVISIONS OF THE 1991 MASTER RESOLUTION—Debt Service and Reserve Funds—*Application and Valuation of the Reserve Accounts.*” Any amounts on deposit in the Original Reserve Account in excess of the Original Reserve Requirement may be withdrawn by the Commission.

The reserve requirement for the Original Reserve Account (the “Original Reserve Requirement”) is an amount equal to Aggregate Maximum Annual Debt Service with respect to all Outstanding Original Reserve Series of Bonds. The 1991 Master Resolution authorizes the Commission to obtain Credit Facilities, including surety bonds and insurance policies (“reserve policies”), in place of funding the Original Reserve Account with cash and Permitted Investments. The 1991 Master Resolution requires that the substitution of a Credit Facility for amounts on deposit in the Original Reserve Account not cause the then-current ratings on the Bonds to which such accounts are pledged to be downgraded or withdrawn. The Commission does not have any current plans to obtain additional Credit Facilities for the Original Reserve Account.

Credit Facilities in the Original Reserve Account

The Commission has previously deposited in the Original Reserve Account reserve policies in an aggregate amount of \$65.9 million issued by (i) Assured Guaranty Corp. (“AGC”), (ii) Financial Security Assurance Inc. (“FSA”), which was later acquired by an affiliate of AGC and renamed Assured Guaranty Municipal Corp. (“AGM”), (iii) MBIA Insurance Corporation (“MBIA”) (now known as National Public Finance Guarantee Corporation (“National”)), and (iv) Financial Guaranty Insurance Company (“FGIC”), whose policies National now reinsures. When the Airport deposits a Credit Facility in the Original Reserve Account, it must be from a credit provider rated in the highest category by at least two rating agencies; but the 1991 Master Resolution does not require that those ratings be maintained after the date of deposit. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Debt Service and Reserve Funds—Application and Valuation of the Reserve Accounts.”

Each of Moody’s, Standard & Poor’s and Fitch (the “Rating Agencies”) has downgraded the claims-paying ability and financial strength ratings of AGC, FSA/AGM and National. Information concerning AGC, AGM and National is available in reports and statements filed by such entities with the Securities and Exchange Commission (the “SEC”). This information is available on the SEC’s website at <http://www.sec.gov>. FGIC is no longer providing current financial and operating information.

The Commission also previously obtained reserve policies issued by Ambac Assurance Corporation (“Ambac”), and Syncora Guarantee Inc. (“Syncora”), formerly XL Capital Assurance Inc. The Commission deposited cash in the Original Reserve Account so that the Commission could satisfy the reserve requirement without taking those reserve policies into consideration. The Commission supplemented the Original Reserve Account with this cash because each of the Rating Agencies has downgraded the claims-paying ability ratings of Ambac and Syncora well below investment grade. Ambac and Syncora no longer are providing current financial and operating information.

As of May 31, 2011, the Original Reserve Requirement was approximately \$306.4 million and the balance in the Original Reserve Account was approximately \$332.5 million, which includes cash and securities of approximately \$266.6 million and certain of the reserve policies in the aggregate amount of approximately \$65.9 million. The Commission includes in that total the reserve policies from AGC/AGM and National/MBIA/FGIC, but excludes the reserve policies from Ambac and Syncora/XL. The Commission currently has no plans to (i) withdraw cash deposited in the Original Reserve Account, (ii) replace the policies issued by Ambac and Syncora, or (iii) supplement the policies issued by FSA, AGM, FGIC or National.

Original Reserve Account Balance
As of May 31, 2011

Cash and Permitted Investments	\$266.6 million
Reserve Policies	
AGC and AGM (FSA) Reserve Policies	9.0 million
National (FGIC) Reserve Policies	15.1 million
National (MBIA) Reserve Policies	41.8 million
SUBTOTAL RESERVE POLICIES	\$65.9 million
TOTAL	\$332.5 million

Following the issuance of the 2011C/D/E Bonds, the Original Reserve Requirement will be approximately \$308.9 million and \$2,685,364.25 will be deposited in the Original Reserve Account from the proceeds of the 2011C/D/E Bonds.

2009 Reserve Account

Pursuant to the 1991 Master Resolution, a 2009 Reserve Account (the “2009 Reserve Account”) was established in the Reserve Fund as security for each Series of Bonds (a “2009 Reserve Series”) that is designated as being secured by the 2009 Reserve Account. The Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account. ***The 2011C/D/E Bonds will not be secured by the 2009 Reserve Account.***

The reserve requirement for the 2009 Reserve Account (the “2009 Reserve Requirement”) for each 2009 Reserve Series 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 Series is the aggregate of such amounts for each individual Series. As of May 31, 2011, the 2009 Reserve Requirement and the 2009 Reserve Account Balance were \$22.3 million.

2009 Reserve Account Balance
As of May 31, 2011

Cash and Permitted Investments	\$18.9 million
AGM (FSA) Surety Bond	3.4 million
	\$22.3 million

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 Series of Bonds whenever any moneys then credited to the debt service funds with respect to such 2009 Reserve Series of Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any reserve policies 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 reserve policies, in place of funding the 2009 Reserve Account with Cash and Permitted Investments. The Commission does not have any current plans to obtain additional credit facilities for the 2009 Reserve Account. 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—*Application and Valuation of the Reserve Accounts.*”

Forward Purchase and Sale Agreements

The Commission has invested a portion of the cash balance in the Original 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 Original Reserve Account and debt service funds. The Commission may invest additional amounts in the Original Reserve Account and debt service funds pursuant to such types of agreements, although it has no current plans to do so. 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, which opinions are subject to customary qualifications. Thus, the Commission believes that 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 advances of funds to the Commission in connection with its Bonds and other obligations, and other agreements. See “–Reserve Fund; Reserve Accounts; Credit Facilities–*Forward Purchase and Sale Agreements*” and “–Other Indebtedness–*Subordinate Bonds.*” For summaries of the Interest Rate Swap Policy and certain swap agreements entered into by the Commission, 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 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 did 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 Notes).

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. Bonds, however, 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 payments under 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 likely would be required to seek a separate judgment for each such payment not made.

Other Indebtedness

General

In addition to the 2011C/D/E Bonds and other Bonds that it may have Outstanding from time to time, the Commission has reserved the right 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 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 has obtained two irrevocable direct-pay letters of credit to support the Commercial Paper Notes. The letters of credit were issued by State Street Bank and Trust Company and Barclays Bank PLC, respectively, each with an available principal component equal to \$100 million and an available interest component equal to 270 days’ interest calculated at an assumed interest rate of 12%. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Liquidity Facilities and Credit Facilities.”

Payment of the Commercial Paper Notes, and repayment of amounts drawn on the letters of credit with respect thereto, are secured by a lien on Net Revenues subordinate to the lien of the 1991 Master Resolution securing the Bonds. See “–Contingent Payment Obligations.”

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: \$80,225,000 of its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A (AMT); and \$14,835,000 of its 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. The lease payments, and therefore the SFO FUEL Bonds, are payable from charges imposed by SFO Fuel on air carriers 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 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.

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 2011C/D/E Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2011C/D/E Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the 2011C/D/E 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 2011C/D/E 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 population and economy of the Airport service region; national economic conditions; political conditions, including wars, other hostilities and acts of terrorism; airfares and competition from surrounding airports; airline service and route networks; the capacity of the national air transportation system and the Airport; accidents involving commercial passenger aircraft; and the occurrence of pandemics and other natural and man-made disasters. Airfares and airline service are, in turn, affected by the financial condition of the airlines, among other factors. See “SAN FRANCISCO INTERNATIONAL AIRPORT—Airline Agreements—Potential Effects of an Airline Bankruptcy” and “—Competition.”

The airline industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to economic circumstances and seasonal patterns. Other factors, such as fuel and regulatory costs, can also have a significant impact on the industry. As a result, airline financial performance can fluctuate dramatically from one reporting period to the next.

Fuel is a significant cost component of airline operations and continues to be an important and uncertain determinate of an air carrier’s operating economics. Historically, aviation fuel prices have been particularly sensitive to worldwide political instability. Continued or new hostilities in the Middle East or other petroleum producing regions could dramatically impact the price and availability of aviation fuel. Economic expansion in emerging markets also contributes to higher aviation fuel prices. Significant and prolonged increases in the cost of aviation fuel have had and are likely to continue to have an adverse impact on the air transportation industry by increasing airline operating costs, hampering airline recovery plans and reducing airline profitability.

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, restaurants and others. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Concessions.” Declines in Airport passenger traffic have

adversely affected, 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 largely upon the financial health of the airlines serving the Airport and the airline industry as a whole. 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 “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Potential Effects of an Airline Bankruptcy.*”

Bankruptcy of Airlines Operating at the Airport

Airlines operating at the Airport have filed for bankruptcy in the past and may do so in the future. Some of the airlines operating at the Airport are currently subject to bankruptcy proceedings. If a bankruptcy case is filed with respect to an airline operating at the Airport, a bankruptcy court could determine that the 2011 Lease and Use 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 2011 Lease and Use Agreement to which such airline is a party, in which case the rights of that airline to the facilities it leased (including gates and boarding areas) would terminate and the Commission could lease them to other airlines. The rejection of a 2011 Lease and Use 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 other airlines 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, if any, resulting from the airline’s bankruptcy, and on the need for such facilities by other airlines.

Also, under the United States Bankruptcy Code, any rejection of a 2011 Lease and Use Agreement could result in a claim for damages for lease rejection by the Commission which claim would rank as that of a general unsecured creditor of the airline, in addition to pre-bankruptcy amounts owed.

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

Airline Concentration; Effect of Airline Industry Consolidation

United Airlines (including Skywest/United Express) was responsible for 40.2% of the Airport’s total enplanements and 40.0% of the Airport’s total landed weight in Fiscal Year 2009-10. Continental Airlines, which merged with United Airlines effective October 1, 2010, was responsible for an additional 3.8% of the Airport’s total enplanements and 2.6% of the Airport’s total landed weight in Fiscal Year 2009-10. While 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, it is possible that were United Airlines to cease or significantly cut back operations at the Airport, Revenues, PFC collections and costs for other airlines serving the Airport could be adversely affected.

In addition to the United/Continental merger described in the preceding paragraph, in May 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. In 2008, Delta and Northwest merged and currently operate under a single FAA certificate and fly under the Delta name. Further airline consolidation remains possible. While prior mergers have had and the Commission expects that recent mergers will have little impact on the respective combined airlines’ market shares at the Airport, future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Revenues, reduced PFC collections and increased costs for the other airlines serving the Airport.

Availability of PFCs

The Commission has designated \$87.2 million and \$88.5 million of PFC collections to be included in “Revenues” and used to pay debt service in Fiscal Year 2010-11 and Fiscal Year 2011-12, respectively. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.” In addition, PFCs that are designated as Revenues are taken into account in determining whether the additional bonds test described under “SECURITY FOR THE 2011C/D/E BONDS–Additional Bonds” is satisfied.

The Commission’s receipt of PFC revenues is subject to several risks. First, the Commission’s current PFC authorization expires January 1, 2017 and the FAA may not approve extending the Commission’s authorization beyond that date. Second, the amount of PFCs received by the Commission in future years depends on the actual number of PFC-eligible passenger enplanements at the Airport. If enplanements decline so will the Commission’s PFC revenues. Third, the Commission’s authority to impose PFCs may be terminated (subject to procedural safeguards) for various reasons, including for a failure by the Commission to observe requirements regarding use of these revenues. A shortfall in PFC revenues, as a result of the FAA or Congress reducing or terminating the Commission’s ability to impose and collect PFCs or as a result of any other actions, would likely require the Commission to increase landing fees and terminal rentals to pay operating expenses and debt service costs.

Potential Reduction in FAA Grants

In making decisions concerning the distribution of discretionary grants to an airport, federal law requires the Secretary of Transportation to consider, as a negative mitigating factor, the fact that the airport in question is using its revenues above specified historical levels for purposes other than its capital or operating costs. The Commission pays a portion of the Airport’s revenues to the City’s General Fund as an Annual Service Payment, in part as compensation for all indirect services, management and facilities provided by the City to the Airport. See “SAN FRANCISCO INTERNATIONAL AIRPORT – Certain Federal and State Laws and Regulations–Federal Law Prohibiting Revenue Diversion” and “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Payments to the City.” To date, the FAA has not reduced the Airport’s discretionary grants based on the size of the Annual Service Payments. The Airport uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. The Airport has received between \$7.9 million and \$18.1 million per year in discretionary grants from the FAA over the past eight years. If the FAA determined that the Airport’s Annual Service Payments to the City required a reduction in the discretionary grants awarded to the Airport, it would increase by a corresponding amount the capital expenditures that the Airport would need to fund from other sources, including operating revenues, PFCs and Bond proceeds.

The President’s budget proposal for federal Fiscal Year 2012, published on February 14, 2011, includes a \$1.1 billion reduction in funding the Airport Improvement Program (the “AIP”), including the potential reduction or elimination of AIP entitlement funding for large or medium hub airports. The proposed budget includes language requesting that certain airports be allowed to increase PFC collection levels to offset the proposed AIP reduction. The Commission is unable to predict whether either of these provisions will be adopted.

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 affects 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 regional Metropolitan Transportation Commission retained an aviation consulting firm to study the impact of high-speed rail on the airports in the San Francisco Bay Area. The consulting firm released a report forecasting 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% to a high-speed rail system. The Commission is unable to predict whether a high-speed rail

system will be constructed, if it is constructed what areas of the State it would serve, or the effect that any such high-speed rail system, if completed, would have on passenger traffic at and revenues of the Airport.

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, additional acts of terrorism, resulting in disruption to the North American air traffic system, increased passenger and flight delays, and reductions in Airport passenger traffic and/or Airport Revenues, remain possible. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airport Security." The Airport does not maintain any liability insurance coverage for terrorism or hijacking. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Risk Management and Insurance."

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." Travel restrictions, as well as other public health measures, may be imposed to limit the spread of this flu or other flu strains or communicable diseases which may arise. 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. The Airport has plans and procedures in place which are intended to deal with any such future pandemic.

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 existing 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*."

The Airport does not maintain insurance or self-insure against any risks due to land movement or seismic activity. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Risk Management and Insurance."

Climate Change Issues

Possible New and 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 (the “EPA”) 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 December 14, 2009, the EPA made an “endangerment and cause or contribute finding” under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that 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 EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA 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, the 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 the EPA. In 2007, several states, including California, petitioned the EPA to regulate GHGs from aircraft. On July 11, 2008, the 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 the 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 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 or other environmental issues 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.

Possible Sea-Level Rise

In May 2009, the California Climate Change Center released a final 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 additional 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.

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

The Airport has obtained a number of credit enhancement and liquidity agreements from a variety of financial institutions relating to its Outstanding variable rate Bonds and Commercial Paper Notes, including letters of credit and liquidity facilities from commercial banks and municipal bond insurance policies issued by bond insurance companies. Additionally, in connection with various variable rate Bonds, the Airport has entered into interest rate swap agreements with and/or guaranteed by various financial institutions. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps” and “—Liquidity Facilities and Credit Facilities.”

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 mono-line bond insurance companies and many commercial banks and other financial institutions. The Rating Agencies could announce further downgrades. Such adverse ratings developments with respect to credit or liquidity providers or municipal bond insurers could have a material adverse effect on the Airport, including significant increases in the Airport’s debt service costs.

In addition, rating downgrades of swap counterparties could result in termination events or events of default under swap agreements. 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.”

Mandatory Tender Bonds; Airport Market Access

Since 2008, the Commission has issued several series of Bonds which are subject to mandatory tender for purchase by the Commission over the next 18 months (collectively, the “Mandatory Tender Bonds”) at the expiration of their current respective Fixed-Term Interest Rate Periods. Some of these Bonds remain Outstanding. These Bonds were issued during the international financial crisis in order to remarket or refund previously Outstanding variable rate debt on an interim basis. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Mandatory Tender Bonds.” If the Commission did not have funds available to pay the purchase price of any series of Mandatory Tender Bonds upon their mandatory tender for purchase, then those Mandatory Tender Bonds would be subject to mandatory redemption on that same date. Payment of the principal of the Mandatory Tender Bonds upon any such 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 2011C/D/E Bonds. Upon their mandatory tender for purchase, the Commission expects to remarket the Mandatory Tender Bonds as fixed rate bonds, or to refund them with long-term fixed rate bonds, variable rate bonds or other obligations. This will require that the Commission have access to the capital markets at such times and in such amounts as are sufficient to accomplish these purposes.

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 Orrick, Herrington & Sutcliffe LLP and Lofton & Jennings, Co-Bond Counsel, concurrently with the execution and delivery of the 2011C/D/E 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 2011C/D/E Bonds will be similarly qualified. Co-Bond Counsel expects to deliver separate opinions substantially in the form set forth in APPENDIX F. 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 2011C/D/E Bonds.

Potential Impact of City Bankruptcy

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”). However, third parties cannot bring involuntary bankruptcy proceedings against the City. The Airport, being a department of the City, cannot itself file for bankruptcy protection. Should the City become a debtor in a bankruptcy proceeding, the owners of the 2011C/D/E Bonds would continue to have a lien on Net Revenues after the commencement of the bankruptcy case so long as the Net Revenues constitute “special revenues” within the meaning of the Bankruptcy Code. “Special revenues” are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide transportation services. While the Commission believes that Net Revenues constitute “special revenues,” no assurance can be given that a court would not determine otherwise. If Net Revenues do not constitute “special revenues,” there could be delays or reductions in payments by the Commission with respect to the 2011C/D/E Bonds.

Regardless of any specific determinations by the U.S. Bankruptcy Court in a City bankruptcy proceeding that may be adverse to the Airport or the Owners, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the 2011C/D/E Bonds.

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.

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 2011C/D/E Bonds may be adversely affected by actions and events outside the control of the Commission, including without limitation by actions taken (or not taken) by voters. Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the Charter, the voters of the City can restrict or revise the powers of the Commission through the approval of a Charter amendment. The Commission is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the Commission or the Airport.

Risk of Tax Audit

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 has increased significantly under the TE/GE Division. If the IRS undertook an examination of the 2011C Bonds, the 2011D Bonds or other Bonds issued by the Commission as tax-exempt bonds, that may have a material adverse affect on the marketability or the market value of the 2011C/D/E Bonds. The Commission is not aware of any open IRS examination or investigation of its tax-exempt bonds. See “TAX MATTERS.”

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 2010 from the Airports Council International (the “ACI”), the Airport ranked 9th in the United States in terms of passengers and 13th in the United States 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). The Airport is also 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 of the City (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 but only for official misconduct.

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

Member	Occupation	Term Ends August 31 of
Larry Mazzola, <i>President</i>	Business Manager and Financial Secretary/Treasurer, Local Union 38	2014
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
Eleanor Johns	Executive Director of the Willie L. Brown, Jr. Institute on Politics and Public Service	2011
Peter A. Stern	Vice President Enterprise Corporate Sales, Salesforce.com	2014

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 various services to the Commission, including the Police Department, the Fire Department, the Water Department, the Hetch Hetchy Power Division, the Department of Public Works, the City Controller, the Purchasing Department and the City Attorney. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Payments to the City.”

Airport Senior Management and Legal Counsel

Senior management is led by the Airport Director (the “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. Five Deputy Directors oversee and manage the following divisions: Administration, Business and Finance, Communications and Marketing, Operations and Security, and 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 Maintenance and Design and Construction. Effective January 15, 2010, Mr. Wong assumed direct supervision, on an interim basis, of the Facilities Maintenance 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 Design and Construction Division 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.

Sheryl L. Bregman was appointed Airport General Counsel effective April 11, 2011. Prior to this appointment, Ms. Bregman served on the City Attorney's Construction Team. Ms. Bregman joined the office of the City Attorney in 1995 and has represented the City in the design and construction of its public works. Most recently, Ms. Bregman also served as construction counsel for the Transbay Transit Center Program. She has provided construction counsel on such major projects as the new Main Library, the San Francisco Courthouse, and the de Young Museum. Ms. Bregman served on the City Attorney and Mayor's Construction Contract Task Force and on the City Attorney's Stimulus Spending Task Force. Ms. Bregman received her J.D. in 1991 from Benjamin N. Cardozo School of Law and was in private practice before joining the Office of the City Attorney.

Current Airport Facilities

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. 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 new large aircraft such as the Airbus A380 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 2010, approximately 71% of the arrivals at the Airport were on time, 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 2010, with approximately 81% of on-time arrivals at Oakland, and approximately 82% of on-time arrivals at San Jose. 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 2010, approximately 75% of the Airport’s departures were on time, according to the U.S. DOT On-Time Departure Performance Statistics. This compares to approximately 80% of on-time departures for Oakland and approximately 83% of on-time departures for San Jose during the same period.

The Commission has acquired and installed an FAA Precision Runway Monitoring System (a “PRM”) for its primary arrival runways. 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, allows as many as 38 planes per hour to land during adverse weather conditions.

Improvements to Accommodate New Large Aircraft (“NLAs”). Generally, existing airport facilities in the United States are designed for aircraft having a maximum wingspan of 213 feet. NLAs have a wingspan of approximately 262 feet. The Airport currently operates three gates in the International Terminal Complex with sufficient clearance to accept NLAs.

Terminals

International Terminal. The International Terminal Complex (the “ITC”) is a 2.5 million square foot facility located directly above an entry roadway network, and houses ticketing, Federal Inspection Service (customs and border control) (“FIS”), 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 have 24 gates. The ITC includes a 250,000 square foot FIS facility capable of processing 5,000 passengers per hour. 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.

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. In April 2011, the Airport unveiled the recently renovated Terminal 2, which is the new home for American Airlines and Virgin America. Terminal 2 is expected to attain a minimum of Gold Certification under the U.S. Green Building Council’s Leadership in Energy and Environmental Designs (“LEED”™) program through the Airport’s Zero Waste Program, Grey Water Reuse Program and Global Warming Mitigation Initiatives. Terminal 2 offers passengers the convenience of mobile boarding passes, preferential parking for hybrid cars and quick access to Bay Area Rapid Transit (“BART”).

Environmental Sustainability. In September 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 light rail 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 84 operational gates, 47 of which can accommodate wide-body aircraft. Of these, 24 gates are located in the ITC, 23 in Terminal 1, 14 in Terminal 2 and 23 in Terminal 3.

Beginning July 1, 2011, gates in the domestic terminals will be used by airlines on a preferential or common-use basis and gates in the International Terminal will be used on a common or joint 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 "--Airline Agreements--2011 Lease and Use Agreements" and APPENDIX D--"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 2.5 days of operations based upon 2010 consumption); above-ground storage tanks owned by SFO Fuel, operated by Chevron Corporation ("Chevron") and located on land 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 2.0 days of operations based upon 2010 consumption); and other related facilities. These tanks were purchased from Chevron in November 2008 and continue to be operated and maintained by Chevron.

In early 2007, SFO Fuel finalized an arrangement with an affiliate of Shell Oil for substantial additional off-Airport jet fuel storage at facilities immediately adjacent to the Airport. The total storage capacity at the Shell Oil facilities is approximately 186,000 total usable barrels (representing approximately 3.5 days of operations based on 2010 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.

Bay Area Rapid Transit (“BART”) Service to SFO

The BART extension to the Airport opened in 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 2009-10, a weekday average of 5,068 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. BART pays the Airport \$2.5 million per year rent for the BART station in the ITC, plus an additional \$700,000 for custodial and electrical support services.

Public Parking and Rental Car 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. 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.

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.

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 country’s largest private aircraft maintenance facilities. Delta Air Lines also operates a major maintenance facility. Both of these facilities are owned by the Airport but leased to the airlines under long-term ground leases. Certain other airlines operate significant line maintenance facilities at the Airport.

Seismic Design of Airport Facilities

The Airport is located 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, the Airport’s garages, and the on-Airport BART station and guideway were designed to comply with, and in some cases exceed, the 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.

The recently-renovated Terminal 2/Boarding Area D facility received a seismic upgrade, which will allow the facility to exceed current seismic standards once the existing FAA Air Traffic Control Tower and the upper floors of Terminal 2 containing office space are demolished. The demolition will occur following the completion and activation of the replacement Air Traffic Control Tower, which is scheduled to open in 2015.

The existing Air Traffic Control Tower was constructed in 1982 atop the original Terminal 2 facility, which was constructed in 1951. The Air Traffic Control Tower is susceptible to significant damage as a result of a major earthquake in the vicinity of the Airport, which could render it inoperable for an extended period. The FAA has developed contingency plans for the operation of air traffic control functions from a temporary site in the event the Air Traffic 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.

The Airport and the FAA are pursuing the construction of a replacement Air Traffic Control Tower in a new location. To date, Congress has appropriated \$21.9 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 have entered into an "Other Transaction Agreement" (an "OTA") that will provide (subject to appropriation) federal funding for the full replacement cost of the existing Air Traffic Control Tower, which is currently estimated at \$79.5 million. At the request of the Airport, the OTA also assigns project management responsibility to the Airport. Following activation of the new Air Traffic Control Tower, the Airport will be responsible for the demolition of the existing Air Traffic Control Tower. The current Capital Plan provides for the demolition of the existing Air Traffic Control Tower and upper floors of Terminal 2. The Capital Plan also includes the replacement Air Traffic Control Tower. The Airport expects to complete its design/construction work in 2014, and the FAA is scheduled to activate and commission the replacement Air Traffic Control Tower in 2015. See "CAPITAL PROJECTS AND PLANNING."

Airport Security

In the immediate aftermath of September 11, 2001, the FAA mandated 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) 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) vehicles be parked at least 300 feet from airport terminals. All of these requirements have been implemented at the Airport.

The TSA operates nine separate security checkpoints containing 39 security lanes using employees of a private security firm. The Airport is one of six airports in the nation at which the TSA operates security through its 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.

Airline Service

General

During the first seven months of Fiscal Year 2010-11, the Airport was served by 45 passenger and seven cargo only airlines. Domestic passenger air carriers provided nonstop service to 72 destinations and scheduled one-stop service to an additional 28 destinations in the United States. Thirty-one passenger airlines provided nonstop scheduled passenger service to 31 international airport destinations and one-stop service to an additional 12 international destinations.

During Fiscal Year 2009-10, the Airport was served by 51 passenger and nine cargo only airlines. Domestic passenger air carriers provided scheduled nonstop service to 69 destinations and scheduled one-stop service to an additional 20 destinations within the United States. Thirty passenger airlines provided nonstop scheduled passenger service to 29 international airport destinations and one-stop service to an additional 10 international destinations.

During Fiscal Year 2009-10, United Airlines (including SkyWest Airlines/United Express) handled 40.2% of the total enplaned passengers at the Airport (a decrease in market share of 0.4 percentage points compared to Fiscal Year 2008-09); American Airlines (including American Eagle Airlines) handled 8.5%; and Delta Air Lines (including SkyWest Airlines/Delta, Express Jet Airlines, Mesaba Airlines and Northwest Airlines) handled 8.3%.

The domestic enplanements of United Airlines (including SkyWest Airlines/United Express) during Fiscal Year 2009-10 increased by 5.3% while its international enplanements (including SkyWest Airlines/United Express) decreased by 2.7% compared to Fiscal Year 2008-09. During Fiscal Year 2009-10, United Airlines (including SkyWest Airlines/United Express) handled 34.8% of the international enplaned passengers of the Airport, Air Canada handled 6.5%, Cathay Pacific Airlines handled 5.5%, Lufthansa Airlines handled 4.8% and British Airways handled 4.6%. Although United Airlines (including SkyWest Airlines/United Express) handled 40.2% of the Airport's total enplanements during Fiscal Year 2009-10, audited results for Fiscal Year 2009-10 indicated that payments by United Airlines accounted for approximately 23% of the Airport's operating revenues and approximately 19% of total revenues. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Principal Revenue Sources."

On October 1, 2010, United Airlines and Continental Airlines merged to become wholly owned subsidiaries of United Continental Holdings, Inc. The two airlines will continue to operate separately until they receive a single operating certificate, which is expected in the fall of 2011. Beginning May 1, 2011, the airlines' operations have been consolidated into a single boarding area. The Airport does not expect the merger to materially affect the combined airline's market share at the Airport. Only two destinations from the Airport (Houston and Newark) overlap between the two carriers.

Low Cost and Low Fare Carriers

A significant factor in the Airport's continuing strong performance has been its success in attracting low-cost carriers to the Airport, including in particular Virgin America, which chose the adjoining City of Burlingame for its headquarters and currently utilizes approximately half of the gates in the new Terminal 2. Virgin America commenced service at the Airport in 2007. Southwest Airlines and jetBlue Airways also started service at SFO in 2007.

For the first seven months of Fiscal Year 2010-11, 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 2009-10, approximately 22.9% of total domestic enplanements at the Airport were provided by low-cost carriers, compared to 83.0% of the domestic enplanements at Oakland Airport and 56.3% of the domestic enplanements at San Jose Airport. During Fiscal Year 2008-09, the low-cost carriers represented an aggregate of 21.5% of total domestic enplanements at the Airport.

On May 2, 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran Airways. Southwest Airlines has indicated that it will gradually integrate AirTran Airways into the Southwest

brand. The merger is expected to have little effect on the combined airline's market share at the Airport. There are no overlapping destinations from the Airport between the two carriers.

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The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during the first seven months of Fiscal Year 2010-11.

**AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT
(First Seven Months of Fiscal Year 2010-11)**

Domestic Passenger Air Carriers

AirTran Airways⁽¹⁾
 Alaska Airlines^{(2)*}
 American Airlines*
 Continental Airlines^{(3)*}
 Delta Air Lines^{(2)(4)*}
 Frontier Airlines^{(5)*}
 Hawaiian Airlines*
 jetBlue Airways
 Southwest Airlines^{(1)*}
 Sun Country Airlines/MN Airlines⁽⁶⁾
 United Airlines^{(3)*}
 US Airways*
 Virgin America Airlines⁽²⁾
Foreign Flag Carriers
 Aero Mexico
 Air Canada*
 Air China (CAAC)*
 Air France*
 Air New Zealand*
 All Nippon Airways*
 Asiana Airlines*
 British Airways*
 Cathay Pacific Airways*
 China Airlines*
 Emirates Airlines*
 EVA Airways*
 Japan Airlines^{(7)*}
 KLM Royal Dutch Airlines*
 Korean Air*

Foreign Flag Carriers (continued)

LAN Peru*
 Lufthansa German Airlines*
 Mexicana Airlines^{(8)*}
 Philippine Airlines*
 Qantas Airlines
 Singapore Airlines*
 Swiss International
 TACA International Airlines*
 Virgin Atlantic Airlines*
 WestJet Airlines

Cargo Only Carriers

ABX Air*
 Air Cargo Carriers*
 Ameriflight*
 Federal Express*
 Nippon Cargo Airlines*
 Southern Air*
 Volga-Dnepr (Servisair)

Regional/Commuter Air Carriers⁽⁹⁾

Horizon Air (Alaska Airlines)
 Mesa Airlines (US Airways)⁽¹⁰⁾
 Mesaba Airlines
 SkyWest Airlines (Delta Connection and United Express)⁽²⁾⁽¹¹⁾

Seasonal/Charter Air Carriers

Air Berlin*
 Allegiant Air
 World Airways

* Indicates a Signatory Airline to a 2011 Lease and Use Agreement. In addition to the airlines indicated above, Kalitta Air also is a Signatory Airline but did not provide service at the Airport during the period indicated.

(1) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways.

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

(3) United Airlines and Continental Airlines merged on October 1, 2010.

(4) Delta Air Lines Inc. ("Delta") and Northwest Airlines Corporation ("Northwest") merged in 2008.

(5) On October 1, 2009, Republic Airways Holdings, Inc. ("Republic") completed its acquisition of Frontier Airlines Holdings. Republic continues to operate the Frontier brand as a wholly-owned subsidiary. Republic is also the parent company of Midwest Airlines, which merged operations with Frontier in 2010.

(6) Sun Country Airlines filed for Chapter 11 bankruptcy in 2008 and continues operations at the Airport.

(7) Japan Airlines filed for bankruptcy protection in January 2010 and continues operations at the Airport.

(8) Mexicana Airlines filed for bankruptcy and ceased operations in August 2010.

(9) The term "commuter air carrier" 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.

(10) Mesa Airlines filed for Chapter 11 bankruptcy protection in January 2010 and continues operations at the Airport.

(11) SkyWest Airlines is a United Airlines and Delta Air Lines express carrier at the Airport. SkyWest Airlines is the United Express carrier and the Delta Connection carrier at the Airport.

Source: Commission.

Passenger Traffic

During Fiscal Year 2009-10 (July 2009 through June 2010), according to traffic reports submitted by the airlines, the Airport served approximately 38.2 million passengers (enplanements and deplanements, excluding passengers who fly into and out of the Airport on the same aircraft), and handled 383,457 total flight operations, including 368,638 scheduled passenger airline operations. Scheduled passenger aircraft arrivals and departures during Fiscal Year 2009-10 increased by 1.5%, domestic passenger traffic (enplanements and deplanements) increased by 5.9%, international passenger traffic increased by 0.7%, and total passenger traffic increased by 4.7% compared to Fiscal Year 2008-09.

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 2010, the Airport was ranked the 9th most active airport in the United States in terms of total passengers, according to final 2010 data from ACI. The Airport accounted for approximately 68.2% of the total air passenger traffic at the three San Francisco Bay Area airports during Fiscal Year 2009-10, an increase of approximately 2.1 percentage points compared to Fiscal Year 2008-09.

Compared with the first seven months (July through January) of Fiscal Year 2009-10, scheduled passenger aircraft arrivals and departures increased 1.9%, domestic passenger traffic (enplanements and deplanements) increased 3.6%, international passenger traffic increased 7.6% and total passenger traffic increased 4.5% for the first seven months of Fiscal Year 2010-11, based on preliminary figures.

Air traffic data for the past ten Fiscal Years and the first seven months of Fiscal Years 2009-10 and 2010-11 is presented in the table below.

PASSENGER TRAFFIC								
Fiscal Year	Scheduled Passenger Aircraft Arrivals and Departures		Passenger Enplanements and Deplanements				Total	
	Total	% Change	Domestic	% Change	International	% Change	Total	% Change
<i>First Seven Months 2010-11*</i>	221,160	1.9%	18,149,924	3.6%	5,370,406	7.6%	23,520,330	4.5%
<i>First Seven Months 2009-10</i>	217,126		17,517,807		4,990,438		22,508,245	
2009-10	368,638	1.5	29,698,060	5.9	8,506,012	0.7	38,204,072	4.7
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	36,707,637	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)

* Preliminary.
Source: Commission.

Compared with the first 11 months (July through May) of Fiscal Year 2009-10, scheduled passenger aircraft arrivals and departures increased 2.0%, domestic passenger traffic (enplanements and deplanements) increased 3.3%, international passenger traffic increased 6.4% and total passenger traffic increased 3.9% for the first 11 months of Fiscal Year 2010-11, based on preliminary figures.

During Fiscal Year 2009-10 approximately 77.2% 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. 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.

Enplanements

Total Enplanements. Total enplanements at the Airport increased 4.8% during Fiscal Year 2009-10 to approximately 19.1 million as compared to Fiscal Year 2008-09.

The increase in total enplanements during Fiscal Year 2009-10 represents an increase of 875,394 passengers, 856,075 of which were domestic and the remaining 19,319 were international. The strong growth in

domestic enplanements during Fiscal Year 2009-10 primarily reflects increases from low-cost carriers AirTran, jetBlue Airways, Southwest Airlines and Virgin America and legacy carriers Continental and United Airlines (including Skywest Airlines/United Express), offset by reductions in service by legacy carriers Alaska Airlines and US Airways. Northwest and Delta Air Lines' operating certificates were combined on December 31, 2009 as part of the Delta/Northwest merger, and the carriers' air traffic statistics were combined as Delta Air Lines beginning in January 2010. As a result, Northwest's total enplanements declined significantly in Fiscal Year 2009-10, while Delta's increased substantially in part as a result of the cessation of Northwest operations.

During the first seven months (July through January) of Fiscal Year 2010-11, total enplanements increased by 489,051 (4.4%) compared to total enplanements during the first seven months of Fiscal Year 2009-10, based on preliminary figures.

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Total enplanements for the Airport's 10 most active airlines for Fiscal Years 2005-06 through 2009-10 and for the first seven months of Fiscal Years 2009-10 and 2010-11 are shown in the table below. Enplanements for airlines include enplanements by affiliates and regional carriers.

**TOTAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)**

Airline	2005-06	2006-07	2007-08	2008-09	2009-10	% of 2009-10 ⁽¹⁾	First Seven Months (July through January)	
							2009-10	2010-11*
United Airlines ⁽²⁾	7,978,010	8,240,285	8,037,171	7,403,585	7,676,515	40.2%	4,439,432	4,640,270
American Airlines	1,691,295	1,734,119	1,751,201	1,676,029	1,629,203	8.5	969,475	943,710
Southwest Airlines ⁽³⁾	—	—	737,484	1,203,425	1,468,238	7.7	893,643	900,288
Virgin America ⁽⁴⁾	—	—	526,131	1,044,365	1,266,273	6.6	766,082	728,354
Delta Air Lines ⁽⁵⁾	1,003,587	863,454	974,886	901,108	1,197,502	6.3	540,738	1,025,799
US Airways ⁽⁶⁾	410,160	405,969	855,866	852,915	781,698	4.1	481,738	490,429
Continental Airlines ⁽²⁾	608,801	647,065	666,619	685,283	730,780	3.8	441,943	461,160
Alaska Airlines	633,759	722,039	739,167	634,586	554,062	2.9	331,603	347,340
Northwest Airlines ⁽⁵⁾	662,438	705,553	697,199	664,339	394,115	2.0	394,115	0
jetBlue Airways ⁽⁷⁾	—	—	—	—	321,645	1.7	154,019	242,771
Air Canada	294,189	304,935	299,111	273,870	—	—	—	—
America West Airlines ⁽⁸⁾	413,690	466,831	—	—	—	—	—	—
British Airways	219,630	—	—	—	—	—	—	—
Frontier Airlines ⁽⁹⁾	—	267,714	—	—	—	—	—	—
SUBTOTAL	13,884,559	14,357,964	15,284,835	15,339,505	16,020,031	83.9	9,412,788	9,780,121
All others	2,605,786	2,596,014	3,008,654	2,885,559	3,080,427	16.1	1,812,773	1,934,491
TOTAL	16,490,345	16,953,978	18,373,489	18,225,064	19,100,458	100.0%	11,225,561	11,714,612
Percentage Change	1.5%	2.8%	8.4%	(0.8%)	4.8%			4.4%

* Preliminary.

(1) Figures do not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010.

(3) Southwest Airlines reinitiated service at the Airport in 2007. On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways.

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

(5) Delta and Northwest merged in 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) Data for Fiscal Years 2007-08 through 2009-10 and the first seven months of Fiscal Year 2010-11 include enplanements for Mesa Airlines, a US Airways carrier. Mesa Airlines filed for Chapter 11 bankruptcy protection in January 2010 and continues operations at the Airport.

(7) jetBlue Airways commenced operations at the Airport in 2007.

(8) 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.

(9) On October 1, 2009, Republic Airways Holdings, Inc. ("Republic") completed its acquisition of Frontier Airlines Holdings. Republic continues to operate the Frontier brand as a wholly-owned subsidiary.

Source: Commission.

Domestic Enplanements. During Fiscal Year 2009-10, total domestic passenger enplanements were 14,859,925, an increase of 6.1% compared to Fiscal Year 2008-09. Domestic enplaned passenger growth for Fiscal Year 2009-10 primarily reflects increases from low-cost carriers AirTran, jetBlue Airways, Southwest Airlines and Virgin America and legacy carriers Continental and United Airlines (including Skywest Airlines/United Express), offset by reductions in service by legacy carriers Alaska Airlines and US Airways. Northwest and Delta Air Lines' operating certificates were combined on December 31, 2009 as part of the Delta/Northwest merger, and the carriers' air traffic statistics were combined as Delta Air Lines beginning in January 2010. As a result, Northwest's domestic enplanements declined significantly in Fiscal Year 2009-10, while Delta's increased substantially in part as a result of the cessation of Northwest operations.

During the first seven months (July through January) of Fiscal Year 2010-11, domestic enplanements increased by 315,831 (3.6%) compared to domestic enplanements during the first seven months of Fiscal Year 2009-10, based on preliminary figures.

Domestic enplanements for the 10 most active airlines for Fiscal Years 2005-06 through 2009-10 and for the first seven months of Fiscal Years 2009-10 and 2010-11 are shown in the table below. Enplanements for airlines include enplanements by affiliates and regional carriers.

**DOMESTIC ENPLANEMENTS BY AIRLINE
(Fiscal Years)**

Airline	2005-06	2006-07	2007-08	2008-09	2009-10	% of 2009-10	First Seven Months (July through January)	
							2009-10	2010-11*
United Airlines ⁽¹⁾	6,484,061	6,637,448	6,332,254	5,885,426	6,200,095	41.7%	3,583,845	3,708,619
American Airlines	1,691,295	1,734,119	1,751,201	1,676,029	1,629,203	11.0	969,475	943,710
Southwest Airlines ⁽²⁾⁽³⁾	—	—	737,484	1,203,425	1,468,238	9.9	893,643	900,288
Virgin America ⁽⁴⁾	—	—	526,131	1,044,365	1,265,676	8.5	766,082	710,310
Delta Air Lines ⁽⁵⁾	1,003,587	863,454	974,886	901,108	1,167,350	7.9	540,738	986,003
US Airways ⁽⁶⁾	410,163	405,969	726,553	852,915	781,698	5.3	481,738	490,429
Continental Airlines ⁽¹⁾	608,801	647,065	666,619	685,283	730,780	4.9	441,943	461,160
Alaska Airlines	480,529	516,549	568,594	538,340	478,516	3.2	291,399	294,107
Northwest Airlines ⁽⁵⁾	586,412	626,177	618,791	590,711	350,424	2.4	350,424	0
jetBlue Airways ⁽⁷⁾	—	—	231,871	194,925	321,645	2.2	154,019	242,771
America West Airlines ⁽⁸⁾	413,690	466,831	—	—	—	—	—	—
Frontier Airlines ⁽⁹⁾	177,698	267,714	—	—	—	—	—	—
ATA Airlines	174,716	—	—	—	—	—	—	—
AirTran Airways ⁽³⁾	—	99,266	—	—	—	—	—	—
SUBTOTAL	12,030,952	12,265,592	13,108,679	13,572,527	14,393,625	96.9	8,473,306	8,737,397
All others	312,470	344,382	698,795	431,323	466,300	3.1	275,306	327,046
TOTAL	12,343,422	12,608,974	13,807,474	14,003,850	14,859,925	100.0%	8,748,612	9,064,443
Percentage Change	0.2%	2.2%	9.5%	1.4%	6.1%			3.6%

* Preliminary.

(1) United Airlines and Continental Airlines merged on October 1, 2010.

(2) Southwest Airlines reinitiated service at the Airport in 2007.

(3) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways.

(4) Virgin America initiated service at the Airport in 2007.

(5) Delta and Northwest merged in 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) Data for Fiscal Years 2007-08 through 2009-10 and the first seven months of Fiscal Year 2010-11 include enplanements for Mesa Airlines, a US Airways carrier. Mesa Airlines filed for Chapter 11 bankruptcy protection in January 2010 and continues operations at the Airport.

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

(8) 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.

(9) On October 1, 2009, Republic completed its acquisition of Frontier Airlines Holdings. Republic continues to operate the Frontier brand as a wholly-owned subsidiary.

Source: Commission.

International Enplanements. International enplanements during Fiscal Year 2009-10 totaled 4,240,533, an increase of 0.5% compared to Fiscal Year 2008-09.

During the first seven months (July through January) of Fiscal Year 2010-11, international enplanements increased by 173,220 (7.0%) compared to international enplanements during the first seven months of Fiscal Year 2009-10, based on preliminary figures.

International enplanements for the 10 most active airlines for Fiscal Years 2005-06 through 2009-10 and for the first seven months of Fiscal Years 2009-10 and 2010-11 are shown in the table below. Enplanements for airlines include enplanements by affiliates and regional carriers.

INTERNATIONAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2005-06	2006-07	2007-08	2008-09	2009-10	% of 2009-10 ⁽¹⁾	First Seven Months (July through January)	
							2009-10	2010-11*
United Airlines ⁽²⁾	1,493,949	1,602,835	1,602,837	1,518,159	1,476,420	34.8%	855,587	931,651
Air Canada	294,189	304,697	299,111	273,870	276,574	6.5	167,276	181,187
Cathay Pacific Airlines	122,106	123,209	209,269	225,033	234,852	5.5	132,844	142,462
Lufthansa Airlines	218,875	229,988	210,009	205,397	205,192	4.8	125,594	123,126
British Airways	219,630	215,231	210,877	203,875	194,120	4.6	117,845	118,929
Singapore Airlines	198,100	196,350	184,504	167,300	168,675	4.0	96,736	98,660
EVA Airways	142,180	153,162	153,203	141,140	152,828	3.6	88,489	77,065
Air France ⁽³⁾	–	–	–	–	123,153	2.9	72,342	79,053
Mexicana ⁽⁴⁾	–	–	–	–	122,354	2.9	70,786	17,306
China Airlines	128,159	128,259	121,574	116,172	121,137	2.9	71,634	66,626
Philippine Airlines ⁽⁵⁾	120,087	126,437	128,298	114,808	–	–	–	–
Virgin Atlantic Airways	–	–	–	106,266	–	–	–	–
Alaska Airlines	207,445	205,490	216,222	–	–	–	–	–
SUBTOTAL	3,095,343	3,208,758	3,335,904	3,072,020	3,075,305	72.5	1,799,133	1,836,065
All others	1,051,560	1,136,246	1,230,111	1,149,194	1,165,228	27.5	677,816	814,104
TOTAL	4,146,903	4,345,004	4,566,015	4,221,214	4,240,533	100.0	2,476,949	2,650,169
	5.5%	4.8%	5.1%	(7.6%)	0.5%			7.0%

* Preliminary.

(1) Column does not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010.

(3) Air France was not one of the 10 most active airlines at the Airport by international enplanements during Fiscal Years 2005-06 through 2008-09.

(4) Mexicana filed for bankruptcy and ceased operations in August 2010. Mexicana was not one of the 10 most active airlines at the Airport by international enplanements during Fiscal Years 2005-06 through 2008-09.

(5) Philippine Airlines was not one of the 10 most active airlines at the Airport by international enplanements during Fiscal Year 2009-10.

Source: Commission.

Compared with Fiscal Year 2008-09, enplanements to Asia and the Middle East increased by 3.7% and represented 10.4% of total enplanements and 46.8% of international enplanements; enplanements to Canada increased by 4.1% and represented 3.2% of total enplanements and 14.4% of international enplanements; enplanements to Europe decreased by 7.3% and represented 5.5% of total enplanements and 24.8% of international enplanements; enplanements to Latin America increased by 2.7% and represented 1.9% of total enplanements and 8.7% of international enplanements; and enplanements to Australia and Oceania decreased by 1.5% and represented 1.2% of total enplanements and 5.3% of international enplanements during Fiscal Year 2009-10.

Compared with the first seven months (July through January) of Fiscal Year 2009-10, enplanements to Asia and the Middle East increased by 7.5% and represented 10.4% of total enplanements and 46.1% of international enplanements; enplanements to Canada increased by 15.8% and represented 3.5% of total enplanements and 15.4% of international enplanements; enplanements to Europe increased by 5.7% and represented 5.7% of total enplanements and 25.2% of international enplanements; enplanements to Latin America decreased by 0.9% and represented 1.8% of total enplanements and 7.8% of international enplanements; and enplanements to Australia and Oceania decreased by 1.7% and represented 1.2% of total enplanements and 5.5% of international enplanements during the first seven months of Fiscal Year 2010-11, based on preliminary figures.

INTERNATIONAL ENPLANEMENTS BY DESTINATION
(Fiscal Years)

Destination	% of 2009-10*							First Seven Months (July through January)	
	2005-06	2006-07	2007-08	2008-09	2009-10	International Enplanements†	Total Enplanements	2009-10	2010-11*
Asia/Middle East	1,915,999	1,984,911	2,102,630	1,913,830	1,985,540	46.8%	10.4%	1,136,800	1,222,497
Europe	1,091,871	1,105,556	1,172,857	1,134,359	1,051,735	24.8	5.5	630,919	667,021
Canada	564,028	634,381	650,149	585,492	609,465	14.4	3.2	352,207	407,978
Latin America	402,001	380,016	393,747	358,282	368,071	8.7	1.9	209,570	207,657
Australia/Oceania	173,004	240,140	246,632	229,251	225,722	5.3	1.2	147,453	145,016
TOTAL	4,146,903	4,345,004	4,566,009	4,221,214	4,240,533	100.0	22.2	2,476,949	2,650,169
Percentage Change	5.5%	4.8%	5.1%	(7.6%)	0.5%				7.0%

* Preliminary.

† Column does not total due to rounding.

Source: Commission.

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Cargo Traffic and Landed Weight

Cargo Traffic

In Fiscal Year 2009-10, according to traffic reports submitted by the airlines, Airport air cargo volume was approximately 431,990 metric tons, including U.S. mail, freight and express shipments, an increase of 11,251 metric tons, or 2.7%, compared to reported cargo volume for Fiscal Year 2008-09. A total of approximately 268,805 metric tons of international cargo, mail, freight and express shipments were handled at the Airport during Fiscal Year 2009-10, compared to approximately 163,185 metric tons of domestic cargo, mail, freight and express shipments. The Airport was ranked 13th in the United States in terms of air cargo volume in Calendar Year 2010, according to final 2010 data from the ACI.

Compared to Fiscal Year 2008-09, domestic cargo and mail traffic tonnage decreased 15,015 metric tons (8.4%) and international cargo and mail traffic tonnage increased 26,265 metric tons (10.8%) during Fiscal Year 2009-10. Fiscal Year 2009-10 growth in international cargo and mail traffic tonnage was in large part due to increased trade activity to the Asia/Middle East region, where cargo and mail traffic tonnage increased by 23,932 metric tons or 13.2% compared to Fiscal Year 2008-09.

Compared with the first seven months (July through January) of Fiscal Year 2009-10, total cargo and mail tonnage decreased 8,366 metric tons (3.4%); domestic cargo and mail traffic tonnage decreased 16,519 metric tons (16.7%); and international cargo and mail traffic tonnage increased 8,153 metric tons (5.5%) for the first seven months of Fiscal Year 2010-11, based on preliminary figures.

The following table provides information concerning cargo traffic at the Airport for the last five Fiscal Years and the first seven months of Fiscal Years 2009-10 and 2010-11.

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 Seven Months 2010-11*</i>	214,585	24,132	238,718	(3.4%)
<i>First Seven Months 2009-10</i>	214,847	32,237	247,084	
2009-10	382,417	49,573	431,990	2.7
2008-09	364,873	55,867	420,739	(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

* Preliminary.
Source: Commission.

Compared with the first 11 months (July through May) of Fiscal Year 2009-10, total cargo and mail tonnage decreased 28,615 metric tons (7.3%); domestic cargo and mail traffic tonnage decreased 24,397 metric tons (16.2%); and international cargo and mail traffic tonnage decreased 4,218 metric tons (1.7%) for the first 11 months of Fiscal Year 2010-11, based on preliminary figures.

Landed Weight

For Fiscal Year 2009-10 total revenue landed weight at the Airport increased 106,589 thousand pounds (0.4%) when compared with Fiscal Year 2008-09. Significant decreases in landed weight by United Airlines, Alaska Airlines, US Airways and Federal Express partially offset significant increases in landed weight by Delta Air Lines, jetBlue Airways, SkyWest Airlines/United Express, Southwest Airlines, Virgin America and Emirates. Northwest and Delta Air Lines' operating certificates were combined on December 31, 2009 as part of the Delta/Northwest merger, and the carriers' air traffic statistics were combined as Delta Air Lines beginning in January 2010. As a result, Northwest's landed weight declined significantly in Fiscal Year 2009-10. A portion of Delta's substantially increased landed weight was in part as a result of the cessation of Northwest operations but also due to increased service from Delta and its affiliates.

Total landed weight at the Airport increased 1.9% during the first seven months of Fiscal Year 2010-11 as compared to the first seven months of Fiscal Year 2009-10, based on preliminary figures.

Total landed weight at the Airport increased 1.4% during the first eleven months of Fiscal Year 2010-11 as compared to the first eleven months of Fiscal Year 2009-10, based on preliminary figures.

Landing fees paid by each airline are based on landed weights of aircraft operating at the Airport. The revenue landed weights for the 10 most active airlines operating at the Airport for Fiscal Years 2005-06 through 2009-10 and the first seven months of Fiscal Years 2009-10 and 2010-11 are shown in the table below. Landed weight for airlines includes landed weight for affiliates and regional carriers.

TOTAL REVENUE LANDED WEIGHT BY AIRLINE
(in thousands of pounds)
(Fiscal Years)

Airline	2005-06	2006-07	2007-08	2008-09	2009-10	% of 2009-10 ⁽¹⁾	First Seven Months (July through January)	
							2009-10	2010-11*
United Airlines ⁽²⁾	12,313,098	12,554,535	12,453,327	11,582,526	11,425,026	40.0%	6,645,145	6,842,034
American Airlines	2,323,210	2,404,396	2,326,973	2,189,754	2,140,797	7.5	1,272,811	1,201,172
Southwest Airlines ⁽³⁾	–	–	1,020,894	1,692,068	1,847,152	6.5	1,105,590	1,085,532
Virgin America ⁽⁴⁾	–	–	798,792	1,375,840	1,623,111	5.7	954,263	929,815
Delta Air Lines ⁽⁵⁾	1,458,610	1,153,206	1,211,760	1,014,116	1,433,614	5.0	645,472	1,211,783
US Airways ⁽⁶⁾	509,699	479,417	1,058,981	1,000,392	909,195	3.2	576,885	530,090
Continental Airlines ⁽²⁾	665,174	707,835	722,688	720,030	740,573	2.6	449,013	473,954
Alaska Airlines	944,781	1,101,771	1,040,205	787,778	643,217	2.2	387,201	395,331
Northwest Airlines ⁽⁵⁾	836,418	872,979	847,587	819,247	509,885	1.8	509,885	0
Cathay Pacific	–	–	–	–	506,266	1.8	296,478	297,527
British Airways	453,600	454,060	456,120	452,340	–	–	–	–
Japan Airlines	575,820	565,740	–	–	–	–	–	–
America West Airlines ⁽⁷⁾	542,929	612,363	–	–	–	–	–	–
SUBTOTAL	20,613,339	20,906,302	21,937,327	21,634,091	21,778,836	76.2	12,842,743	12,967,238
All others	6,559,969	6,893,679	7,484,887	6,853,145	6,814,989	23.8	4,008,834	4,198,818
TOTAL	27,173,308	27,799,981	29,422,214	28,487,236	28,593,825	100.0%	16,851,577	17,166,056
Percentage Change	0.1%	2.3%	5.8%	(3.2%)	0.4%			1.9%

* Preliminary.

(1) Figures do not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010.

(3) Southwest Airlines reinitiated service at the Airport in 2007.

(4) Virgin America initiated service at the Airport in 2007.

(5) Delta and Northwest merged in 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) Data for Fiscal Year 2007-08 through the first seven months of Fiscal Year 2010-11 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. Mesa Airlines filed for Chapter 11 bankruptcy protection in January 2010 and continues operations at the Airport.

(7) 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: Commission.

Competition

According to final 2010 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 2009-10, international passenger traffic (enplanements and deplanements) at the Airport increased 0.7% compared to an increase of 2.9% at LAX for the same period.

Passenger Traffic

According to traffic reports released by the three Bay Area airports for Fiscal Year 2009-10, the Airport accounted for approximately 63.0% of total domestic passenger traffic and approximately 95.9% of total international passenger traffic. The combined total passenger traffic increase at the three Bay Area airports during Fiscal Year 2009-10 was 770,702 (approximately 1.5% higher than in Fiscal Year 2008-09). Passenger traffic increases at the Airport during Fiscal Year 2009-10 were offset by passenger traffic reductions at Oakland and San Jose, resulting in a market share increase for the Airport of 2.1 percentage points and a total market share for the Airport of 68.2% in Fiscal Year 2009-10 compared to 66.1% in Fiscal Year 2008-09.

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)

Airport	2005-06	2006-07	2007-08	2008-09	2009-10	
					Number	% Change
San Francisco	32,987,672	33,855,382	36,709,405	36,475,612	38,204,072	4.7%
Oakland	14,368,493	14,533,825	13,627,030	9,923,785	9,558,175	(3.7)
San Jose	10,851,853	10,653,817	10,380,825	8,821,452	8,229,374	(6.7)
TOTAL BAY AREA	58,208,196	59,043,024	60,715,492	55,220,849	55,991,621	1.5%
Percentage Change	0.9%	1.4%	2.8%	(9.0%)	1.5%	

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

Air Cargo

During Fiscal Year 2009-10, the Airport accounted for approximately 44.5% of total air cargo at the three San Francisco Bay Area airports, compared with 40.7% in Fiscal Year 2008-09. Oakland accounted for approximately 50.5% and San Jose accounted for approximately 5.0% of the total air cargo in the Bay Area during Fiscal Year 2009-10. The Airport handled approximately 23.7% of domestic loaded and unloaded cargo and approximately 95.2% of the Bay Area's international loaded and unloaded air cargo. Oakland had the largest share of the domestic air cargo market (approximately 69.3% compared to approximately 68.9% during Fiscal Year 2008-09), 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. The Airport experienced an increase in international cargo (including mail) of 26,265 tons (10.8%) over Fiscal Year 2008-09, which was partially offset by a reduction in domestic cargo (including mail) of 15,015 tons (-8.4%) over the same period, resulting in an overall increase of 11,251 tons (2.7%). Oakland and San Jose, both of which have primarily domestic cargo activity, experienced reductions of 60,406 (11.0%) and 14,254 (22.8%), respectively, during Fiscal Year 2009-10. As a result, the Airport experienced a 3.8 percentage point increase in cargo tonnage market share for the Airport, while Oakland had a decrease in cargo tonnage market share of 2.7 percentage points and San Jose had a decrease in cargo tonnage market share of 1.0 percentage points.

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)

Airport	2005-06	2006-07	2007-08	2008-09	2009-10	
					Number	% Change
San Francisco	593,571	572,326	550,526	420,739	431,990	2.7%
Oakland	674,038	667,608	658,827	549,951	489,545	(11.0)
San Jose	95,157	85,424	80,130	62,502	48,248	(22.8)
TOTAL BAY AREA	1,364,177	1,325,358	1,289,483	1,033,192	969,783	(6.1%)
Percentage Change	(0.2%)	(2.8%)	(2.7%)	(19.9%)	(6.1%)	

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

Airline Agreements

Three different agreements (collectively referred to as the “Prior Lease Agreements”) are in effect between the City, acting through the Commission, and certain airlines operating at the Airport until June 30, 2011. The City and 39 airlines have entered into new 10-year Lease and Use Agreements effective July 1, 2011 (the “2011 Lease and Use Agreements”) which are discussed under “–2011 Lease and Use Agreements” below. The airlines that are party to a 2011 Lease and Use Agreement are referred to as “Signatory Airlines.” Non-signatory airlines operate at the Airport under month-to-month operating permits or on an itinerant basis. For a summary of the 2011 Lease and Use Agreements, see APPENDIX D–“SUMMARY OF CERTAIN PROVISIONS OF THE 2011 LEASE AND USE AGREEMENTS.”

2011 Lease and Use Agreements

The 2011 Lease and Use Agreements take effect on July 1, 2011 and expire on June 30, 2021. Other airlines in addition to the 39 current signatories are expected to sign the 2011 Lease and Use Agreement after its effective date.

Current Business Relationship Preserved. The 2011 Lease and Use Agreements extended most aspects of the prior contractual relationship among the City, the Commission and the Signatory Airlines under the Prior Lease Agreements, including by preserving the Annual Service Payment and the requirement to finance capital improvements primarily through the issuance of Airport revenue bonds.

Residual Methodology. 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.

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).

Annual Adjustment of Terminal Rentals and Landing Fees. 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 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 Signatory Airlines are required to pay such increased terminal rentals and/or landing fees for the remaining months of the then-current Fiscal Year.

Terminal Rentals and 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. Airlines that are not Signatory Airlines or an Affiliate Airline (as defined in the 2011 Lease and Use Agreements) of a Signatory Airline will pay a 25% premium on landing fees. 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. 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.

Optional Reduction of Exclusive Use Space. Signatory Airlines will be granted a mid-term opportunity to relinquish up to 20% of their exclusive use space, effective July 1, 2016. Exclusive use space includes airline back offices, clubs and lounges, ticket counters, and baggage handling space in the domestic terminals. Gates are no longer leased exclusively to one airline.

Airline Review of Capital Improvements. The Commission, subject to the limited exception described below, must use commercially reasonable efforts to finance all capital improvements through grants, PFCs or the issuance of Airport revenue bonds. 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 \$4,200,000 in 2008 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.

Joint Use Space. Gates in the domestic terminals will be used by airlines on a preferential or common-use basis and gates in the International Terminal will be used on a common or joint 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. With respect to the domestic terminals, the Airport may 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. With respect to the ITC, most ITC gates, holdrooms, ticket counters and baggage systems are used on a joint use basis in accordance with management protocols which allocate the facilities 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 accommodate new domestic

or international carriers or other market changes within the industry. A small number of ITC gates and related facilities are designated for common use to accommodate itinerant airlines and overflow domestic departures and arrivals.

Security Deposit. Each Signatory Airline is required to post security with the Commission to guaranty its performance and payment. 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 of terminal area rentals, landing fees, and usage fees. 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.

Cross-Default Provisions. A default under any other agreement with a Signatory Airline is a default under its 2011 Lease and Use Agreement. In addition, the Airport may terminate any other agreement with a Signatory Airline that is in default under its 2011 Lease and Use Agreement.

Incentives for Early Execution of 2011 Lease and Use Agreement. In order to encourage the airlines to execute the 2011 Lease and Use Agreement up to 17 months before the expiration of the Prior Lease Agreements, the Airport agreed to several incentives. Among those is a goal by the Airport to limit airline costs 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 2011 Lease and Use 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 2011 Lease and Use Agreement in connection with a bankruptcy proceeding. In addition, the Commission may be required to repay landing fees and terminal rentals paid by the airline up to 90 days prior to the date of the bankruptcy filing.

Even if a bankruptcy debtor airline assumes its lease while in Chapter 11, a bankruptcy trustee could reject the assumed lease if the case were subsequently converted to a case under Chapter 7 of the bankruptcy code (liquidation). The Commission's claim against the bankruptcy estate would be an administrative claim limited to all sums due under the lease for the two year period following the later of the rejection date or the date of the actual turnover of the premises. Any excess rent amounts due under the lease would be treated as a general unsecured

claim limited to the greater of one year of rent reserved under the lease or 15% of the rent for the remaining lease term, not to exceed three years of rent.

Certain Federal and State Laws and Regulations

Federal Law Prohibiting Revenue Diversion

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

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

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

State Tidelands Trusts

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

State Proposition 218

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

Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, seek to repeal, reduce, or prohibit the future

imposition or increase of, any local tax, assessment, fee or charge. “Assessment,” “fee,” and “charge” are not defined in Article XIIC and it is unclear whether the definitions of such terms contained in Article XIID (which are generally property-related as described below) are so limited under Article XIIC.

Article XIID 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 XIID 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.

State Proposition 26

In November 2010, the voters of the State approved Proposition 26, known as the “Supermajority Vote to Pass New Taxes and Fees Act.” Proposition 26, among other things, amended Article XIIC to the California Constitution principally to define what constitutes a “tax” under the limitations and requirements of that provision. Article XIIC imposes limitations on local governments like the City when imposing certain taxes, including a requirement that the local government submit certain taxes to the electorate for its approval. Before Proposition 26, Article XIIC did not define the term “tax” and the purpose of Proposition 26 is to broadly define what constitutes a tax under Article XIIC to include “any levy, charge, or exaction of any kind imposed by a local government.” Proposition 26 lists several exceptions to the definition of “tax,” which include (a) a charge for a specific benefit or privilege, which does not exceed the reasonable costs of providing the benefit or privilege, (b) a charge for a government service or product, which does not exceed the reasonable costs of providing the service or product, (c) a charge for the reasonable regulatory costs of issuing licenses and permits, performing investigations, inspections, and audits, and the administrative enforcement thereof, (d) a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property, and (e) a fine, penalty, or other monetary charge imposed as a result of a violation of law.

The Airport is reviewing its fees and charges in light of Proposition 26 and anticipates that they will fall into one or more exceptions to the definition of “tax” and will be exempt from Proposition 26. But courts have yet to interpret the provisions of Proposition 26 and in particular whether it applies to any of the fees and charges of the types imposed by the Airport. If any of the Airport’s fees and charges were determined to be “taxes” under Article XIIC, the Airport may no longer be able to impose or adjust those fees and charges without voter approval.

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. In Fiscal Year 2009-10, the Commission had budgeted 1,360 full time equivalent positions and has budgeted 1,421 full-time equivalent positions for Fiscal Year 2010-11.

There are presently 18 labor unions representing Airport employees. The San Francisco Charter 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 utilizes current wastewater treatment technology and has dry weather capacity of 3.22 million gallons per day.

CAPITAL PROJECTS AND PLANNING

The Airport's Capital Project Review Committee (the "CPRC") is comprised of Airport senior management. The CPRC evaluates new and existing capital projects with a view of increasing airline competition at the Airport and of maintaining and expanding the Airport's Facilities to address projected Airport traffic and any aging infrastructure. The CPRC then selects projects for funding in a Capital Plan (the "Capital Plan"). In developing the Capital Plan, the CPRC considers available funding and the projected impact of capital projects on terminal rental rates and landing fees that the airlines at the Airport pay.

The most recent revision to the five-year Capital Plan corresponds to the period between Fiscal Year 2011-12 and Fiscal Year 2015-16. These revisions were approved by the Commission in February 2011, and resulted in a five-year Capital Plan that includes an aggregate of approximately \$752.8 million in projects, of which approximately \$324.0 million is expected to be financed through the issuance of additional Bonds. Approximately \$264.9 million in projects in the Capital Plan is expected to be funded with grants, approximately \$53.5 million is 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. 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 FAA administers the AIP and grants are made available to airport operators in the form of entitlement funds and discretionary funds. See “CERTAIN RISK FACTORS-Potential Reduction in FAA Grants.” The majority of the grant funds received by the Commission are AIP grants. The Airport has also entered into an Other Transaction Agreement (OTA) to fund construction of a new Air Traffic Control Tower. Additionally, the Airport also receives grants from the TSA and the Federal Highway Administration.

The noteworthy new projects in the Capital Plan include upgrades to the baggage handling system for the International Terminal and Boarding Area F in Terminal 3. The continuing projects previously in the Capital Plan consist of on-going maintenance and upgrades to critical facilities, such as runways, taxiways, terminals and utility systems, and the \$203 million Runway Safety Area (“RSA”) Improvement Program. The Airport plans on applying for AIP grants for the RSA project and to phase the project to maximize grant funding. Other significant continuing projects in the capital plan include a new Air Traffic Control Tower, renovations to Boarding Area E in Terminal 3, and common use system improvements.

In accordance with the Prior 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 2011-12, the capital project review threshold is \$640,055. The current five-year Capital Plan was approved by the Commission and the Airlines. 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–2011 Lease and Use Agreements.”

The Airport expects that it will have Capital Plans in the future that would include the renovation of major portions of its infrastructure similar to the renovation of Terminal 2 and Boarding Area D.

AIRPORT’S FINANCIAL AND RELATED INFORMATION

General

The Airport generates its operating revenues primarily from airline terminal rentals and landing fees, concession revenues, parking management revenues and Passenger Facility Charges. The Airport operates as a “residual” airport, which means that the airlines are obligated under the 2011 Lease and Use Agreements to pay all of the Airport’s operating expenses and debt service costs less any non-airline revenues of the Airport. The Commission establishes terminal rental rates and landing fees in advance for each upcoming Fiscal Year based on the Airport’s estimated revenues and expenses. Actual receipts and expenses in any fiscal year are either more or less than estimated revenues and expenses. Due to the residual nature of the 2011 Lease and Use Agreements, to the extent there is an over-collection in any year (that is, receipts from the airlines exceed net costs), the Airport is obligated to reduce future terminal rentals and landing fees by a corresponding amount. Similarly, if there is an under-collection in any year, the Airlines are obligated under the 2011 Lease and Use Agreements to pay such deficiency from future rates and charges. For a description of the 2011 Lease and Use Agreements, see “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements.”

Summary of Financial Statements

Summary of Statements of Net Assets. A summary of the Airport's Statements of Net Assets as reported in the Airport's annual financial statements for Fiscal Years 2005-06 through 2009-10 is shown in the table below. See APPENDIX A—"FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2010 AND 2009 (WITH INDEPENDENT AUDITORS' REPORT THEREON)."

SUMMARY OF AIRPORT'S STATEMENTS OF NET ASSETS (\$ in thousands) (Fiscal Years)

	2005-06	2006-07	2007-08	2008-09	2009-10
Assets:					
Current Assets					
Unrestricted current assets:					
Cash and investments held in City					
Treasury – Operating Fund ⁽¹⁾	\$240,281	\$263,176	\$299,153	\$307,696	\$326,281
Cash – Revolving Fund	10	10	10	10	10
Accounts Receivable ⁽²⁾	31,931	37,733	38,352	33,674	30,902
Accrued Interest	7,950	4,425	2,094	960	1,180
Inventories	76	60	73	81	86
Other current assets	2,245	1,493	3,248	3,219	2,911
Total unrestricted current assets	<u>\$282,493</u>	<u>\$306,897</u>	<u>\$342,930</u>	<u>\$345,640</u>	<u>\$361,370</u>
Total restricted assets available for current outlay	54,449	55,930	69,647	91,962	125,689
Total current assets	<u>\$336,942</u>	<u>\$362,827</u>	<u>\$412,577</u>	<u>\$437,602</u>	<u>\$487,059</u>
Accounts Receivable – noncurrent	8,555	4,215	529	181	–
Total Restricted Assets	359,399	318,170	338,543	358,306	679,654
Capital Assets, net	3,676,771	3,640,941	3,600,632	3,584,425	3,711,791
Unamortized bond issuance costs	44,970	44,947	45,171	38,997	36,827
Total Assets	4,426,637	4,371,100	4,397,452	4,419,511	4,915,331
Deferred outflows on derivative instruments	–	–	–	57,157	89,505
Total assets and deferred outflows	<u>\$4,426,637</u>	<u>\$4,371,100</u>	<u>\$4,397,452</u>	<u>\$4,476,668</u>	<u>\$5,004,836</u>
Liabilities					
Current liabilities					
Current liabilities payable from unrestricted assets ⁽³⁾	151,833	176,163	183,461	196,917	262,551
Current liabilities payable from restricted assets	48,661	48,840	73,688	171,733	242,554
Total current liabilities	200,494	225,003	257,149	368,650	505,105
Noncurrent Liabilities ⁽⁴⁾	3,911,220	3,829,355	3,826,908	3,776,017	4,116,361
Derivative instrument liabilities	–	–	–	62,615	94,838
Total liabilities	<u>\$4,111,714</u>	<u>\$4,054,358</u>	<u>\$4,084,057</u>	<u>\$4,207,282</u>	<u>\$4,716,304</u>
Net Assets					
Invested in capital assets, net of related debt	(134,016)	(122,134)	\$16,899	(58,673)	(71,205)
Restricted for debt service	153,498	159,020	25,259	41,986	54,170
Restricted for capital projects	15,210	34,461	18,212	59,790	81,471
Unrestricted	<u>280,231</u>	<u>245,215</u>	<u>253,025</u>	<u>226,283</u>	<u>224,096</u>
Total Net Assets	<u>\$314,923</u>	<u>\$316,742</u>	<u>\$313,395</u>	<u>\$269,386</u>	<u>\$288,532</u>

(1) For a description of the cash and investments of the Airport, see "–Investment of Airport Funds."

(2) Net of allowance for doubtful accounts (in thousands): 2010, \$440; 2009, \$368; 2008, \$305; 2007, \$1,343; and 2006, \$2,702.

(3) Includes deferred aviation revenue of (in thousands): 2010, \$49,014; 2009, \$51,075; 2008, \$50,827; 2007, \$44,239; and 2006, \$30,729. Deferred aviation revenues consist of the amount, in each Fiscal Year, that terminal rental rates and landing fees under the airline lease agreements exceed the Airport's net operating expenses. The Airport is obligated to reduce future rates and charges by a corresponding amount. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements."

(4) Amounts listed as noncurrent liabilities for Fiscal Years 2008-09 and 2009-10 are before derivative instrument liabilities.

Source: Commission.

Summary of Statement of Revenues, Expenses, and Changes in Net Assets. A summary of the Airport's Statements of Revenues, Expenses, and Changes in Net Assets as reported in the Airport's annual financial statements for Fiscal Years 2005-06 through 2009-10 is shown in the table below. See APPENDIX A—"FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2010 AND 2009 (WITH INDEPENDENT AUDITORS' REPORT THEREON)."

**SUMMARY OF AIRPORT'S STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS**
(\$ in thousands)
(Fiscal Years)

	2005-06	2006-07	2007-08	2008-09	2009-10
Aviation Revenues	\$263,422	\$296,368	\$306,348	\$315,777	\$330,846
Concession Revenues ⁽¹⁾	143,051	155,653	172,947	178,995	187,333
Net Sales and Services	48,869	51,893	56,476	56,511	58,559
Total Operating Revenues	<u>455,342</u>	<u>503,914</u>	<u>535,771</u>	<u>551,283</u>	<u>576,738</u>
Total Operating Expenses ⁽²⁾	<u>(432,811)</u>	<u>(431,059)</u>	<u>(451,258)</u>	<u>(478,589)</u>	<u>(474,206)</u>
Operating Income	22,531	72,855	84,513	72,694	102,532
Nonoperating Revenue (Expense) ⁽³⁾	<u>(92,234)</u>	<u>(94,590)</u>	<u>(102,978)</u>	<u>(119,634)</u>	<u>(99,490)</u>
Income (Loss) Before Capital Contribution and Transfers	(69,703)	(21,735)	(18,465)	(46,940)	3,042
Capital Contributions ⁽⁴⁾	48,544	46,902	41,060	29,780	44,204
Loss Due to Asset Impairment	-	-	-	-	-
Transfer to the City	(21,458)	(23,348)	(25,942)	(26,849)	(28,100)
Transfer from the City	(55) ⁽⁵⁾	-	-	-	-
Changes in Net Assets	<u>(\$42,672)</u>	<u>\$1,819</u>	<u>(\$3,347)</u>	<u>(\$44,009)</u>	<u>\$19,146</u>

(1) Also includes parking and transportation revenues.

(2) Includes depreciation and amortization expense in the amounts of \$162.0 million for Fiscal Year 2005-06, \$142.8 million for Fiscal Year 2006-07, \$151.1 million for Fiscal Year 2007-08; \$158.2 million for Fiscal Year 2008-09 and \$163.5 million for Fiscal Year 2009-10.

(3) Includes interest expense in the amount of \$200.3 million for Fiscal Year 2005-06, \$193.8 million for Fiscal Year 2006-07, \$200.3 million for Fiscal Year 2007-08, \$204.7 million for Fiscal Year 2008-09 and \$186.8 million for Fiscal Year 2009-10.

(4) Represents federal grant funds.

(5) Represents the balance of settlement of amounts owed as a result of an audit by the U.S. Department of Transportation Office of the Inspector General that was returned to the City.

Source: Commission.

Operating Revenues

General

Under the 2011 Lease and Use 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—2011 Lease and Use 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 ranged 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.

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 overall 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. Airline payments per enplaned passenger at the Airport were \$13.91 in Fiscal Year 2009-10, compared to \$13.10 in Fiscal Year 2008-09, \$13.12 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 2011 Lease and Use 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 for the last five Fiscal Years is set forth below.

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

	2006-07	2007-08	2008-09	2009-10	2010-11
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: 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.

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.

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 sustainable technology products store; See's Candies Kiosk; Destination Green Kiosk, which features products from companies with a commitment to green living; Hudson News & Discover Store; Gallerie, an accessories store offering Kenneth Cole Reaction, Fossil and Indulgences brand merchandise; Sunglass Hut; Bay Reader Kiosk, Hudson News Newsstand and a Starbucks. One of the ten locations is a trial of rapid charging units.

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 are 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. Eight of the 39 restaurants in domestic Terminals 1 and 3 are located in pre-security areas accessible to the general public.

On April 14, 2011, the Airport opened Terminal 2, which offers nine food and beverage facilities and features a gourmet marketplace and wine bar, which is a hybrid of food and beverage and retail. Terminal 2 features approximately 16,975 sq. ft. of food and beverage space, a "club room" feel to the food court and passenger waiting area with blended spaces and a sustainable food focus in all restaurants.

Advertising Program

Clear Channel Airports and the Commission have entered into an agreement (the "Advertising Lease") pursuant to which Clear Channel Airports provides advertising in limited areas within the Airport. The Advertising Lease expires on March 31, 2014. Under the terms of the Advertising Lease, Clear Channel Airports pays the Commission an annual base rental payment equal to the greater of the MAG (in the amount of \$6,535,000) or approximately 70% of gross receipts. Commencing April 1, 2012, the definition of MAG in the Advertising Lease will change to the greater of the MAG for the immediately prior lease year or 85% of actual rent paid in the immediately prior lease year.

Rental Cars

The eight on-Airport rental car companies that operate at the consolidated rental car facility located approximately one mile north of the Terminal Complex generated an aggregate of approximately \$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.

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 continue through Fiscal Year 2010-11 and will be evaluated on an annual basis thereafter.

The aggregate MAG (the total concession fees and building space rental) received from the on-Airport rental car companies for Fiscal Year 2008-09 was \$42.39 million and for Fiscal Year 2009-10 was \$48.67 million.

Parking

In October 2006, New South Parking-California was selected by the Commission through a competitive process to provide public and employee parking management 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, both of which options have been exercised, extending the agreement through June 30, 2012.

Concession Revenues

The table on the following page summarizes concession revenues for Fiscal Years 2008-09 and 2009-10 and projected concession revenues for Fiscal Year 2010-11 attributable to the Airport's largest concession revenue sources. 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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TOP TEN SOURCES OF AIRPORT CONCESSION REVENUES†

Concessionaire/Manager	Concession Revenue Sources	Lease/Agreement Expiration Date	FY 2008-09 Concession Revenue (\$ in thousands)†	FY 2009-10 Concession Revenue (\$ in thousands)†	Projected FY 2010-11 Concession Revenue (\$ in thousands)
New South Parking- California	Public Parking	6/30/12 ⁽¹⁾	\$68,355	\$72,960	\$80,016
DFS Group, L.P.	Duty Free and General Merchandise	12/31/17	26,400	26,562	26,400
Hertz Corporation	Rental Car	12/31/13 ⁽²⁾	11,024	11,402	12,175
EAN, LLC ⁽³⁾	Rental Car	12/31/13 ⁽²⁾	7,798	9,321	10,391
Avis Budget Rental Car, LLC ⁽⁴⁾	Rental Car	12/31/13 ⁽²⁾	9,155	9,030	9,371
Clear Channel Airports	Advertising	3/31/14	5,856	6,397	6,535
Pacific Gateway Concessions LLC	General Merchandise	Various ⁽⁵⁾	4,546	4,176	3,853
DTG Operations Rental Car ⁽⁶⁾	Rental Car	12/31/13 ⁽²⁾	3,782	4,162	4,385
Travelex America, Inc.	Currency Exchange	12/9/12	4,215	4,110	4,128
T-Mobile	WiFi and Wireless Phone Service	2/28/10 (WiFi Service) ⁽⁷⁾ 6/30/14 (Wireless Phone)	2,318	2,492	526
SUB TOTAL			<u>\$143,449</u>	<u>\$150,612</u>	<u>\$157,780</u>
Other Revenue ⁽⁸⁾			<u>35,546</u>	<u>36,721</u>	<u>41,729</u>
TOTAL CONCESSION REVENUE			<u><u>\$178,995</u></u>	<u><u>\$187,333</u></u>	<u><u>\$199,509</u></u>

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

- (1) New South Parking provides parking management services for the Airport’s public and employee parking. Revenue reflects only public parking. The terms of this agreement include two one-year options to extend. The Commission exercised the second one-year option to extend the agreement through June 2012.
- (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 \$32,192,966.
- (3) Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental.
- (4) Doing business as Avis Rent-A-Car and Budget Rent-A-Car.
- (5) Pacific Gateway Concessions LLC operates several locations within the Airport, each with a different expiration date.
- (6) Doing business as Dollar Rent-A-Car and Thrifty Car Rental.
- (7) WiFi lease expired February 28, 2010, but continued to operate in “hold-over” status remitting minimum annual guaranteed payment through July 2010.
- (8) Represents the aggregate concession revenue received from approximately 90 additional concessionaires operating 165 concessions, plus ground transportation operators at the Airport.

Source: Commission.

In Fiscal Year 2009-10, terminal concession revenues (which excludes revenues for parking and other ground transportation) were approximately \$66.49 million, an approximately 2.39% increase compared to the previous Fiscal Year’s revenues of approximately \$64.94 million.

Principal Revenue Sources

Set forth in the table on the following page 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 2009-10. 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 2008-09 Revenues (\$ in thousands)	FY 2009-10 ⁽¹⁾		
		Revenues (\$ in thousands)	Percent of Operating Revenue ⁽²⁾	Percent of Total Revenue
United Airlines ⁽³⁾	\$124,663	\$130,378	22.61%	19.37%
New South Parking-California ⁽⁴⁾	68,355	72,960	12.65	10.84
DFS Group, L.P.	26,877	27,018	4.68	4.01
American Airlines	23,634	26,167	4.54	3.89
Hertz Corporation	20,436	23,806	4.13	3.54
Delta/Northwest Airlines ⁽⁵⁾	9,506	21,113	3.66	3.14
EAN, LLC ⁽⁶⁾	14,346	19,376	3.36	2.88
Avis Budget Car Rental, LLC ⁽⁷⁾	17,806	18,992	3.29	2.82
Signature Flight Support	11,440	11,612	2.01	1.72
Southwest Airlines	9,536	11,393	1.98	1.69
SUBTOTAL TEN HIGHEST	\$326,599	\$362,815	62.91%	53.89%
Other Operating Revenue	224,684	213,923	37.09	31.78
TOTAL OPERATING REVENUE	\$551,283	\$576,738	100.00%	85.67%
Other Revenue ⁽⁸⁾	26,748	22,713 ⁽⁹⁾		3.37
PFC Collections ⁽¹⁰⁾	68,845	73,759		10.96
TOTAL AIRPORT REVENUE	\$646,876	\$673,210		100.00%

(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, United's low-fare brand. On January 1, 2009, United ceased flying Ted as a separate brand.

(4) New South Parking-California manages the Airport's public short-term garages and long-term parking facility. See also "--Concessions--Parking."

(5) Effective January 2010, Northwest Airlines merged into Delta Air Lines.

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

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

(9) Includes investment income in the amount of \$20.7 million.

(10) See "SECURITY FOR THE 2011C/D/E BONDS--Pledge of Net Revenues; Source of Payment."

Source: 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 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. In Fiscal Year 2009-10, parking volume increased by approximately 0.6% and revenues increased by approximately 6.7% or \$4.6 million due to the full year effect of a \$1 per hour short term parking rate increase in November 2008 and an average ticket price increase of 6.2% during Fiscal Year 2010. See "SAN FRANCISCO INTERNATIONAL AIRPORT--Current Airport Facilities--Public Parking and Rental Car Facilities--Public Parking."

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, 2010, a total of approximately \$552.5 million, including interest earnings thereon, had been collected.

In October 2010 the Airport submitted a draft of a fourth PFC application (“PFC #4”) to the FAA to extend the collection period through the earlier of December 1, 2029 or the date when the total authorized collection amount is achieved. The collections from PFC #4 would be used to pay principal and interest on Bonds issued for certain eligible costs associated with the renovation of Terminal 2, including Boarding Area D; improvements to the common-use systems in the International Terminal; and various eligible airfield improvement projects completed at the Airport between 1992 and 2010. The proposed collection amount for PFC #4 is \$881 million. The Airport is working with the FAA to finalize the PFC #4 application for FAA review and approval.

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. The actual amount of PFC collections to be designated as “Revenues” and used to pay debt service in Fiscal Years 2010-11 and 2011-12 as designated by the Commission is dependent, in part, upon the actual amounts permitted for such use by PFC regulations. The Commission may use a portion of current or future PFC collections to redeem Outstanding Bonds and for the payment of debt service. Set forth in the table below is information regarding such designations.

**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>
05/17/11	\$88.5	2011-12
05/18/10	87.2	2010-11
05/05/09	61.0	2009-10
05/06/08	51.0	2008-09
05/01/07	54.4	2007-08
05/02/06	58.4	2006-07
06/07/05	67.7	2005-06
06/01/04	68.4	2004-05
06/03/03	10.0	2003-04
03/25/03	46.1	2003-04
11/05/02	13.0	2002-03
04/16/02	18.8	2001-02

Source: Commission.

The Commission's receipt of PFC revenues are subject to several risks. See "CERTAIN RISK FACTORS—Availability of PFCs." A shortfall in PFC revenues may require the Commission to increase landing fees and terminal rentals to pay its operating expenses.

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.

Operating Expenses

Fiscal Year 2009-10 operating expenses decreased 0.9% or \$4.4 million from \$478.6 in Fiscal Year 2008-09 to \$474.2 million in Fiscal Year 2009-10 primarily due to the increase in the capitalization of indirect costs. In Fiscal Year 2009-10, the Airport capitalized \$27.4 million in indirect costs related primarily to Terminal 2 construction compared to \$6.1 million in Fiscal Year 2008-09, an increase of \$21.3 million. This negated in full \$16.9 million that operating expenses would have increased absent this capitalization of indirect costs. The \$16.9 million that operating expenses would have increased absent the capitalization of indirect costs was primarily due to an increase in depreciation and amortization expenses (\$5.3 million), an increase in repairs and maintenance expenses (\$2.3 million) due to increased maintenance costs relating to the AirTrain, an increase in general and administrative expenses (\$7.3 million) due to increasing the amount of a loss contingency reserve relating to pending litigation and an increase in environmental remediation costs (\$0.8 million) due to the increase in costs relating to the removal and disposal of hazardous waste.

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. 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 increased 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).

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 Prior Lease Agreements and the 2011 Lease and Use Agreements, 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.” 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 2011C/D/E 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–Certain Federal and State Laws and Regulations–*Federal Law Prohibiting Revenue Diversion*.”

Payments for Direct Services

In addition to the Annual Service Payment, the Prior Lease Agreements and the 2011 Lease and Use Agreements 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 Prior Lease Agreements and the 2011 Lease and Use 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 ⁽¹⁾	Utility Costs		
2009-10	\$28.1	\$36.5	\$16.9	\$14.7	\$36.1 ⁽²⁾	\$104.2	\$132.3
2008-09	26.8	36.2	15.8	12.5	36.8 ⁽³⁾	101.3	128.1
2007-08	25.9	31.5	14.0	11.3	35.9 ⁽⁴⁾	92.7	118.6
2006-07	23.3	31.4	13.6	14.0	34.0 ⁽⁵⁾	93.0	116.3
2005-06	21.4	29.6	12.9	14.8	33.3 ⁽⁶⁾	90.6	112.0

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

(2) Approximately \$16.5 million in utility costs were recovered from Airport tenants.

(3) Approximately \$15.4 million in utility costs were recovered from Airport tenants.

(4) Approximately \$14.3 million in utility costs were recovered from Airport tenants.

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

(6) Approximately \$14.0 million in utility costs were recovered from Airport tenants.

Source: Commission.

Employee Benefit Plans

Retirement System. All of the employees of the Airport are members of the San Francisco City and County Employees' Retirement System (the "Retirement System"), which is charged with administering a defined benefit pension plan (the "Fund") and an individual account deferred compensation plan (the "Deferred Compensation Plan"). These two plans are separate and distinct legal entities, with trust funds independent of each other. The Fund was initially established in the late 1880s and was constituted in its current form by the 1932 City Charter. It continues to exist and operate under the Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public vote at a duly called election. The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, at least two of whom must be actively employed, and a member of the Board of Supervisors appointed by the President of the Board of Supervisors.

The table below shows Fund contributions for Fiscal Years 2005-06 through 2009-10. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Fund's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Fund. The "Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for Fiscal Years 2005-06 through 2009-10. The Fund's latest actuarial valuation was as of July 1, 2010 and was issued in January 2011.

CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM
Fiscal Years 2005-06 through 2009-10
(\$ in thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee and Employer Contribution†	Employer Contribution Rates†
2009-10	\$13,136,702	\$16,069,058	\$17,643,394	91.1%	\$413,563	9.49%
2008-09	11,866,729	16,004,730	16,498,649	97.0	319,064	4.99
2007-08	15,832,521	15,941,390	15,358,824	103.8	319,183	5.91
2006-07	16,952,044	14,929,287	13,541,388	110.0	308,348	6.24
2005-06	14,497,022	13,597,646	12,515,463	109.0	289,226	6.58

† Employer Contribution rates for Fiscal Years 2010-11 and 2011-12 are 13.56% and 18.09%, respectively.

Sources: Retirement System audited financial statements and supplemental schedules June 30, 2006, 2007, 2008, 2009 and 2010 and Retirement System Actuarial Valuation reports as of July 1, 2006, July 1, 2007, July 1, 2008, July 1, 2009 and July 1, 2010.

The Airport is required to contribute at an actuarially determined rate. The Airport's required contributions for the last five Fiscal Years and for Fiscal Year 2011-12 are set forth below.

AIRPORT CONTRIBUTIONS TO THE RETIREMENT SYSTEM

Fiscal Year	Contribution Rate	Airport Contribution
2011-12	18.09%	N/A†
2010-11	13.56	\$17.4 million
2009-10	9.49	12.1 million
2008-09	4.99	8.8 million
2007-08	5.91	9.1 million
2006-07	6.24	9.1 million

† The Commission will determine the amount of the Airport's contribution to the Retirement System for Fiscal Year 2011-12 when it approves a budget for that Fiscal Year.

Sources: Retirement System Actuarial Valuation Reports and Commission.

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 Airport. As the tables above show, the funded ratio of the Retirement System has declined since the Fiscal Year 2006-07 and the market value of the Retirement System's assets was substantially below the actuarial value of those assets as of July 1, 2010. Accordingly, the Commission cannot provide any assurances that its contributions to the Retirement System will not significantly increase in the future.

Medical Benefits. Medical benefits for eligible active Airport and City employees and eligible dependents, for retired Airport and City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System") pursuant to Charter Sections 12.200 et seq. and A8.420 et seq. Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of the SFUSD, SFCCD and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical benefits for City 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⁽¹⁾
(\$ in millions)

Fiscal Year	Active Employees	Retirees	Total
2010-11	N/A	N/A	\$30.4 ⁽²⁾
2009-10	\$18.9	\$9.7 ⁽³⁾	28.6
2008-09	19.0	8.1 ⁽⁴⁾	27.2
2007-08	17.4	7.6 ⁽⁵⁾	25.0
2006-07	15.8	7.0 ⁽⁶⁾	22.8
2005-06	14.2	6.7	20.9

(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) Budgeted.

(3) \$7.6 million is to provide postretirement benefits on a pay-as-you-go basis; balance is to fund accruals.

(4) \$7.2 million is to provide postretirement benefits on a pay-as-you-go basis; balance is to fund accruals.

(5) \$7.0 million is to provide postretirement benefits on a pay-as-you-go basis; balance is to fund accruals.

(6) \$6.3 million is to provide postretirement benefits on a pay-as-you-go basis; balance is to fund accruals.

Source: 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 City’s Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; and four members of the Health Service System, active or retired, elected from among their members.

The plans (the “HSS Medical Plans”) for providing medical care to the City Beneficiaries and the System’s Other Beneficiaries (collectively, the “HSS Beneficiaries”) are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The Health Service System oversees a trust fund (the “Health Service Trust Fund”) established pursuant to Charter Sections 12.203 and A8.428 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. Audited annual financial statements for several years are also posted in the Health Service System website: www.myhss.org/finance.

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 trust fund”). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board (“GASB”) Statement Number 45, Financial Reporting for Postemployment Benefit Plans Other Than Pensions (“GASB 45”), which applies to OPEB trust funds.

Post-Employment Health Care Benefits and GASB 45. 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 (“OPEBs”) in the City’s financial statements for the Fiscal Year ending June 30, 2008. This new reporting requirement is defined under GASB 45. GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability—rather, it requires that government agencies start to record and report a portion of the liability in each year if they do not fund it. GASB 45

requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the City's financial statements starting in Fiscal Year 2007-08. The City has not established an OPEB trust fund.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual Required Contribution (ARC)	\$21,363	\$24,009	\$22,459
Interest on net OPEB Obligation	1,491	744	-
Adjustment to ARC	<u>(1,169)</u>	<u>(551)</u>	-
Annual OPEB Cost (expense)	21,685	24,202	22,459
Contribution Made	<u>(7,630)</u>	<u>(7,389)</u>	<u>(7,046)</u>
Increase in Net OPEB Obligation	14,055	16,813	15,413
Net OPEB Obligation - beginning of year	32,226	15,413	-
Net OPEB Obligation - end of year	<u>\$46,281</u>	<u>\$32,226</u>	<u>\$15,413</u>

Source: Commission.

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.

Budget Process

The Airport budget is a part of the overall budget prepared annually by the City. Each year, the Airport's proposed budget is reviewed by airline representatives and is approved by the Commission before being submitted to the Mayor. The Mayor's office reviews and may amend the Airport's proposed budget, and then incorporates the proposed budget into the overall 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.

The approved operating budget for the Airport for Fiscal Year 2010-11 is \$738.9 million. Proposed total revenues in the amount of \$738.8 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 (\$128.7 million). Proposed total expenditures for Fiscal Year 2010-11 total \$738.9 million, including personnel costs (\$216.9 million), professional services, 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 (\$52.5 million), the Annual Service Payment (\$28.5 million), and facilities maintenance project appropriation (\$6.0 million).

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 May 31, 2011 to be approximately 683 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 May 31, 2011 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 May 31, 2011 was approximately \$526.6 million.

AIRPORT POOLED INVESTMENT FUND
(As of May 31, 2011)

Funds in Airport Pool		Book Value Investment Distribution as of May 31, 2011 ⁽¹⁾	
Construction Funds	\$141.8 million	U.S. Treasury Note	\$42.2 million
Operating Fund	170.2 million	U.S. Treasury Bill	13.9 million
Contingency Account	92.6 million	U.S. Treasury Liquidity Guarantee Program	87.3 million
PFC Funds	120.7 million	FDIC Temporary Liquidity Guarantee Program Floater	5.6 million
Special Revenue Fund ⁽²⁾	1.1 million	Federal Home Loan Bank	70.5 million
Trust and Agency Fund	0.2 million	Federal Home Loan Bank Multistep	4.7 million
TOTAL	\$526.6 million	Federal Home Loan Bank Discount Note	5.6 million
		Fannie Mae	48.8 million
		Farmer MAC	8.9 million
		Federal Farm Credit	60.1 million
		Federal Home Loan Mortgage Corp Bonds	34.9 million
		Fannie Mae Float Quarterly Account	16.7 million
		California Revenue Notes	2.8 million
		California Revenue Anticipation Notes - Account	1.7 million
		Money Market Account	0.3 million
		Commercial Paper	22.3 million
		Negotiated Certificate of Deposit YCD Account	36.2 million
		Negotiated Certificate of Deposit	2.8 million
		Negotiated Certificate of Deposit Float Quarter	16.7 million
		Negotiated Certificate of Deposit Float Monthly	5.6 million
		Tennessee Valley Authority	2.5 million
		Federal Home Loan Bank Amortization To Call	5.1 million
		Fannie Mae Amortization To Call	15.2 million
		Federal Home Loan Mortgage Corp Float Quarter Account	15.1 million
		Public Time Deposits	1.1 million
		TOTAL	\$526.6 million

⁽¹⁾ Column does not total due to rounding.

⁽²⁾ Narcotics forfeiture and asset seizure fund.

Source: Office of the Treasurer & Tax Collector of the City and County of San Francisco.

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Currently Outstanding Bonds

The Commission has currently Outstanding \$4,240,690,000 in aggregate principal amount of Second Series Revenue Bonds (exclusive of the 2011C/D/E Bonds). See “INTRODUCTION” and “REFUNDING PLAN.”

Series	Dated Date	Original Principal Amount Issued	Outstanding Principal (as of May 31, 2011)	Purpose
Issue 15A (AMT) ⁽¹⁾	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) ⁽¹⁾	April 1, 1998	82,000,000	25,195,000	New Money
Issue 17 (Non-AMT) ⁽¹⁾	April 1, 1998	35,000,000	10,755,000	New Money
Issue 18A (AMT) ⁽¹⁾	July 1, 1998	126,035,000	39,130,000	New Money
Issue 20 (Non-AMT) ⁽¹⁾	October 1, 1998	267,985,000	47,950,000	Refunding
Issue 21 (Non-AMT) ⁽¹⁾	October 1, 1998	82,015,000	23,575,000	New Money
Issue 22 (AMT) ⁽¹⁾	December 1, 1998	125,000,000	66,860,000	New Money
Issue 23A (AMT) ⁽¹⁾	May 1, 1999	168,335,000	91,290,000	New Money
Issue 27A (AMT) ⁽¹⁾	June 15, 2001	210,995,000	132,930,000	Refunding
Issue 27B (Non-AMT) ⁽²⁾	June 15, 2001	277,530,000	93,815,000	Refunding
Issue 28A (AMT) ⁽¹⁾	February 15, 2002	116,640,000	98,930,000	Refunding
Issue 28B (Non-AMT)	February 15, 2002	151,210,000	49,630,000	Refunding
Issue 28C (Non-AMT)	February 15, 2002	97,150,000	22,300,000	Refunding
Issue 29A (AMT)	February 5, 2003	31,870,000	19,845,000	Refunding
Issue 29B (Non-AMT)	February 5, 2003	125,105,000	87,420,000	Refunding
Issue 30 (Non-AMT) ⁽¹⁾	February 10, 2004	34,820,000	34,820,000	Refunding
Issue 31F (Taxable)	February 10, 2005	111,695,000	88,665,000	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	5,200,000	Refunding
Issue 34C (AMT)	March 27, 2008	79,170,000	49,850,000	Refunding
Issue 34D (Non-AMT)	March 27, 2008	81,170,000	81,170,000	Refunding
Issue 34E (AMT)	March 27, 2008	299,365,000	246,525,000	Refunding
Issue 34F (Non-AMT/Private Activity)*	March 27, 2008	16,645,000	16,645,000	Refunding
Issue 36A (Non-AMT/Private Activity)*	May 8, 2008	100,000,000	100,000,000	Refunding
Issue 36B (Non-AMT/Private Activity)*	May 8, 2008	40,620,000	40,620,000	Refunding
Issue 36C (Non-AMT/Private Activity)*	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)*	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) ⁽²⁾	November 13, 2008	226,735,000	25,460,000	Refunding
Series 2009A Bonds (Non-AMT/Private Activity)	September 3, 2009	92,500,000	92,500,000	Refunding
Series 2009B Bonds (Non-AMT/Private Activity)	September 3, 2009	82,500,000	82,500,000	Refunding
Series 2009C Bonds (Non-AMT/Private Activity)	November 3, 2009	132,915,000	126,565,000	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	182,970,000	132,970,000	Refunding
Series 2010F (Non-AMT/Private Activity)	August 5, 2010	121,360,000	121,360,000	New Money
Series 2010G (Non-AMT/Govt. Purpose)	August 5, 2010	7,100,000	7,100,000	New Money
Series 2011A (AMT)	February 22, 2011	88,815,000	88,815,000	Refunding
Series 2011B (Non-AMT/Govt. Purpose)	February 22, 2011	66,535,000	66,535,000	Refunding
TOTAL		\$6,151,755,000	\$4,240,690,000	

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

(1) The Airport is refunding a portion of this Issue of Bonds with proceeds of the 2011C/D/E Bonds. See “REFUNDING PLAN.”

(2) The Airport is refunding all of this Issue or Series of Bonds with proceeds of the 2011C/D/E Bonds. See “REFUNDING PLAN.”

Source: Commission.

Liquidity Facilities and Credit Facilities

The Commission has outstanding approximately \$535 million of variable rate tender option bonds, in each case backed by either bond insurance and a bank liquidity facility or by a bank letter of credit. Currently, there are no Commercial Paper Notes outstanding. The Commission may issue commercial paper in a principal amount of up

to \$178 million in the near future for the purpose of purchasing all or some of its outstanding variable rate Bonds backed by standby bond purchase agreements from banks whose credit standing have been deteriorating. If amounts are drawn upon a bond insurance policy, a standby bond purchase agreement or a letter of credit, then the obligation of the Commission to repay the provider any drawn amounts would constitute “Repayment Obligations” under the 1991 Master Resolution and would be accorded the status of Bonds. See “SECURITY FOR THE 2011C/D/E BONDS—Additional Bonds—*Repayment Obligations*.”

	<u>Issue 36A</u>	<u>Issue 36B</u>	<u>Issue 36C⁽¹⁾</u>	<u>Issue 36D</u>	<u>Issue 37C⁽²⁾</u>	<u>Issue 37D</u>	<u>Commercial Paper⁽³⁾</u>	<u>Series 2010A</u>
Principal Amount	\$100,000,000	\$40,620,000	\$36,145,000	\$32,685,000	\$89,895,000	\$19,690,000	Up To	\$215,970,000
Type	LOC ⁽⁴⁾	LOC ⁽⁴⁾	SBPA ⁽⁵⁾	SBPA ⁽⁵⁾	SBPA ⁽⁵⁾	SBPA ⁽⁵⁾	LOC ⁽⁴⁾	LOC ⁽⁴⁾
Expiration Date	May 7, 2013	May 4, 2014	May 15, 2013	May 15, 2013	May 15, 2013	May 15, 2013	May 2, 2014	February 8, 2013
Insurer	N/A	N/A	AGM ⁽⁶⁾	AGM ⁽⁶⁾	AGM ⁽⁶⁾	AGM ⁽⁶⁾	N/A	N/A
Insurer Rating ⁽⁷⁾			Aa3/AA+	Aa3/AA+	Aa3/AA+	Aa3/AA+	N/A	N/A
Credit/Liquidity Provider	Wells Fargo ⁽⁸⁾	U.S. Bank ⁽⁹⁾	Dexia ⁽¹⁰⁾	Dexia ⁽¹⁰⁾	Dexia ⁽¹⁰⁾	Dexia ⁽¹⁰⁾	State Street ⁽¹¹⁾ / Barclays ⁽¹²⁾	JPMorgan ⁽¹³⁾
Credit/Liquidity Provider Ratings ⁽⁷⁾								
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+	P-1/A-1+/F1+/ P-1/A-1+/F1+	P-1/A-1+/F1+
Long Term	Aa2/AA/AA-	Aa2/AA- /AA-	A1/A/A+	A1/A/A+	A1/A/A+	A1/A/A+	Aa2/AA-/A+/ Aa3/AA-/AA-	Aa1/AA-/AA-

(1) The SBPA supporting the Issue 36C Bonds is expected to be replaced with an LOC from U.S. Bank in July 2011.

(2) The SBPA supporting the Issue 37C Bonds is expected to be replaced with an LOC from Union Bank, N.A. in July 2011.

(3) Currently, no Commercial Paper Notes are outstanding.

(4) Letter of Credit.

(5) Standby Bond Purchase Agreement.

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

(7) As of May 31, 2011. 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 take any responsibility for the accuracy of such ratings, or give 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.

(8) Wells Fargo Bank, National Association.

(9) U.S. Bank National Association

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

(11) State Street Bank and Trust Company.

(12) Barclays Bank PLC

(13) JPMorgan Chase Bank, N.A.

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.

Individual 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 Bonds. The Swap Agreements are subject to termination upon the occurrence of specified events and the Commission may be required to make a substantial termination payment to the respective Swap Provider depending on the then-current market value of the swap transaction even if the Commission were not

the defaulting party. The termination payment would be approximately equal to the economic value realized by the Airport Commission from the termination of the Swap Agreement. 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. All of the Swap Agreements are terminable at any time at the option of the Commission at their market value. The objective of each of the Swap Agreements was to secure a synthetic fixed interest rate obligation with respect to the related Bonds.

Swap Policy

The Commission has adopted a written Interest Rate Swap Policy (the “Swap Policy”), which establishes the Commission’s policies for entering into new interest rate swap agreements. The Swap Policy is reviewed periodically by the Airport Director and revisions are submitted to the Commission for approval. The Swap Policy prohibits the Commission from entering into interest rate swaps or other derivative instruments for speculative purposes or to create extraordinary risk or leverage with respect to the related Bonds or investments, or that would result in the Commission lacking sufficient liquidity to make payments that may be due upon termination of the Swap or that lack sufficient price transparency to permit the Airport Director and the Swap advisor to reasonably determine the market valuation of the Swap. The Swap Policy sets forth, among other things, criteria for qualified swap counterparties, maximum notional amounts of interest rate swap agreement and swap counterparty credit exposure limits.

Risks of Interest Rate Swap Agreements

The Commission’s interest rate swap agreements entail risk to the Commission. Although the Commission intends that its interest rate swap agreements hedge various series of variable rate Bonds, the floating rate that the Commission receives under an interest rate swap agreement can materially differ from the variable rate of interest the Commission pays on its variable rate Bonds. This can reduce the effectiveness of an interest rate swap agreement as a hedge. In addition, the counterparties to the Commission’s interest rate swap agreements may terminate the respective swaps upon the occurrence of specified termination events or events of default, which may include failure of the Commission or the counterparty to maintain credit ratings at required levels. If either the counterparty or the Commission terminates any interest rate swap agreement, the Commission may be required to make a termination payment to the counterparty (even if such termination is due to an event affecting the counterparty, including the counterparty’s failure to maintain credit ratings at required levels), and any such payment could materially adversely impact the Commission’s financial condition. The valuation of the swaps is volatile, and will vary based on a variety of factors, including current interest rates.

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

SUMMARY OF INTEREST RATE SWAP AGREEMENTS

Associated Bonds	Effective Date	Initial Notional Amount	Counterparty/Guarantor	Counterparty/ Guarantor Credit Ratings (Moody's/S&P/Fitch) ⁽¹⁾	Insurer	Fixed Rate Payable by Commission	Market Value to Commission	Expiration Date
Issue 36A/B								
	02/10/05	\$ 70,000,000	JPMorgan Chase Bank, N.A.	Aa1/AA-/AA-	FGIC/National ⁽³⁾	3.444%	(\$7,488,705.53)	May 1, 2026
	02/10/05	69,930,000 ⁽²⁾	JPMorgan Chase Bank, N.A.	Aa1/AA-/AA-	FGIC/National ⁽³⁾	3.445	(7,487,829.69)	May 1, 2026
		<u>139,930,000</u>					<u>(14,976,535.22)</u>	
Issue 36C	02/10/05	30,000,000	JPMorgan Chase & Co. ⁽⁴⁾	Aa1/AA-/AA-	AGM ⁽³⁾	3.444	(3,209,445.23)	May 1, 2026
Issue 36D	02/10/05	29,970,000	JPMorgan Chase & Co. ⁽⁴⁾	Aa1/AA-/AA-	AGM ⁽³⁾	3.445	(3,209,069.86)	May 1, 2026
Issue 37B⁽⁵⁾	05/15/08	79,684,000	Merrill Lynch Capital Services, Inc./ Merrill Lynch & Co.	A2/A/A+	AGM ⁽³⁾	3.898	(12,753,929.57)	May 1, 2029
Issue 37C	05/15/08	89,856,000	JPMorgan Chase & Co. ⁽⁴⁾	Aa1/AA-/AA-	AGM	3.898	(14,382,058.39)	May 1, 2029
2010A⁽⁶⁾	02/01/10	<u>143,947,000</u>	<u>Goldman Sachs Group, Inc.</u>	<u>Aa3/A/A+</u>	<u>None</u>	<u>3.925</u>	<u>(23,979,171.57)</u>	<u>May 1, 2030</u>
							(\$72,510,209.84)	

(1) As of May 31, 2011. 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 ratings, circumstances so warrant.

(2) Notional amount only hedges a portion of the principal amount of the Issue 36B Bonds.

(3) 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. The Issue 32D/E Bonds that were hedged by these swaps were refunded with proceeds of the Issue 36C and Issue 36D Bonds.

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

(5) 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.

(6) On December 16, 2010, the Commission terminated an interest rate swap agreement with Depfa Bank plc, New York Branch.

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

Debt Service Requirements

The following table presents the annual debt service requirements for the Outstanding Bonds and the 2011C/D/E Bonds, based upon monthly deposits.

DEBT SERVICE SCHEDULE⁽¹⁾

Fiscal Year Ending June 30,	Debt Service on Outstanding Bonds ⁽²⁾	2011C			2011D			2011E			2011C/D/E			Aggregate Debt Service
		Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	
2012	\$ 325,475,768	-	\$ 7,731,222	\$ 7,731,222	-	\$ 5,860,750	\$ 5,860,750	\$ 2,889,167	\$1,715,031	\$ 4,604,197	\$ 18,196,169	\$ 18,196,169	\$ 343,671,938	
2013	334,139,339	-	8,186,000	8,186,000	-	6,205,500	6,205,500	3,794,167	1,794,103	5,588,269	19,979,769	19,979,769	354,119,108	
2014	338,581,318	-	8,186,000	8,186,000	-	6,205,500	6,205,500	7,315,833	1,731,665	9,047,498	23,438,998	23,438,998	362,020,316	
2015	337,571,667	-	8,186,000	8,186,000	-	6,205,500	6,205,500	13,974,167	1,570,507	15,544,674	29,936,174	29,936,174	367,507,841	
2016	337,491,803	-	8,186,000	8,186,000	-	6,205,500	6,205,500	16,051,667	1,191,632	17,243,299	31,634,799	31,634,799	369,126,601	
2017	345,812,578	-	8,186,000	8,186,000	-	6,205,500	6,205,500	6,989,167	701,234	7,690,400	22,081,900	22,081,900	367,894,478	
2018	344,999,564	\$ 1,000,000	8,186,000	9,186,000	-	6,205,500	6,205,500	6,749,167	457,413	7,206,580	22,598,080	22,598,080	367,597,644	
2019	339,329,766	9,776,667	8,136,000	17,912,667	-	6,205,500	6,205,500	4,150,833	199,944	4,350,777	28,468,944	28,468,944	367,798,710	
2020	322,287,446	30,243,333	7,647,167	37,890,500	-	6,205,500	6,205,500	670,833	30,053	700,887	44,796,887	44,796,887	367,084,333	
2021	313,738,859	37,630,833	6,135,000	43,765,833	\$ 1,167,500	6,205,500	7,373,000	-	-	-	51,138,833	51,138,833	364,877,692	
2022	309,668,463	35,301,667	4,253,458	39,555,125	7,060,000	6,147,125	13,207,125	-	-	-	52,762,250	52,762,250	362,430,713	
2023	310,145,369	32,285,833	2,488,375	34,774,208	12,105,000	5,794,125	17,899,125	-	-	-	52,673,333	52,673,333	362,818,702	
2024	311,489,869	9,365,000	874,083	10,239,083	33,407,500	5,188,875	38,596,375	-	-	-	48,835,458	48,835,458	360,325,328	
2025	308,176,741	8,116,667	405,833	8,522,500	20,845,833	3,518,500	24,364,333	-	-	-	32,886,833	32,886,833	341,063,574	
2026	285,908,688	-	-	-	19,054,167	2,476,208	21,530,375	-	-	-	21,530,375	21,530,375	307,439,063	
2027	249,063,097	-	-	-	5,746,667	1,523,500	7,270,167	-	-	-	7,270,167	7,270,167	256,333,264	
2028	239,988,449	-	-	-	6,028,333	1,236,167	7,264,500	-	-	-	7,264,500	7,264,500	247,252,949	
2029	183,552,377	-	-	-	6,320,833	934,750	7,255,583	-	-	-	7,255,583	7,255,583	190,807,960	
2030	133,342,620	-	-	-	6,628,333	618,708	7,247,042	-	-	-	7,247,042	7,247,042	140,589,662	
2031	83,256,383	-	-	-	5,745,833	287,292	6,033,125	-	-	-	6,033,125	6,033,125	89,289,508	
2032	68,316,560	-	-	-	-	-	-	-	-	-	-	-	68,316,560	
2033	53,444,742	-	-	-	-	-	-	-	-	-	-	-	53,444,742	
2034	53,446,367	-	-	-	-	-	-	-	-	-	-	-	53,446,367	
2035	53,448,850	-	-	-	-	-	-	-	-	-	-	-	53,448,850	
2036	53,445,292	-	-	-	-	-	-	-	-	-	-	-	53,445,292	
2037	53,448,808	-	-	-	-	-	-	-	-	-	-	-	53,448,808	
2038	53,448,050	-	-	-	-	-	-	-	-	-	-	-	53,448,050	
2039	47,114,292	-	-	-	-	-	-	-	-	-	-	-	47,114,292	
2040	12,893,125	-	-	-	-	-	-	-	-	-	-	-	12,893,125	
Total⁽³⁾	\$6,203,026,249	\$163,720,000	\$86,787,139	\$250,507,139	\$124,110,000	\$89,435,500	\$213,545,500	\$62,585,000	\$9,391,581	\$71,976,581	\$536,029,220	\$536,029,220	\$6,739,055,469	

(1) Gross debt service.

(2) Includes credit facility and other ancillary fees with respect to variable rate bonds. In calculating the debt service for Bonds issued at variable rates, the Commission has made assumptions about interest rates, swap payments and ancillary fees. Reflects refunding with proceeds of 2011C/D/E Bonds. See "REFUNDING PLAN."

(3) Various totals do not add due to rounding.

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 2005-06 through 2009-10.

HISTORICAL DEBT SERVICE COVERAGE†					
(Fiscal Year)					
(\$ in thousands)					
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Net Revenues ⁽¹⁾	\$297,165	\$302,070	\$316,726	\$302,528	\$322,394
Transfer from the Contingency Account ⁽²⁾	92,584	92,609	92,658	92,417	93,043
TOTAL AVAILABLE FOR DEBT SERVICE	\$389,749	\$394,679	\$409,384	\$394,944	\$415,437
Total Annual Debt Service ⁽³⁾	\$278,544	\$272,161	\$290,349	\$266,577	\$288,205
Historical Debt Service Coverage per the 1991 Master Resolution ⁽⁴⁾	139.9%	145.0%	141.0%	148.2%	144.1%
Historical Debt Service Coverage Excluding Transfer	106.7%	111.0%	109.1%	113.5%	111.9%

† 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 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, for Fiscal Year 2008-09 in the amount of \$51.0 million and for Fiscal Year 2009-10 in the amount of \$61.0 million).

(2) Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year. See “SECURITY FOR THE 2011C/D/E 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 2011C/D/E BONDS—Rate Covenant.”

Source: Commission.

Mandatory 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 remarket the Mandatory Tender Bonds as fixed rate bonds, or to refund them 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 that remain outstanding are set forth below:

<u>Bonds</u>	<u>Mandatory Tender Date</u>	<u>Outstanding Principal Amount</u>
Series 2008A-4 Notes ⁽¹⁾	May 1, 2012	\$25,460,000
Series 2009D Bonds	December 4, 2012	88,190,000

(1) The Airport is refunding the Series 2008A-4 Notes with proceeds of the 2011C/D/E Bonds. See “REFUNDING PLAN.”

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 2011C/D/E 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 or remarket each Series tender bonds on their respective mandatory date. See also “CERTAIN RISK FACTORS—Mandatory Tender Bonds; Airport Market Access.” The Airport is refunding the Series 2008A-4 Notes with proceeds of the 2011C/D/E Bonds. See “REFUNDING PLAN.”

Series 2008A Notes. On November 13, 2008, the Commission issued its 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 were subject to mandatory tender for purchase on May 1, 2011, and were refunded with a portion of the proceeds of the 2011A/B Bonds. 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 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.

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 (SFOTEC has requested a one year contract extension through June 30, 2012), 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. 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.

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 (“ADRs”) 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 ADRs registered on a national exchange), are not required to file information with the SEC. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the U.S. DOT.

LITIGATION MATTERS

There is no litigation pending concerning the validity of the 1991 Master Resolution or the 2011C/D/E Bonds or the issuance and delivery thereof, the existence of the Commission, the title of the officers thereof who shall execute the 2011C/D/E Bonds to their respective offices, or the pledge of Net Revenues to the payment of the 2011C/D/E Bonds.

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

RATINGS

Moody’s Investors Service (“Moody’s”) has assigned a rating of “A1” to the 2011C/D/E 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 2011C/D/E Bonds and Fitch, Inc., doing business as Fitch Ratings (“Fitch”) has assigned a rating of “A+” to the 2011C/D/E Bonds.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the 2011C/D/E 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 Inc., 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 2011C/D/E Bonds.

UNDERWRITING

The following four paragraphs have been provided by the respective underwriters. The Commission cannot and does not make any representation as to the accuracy or completeness thereof.

Barclays Capital Inc., J.P. Morgan Securities LLC (“JPMS”) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the “Underwriters”) may offer and sell the 2011C/D/E Bonds to certain dealers and other at prices lower than the public offering prices set forth on the inside cover page.

Barclays Capital Inc., on its own behalf and as representative of the Underwriters, has executed a purchase contract that will commit the Underwriters to purchase the 2011C/D/E Bonds. The purchase contract provides that the Underwriters will purchase all of the 2011C/D/E 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.

Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, and Barclays Capital Inc. established a strategic alliance in May of 2009, which enables Pershing LLC to participate as a selling group member and a retail distributor for all new issue municipal bond offerings underwritten by Barclays Capital Inc., including the 2011C/D/E Bonds offered hereby. Pershing LLC will receive a selling concession from Barclays Capital Inc. in connection with its distribution activities relating to the 2011C/D/E Bonds.

JPMS, one of the Underwriters of the 2011C/D/E Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase 2011C/D/E Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2011C/D/E Bonds that such firm sells.

2011C Bonds

The 2011C Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$168,801,229.80 (representing the principal amount of the 2011C Bonds, plus a net original issue premium equal to \$5,930,712.60 and less an Underwriters’ discount equal to \$849,482.80).

2011D Bonds

The 2011D Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$130,187,900.09 (representing the principal amount of the 2011D Bonds, less a net original issue discount/plus a net original issue premium equal to \$6,721,861.20 and less an Underwriters’ discount equal to \$643,961.11).

2011E Bonds

The 2011E Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$62,340,803.22 (representing the principal amount of the 2011E Bonds, less an Underwriters’ discount equal to \$244,196.78).

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2011C/D/E Bonds, the arithmetical accuracy of certain computations included in the schedules provided by the Co-Financial Advisors on behalf of the Commission relating to escrow sufficient, will be verified by Grant Thornton LLP, independent certified public accountants (the “Verification Agent”). Such verification shall be based solely upon information and assumptions supplied to the Verification Agent by the Co-Financial Advisors. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

TAX MATTERS

2011C/D Tax-Exempt Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP and Lofton & Jennings (“Co-Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2011C Bonds and 2011D Bonds (collectively, the “2011C/D Bonds”) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), except that no opinion is expressed as to the status of interest on any 2011C Bond for any period that such 2011C Bond is held by a “substantial user” of the facilities financed or refinanced by the 2011C Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Co-Bond Counsel observe, however, that interest on the 2011C Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. In the further opinion of Co-Bond Counsel, interest on the 2011D Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Co-Bond Counsel observe that interest on the 2011D Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel are also of the opinion that interest on the 2011C/D Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the 2011C/D Bonds is less than the amount to be paid at maturity of such 2011C/D Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2011C/D Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2011C/D Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2011C/D Bonds is the first price at which a substantial amount of such maturity of the 2011C/D Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2011C/D Bonds accrues daily over the term to maturity of such 2011C/D Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2011C/D Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2011C/D Bonds. Beneficial Owners of the 2011C/D Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2011C/D Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2011C/D Bonds in the original offering to the public at the first price at which a substantial amount of such 2011C/D Bonds is sold to the public.

2011C/D Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2011C/D Bonds. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2011C/D Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2011C/D Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2011C/D Bonds. The opinion of Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Co-Bond Counsel’s attention after the date of issuance of the 2011C/D Bonds may adversely affect the value of, or the tax

status of interest on, the 2011C/D Bonds. Accordingly, the opinion of Co-Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel is of the opinion that interest on the 2011C/D Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2011C/D Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2011C/D Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2011C/D Bonds. Prospective purchasers of the 2011C/D Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel expresses no opinion.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the 2011C/D Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Commission, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Commission has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the 2011C/D Bonds ends with the issuance of the 2011C/D Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the 2011C/D Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Commission legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2011C/D Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2011C/D Bonds, and may cause the Commission or the Beneficial Owners to incur significant expense.

2011E Taxable Bonds

In the opinion of Co-Bond Counsel, interest on the 2011E Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Co-Bond Counsel are of the opinion that interest on the 2011E Bonds is exempt from State of California personal income taxes. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2011E Bonds. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in APPENDIX F hereto.

The following is a summary of certain of the United States income tax consequences of the ownership of the 2011E Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the 2011E Bonds generally and does not purport

to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the 2011E Bonds that are "U.S. holders" (as defined below), deals only with 2011E Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold 2011E Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, except as described below, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of 2011E Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a Beneficial Owner of a 2011E Bond. A "non U.S. investor" is a holder (or Beneficial Owner) of a 2011E Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the 2011E Bonds

The 2011E Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the 2011E Bonds that allocate a basis in the 2011E Bonds that is greater than the principal amount of the 2011E Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the 2011E Bonds for an amount that is less than the principal amount of such 2011E Bonds, and such difference is not considered to be *de minimis*, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a 2011E Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the 2011E Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the 2011E Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

Original Issue Discount

In the event that the 2011E Bonds of any maturity (and, if applicable, each interest rate within such maturity) are issued with original issue discount ("OID") a holder of a 2011E Bonds of such maturity (and, if applicable, interest rate within such maturity) will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the 2011E Bonds. Thus, the holders of such 2011E Bonds will be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such bonds with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss. A holder of a 2011E Bond that purchases such 2011E Bond for less than its adjusted issue price (generally its accreted value) will have purchased such 2011E Bond with market discount. If such difference is not considered to be *de minimis*, then such discount ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of

such 2011E Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred. A holder of a 2011E Bond that has an allocated basis in the 2011E Bond that is greater than its adjusted issue price (generally its accreted value), but that is less than or equal to its principal amount, will be considered to have purchased the 2011E Bond with acquisition premium. The amount of OID that such holder of a 2011E Bond must include in gross income with respect to such 2011E Bond will be reduced in the proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the 2011E Bond. A holder of a 2011E Bond may have a basis in its pro rata share of the 2011E Bond that is greater than the principal amount of such 2011E Bond. Holders of 2011E Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium, if any, with respect to such 2011E Bonds under section 171 of the Code.

Sale and Exchange of 2011E Bonds

Upon a sale or exchange of a 2011E Bond, a holder generally will recognize gain or loss on the 2011E Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such 2011E Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the 2011E Bond not yet taken into income will be ordinary income). The adjusted basis of the holder in a 2011E Bond will (in general) equal its original purchase price increased by any OID (other than OID reduced due to acquisition premium) and decreased by any principal payments received on the 2011E Bond. In general, if the 2011E Bond is held for longer than one year, any gain or loss would be long-term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance of 2011E Bonds

Defeasance of any 2011E Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the 2011E Bond.

Foreign Investors

Distributions on the 2011E Bonds to a non-U.S. holder that has no connection with the United States other than holding its 2011E Bond generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

Circular 230

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. This discussion was written to support the promotion or marketing of the 2011E Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the 2011C/D/E Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP and Lofton & Jennings, Co-Bond Counsel. Certain legal matters will be passed upon for the Commission by the City Attorney and by Nixon Peabody LLP, Disclosure Counsel and for the Underwriters by Hawkins Delafield & Wood LLP, Underwriters' Counsel. Co-Bond Counsel expect to deliver separate opinions at the time of issuance of the 2011C/D/E Bonds each substantially in the form set forth in APPENDIX F.

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 2011C/D/E Bonds.

The Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel and Underwriters' Counsel will receive compensation with respect to the 2011C/D/E Bonds which is contingent upon the sale and delivery of the 2011C/D/E Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the Commission for Fiscal Years 2009-10 and 2008-09, prepared in accordance with GASB 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. KPMG LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

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 2011C/D/E 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, and to provide notices of certain enumerated events. The Annual Disclosure Report and notices of these enumerated 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 2011C/D/E Bonds in complying with SEC Rule 15c2-12(b)(5).

The Commission has not failed to comply in the last five years in any material respect with any previous undertakings in accordance with said Rule to provide Annual Disclosure Reports or notices of such enumerated 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 2011 Lease and Use Agreements, the purchase contract pursuant to which the Underwriters are purchasing the 2011C/D/E Bonds, and the Reserve Account Credit Facilities 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
John L. Martin
Airport Director

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APPENDIX A

**FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY
CHARGES JUNE 30, 2010 AND 2009 (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, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

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

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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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 November 19, 2010, 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 29 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.

As discussed in note 2(b) to the financial statements, the Airport adopted the recognition and disclosure requirements of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009. The financial statements for the year ended June 30, 2009 were restated to reflect the impact of adoption.

KPMG LLP

November 19, 2010

**AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
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Management's Discussion and Analysis
June 30, 2010 and 2009

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, 2010 with comparative data for the fiscal year ended June 30, 2009. 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, deferred outflows, and liabilities as of year-end, with the difference between the amounts 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

Despite a global recession that continued into the first half of the fiscal year ended June 30, 2010, passenger demand at SFO remained strong. Overall enplanements grew fiscal year-over-year in part due to new and increased services from domestic low-cost carriers (LCCs) Southwest Airlines, Virgin America, JetBlue and AirTran, which added a combined 14 daily flights to four new destinations since the end of fiscal year 2009.

International traffic was negatively affected by the global recession for much of fiscal year 2010. Also impacting international traffic was the discontinuance of service by Aer Lingus since October 2009, United's temporary service suspensions to London, Tokyo, Seoul and Osaka in the fall of 2009, eruption of the Eyjafjallajökull volcano in Iceland in the spring of 2010 and Europe's continued struggling economies. Toward the end of fiscal year 2010, United's temporary service suspensions were reinstated and the recovering Asia/Middle East region economies led to robust passenger demand and a slight enplanement year-over-year increase by year-end.

Another driver of the strong overall enplanement growth was high aircraft occupancy. Load factor (the ratio of passengers to airline seat capacity) averaged 82.0% for fiscal year 2010, an increase of 3.1 percentage points from fiscal year 2009. This resulted in strong passenger growth despite an overall commercial aircraft seat capacity that was relatively flat.

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Overall, the aforementioned factors resulted in an enplanement increase of 4.8% for fiscal year 2010 as compared to fiscal year 2009. This compares to fiscal year-over-year enplanement declines of 3.6% and 6.7% at Oakland International Airport and Mineta San Jose International Airport respectively, resulting in a Bay Area passenger market share increase of 2.2 percentage points for SFO to 68.3%. SFO's enplanements in each month of fiscal year 2010 also fared better than the U.S. carrier national average decline of 0.1% fiscal year-over-year.¹

Passenger and Other Traffic Activity

Domestic enplanements increased by 6.1% during fiscal year 2010, which was largely the result of enplanement increases from LCCs Southwest Airlines, Virgin America, JetBlue and AirTran, and legacy carriers United and Continental. International enplanements increased by 0.5% compared to fiscal year 2009; although passenger enplanements declined the first half of fiscal year 2010 because of soft passenger demand brought about by the global recession, demand stabilized in the second half of fiscal year 2010 offsetting earlier declines. The Asia/Middle East region experienced the most robust passenger demand among all international regions during the second half of fiscal year 2010, with an enplanement growth of 11.5% between January and June 2010. Overall load factors increased fiscal year-over-year by 3.1 percentage points to 82.0%. Cargo tonnage increased by 2.7% compared to fiscal year 2009, with international tonnage increases in both exports and imports offsetting domestic declines. Total aviation operations increased 1.1% compared to fiscal year 2009 levels. Aircraft revenue landed weight, which determines revenue generated by landing fees, ended fiscal year 2010 at 0.4% above fiscal year 2009 levels.

The following table² presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2010, 2009, and 2008:

	FY 2010	FY 2009 ³	FY 2008 ³	% Change FY 2010	% Change FY 2009
Flight operations	383,457	379,200	390,830	1.1%	(3.0)%
Landing weight (in 000 lbs.)	28,593,825	28,487,236	29,422,214	0.4	(3.2)
Total passengers	38,448,354	36,733,910	37,119,597	4.7	(1.0)
Total enplaned and deplaned passengers	38,204,072	36,475,612	36,707,637	4.7	(0.6)
Enplaned passengers	19,100,458	18,225,064	18,373,489	4.8	(0.8)
Deplaned passengers	19,103,614	18,250,548	18,334,148	4.7	(0.5)
Domestic passengers	29,698,060	28,030,334	27,558,930	5.9	1.7
International passengers	8,506,012	8,445,278	9,148,707	0.7	(7.7)
Cargo and U.S. mail tonnage (in metric tons)	431,990	420,739	550,526	2.7	(23.6)

¹ Source: U.S. Department of Transportation, Bureau of Transportation Statistics.

² Sources: Analysis of Airline Traffic, fiscal years 2009 and 2010.

³ Numbers updated to include revised data received subsequent to the 2009 and 2008 fiscal year end.

Fiscal Year 2010

Passenger Traffic

Compared to fiscal year 2009, passenger enplanements in fiscal year 2010 increased by 4.8% from 18.2 million to 19.1 million passengers. International passenger enplanements increased 0.5%, while domestic enplanements increased 6.1%. The enplanement increase totaled 875,394 passengers, 856,075 of which were domestic and 19,319 were international. In fiscal year 2009, the entirety of the decrease in passenger numbers was international with an enplanement decrease of 344,801, partially offset by a domestic enplanement increase of 196,376.

The domestic enplanement growth was on a 2.7% increase in seat capacity, primarily from LCCs Southwest Airlines, Virgin America, JetBlue and AirTran. International enplanement increased slightly in spite of a 5.2% decrease in seat capacity, indicating strong gains in load factors. The capacity decline was primarily due to the discontinuance of service by Aer Lingus since October 2009 and a number of temporary service suspensions by United to Europe and Asia in the fall of 2009. Toward the end of fiscal year 2010, United's services were reinstated and new international services commenced by Air Berlin, Swiss International and Virgin America, slightly offsetting earlier capacity declines. Compared to the prior fiscal year, load factors increased in the domestic sector by 3.0 percentage points to 81.4% and in the international sector by 4.7 percentage points to 84.5%.

Flight Operations

During fiscal year 2010, the number of aircraft operations (takeoffs and landings) increased by 4,257 flights or 1.1% from prior fiscal year levels. Commercial traffic increased by 1.5%, or 5,604 flights; civil and military traffic decreased by 8.3%, or 1,347 flights.

Scheduled airline passenger and cargo landings increased by 1.8% with an increase in landed weight for these landings of 0.4% compared to the prior fiscal year. Domestic passenger landings increased by 2.4% while landed weight increased by 3.6%. This was mainly due to a substantial increase in regional jet landings of 6,579 or 33.9%, and a decline in lower aircraft weight turbo prop landings of 2,785 or 11.9%, both primarily from Skywest/United Express. Aircraft gauge changes were also evident among narrow and wide body aircraft, though without as much impact. Average aircraft seat capacity per landing was stable at approximately 121 seats.

In the international market, fiscal year-over-year landed weight decreased by 6.1%, while landings decreased by 3.2%, indicating a trend toward smaller aircraft size. The fleet mix shifted with less wide body landings, which declined by 878 or 7.0% due to reductions in long-haul international service seen during the first three quarters of the fiscal year. Narrow body aircraft landings increased by 108 or 1.7%, and regional jet landings increased slightly by 26 or 0.6%. This brought the average aircraft seat capacity per landing down by four seats compared to the prior fiscal year, to 225 seats.

Cargo only landings were driven by 7.8% fiscal year-over-year, but landed weight decreased by 4.4%. These opposite trends were driven by an increase of 335 Ameriflight turbo prop landings and the discontinuance of service by China Cargo Airlines, which operated more than 100 wide body freighter flights in prior fiscal year. This significantly shifted the freighter fleet mix towards small aircraft and resulted in a landed weight decline.

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Cargo Tonnage

Fiscal year 2010 cargo and U.S. mail tonnage increased by 11,251 metric tons or 2.7% compared to fiscal year 2009. Mail tonnage decreased by 6,293 metric tons or 11.3% and cargo volume excluding mail increased by 17,544 metric tons or 4.8%. Domestic cargo volume decreased by 9.3%, while international cargo increased by 14.9%, fully offsetting domestic declines. The international cargo increase is evidence of recovering trade activity, primarily to the Asia/Middle East region, where import and export freight combined increased by more than 23,000 metric tons, or 31% during the six months between January and June 2010. Mail volumes continue to decline, and according to industry publications, lag the general economic recovery due to increasing migration of mail to electronic alternatives. Cargo-only airlines, which carried 21.3% of cargo tonnage, showed a fiscal year-over-year decrease in tonnage of 17.9%. A major reason for the decline was the discontinuance of service by China Cargo Airlines since March 2009. Airlines with passenger only or mixed passenger and freight operations showed an increase of 10.2%.

Fiscal Year 2009

Passenger Traffic

Compared to fiscal year 2008, 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 fiscal year 2008 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 prior fiscal year, international enplanements increased by 221,011 comprising 16% of 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 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

(Continued)

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.

Cargo Tonnage

Fiscal year 2009 cargo and U.S. mail tonnage decreased by 129,787 metric tons or 23.6%. Mail tonnage decreased by 6,206 metric tons or 10.0% and cargo volume excluding mail decreased by 123,581 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%.

Financial Highlights, Fiscal Year 2010

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by \$288.5 million.
- Total revenue bonds payable of the Airport increased by \$616.7 million.
- No new notes or bonds subject to mandatory tender ("Tender Bonds") were issued in fiscal year 2010 other than to refund previously issued Tender Bonds.
- Operating revenues were \$576.7 million.
- Operating expenses were \$474.2 million.
- Nonoperating expenses net of revenues from nonoperating sources (including revenues of \$73.8 million from passenger facility charges) were \$99.5 million.
- Capital contributions from Airport Improvement Program (AIP), Federal-Aid Highway Program and Transportation Security Administration (TSA) Airport Checked Baggage Inspection System were \$44.2 million.
- Annual service payment to the City for the fiscal year was \$28.1 million.
- Net assets increased by \$19.1 million.

(Continued)

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Financial Highlights, Fiscal Year 2009

- The assets and deferred outflows 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 Tender Bonds were issued in 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.

(Continued)

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Overview of the Airport's Financial Statements

Net Asset Summary

A condensed summary of the Airport's net assets for the fiscal years 2010, 2009, and 2008 is shown below (in thousands):

	FY 2010	FY 2009	FY 2008	FY 2010 increase (decrease)	FY 2009 increase (decrease)
SAN FRANCISCO INTERNATIONAL AIRPORT'S NET ASSETS					
Assets:					
Unrestricted current assets	\$ 361,370	345,640	342,930	15,730	2,710
Restricted assets available for current outlay	125,689	91,962	69,647	33,727	22,315
Noncurrent assets	—	181	529	(181)	(348)
Noncurrent restricted assets	679,654	358,306	338,543	321,348	19,763
Capital assets, net	3,711,791	3,584,425	3,600,632	127,366	(16,207)
Unamortized bond issuance costs	36,827	38,997	45,171	(2,170)	(6,174)
Total assets	4,915,331	4,419,511	4,397,452	495,820	22,059
Deferred outflows on derivative instrument	89,505	57,157	—	32,348	57,157
Total assets and deferred outflows	5,004,836	4,476,668	4,397,452	528,168	79,216
Liabilities:					
Current liabilities payable from unrestricted assets	262,551	196,917	183,461	65,634	13,456
Current liabilities payable from restricted assets	242,554	171,733	73,688	70,821	98,045
Noncurrent liabilities	4,116,361	3,776,017	3,826,908	340,344	(50,891)
Noncurrent derivative instrument liabilities	94,838	62,615	—	32,223	62,615
Total liabilities	4,716,304	4,207,282	4,084,057	509,022	123,225
Net assets:					
Invested in capital assets, net of related debt	(71,205)	(58,673)	16,899	(12,532)	(75,572)
Restricted for debt service	54,170	41,986	25,259	12,184	16,727
Restricted for capital projects	81,471	59,790	18,212	21,681	41,578
Unrestricted	224,096	226,283	253,025	(2,187)	(26,742)
Total net assets	\$ 288,532	269,386	313,395	19,146	(44,009)

(Continued)

Fiscal Year 2010

Total net assets serve as an indicator of the Airport's financial position. The Airport's assets and deferred outflows exceeded liabilities by \$288.5 million and \$269.4 million as of June 30, 2010 and June 30, 2009, respectively, representing a 7.1% increase or \$19.1 million. Unrestricted net assets represent 77.7% and 84.0% of total net assets as of June 30, 2010 and June 30, 2009, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 4.6% from \$345.6 million on June 30, 2009 to \$361.4 million on June 30, 2010 due principally to the increase in the Airport's cash and investments held in the City Treasury generated from Airport operations.

Restricted assets available for current outlay consist of cash and investments held in City Treasury, debt service funds held by the fiscal agent, and passenger facility charges. The increase is principally due to the increase in cash and investments from passenger facility charges (PFC) held in the City Treasury (\$13.5 million) as well as increased deposits to the debt service fund (\$20.9 million).

Noncurrent restricted assets increased from \$358.3 million in fiscal year 2009 to \$679.7 million in fiscal year 2010 due to an increase of \$258.0 million in cash and investments held in City Treasury representing unspent proceeds from the sale of revenue bonds, incremental deposits of \$54.2 million to the debt service reserve fund and an increase in grants receivable of \$8.9 million.

Capital assets consist of land, easements, buildings, structures, improvements, and equipment. Capital assets, net of depreciation, increased by 3.6% in fiscal year 2010 due to increased capital expenditures.

Unamortized bond issuance costs decreased from \$39.0 million in fiscal year 2009 to \$36.8 million in fiscal year 2010 due to amortization of the deferred costs.

Deferred outflows on derivative instrument of \$89.5 million as of June 30, 2010 represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) in fiscal year 2010. Per reporting guidelines of GASB 53, deferred outflows on derivative instrument as of June 30, 2009 were restated at the amount of \$57.2 million.

Current liabilities payable from unrestricted assets increased by 33.4% from \$196.9 million as of June 30, 2009 to \$262.6 million as of June 30, 2010 due to the \$64.8 million increase in current maturities of the Airport's long-term debt and increase in provision for estimated claims payable of \$9.0 million due to ongoing litigation (see note 12c) partially off-set by decreases of \$8.1 million in other current liabilities.

Current liabilities payable from restricted assets increased by 41.3% from \$171.7 million as of June 30, 2009 to \$242.6 million as of June 30, 2010 primarily because of the issuance of additional commercial paper notes during fiscal year 2010 and increased construction activities relating to Terminal 2.

Noncurrent liabilities consist of long-term bonds payable net of related premium and discount, and long-term liabilities representing accrual of compensated absences (vacation and vested sick leave) and workers'

compensation liabilities and other postemployment benefits obligation. Noncurrent liabilities before derivative instrument liabilities increased by 9.0% in fiscal year 2010 primarily due to revenue bonds issued during the fiscal year.

Noncurrent derivative instrument liabilities of \$94.8 million as of June 30, 2010 represent the recording of the fair values of interest rate swap contracts per the newly implemented GASB 53. Per reporting guidelines of GASB 53, the balance of derivative instrument liabilities as of June 30, 2009 was restated at the amount of \$62.6 million.

As of June 30, 2010, the Airport's net assets invested in capital assets, net of related debt were a negative \$71.2 million, compared to a negative \$58.7 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 2009

Total net assets serve as an indicator of the Airport's financial position. The Airport's assets and deferred outflows 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 charges (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 \$358.3 million in fiscal year 2009 because of additional deposits to the debt service reserve fund of \$14.4 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.

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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 vested sick leave and workers' compensation liabilities and other postemployment benefits obligation. Noncurrent liabilities decreased by 1.3% in fiscal year 2009 primarily due to the maturity of long-term bonds payable.

As of June 30, 2009, the Airport's net assets invested in capital assets, net of related debt were a negative \$58.7 million, compared to a positive \$16.9 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.

Highlights of Changes in Net Assets

The following table shows a condensed summary of changes in net assets for fiscal years 2010, 2009, and 2008 (in thousands):

	FY 2010	FY 2009	FY 2008	FY 2010 Increase (decrease)	FY 2009 Increase (decrease)
Operating revenues	\$ 576,738	551,283	535,771	25,465	15,512
Operating expenses	474,206	478,589	451,258	(4,383)	27,331
Operating income	102,532	72,694	84,513	29,838	(11,819)
Other nonoperating expenses, net	(99,490)	(119,634)	(102,978)	20,144	(16,656)
Income/(loss) before transfers, and capital contributions	3,042	(46,940)	(18,465)	49,982	(28,475)
Transfers to the City and County of San Francisco	(28,100)	(26,849)	(25,942)	(1,251)	(907)
Deficiency before capital contributions	(25,058)	(73,789)	(44,407)	48,731	(29,382)
Capital contributions	44,204	29,780	41,060	14,424	(11,280)
Changes in net assets	19,146	(44,009)	(3,347)	63,155	(40,662)
Total net assets at beginning of year	269,386	313,395	316,742	(44,009)	(3,347)
Total net assets at end of year	\$ 288,532	269,386	313,395	19,146	(44,009)

Operating Revenues

The Airport derives its revenues from rates, fees, and charges assessed to the airlines; operation of the public and employee parking facilities; rents and fees assessed concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Terminal rental rates and landing fees assessed air carriers are set periodically based on formulas and procedures described in the 1981 Lease and Use Agreement⁴ (Agreement).

A brief summary of the underlying rate-setting methodology under this Agreement is presented below:

The Agreement establishes the methodology for the calculation of the landing fee rates and terminal rental rates using certain cost centers. In accordance with the procedures set forth in the Agreement, landing fee rates and terminal rental rates are calculated for the ensuing fiscal year using budgetary and estimated information. The Agreement provides for matching revenues each fiscal year to the Airport's expenditures by adjusting payments from the airlines. Differences between actual revenues and expenditures and amounts estimated in the calculation of airline fees and charges for that fiscal year result in adjustments of terminal rentals and landing fees in subsequent years. Such differences are recorded on the balance sheet in the financial statements of the Airport in the fiscal year to which such differences pertain. Net overcharges are recorded as liabilities and net undercharges are recorded as assets.

The net undercharge for fiscal year 2010 is \$2.1 million. This amount decreased the balance of overcharges shown in the financial statements for fiscal year 2009 from \$51.1 million to \$49.0 million in fiscal year 2010.

⁴ In 1981, the City entered into long-term Lease and Use Agreements with a number of airlines covering, among other things, the procedures and formulas for the periodic setting of terminal rentals and landing fees for the use of the Airport. The Lease and Use Agreements each expire on June 30, 2011. In fiscal year 2010, the Airport and airlines reached agreement on a new 10-year Lease and Use Agreement that is to become effective on July 1, 2011. In January 2000, the City approved amendments to the original Lease and Use Agreement to address, among other issues, the relocation of certain tenants from the old International Terminal to the new International Terminal Complex (ITC). The City also executed new Lease and Operating Agreements with non-signatory airlines operating in the new ITC. The Lease and Use Agreements and Lease and Operating Agreements are referred to generally as the "Lease and Use Agreement," and the airlines that are parties to those agreements are referred to as the "Signatory Airlines."

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Fiscal Year 2010

Operating revenues increased by 4.6% from \$551.3 million in fiscal year 2009 to \$576.7 million in fiscal year 2010. Increases were seen in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 4.8% from \$315.8 million in fiscal year 2009 to \$330.8 million in fiscal year 2010 primarily due to increases in airline terminal rentals and landing fees. In aggregate, all other aviation revenues declined by 0.6% from \$64.6 million in fiscal year 2009 to \$64.2 million in fiscal year 2010 attributable primarily to a decline in tenant employee parking offset by an increase in other aviation activity fees and leasing. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 5.0% from \$3.00 in fiscal year 2009 to \$3.15 in fiscal year 2010 while airline average annual terminal rent per square foot also increased 5.0% from \$95.85 in fiscal year 2009 to \$100.61 in fiscal year 2010. Before the aforementioned net undercharge adjustment, revenue from landing fees increased by \$4.6 million, reflecting the 3.7% increase in airline landed weight, while terminal rentals increased by \$8.8 million primarily from the increase in the average terminal rental rate. The overcharge dropped \$2.1 million from \$51.1 million in fiscal year 2009 to \$49.0 million in fiscal year 2010. Aviation net rental revenue and activity fees, including jet bridge fees, fixed base operations (general aviation) and itinerant activity, increased by \$0.3 million while employee parking revenue decreased by \$0.7 million.

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 3.3% from \$101.1 million in fiscal year 2009 to \$104.5 million in fiscal year 2010. The main driver of the increase is the 4.7% increase in passenger replenishments and deplanements. Retail merchandise revenues increased \$0.8 million or 2.1%, primarily due to higher passenger activity and a higher percentage of retail concessionaires exceeding their minimum annual guarantee (MAG) levels with rent therefore calculated as a percentage of their gross sales. Duty Free Shops (DFS), however, did not exceed their MAG; rent is unchanged from fiscal year 2009 to 2010. Revenue from rental car concessions increased by \$0.6 million or 1.8%. Rental car transactions increased 4.5% and average sale per rental contract increased 8.6%. Advertising revenues increased \$0.5 million or 9.1% from fiscal year 2009 to 2010 due to a combination of a 0.5% gross sales increase in fiscal year 2010 and MAG based on the lease term. Telephone revenues increased \$0.4 million or 11.3% from higher Wi-Fi service activity. Food and beverage revenues increased \$0.2 million or 2.1% based on the aforementioned passenger activity increase. An administrative adjustment in recording rent elements for the rental car center increased non-airline rental revenues by \$1.4 million or 75.7%. Return on land value is now fully reflected in this account, which is subject to the Annual Service Payment. Additionally, net miscellaneous changes related to other retail and passenger services revenues declined \$0.6 million or 7.5% primarily due to the termination of the CLEAR Registered Traveler lease in June 2009.

Parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 6.4% from \$77.9 million in fiscal year 2009 to \$82.9 million in fiscal year 2010. Although parking exits only increased by 0.6%, parking revenues increased by \$4.6 million or 6.7% due to the full year effect of a \$1 per hour short term parking rate increase in November 2008 and an average ticket price increase of 6.2% during fiscal year 2010. Ground transportation trip fee revenues increased \$0.7 million or 7.0% as ground transportation trips increased by 2.5% and trip fees increase an average of 2.4%. These increases

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were partly offset by a \$0.3 million or 112.9% decrease in traffic fines due to the catch-up remittance of prior period collections to San Mateo County.

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 \$2.0 million or 3.6% in fiscal year 2010 compared to fiscal year 2009. Transportation and facility fee (AirTrain fee charged on rental car contracts) increased \$2.3 million or 10.7% due to a 4.5% increase in rental car contracts and a \$1.00 per contract fee increase. Revenues from water usage increased \$0.4 million or 10.2% due to the combination of increased water usage and a 3.9% rate increase at the beginning of the fiscal year and an additional mid-year increase of 2.5% in fiscal year 2010. Rental car facility structure rent increased \$0.4 million or 3.6% due to the full year effect of new rental car leases effective January 2009, offset by the administrative adjustment in recording rent elements related to land value for the rental car center. The new rental car lease included a higher rent amount for the use of the rental car center. Miscellaneous terminal rental fees increased by \$0.2 million or 7.5% reflecting the full year effect of the opening of the secure connector between Terminal 3 and the International Terminal Boarding Area G. The net revenue increase from sales and services were partly offset by a decrease in revenue collected for electricity which declined 43.0% or \$1.0 million. This decrease was due to the combination of a California Public Utilities Commission approved electricity refund of \$0.8 million from over collections from prior periods and a 9.9% decrease in kilowatt-hour usage by Airport tenants.

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 overcharges 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 explained and deplaned passengers decreased by 0.6%. Revenue from rental car activity increased by \$3.0 million or 10.1%, primarily due to new

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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 emplanements. Retail merchandise sales activity decreased by approximately 8.6%, revenue increased \$0.7 million or 2.0% due to cost of living increases on MAG. The sales decline was primarily related to Duty Free Shops (DFS), 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 court cleaning fees. The increases were offset by a \$0.9 million or 3.8% decrease in the passenger facility charge (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.

Operating Expenses

The following shows a comparative summary of operating expenses for fiscal years 2010, 2009, and 2008 (in thousands):

	FY 2010	FY 2009	FY 2008	FY 2010 percentage increase (decrease)	FY 2009 percentage increase (decrease)
Personnel	\$ 191,279	199,519	185,238	(4.1)%	7.7%
Depreciation and amortization	163,541	158,216	151,121	3.4	4.7
Contractual services	46,609	55,258	51,914	(15.7)	6.4
Light, heat, and power	17,162	19,306	18,893	(11.1)	2.2
Services provided by other City departments	10,567	11,422	10,863	(7.5)	5.1
Repairs and maintenance	19,818	17,523	15,848	13.1	10.6
Materials and supplies	11,077	11,435	11,319	(3.1)	1.0
General and administrative	8,503	1,198	1,610	609.8	(25.6)
Amortization of bond issuance costs	4,671	4,550	4,288	2.7	6.1
Environmental cleanup expenses	979	162	164	504.3	(1.2)
Subtotal	\$ 474,206	478,589	451,258	(0.9)%	6.1%

Fiscal Year 2010

Operating expenses decreased 0.9% or \$4.4 million from \$478.6 in fiscal year 2009 to \$474.2 million in fiscal year 2010 due to the increase in indirect costs capitalized during the current fiscal year. In fiscal year 2010, the Airport capitalized \$27.4 million in indirect costs related primarily to Terminal 2 construction compared to \$6.1 million in fiscal year 2009, an increase of \$21.3 million negating in full the \$16.9 million increase in operating expenses. The variance in the different operating expense categories are discussed below.

Personnel costs decreased 4.1% or \$8.2 million from \$199.5 million in fiscal year 2009 to \$191.3 million in fiscal year 2010 due to the \$13.2 million increase in personnel costs capitalized as overhead nullifying the \$5.0 million increase in the City's pension contributions. For fiscal year 2009, the City's contribution rate was 4.99% of pensionable salary, compared to 9.49% of pensionable salary for fiscal year 2010.

Depreciation and amortization increased 3.4% or \$5.3 million from \$158.2 million to \$163.5 million for fiscal year 2009 and 2010, respectively, reflecting the full fiscal year effect of depreciating additional capital assets placed in service.

Contractual services decreased 15.7% or \$8.7 million from \$55.3 million in fiscal year 2009 to \$46.6 million in fiscal year 2010 due to the combined effect of the increase in cost allocated to overhead, \$3.0 million decrease in expenses, and termination of the Airport's off-site warehouse lease.

Light, heat, and power decreased 11.1% or \$2.1 million from \$19.3 million in fiscal year 2009 to \$17.2 million in 2010 due to the \$1.2 million increase in overhead allocated costs and a one-time credit from the Airport's utility provider representing refund of an over collection of the utility's "Energy Resource Recovery Account".

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Services provided by other City departments decreased 7.5% or \$0.8 million from \$11.4 million in fiscal year 2009 to \$10.6 million in fiscal year 2010 principally due to the increase in cost allocated to overhead.

Repairs and maintenance increased 13.1% or \$2.3 million from \$17.5 million in fiscal year 2009 to \$19.8 million in fiscal year 2010 due to increased maintenance costs relating to the AirTrain, which provides for indexed based price escalation and increased maintenance costs of the Airport's various other facilities partially offset by the increase in costs allocated to overhead.

Materials and supplies decreased 3.1% or \$0.3 million from \$11.4 million in fiscal year 2009 to \$11.1 million in fiscal year 2010 principally due to the \$0.8 million increase in cost allocated to overhead negating in part the \$0.4 million increase in the price of materials and supplies used to support and maintain the various Airport facilities.

General and administrative expenses increased 609.8% or \$7.3 million from \$1.2 million in fiscal year 2009 to \$8.5 million in fiscal year 2010 because of provisions for loss contingencies of \$8.1 million due to the decision by the Court of Appeals repealing a previous judgment in favor of the City; the decision by the Court to reverse the prior favorable verdict exposed the Airport to a probable liability of \$8.0 million (see note 12c).

Environmental remediation costs increased 504.3% or \$0.8 million from \$0.2 million in fiscal year 2009 to \$1.0 million in fiscal year 2010 principally due to the increase in costs relating to the removal and disposal of hazardous waste.

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 7.7% or \$14.3 million 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 postemployment 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.

Contractual services costs increased by 6.4% from \$51.9 million in fiscal year 2008 to \$55.3 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.

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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.

Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2010, 2009, and 2008 (in thousands):

	FY 2010	FY 2009	FY 2008	FY 2010 Percentage increase (decrease)	FY 2009 Percentage increase (decrease)
Nonoperating revenues:					
Passenger facility charges	\$ 73,759	68,845	69,476	7.1%	(0.9)%
Investment income	20,691	22,805	29,368	(9.3)	(22.3)
Other	2,022	3,943	6,827	(48.7)	(42.2)
Total	<u>96,472</u>	<u>95,593</u>	<u>105,671</u>	<u>0.9%</u>	<u>(9.3)%</u>
Nonoperating expenses:					
Interest expense	186,838	204,746	200,323	(8.7)%	2.2%
Write-offs, loss on disposal, and other	9,124	10,481	8,326	(12.9)	25.9
Total	<u>195,962</u>	<u>215,227</u>	<u>208,649</u>	<u>(9.0)%</u>	<u>3.2%</u>
	<u>\$ (99,490)</u>	<u>(119,634)</u>	<u>(102,978)</u>	<u>(16.8)%</u>	<u>16.2%</u>

Fiscal Year 2010

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 \$73.8 million during fiscal year 2010 an increase of 7.1% compared to the \$68.8 million received in fiscal year 2009. The increase in PFC revenue was mainly due to an increase in passenger traffic since there was no change on the PFC fee. The decrease in investment income was due to a lower investment yield; the average interest rate earned on the Airport's pooled cash declined from 2.57% in fiscal year 2009 to 1.38% in fiscal year 2010.

Other nonoperating revenue in fiscal year 2010 was principally operating grants received during the fiscal year whereas nonoperating revenue in fiscal year 2009 was principally the reversal of a provision for loss contingencies relating to certain litigation.

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In fiscal year 2010, transfers to the City and County of San Francisco (City) increased by \$1.25 million, 4.7% above fiscal year 2009. This increase is proportionate to the increase in concession, parking, and transportation revenues during the fiscal year.

Capital contributions received from federal grants during fiscal year 2010 were \$44.2 million.

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 fiscal year 2008 to 2.37% in fiscal year 2009.

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

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 fiscal year 2009 were \$29.8 million.

Fiscal Year 2010

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 fiscal year's major capital additions include:

	Amount
Terminal 2 Boarding Area D Renovation	\$ 176,468,484
Building 575 Improvements	9,420,505
Terminal Upper Level Viaduct Improvement	7,918,995
Runway 1R-19L Overlay and Reconstruction	5,742,628
Taxiways "A" and "B" Reconstruction	5,727,282
Mel Leong Treatment Plant Shop	5,454,063
Runway 28R-10L Overlay and Reconstruction	5,229,535
Domestic Terminals Pre-Conditioned Air	4,919,046
Aircraft Rescue Fire Fighting Crash and Rescue Vehicle	3,055,155
Field Lighting Building Improvement	2,162,521
Power Distribution System Upgrade	1,773,032
SFO Network Upgrade	1,604,137
Central Plant High Temperature Water System Improvement	1,583,932
Boarding Area "B" Apron Reconstruction	1,214,179
Airfield Drainage Improvement	1,116,777
Storm Drain System Improvement - East Detention Basin	1,016,424
Central Plant Boiler Improvement (Emergency)	1,005,307
Total	\$ 235,412,002

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

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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 fiscal year's major capital additions include:

	<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	8,793,050
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
Total	<u>\$ 120,578,175</u>

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

Fiscal Year 2010

Long-Term Debt Administration

During fiscal year 2010, the Airport issued bonds to fund new capital projects for the first time in about a decade. On November 18, 2009, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2009E (Non-Alternative Minimum Tax (AMT)/Private Activity) in the principal amount of \$485.8 million, the proceeds of which will be used to finance a portion of the engineering and construction costs associated with the renovation of Terminal 2 and Boarding Area D, as well as other projects within the Airport's five-year Capital Plan.

Refunding Bonds: In fiscal year 2010, the Airport took advantage of low interest rates to refund and restructure a large portion of its long-term debt for debt service and cash-flow savings. The Airport closed five refunding bond transactions totaling \$1.3 billion during fiscal year 2010, a number of which were made possible by the tax provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), the economic stimulus package enacted by Congress and signed into law on February 17, 2009. The Airport also continues to respond to the ongoing effects of the global financial crisis. The Airport issued the following refunding bonds during fiscal year 2010:

- On September 3, 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009A and Series 2009B (Non-AMT/Private Activity) in the total amount of \$175.0 million to purchase and hold in trust its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 34A/B, which were trading at distressed levels due to the credit rating downgrade of the liquidity facility provided by Landesbank Baden-Württemberg, New York Branch.
- On November 3, 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009C (Non-AMT/Private Activity), in the principal amount of \$132.9 million to purchase and cancel outstanding bonds of several series subject to the AMT tendered by bondholders as a result of a tender offer by the Airport. This transaction was made possible by the ARRA and resulted in the refunding of bonds subject to the AMT with bonds that are not subject to the AMT.
- On November 4, 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009D (Non-AMT/Private Activity) in the total amount of \$88.2 million to refund the Airport's Second Series Revenue Notes, Series 2008B, which were subject to mandatory tender on December 1, 2009. The Series 2009D Bonds have a nominal maturity of May 1, 2029, but are subject to mandatory tender on December 4, 2012.
- On February 10, 2010, the Airport issued its Second Series Variable Rate Revenue Refunding Bonds, Series 2010A (AMT) (formerly designated as the "Issue 35" Bonds) in the total amount of \$216.0 million in a weekly interest rate mode with a letter of credit from JPMorgan Chase Bank, National Association, in order to refund and defease outstanding bonds of several series for debt service savings. The Series 2010A Bonds are hedged by two forward-starting interest rate swaps with Goldman Sachs Bank USA and Depla Bank PLC New York which were bid out in July 2007 and became effective in February 2010.
- On April 7, 2010, the Airport issued its Second Series Revenue Refunding Bonds, Series 2010C (Non-AMT/Governmental Purpose), Series D (Non-AMT/Private Activity) and Series E (Taxable) in the total amount of \$618.6 million, as long-term fixed rate refunding bonds in order to refund and defease outstanding bonds of several series for debt service savings, including the Airport's Second Series Revenue Notes, Series 2008A-1 and A-2, which were subject to mandatory tender on May 1, 2010.

The Airport ended fiscal year 2010 with eight interest rate swaps outstanding in the notional amount of \$585.4 million. The Airport's interest rate swaps are intended as a hedge against the volatility of the interest rates on the Airport's variable rate demand bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport

makes on the associated variable rate bonds, and the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2010, the Airport's interest rate swaps are associated with the Airport's Issue 36A/B/C/D, Issue 37C, Series 2009D and Series 2010A Bonds, either directly or indirectly.

In July 2007, the Airport bid out two forward starting swaps in the notional amount of \$215.9 million which became effective in February 2010 upon the issuance of the Airport's Series 2010A variable rate bonds (which were formerly designated as the "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 2010, 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 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. (LBSFI), 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 LBSFI and created an optional termination right for the Airport. Accordingly, to help stabilize its variable interest expense, and reduce exposure to LBSFI, 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 AMT to Non-AMT on June 2, 2009. The conversions were permitted under tax provisions within the ARRA. 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.

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 Airport'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 Airport 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 2010

Credit Ratings and Bond Insurance

Fitch upgraded the Airport's long-term credit rating from "A" with a Positive Rating Outlook to "A+" with a Stable Rating Outlook on September 28, 2009, which was subsequently affirmed by Fitch with the Airport's issuance of the 2009CD, 2010A and 2010C-E Bonds. Over the year, Moody's and Standard and Poor's maintained their long-term ratings of "A1" and "A" with Stable Rating Outlooks, respectively. In addition, the Airport's Series 2010A Bonds received short-term ratings based solely on the credit strength of the letter of credit provided by JPMorgan Chase Bank, National Association, while the Airport's Series 2009A/B Bonds received short-term ratings of "VMIG1", "A-1" and "F1" by Moody's, Standard and Poor's and Fitch. Moody's subsequently affirmed the "VMIG1" short-term rating with the issuance of the 2009D Bonds. In prior years in connection with the issuance of many series of its outstanding revenue bonds, the Airport purchased municipal bond insurance policies from monoline bond insurance companies that enjoyed "AAA" ratings at the time the

bonds were issued in order to guarantee the payment of principal and interest when due. The insured ratings on these Airport bonds has declined as the bond insurance companies have been downgraded by the credit rating agencies as a result of the global financial crisis during fiscal years 2008, 2009 and 2010.

All bonds issued during fiscal year 2010 were sold without municipal bond insurance, except for an aggregate \$168.3 million principal amount of the Issue 2009C, 2010C and 2010D Bonds, which are insured by Assured Guaranty Municipal Corp.

Subsequent to June 30, 2010, one of the bond insurance companies was downgraded by the credit rating agencies.

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+" 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 2011 Airline Rates and Charges
Rates and Charges, Fiscal Year 2011

Terminal rental rates and airline landing fees for fiscal year 2011 have been developed as part of the annual budget process that started in October 2009. 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 2011, which became effective as of July 1, 2010, are as follows:

Effective average terminal rental rate (per sq. ft.)	\$	113,540
Scheduled aircraft with permit – landing fee/rate (per 1,000 lbs.)		3,590
General aviation and itinerant aircraft – landing fee/rate (per 1,000 lbs.)		3,950

The effective average terminal rental rate increased by 12.9% from \$100.61 per sq. ft. in fiscal year 2010 to \$113.54 per sq. ft. in fiscal year 2011. The fiscal year 2011 landing fee rate for scheduled aircraft with a permit increased by 14.0% from \$3.15 per 1,000 pounds in fiscal year 2010 to \$3.59 per 1,000 pounds in fiscal year 2011 while the fiscal year 2011 landing fee rate for general aviation and itinerant aircraft increased by 13.8% from \$3.47 per 1,000 pounds in fiscal year 2010 to \$3.95 per 1,000 pounds in fiscal year 2011.

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, 2010 and 2009
(In thousands)

	2010	2009
Assets:		
Current assets:		
Unrestricted current assets:		
Cash and investments held in City Treasury – Operating Fund	\$ 326,281	307,696
Cash – Revolving Fund	10	10
Accounts receivable (net of allowance for doubtful accounts: 2010, \$440; 2009, \$368)	30,902	33,674
Accrued interest	1,180	960
Inventories	86	81
Other current assets	2,911	3,219
Total unrestricted current assets	<u>361,370</u>	<u>345,640</u>
Restricted assets available for current outlay:		
Cash and investments held in City Treasury	50,515	36,986
Revenue bond debt service:		
Investments with Trustee	65,999	45,107
Grants receivable	—	1,257
Passenger facility charges receivable	9,175	8,612
Total restricted assets available for current outlay	<u>125,689</u>	<u>91,962</u>
Total current assets	<u>487,059</u>	<u>437,602</u>
Accounts receivable – noncurrent	—	181
Restricted assets:		
For capital outlay:		
Cash and investments held in City Treasury	359,958	101,650
Accrued interest – City Treasury	328	425
For revenue bond debt service reserve:		
Investments with Trustee	297,915	243,722
Grants receivable	21,415	12,509
Other assets	38	—
Total restricted assets	<u>679,654</u>	<u>358,306</u>
Capital assets, net	3,711,791	3,584,425
Unamortized bond issuance costs	36,827	38,997
Total assets	<u>4,915,331</u>	<u>4,419,511</u>
Deferred outflows on derivative instrument	89,505	57,157
Total assets and deferred outflows	<u>5,004,836</u>	<u>4,476,668</u>

(Continued)

**AIRPORT COMMISSION
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Statements of Net Assets
June 30, 2010 and 2009
(In thousands)

	2010	2009
Liabilities:		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities	\$ 27,625	33,698
Accrued payroll	9,416	8,512
Compensated absences	7,955	7,410
Accrued workers' compensation	995	1,015
Estimated claims payable	8,978	25
Deferred aviation revenue	49,014	51,075
Rent collected in advance	12,385	13,753
Current maturities of long-term debt	146,183	81,429
Total current liabilities payable from unrestricted assets	<u>262,551</u>	<u>196,917</u>
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities	52,768	18,098
Accrued payroll	503	516
Grants received in advance	—	1,257
Accrued bond interest payable	29,406	29,296
Commercial paper	128,660	106,280
Notes Payable	1,980	—
Current maturities of long-term debt	29,237	16,286
Total current liabilities payable from restricted assets	<u>242,554</u>	<u>171,733</u>
Total current liabilities	<u>505,105</u>	<u>368,650</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	6,373	6,472
Accrued workers' compensation, net of current portion	4,044	4,199
Estimated claims payable, net of current portion	1,035	41
Notes payable, net of current portion	62,665	304,872
Long-term debt, net of current maturities	3,995,963	3,428,207
Other postemployment benefits obligation	46,281	32,226
Subtotal before derivative instrument	4,116,361	3,776,017
Derivative instrument liabilities	94,838	62,615
Total liabilities	<u>4,716,304</u>	<u>4,207,282</u>
Net assets:		
Invested in capital assets, net of related debt	(71,205)	(58,673)
Restricted for debt service	54,170	41,986
Restricted for capital projects	81,471	59,790
Unrestricted	224,096	226,283
Total net assets	<u>\$ 288,532</u>	<u>269,386</u>

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, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Aviation	\$ 330,846	315,777
Concession	104,457	101,099
Parking and transportation	82,876	77,896
Net sales and services	58,559	56,511
Total operating revenues	<u>576,738</u>	<u>551,283</u>
Operating expenses:		
Personnel	191,279	199,519
Depreciation and amortization	163,541	158,216
Contractual services	46,609	55,258
Light, heat, and power	17,162	19,306
Services provided by other City departments	10,567	11,422
Repairs and maintenance	19,818	17,523
Materials and supplies	11,077	11,435
General and administrative	8,503	1,198
Amortization of bond issuance costs	4,671	4,550
Environmental cleanup expenses	979	162
Total operating expenses	<u>474,206</u>	<u>478,589</u>
Operating income	<u>102,532</u>	<u>72,694</u>
Nonoperating revenues (expenses):		
Investment income	20,691	22,805
Interest expense	(186,838)	(204,746)
Passenger facility charges	73,759	68,845
Write-offs, loss on disposal and demolition costs	(9,124)	(10,481)
Other nonoperating revenues, net	2,022	3,943
Total nonoperating expenses, net	<u>(99,490)</u>	<u>(119,634)</u>
Income (loss) before capital contributions and transfers	<u>3,042</u>	<u>(46,940)</u>
Capital contributions:		
Federal grants	44,204	29,780
Transfers to the City and County of San Francisco (note 10)	(28,100)	(26,849)
Changes in net assets	<u>19,146</u>	<u>(44,009)</u>
Total net assets – beginning of year	<u>269,386</u>	<u>313,395</u>
Total net assets – ending of year	<u>\$ 288,532</u>	<u>269,386</u>
See accompanying notes to financial statements.		

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from airline carriers, concessionaires, and others	\$ 589,593	574,731
Cash paid for employees' services	(176,049)	(180,574)
Cash paid to suppliers of goods and services	(126,500)	(136,665)
Net cash provided by operating activities	<u>287,044</u>	<u>257,492</u>
Cash flows from noncapital financing activities:		
Transfers to the City and County of San Francisco	(28,100)	(26,849)
Other noncapital financing receipts	2,022	3,942
Net cash used in noncapital financing activities	<u>(26,078)</u>	<u>(22,907)</u>
Cash flows from capital and related financing activities:		
Cash paid to escrow agent for debt refunding	—	(52)
Principal paid on revenue bonds, notes and commercial paper borrowings	(118,835)	(88,205)
Interest paid on revenue bonds, notes and commercial paper borrowings	(198,597)	(188,808)
Acquisition and construction of capital assets	(252,827)	(136,414)
Proceeds from passenger facility charges	73,196	70,435
Proceeds from sale of revenue bonds and notes	496,941	24,320
Proceeds from commercial paper	46,420	81,506
Capital contributed by federal agencies and others	35,298	24,140
Net cash provided by (used in) capital and related financing activities	<u>81,596</u>	<u>(213,078)</u>
Cash flows from investing activities:		
Sale of investments with Trustee	2,429,039	3,334,044
Purchases of investments with Trustee	(2,504,072)	(3,360,413)
Interest received on investments	18,976	23,852
Net cash used in investing activities	<u>(56,057)</u>	<u>(2,517)</u>
Net increase in cash and cash equivalents	<u>286,505</u>	<u>18,990</u>
Cash and cash equivalents, beginning of year	<u>447,414</u>	<u>428,424</u>
Cash and cash equivalents, end of year	<u>\$ 733,919</u>	<u>447,414</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and investments held in City Treasury – Operating Fund	\$ 326,281	307,696
Cash – Revolving Fund	10	10
Restricted cash and investments in City Treasury	410,473	138,656
Cash, cash equivalents, and investments	736,764	446,342
Unrealized (gain)/loss on investments	(2,845)	1,072
Cash and cash equivalents, June 30, 2010	<u>\$ 733,919</u>	<u>447,414</u>

**AIRPORT COMMISSION
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Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

	2010	2009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 102,532	72,694
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	163,541	158,216
Provision for doubtful accounts	73	63
Amortization of bond issuance costs	4,671	4,550
Changes in operating assets and liabilities:		
Accounts receivable	(245)	8,910
Inventories	(5)	(8)
Other current assets	(4,323)	(2,484)
Accounts payable and other liabilities	8,999	(2,668)
Accrued payroll	904	786
Compensated absences	446	969
Accrued workers' compensation	(175)	378
Other postemployment benefits obligation	14,055	16,813
Deferred aviation revenue	(2,061)	248
Rent collected in advance	(1,368)	(975)
Net cash provided by operating activities	\$ 287,044	257,492
Noncash transactions:		
Accrued capital asset costs	\$ 58,822	29,290
Bond refunding	1,283,685	293,753

See accompanying notes to financial statements.

**AIRPORT COMMISSION
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Notes to Financial Statements

June 30, 2010 and 2009

(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 unit 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. 53

Effective July 1, 2009, the Airport adopted the provisions of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, and has retroactively restated its 2009 financial statements. This Statement addresses the recognition, measurement, and disclosure of information

regarding derivative instruments entered into by state and local governments. It also provides reporting guideline for hedging derivative instruments and investment derivative instruments.

The Airport's derivative instruments are eight interest rate swaps entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2010. Therefore, the adoption of the provisions of GASB No. 53 had no impact on beginning net assets. The Airport's Statement of Net Assets as of June 30, 2010 has been restated to reflect an interest rate swap liability and an offsetting deferred outflow of resources of \$62,615,000, representing the fair value of the interest rate swap hedging the variable rate bonds as of June 30, 2009. These offsetting amounts are presented in the deferred outflows on derivative instrument and noncurrent derivative instrument liabilities accounts.

Required disclosures related to the Airport's swaps are located at note 7(f).

Governmental Accounting Standards Board (GASB) No. 51

Effective July 1, 2009, the Airport adopted the provisions of GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes standards for the recognition and measurement of intangible assets including easements and computer software.

This Statement requires all capitalized intangible assets be classified as capital assets and recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated, and internally generated computer software. This Statement also establishes guidance specific to intangible assets related to amortization.

The implementation of GASB 51 did not have a significant impact on the Airport for the fiscal year ended June 30, 2010.

Governmental Accounting Standards Board (GASB) No. 49

Effective July 1, 2008, the Airport 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 years ended June 30, 2009 and 2010.

(c) Cash, Cash Equivalents, and Investments
The Airport maintains its cash, cash equivalents, and investments and a significant portion of its restricted cash and investments as part of the City's pool of cash and investments. The Airport's portion of this pool is displayed on the statement of net assets as "Cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

The City reports certain investments at fair value in the statements of net assets and recognizes the corresponding change in fair value of investments in the year in which the change occurred, and the Airport reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

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

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 leases or permits, including payment of the monthly fees.

(j) Net Sales and Service Revenues
Net sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City (see note 10).

(k) Environmental Cleanup Expenses and Recoveries
The Airport incurs costs associated with environmental cleanup 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 unratified 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.

(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 Airport employees.

(g) Net Assets
A significant portion of the Airport's net assets is restricted by bond resolutions and indentures and the Lease and Use Agreement 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. In fiscal year 2010, the Airport reached agreement on a new 10-year Lease and Use Agreement that is to become effective on July 1, 2011. All other airlines operate under the 1999 Lease and Operating Agreement that was executed with airlines operating out of the Airport's International Terminal and that contains the same terms and conditions as the original 1981 Lease and Use Agreement. Other airlines operate under month-to-month permits.

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 \$49.0 million and \$51.1 million on June 30, 2010 and 2009, respectively, which represents aviation revenue collected in advance.

(i) Security Deposits
As a condition of the Lease and Use Agreement, Lease and Operating Agreement and month-to-month permits, air carriers are required to deliver a security deposit to the Airport within five days after the effective date of the lease or permit. Such deposits are either in the form of (a) a surety bond

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Notes to Financial Statements
June 30, 2010 and 2009

Cash and investments, at fair value held by the City in the City's pool as of June 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Pooled cash and investments:		
Cash and investments held in City Treasury – operating	\$ 326,281	307,696
Cash and investments held in City Treasury – restricted for current outlay	50,515	36,986
Cash and investments held in City Treasury – restricted for capital outlay	<u>359,958</u>	<u>101,650</u>
Total cash and investments in City Treasury	<u>\$ 736,754</u>	<u>446,332</u>

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

	<u>Investment maturities (in months)</u>	
<u>Under 1</u>	<u>1 – 6</u>	<u>6 – 12</u>
—	2.9%	16.6%
		<u>12 – 60</u>
		80.5%

The restricted assets for revenue bond reserves and debt service are held by an independent bond trustee (the Trustee). As of June 30, 2010 and June 30, 2009, the Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	Credit Ratings (S&P/Moody's/ Fitch)	June 30, 2010		June 30, 2009	
		Maturities	Fair value	Maturities	Fair value
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	July 2, 2010	\$ 2,255	—	\$ —
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	July 6, 2010	53,371	July 2, 2009	42,087
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	August 3, 2010	2,255	—	—
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	September 2, 2010	2,254	—	—
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	October 4, 2010	2,254	—	—
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	November 1, 2010	254,977	July 1, 2009	40
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	November 2, 2010	2,255	—	—
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	—	—	October 16, 2009	102,125
Federal National Mortgage Association Discount Notes	A-1+/P-1/FT+	—	—	October 30, 2009	98,534
Federal Home Loan Bank Discount Note	A-1+/P-1/FT+	July 1, 2010	42,934	July 31, 2009	43,060
Federal Home Loan Bank Discount Note	A-1+/P-1/FT+	November 15, 2010	1,348	—	—
Federal Home Loan Bank Discount Note	A-1+/P-1/FT+	—	—	October 30, 2009	1,510
Federal Home Loan Bank Discount Note	A-1+/P-1/FT+	—	—	November 2, 2009	1,510
Cash	Non-Rated	—	11	—	(37)
Total			<u>\$ 363,914</u>		<u>\$ 288,829</u>

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 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.

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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 monies invested pursuant to the 1991 Master Resolution. In addition, no more than twenty percent (20%) of monies 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 \$363.9 million and \$288.8 million in investments held by, and in the name of, the Trustee as of June 30, 2010 and 2009, 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 \$21,415,000 and \$13,766,000 as of June 30, 2010 and June 30, 2009, 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, 2010 and 2009, the Airport experienced no reduction to its grants receivable nor refunded any amounts to the FAA.

(5) Capital Assets

Capital assets consist of the following (in thousands):

	July 1, 2009	Additions	Deletions	Transfers	June 30, 2010
Capital assets not being depreciated:					
Land	2,787	—	—	—	2,787
Construction in progress	109,900	298,467	(8,937)	(66,098)	333,312
Total capital assets not being depreciated	112,687	298,467	(8,937)	(66,098)	336,099
Capital assets being depreciated/amortized:					
Buildings, structures, and improvements	5,088,064	—	(3,772)	58,540	5,142,832
Equipment	79,161	1,194	(1,943)	7,558	85,970
Easements and intangible assets	139,617	1,469	—	—	141,086
Total capital assets being depreciated/amortized	5,306,842	2,663	(5,715)	66,098	5,369,888
Less accumulated depreciation/amortization for:					
Buildings, structures, and improvements	(1,701,445)	(151,944)	2,509	—	(1,850,880)
Equipment	(52,786)	(4,383)	1,940	—	(55,229)
Easements	(80,873)	(7,214)	—	—	(88,087)
Total accumulated depreciation/amortization	(1,835,104)	(163,541)	4,449	—	(1,994,196)
Total capital assets being depreciated/amortized, net	3,471,738	(160,878)	(1,266)	66,098	3,375,692
Total capital assets, net	\$ 3,584,425	\$ 137,589	\$ (10,223)	\$ —	\$ 3,711,791

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	July 1, 2008	Additions	Deletions	Transfers	June 30, 2009
Capital assets not being depreciated:					
Land	\$ 2,787	—	—	—	2,787
Construction in progress	55,150	142,537	(3,980)	(83,807)	109,900
Total capital assets not being depreciated	57,937	142,537	(3,980)	(83,807)	112,667
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	(9,939)	(6,268)	—	3,584,425

Total interest cost was approximately \$206,887,000 for fiscal year 2010 and \$207,971,000 for fiscal year 2009, of which approximately \$20,049,000 and \$3,225,000, respectively, was capitalized. Total interest income for fiscal year 2010 was \$23,068,000 of which \$2,377,000 was capitalized. There was no interest income capitalized in fiscal year 2009.

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

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capital asset. Effective July 1, 2006, the CAP established an indirect cost rate of 8% on a total cost input base applied on capital projects.

In fiscal year 2010, the Airport updated the CAP based on the fiscal year 2009 audited historical costs. The updated CAP established a new indirect cost rate of 11.5%. The indirect costs capitalized for the year ended June 30, 2010 and 2009 were \$27.36 million and \$6.12 million, respectively.

(6) Commercial Paper

On May 20, 1997, the Airport authorized the issuance of 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.

On June 22, 2009, the Airport issued \$6.78 million in AMT CP to refund a portion of the Issue 21 Bonds as a result of a voluntary closing agreement with the Internal Revenue Service under the Voluntary Closing Agreement Program (VCAP). The Airport and the IRS entered into the closing agreement to remedy the inadvertent expenditure of a small portion of the proceeds of the Issue 21 Bonds (which were non-AMT, governmental use bonds) on facilities that should have been funded with AMT private activity bonds; as of June 30, 2009, the settlement has been resolved. Net of the CP issued to refund a portion of the Issue 21 Bonds under the VCAP settlement, all of the CP outstanding as of June 30, 2010 was issued to fund various capital improvements of the Airport, primarily for the renovation of Terminal 2 and Boarding Area D.

As of June 30, 2010, the outstanding principal amount of CP was \$128.66 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 2010, the interest rate for the taxable CP ranged from 0.35% to 0.75%; interest rates for tax-exempt private activity (AMT) CP ranged from 0.30% to 0.35% and the interest rates on tax-exempt governmental purpose CP (non-AMT) ranged from 0.28% to 0.30%.

The following table shows the CP issuances during the fiscal year ended June 30, 2010 (in thousands):

	Interest rate	July 1, 2009	Increases	Decreases	June 30, 2010
Commercial paper (taxable)	0.35% - 0.75%	\$ 1,620	22,420	(24,040)	—
Commercial paper (AMT)	0.30% - 0.35%	97,940	24,000	—	121,940
Commercial paper (non-AMT)	0.28% - 0.30%	6,720	—	—	6,720
Total		\$ 106,280	46,420	(24,040)	128,660

(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

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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.

Fiscal Year 2010

Second Series Revenue Refunding Bonds, Series 2009A and B

On September 3, 2009, the Airport issued \$175.0 million of Second Series Refunding Bonds Series 2009A and B, in the amount of \$92.5 and \$82.5 million respectively, to purchase and hold in trust all of the outstanding Issue 34A/B variable rate demand bonds. The Series 2009A/B Bonds mature on May 1, 2029, are subject to mandatory tender on September 15, 2010, and bear interest at 0.75%. If the Airport is unable to purchase the Series 2009A/B Bonds on the mandatory tender date, the Series 2009A/B Bonds will be subject to mandatory redemption on that date.

The net proceeds of \$175.1 million (\$175.0 million in bond principal less \$15.0 million in underwriting fees, deposits to separate 2009A and B reserve accounts, and costs of issuance, together with \$1.8 million in available prior bond debt service reserve funds and \$1.2 million in other funds of the Airport) were used to purchase and hold in trust all of the outstanding Issue 34A/B Bonds.

	Amount purchased	Interest rates	Purchase price
Second Series Variable Rate Revenue Bonds, Issue:			
34A	\$ 92,500,000	Variable	100%
34B	82,500,000	Variable	100%
Total	<u>\$ 175,000,000</u>		

The refunded bonds were purchased on September 4, 2009 and deposited into separate trust accounts. The Airport will make payments of principal and interest on the Issue 34A/B Bonds held in the trust accounts until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust accounts. The Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 34A/B Bonds. As such, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The purchase of the Issue 34A/B Bonds with Series 2009A/B Bonds was initiated by the Commission to address credit concerns regarding the liquidity provider on the 34A/B Bonds and was not undertaken to specifically generate an economic gain for the Airport. While the Issue 34A/B Bonds are held in the trust accounts, the liquidity facility and bond insurance policy associated with Issue 34A/B Bonds will remain in place.

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Second Series Revenue Refunding Bonds, Series 2009C

Following an invitation to tender bonds, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009C, on November 3, 2009, in the amount of \$132.92 million to purchase and cancel portions of its outstanding Issue 32H, 34C and 34E fixed rate bonds and Series 2008A Revenue Notes that were voluntarily tendered by bondholders and not otherwise subject to optional redemption. The Series 2009C Bonds mature between May 1, 2011 and May 1, 2025, with interest rates ranging between 3.00% and 5.00%.

The Series 2009C Bonds were issued as one of several refundings made possible by the American Recovery and Reinvestment Act of 2009 ("ARRA") to replace bonds subject to the federal Alternative Minimum Tax (AMT) with bonds that are not, resulting in debt service savings to the Airport. The Series 2009C-1 Bonds in the principal amount of \$67.620 million were sold with bond insurance from Assured Guaranty Municipal Corporation, while the Series 2009C-2 Bonds in the principal amount of \$65.3 million were uninsured.

The net proceeds of \$129.95 million (net of \$11.81 million in deposits to a new 2009 Debt Service Reserve Account and payment of underwriter's discount and costs of issuance, together with net original issue premium of \$8.84 million) were deposited with the bond trustee to purchase and cancel \$120.22 million of the following bonds upon tender by bondholders.

	Amount purchased	Interest rates	Purchase price
Second Series Revenue Bond Issue:			
32H	\$ 640,000	4.00 – 5.00%	100.500% – 104.500%
34C	23,560,000	4.00 – 5.00%	102.500% – 106.860%
34E	35,755,000	4.00 – 5.75%	98.000% – 108.551%
Total	<u>59,955,000</u>		
Series 2008A Notes:			
2008A-1	55,000	5.50%	99.500%
2008A-2	58,935,000	6.75%	109.620%
2008A-3	1,275,000	6.50%	110.100%
Total	<u>60,265,000</u>		
Total refunded	<u>\$ 120,220,000</u>		

The tendered bonds were purchased and cancelled on November 4, 2009. Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

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Second Series Variable Rate Revenue Refunding Bonds, Series 2010A

On February 10, 2010, the Airport issued its Second Series Variable Rate Refunding Bonds, Series 2010A, in the amount of \$216.0 million to refund certain outstanding Issue 23A, 24A, 25 and 26A fixed rate bonds. The Series 2010A Bonds are comprised of \$86.4 million of Series 2010A-1, \$37.6 million of Series 2010A-2 and \$72.0 million of Series 2010A-3 Bonds, which were issued in a weekly interest rate mode, subject to conversion by the Airport to another mode. As of July 1, 2010, each series of the Series 2010A Bonds continued to bear interest in a weekly mode, with an average interest rate through July 1, 2010 of 0.257%. The Series 2010A Bonds mature on May 1, 2030, and are secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires on February 3, 2013.

The net proceeds of \$218.4 million (\$216.0 million bond principal less \$1.5 million in costs of issuance and underwriting fees, together with \$3.9 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease and redeem \$210.5 million of the following revenue bonds:

	Amount refunded	Interest rates	Redemption price
Second Series Revenue Bond Issue:			
23A	\$ 8,530,000	5.25%	101%
24A	73,915,000	5.50 – 6.00%	101%
25	83,220,000	5.50 – 6.00%	101%
26A	44,825,000	5.250%	101%
Total	<u>\$ 210,490,000</u>		

The refunded bonds were redeemed on March 12, 2010 (Issue 23A) and May 1, 2010 (Issues 24A, 25 and 26A). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of \$6.64 million in deferred refunding loss for fiscal year ended June 30, 2010 but reduced the Airport's aggregate debt service payments over the next twenty one years by approximately \$22.4 million. However remarketing and facility liquidity fees associated with the variable rate bonds and related swaps hedging the bonds resulted in a net negative cash flow of approximately \$18.9 million, in spite of which, the Airport still realized an economic gain (the difference between the present value of the old and new debt service payments, net of refunding expenses) of \$0.5 million because of the savings realized during the early years.

Second Series Revenue Refunding Bonds, Series 2010C-E

On April 7, 2010, the Airport issued its Second Series Revenue Refunding Bonds, Series 2010C-E in the aggregate principal amount of \$618.6 million, comprised of \$345.7 million of Series 2010C

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Second Series Revenue Refunding Bonds, Series 2009D

On November 4, 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009D, in the principal amount of \$88.19 million to defease and purchase all of the Second Series Revenue Notes, Series 2008B, upon their mandatory tender for purchase on December 1, 2009. The Series 2009D Bonds mature on May 1, 2029, are subject to mandatory tender for purchase on December 4, 2012, and bear interest at 2.25%. If the Airport is unable to purchase the Series 2009D Bonds on the mandatory tender date, the Series 2009D Bonds will be subject to mandatory redemption on that date.

The net proceeds of \$90.72 million (\$88.19 million in bond principal, together with \$2.53 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease the Series 2008B Notes until their purchase and cancellation upon their mandatory tender date. Costs of issuance, including underwriters' compensation were funded with \$700,000 of taxable commercial paper proceeds.

	Amount purchased	Interest rate	Purchase price
Second Series Revenue Notes, Series 2008B	\$ 88,190,000	3.00%	100%
Total	<u>\$ 88,190,000</u>		

The Series 2008B Notes were initially issued to refund certain Variable Rate Demand Bonds impacted by the bankruptcy of Lehman Brothers in fall 2008 (Issue 37B) and were not issued specifically to produce debt service savings. Likewise, the issuance of Series 2009D Bonds was necessitated by the mandatory tender date of the Series 2008B Notes and was not specifically undertaken to generate an economic gain for the Airport. The Series 2008B Notes were purchased and cancelled on December 1, 2009. Accordingly, the liability for the notes has been removed from the accompanying statements of net assets.

Second Series Revenue Bonds, Series 2009E (Capital Plan Bonds)

On November 18, 2009, the Airport issued its Second Series Revenue Bonds, Series 2009E, in the amount of \$485.8 million to fund a portion of the construction costs associated with the Airport's Capital Plan. The Series 2009E Bonds are uninsured fixed rate bonds maturing between May 1, 2020 and May 1, 2029, with interest rates from 4.375% to 6.000%.

The net proceeds of \$413.7 million (\$485.8 million in bond principal less \$81.2 million in underwriting fees, deposits to the capitalized interest account, payment of underwriting fees and costs of issuance, together with \$9.1 million in net original issue premium) were deposited into a construction account to fund capital projects at the Airport.

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(Non-AMT/Governmental Purpose), \$89.9 million of Series 2010D (Non-AMT/Private Activity), and \$183.0 million of Series 2010E (Taxable), to refund certain outstanding Issue 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 24B, 25, 26A, 26B, 27B and 28B fixed rate bonds and all of outstanding Series 2008A-1 and A-2 Notes. The Series 2010C and D Bonds mature between May 1, 2014 and May 1, 2027, and bear interest at rates between 3.0% and 5.0%, while the Series 2010E Bonds mature between May 1, 2011 and May 1, 2014, and bear interest at rates between 1.15% and 2.968%.

Net proceeds of \$678.80 million (\$618.57 million in bond principal less \$12.65 million in underwriting fees, cost of issuance and deposit to the reserve fund, together with \$46.23 million in net original issue premium and available debt service funds of \$26.65 million), were deposited in irrevocable escrows with the bond trustee to defease and redeem \$656.57 million in revenue bonds described below.

Bond Issue:	Amount refunded	Interest rates	Redemption price
Second Series Revenue			
15A	\$ 32,020,000	4.60 – 5.00%	100%
15B	11,735,000	4.40 – 4.50%	100%
18A	18,385,000	5.00%	100%
20	146,070,000	4.50 – 4.75%	100%
21	36,085,000	4.50 – 4.75%	100%
22	26,455,000	4.70 – 5.00%	100%
23A	44,925,000	5.00 – 5.50%	100.5%
23B	7,760,000	4.50 – 5.00%	100.5%
24A	15,375,000	5.50 – 5.875%	101%
24B	2,085,000	5.00 – 5.125%	101%
25	17,310,000	5.50 – 5.875%	101%
26A	26,750,000	5.00 – 5.25%	101%
26B	107,375,000	4.50 – 5.00%	101%
27B	56,695,000	5.00 – 5.25%	100%
28B	7,595,000	5.250%	100%
Total	556,620,000		
Series 2008A Notes:			
2008A-1	49,945,000	5.50%	100%
2008A-2	50,000,000	6.50%	100%
Total	99,945,000		
Total refunded	\$ 656,565,000		

(Continued)

The refunded bonds were or will be redeemed on May 3, 2010 (Series 2008A Notes), May 7, 2010 (Issues 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 25, 26A and 26B), May 1, 2011 (Issue 27B), and May 1, 2012 (Issue 28B). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting loss of \$23.5 million for fiscal year ended June 30, 2010. The Airport however reduced its aggregate debt service payments by approximately \$66.1 million over the next twenty one years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of \$41.6 million.

Fiscal Year 2009

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.

(b) 1991 Master Resolution

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.

(Continued)

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Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

- (a) Net revenues (as defined in the bond resolutions) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City and
- (b) Net revenues, together with any transfer from the contingency account to the revenue account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differ from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

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As of June 30, 2010 and June 30, 2009, long-term revenue bonds consisted of the following (in thousands):

Description	Date of Issue	Interest rate	2010	2009
Second Series Revenue Bonds:				
Issue 15	01/01/98	4.375% - 5.00%	194,545	243,390
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% - 5.25%	39,130	57,515
Issue 20	10/01/98	4.50% - 4.75%	47,950	206,735
Issue 21	10/01/98	4.50% - 4.75%	23,575	61,465
Issue 22	12/01/98	4.40% - 5.25%	66,860	96,465
Issue 23	05/01/99	5.00% - 5.50%	91,290	158,350
Issue 24	03/01/00	4.875% - 6.00%	—	94,280
Issue 25	03/01/00	4.875% - 6.00%	—	103,110
Issue 26	12/07/00	5.00%	3,050	187,225
Issue 27	07/11/01	4.00% - 5.50%	356,495	427,340
Issue 28	03/14/02	4.00% - 5.50%	187,200	210,430
Issue 29	02/05/03	3.75% - 5.50%	116,660	125,675
Issue 30	02/10/04	3.865% - 5.25%	34,820	34,820
Issue 31F	01/26/05	4.26% - 4.91%	100,640	103,815
Issue 32 F/G/H	11/16/06	4.00% - 5.25%	431,245	444,060
Issue 34A/B	04/09/08	Variable rate	—	175,000
Issue 34C/D/E/F	03/27/08	Variable rate	408,540	472,105
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 37C/D	05/15/08	Variable rate	109,585	109,585
Series 2009A/B	09/03/09	0.75%	175,000	—
Series 2009C	11/03/09	3.00% - 5.00%	132,915	—
Series 2009D	11/04/09	5.00%	88,190	—
Series 2009E	11/18/09	4.375% - 6.00%	485,800	—
Series 2010A	02/10/10	Variable rate	215,970	—
Series 2010C	04/07/10	3.00% - 5.00%	345,735	—
Series 2010D	04/07/10	3.00% - 5.00%	89,860	—
Series 2010E	04/07/10	1.15% - 2.968%	182,970	—
			4,180,365	3,563,705
Unamortized discount			(4,151)	(7,749)
Unamortized deferred amount on refunding			(114,091)	(82,699)
Unamortized premium			109,260	52,665
Less current portion			4,171,383	3,525,922
Total long-term revenue bond payable			\$ 3,995,963	\$ 3,428,207

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

Fiscal year:	Principal	Interest	Total
2011	\$ 134,800	192,862	327,662
2012	130,820	188,228	319,048
2013	144,045	183,667	327,712
2014	156,280	178,699	334,979
2015	171,737	171,900	343,637
2016 – 2020	1,022,473	730,075	1,752,548
2021 – 2025	1,235,322	460,260	1,695,582
2026 – 2030	871,593	197,470	1,069,063
2031 – 2035	181,685	66,192	247,877
2036 – 2040	131,610	20,316	151,926
	<u>\$ 4,180,365</u>	<u>2,389,669</u>	<u>6,570,034</u>

Revenue bond debt service requirements to maturity if the take out agreements (letter of credits or standby purchase agreements) of the variable rate bond structure were to be exercised and if the fixed rate bond was subject to mandatory tender for purchase are as follows (in thousands):

Fiscal year:	Principal	Interest	Total
2011	\$ 175,420	192,885	368,305
2012	130,820	186,828	317,648
2013	726,495	179,768	906,263
2014	154,730	156,178	310,908
2015	170,125	149,435	319,560
2016 – 2020	901,065	623,819	1,524,884
2021 – 2025	996,275	384,753	1,381,028
2026 – 2030	612,140	169,815	781,955
2031 – 2035	181,685	66,192	247,877
2036 – 2040	131,610	20,316	151,926
	<u>\$ 4,180,365</u>	<u>2,129,989</u>	<u>6,310,354</u>

(c) Second Series Revenue Notes
Second Series Revenue Notes Series 2008A

In October 2008, the Airport 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.

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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>		

The Series 2008A Notes were initially issued to refund the Issue 37A Bonds, which were impacted by the market turmoil following the bankruptcy of Lehman Brothers in fall 2008, and were not issued specifically to produce debt service savings.

Second Series Revenue Notes Series 2008B

In December 2008, the Airport issued its Second Series Revenue Refunding Notes Series 2008B in the amount of \$88.19 million to purchase and hold in trust all of the outstanding 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 3.0%. 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 used to purchase and hold in trust all of the outstanding Issue 37B Bonds.

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

The Issue 37B Bonds were purchased on December 17, 2008 and deposited into a trust account. The Airport will make payments of principal and interest on the Issue 37B Bonds held in trust until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust. The

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Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 37B Bonds. As such, the liability for the Issue 37B Bonds has been removed from the accompanying statements of net assets.

The Series 2008B Notes were initially issued to purchase and hold in trust the Issue 37B Bonds, which were negatively impacted by the market turmoil following the bankruptcy of Lehman Brothers in fall 2008, and were not issued to generate an economic gain for the Airport. While the Issue 37B Bonds are held in trust, the bond insurance policy associated with the Issue 37B Bonds will remain in place.

As of June 30, 2010 and 2009, long-term notes consisted of the following (in thousands):

Description	Date of issue	Interest rate	2010	2009
Notes:				
2008 A Notes	11/23/2008	6.50% - 6.75%	\$ 66,525	226,735
2008 B Notes	12/17/2008	3.00%	—	88,190
			66,525	314,925
Unamortized discount			—	(322)
Unamortized deferred amount on refunding			(2,338)	(12,467)
Unamortized premium			458	2,736
Total notes payable			64,645	304,872
Less: current portion			(1,980)	—
Total long-term notes payable			\$ 62,665	304,872

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

Fiscal year:	Principal	Interest	Total
2011	\$ 1,980	4,427	6,407
2012	4,120	4,293	8,413
2013	5,870	4,021	9,891
2014	7,690	3,630	11,320
2015	8,075	3,119	11,194
2016 – 2020	38,790	6,678	45,468
	\$ 66,525	26,168	92,693

(d) Changes in Long-term Liabilities

Long-term liability activity for the years ended June 30, 2010 and 2009 was as follows (in thousands):

	July 1, 2009	Additions	Reductions	June 30, 2010	Due within one year
Revenue bonds payable	\$ 3,563,705	1,716,440	(1,099,780)	4,180,365	175,420
Less unamortized discount	(7,749)	—	3,598	(4,151)	—
Unamortized deferred amount on refunding	(82,699)	(62,360)	30,968	(114,091)	—
Add unamortized premium	52,665	64,186	(7,591)	109,260	—
Total revenue bonds payable	3,525,922	1,718,266	(1,072,805)	4,171,383	175,420
Notes payable	\$ 314,925	—	(248,400)	66,525	1,980
Less unamortized discount	(322)	—	322	—	—
Unamortized deferred amount on refunding	(12,466)	—	10,128	(2,338)	—
Add unamortized premium	2,735	—	(2,277)	458	—
Total notes payable	304,872	—	(240,277)	64,645	1,980
Other postemployment benefits obligation	32,226	14,055	—	46,281	—
Compensated absences	13,882	546	(100)	14,328	7,955
Accrued workers' compensation	5,214	1,683	(1,858)	5,039	995
Estimated claims payable	66	10,051	(104)	10,013	8,978
Total	\$ 3,882,182	1,744,601	(1,315,094)	4,311,689	195,328

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	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)	(5,458)	24,674	(82,699)	—
Add unamortized premium	56,680	—	(4,015)	52,665	—
Total revenue bonds payable	3,889,807	(5,458)	(358,427)	3,525,922	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 postemployment benefits obligation	15,413	16,813	—	32,226	—
Compensated absences	12,913	10,761	(9,792)	13,882	7,410
Accrued workers' compensation	4,836	2,382	(2,004)	5,214	1,015
Estimated claims payable	37	271	(242)	66	25
Total	\$ 3,923,006	326,167	(366,991)	3,882,182	106,165

(e) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, there were \$98,810,000 and \$102,380,000 in Special Facilities Lease Revenue Bonds outstanding as of June 30, 2010 and June 30, 2009, 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.

(f) Interest Rate Swaps

Fiscal Year 2010

Objective and Terms – On December 16, 2004, the Airport entered into seven forward-starting interest rate swaps (the “2004 swaps”), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 on

February 15, 2006. The swap structure was used as a means to increase the Airport’s debt service savings, when compared with fixed-rate refunding bonds at the time of issuance. On July 26, 2007, the Airport entered into four additional forward-starting interest rate swaps, in connection with the anticipated issuance of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the “2007 swaps”), and the Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the “2010 swaps”). The final maturity of the 2004 swaps is May 1, 2026, and the final maturities of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues were transferred to the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D and 37A, respectively. Subsequently, on December 3, 2008, the Airport refunded Issues 37A and 37B. Concurrently, the 2004 swaps associated with Issue 37A were terminated. However, the 2007 swap associated with Issue 37B was not terminated and is now not assigned to any bond issue for tax law purposes, but is associated with \$79.7 million of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Series 2009D.

Following the refunding of Issue 37A on October 30, 2008, the three interest rate swaps in the aggregate notional amount of \$205.1 million were terminated. The Airport paid a termination 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 termination amounts 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.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from its swap counterparties equal to 63.5% of USD-LIBOR-BBA1 plus 0.29%. The Airport receives 61.85% of USD-LIBOR-BBA plus 0.34% under the 2007 and 2010 swaps. These payments are intended to approximate the variable interest rates on the bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed interest rate on the associated bond issues. No monthly payments were made on the 2010 swaps prior to their effective date of February 1, 2010.

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As of June 30, 2010, the fair value of the Airport's eight outstanding swaps, which had a total notional amount of \$585,360,000, are broken down by series as follows:

Associated Bonds	Notional Amount	Effective Date	Bank Counterparty
36AB	\$ 70,000,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36A	69,930,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36C	30,000,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
36D	29,970,000	2/10/2005	J.P. Morgan Chase Bank, N.A.
2009AB *	79,684,000	5/15/2008	Merrill Lynch Capital Services, Inc.
37C	89,856,000	5/15/2008	J.P. Morgan Chase Bank, N.A.
2010A	71,973,000	2/1/2010	DePfa Bank PLC, New York
2010A	143,947,000	2/1/2010	Goldman Sachs Bank USA
	\$ 585,360,000		

* The swap previously associated with 37B was applied to a portion of 2009AB.

The swaps hedging Issue 36A-D Bonds terminate 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, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Counterparty credit ratings			Fair value to Airport
			Moody's	S&P	Fitch	
J.P. Morgan Chase Bank, N.A.	\$ 70,000,000	3.4440%	Aa1	AA-	AA-	\$ (8,273,544)
J.P. Morgan Chase Bank, N.A.	69,930,000	3.4450%	Aa1	AA-	AA-	(8,273,028)
J.P. Morgan Chase Bank, N.A.	30,000,000	3.4400%	Aa1	AA-	AA-	(3,545,804)
J.P. Morgan Chase Bank, N.A.	29,970,000	3.4450%	Aa1	AA-	AA-	(3,545,583)
(Aggregate notional amount)	\$ 199,900,000					\$ (23,637,959)

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The swaps hedging the Issue 37B and 37C Bonds (the former is currently applied to Series 2009D Bonds) terminate on May 1, 2029, which is the final maturity date of the Issue 37B/C Bonds. Following the refunding of the Issue 37B bonds, the Airport did not restructure the amortization of the swap to match the amortization of the Series 2009D Bonds, resulting in a mismatch in later years and a lack of integration for tax purposes. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Counterparty credit ratings			Fair value to Airport
			Moody's	S&P	Fitch	
Merrill Lynch Capital Services	\$ 79,684,000	3.8980%	A2	A	A+	\$ (14,406,604)
J.P. Morgan Chase Bank, N.A.	89,856,000	3.8980%	Aa1	AA-	AA-	(16,245,705)
(Aggregate notional amount)	\$ 169,540,000					\$ (30,652,309)

The swaps relating to the Series 2010A Bonds terminate on May 1, 2030, the final maturity date of the Series 2010A Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Counterparty credit ratings			Fair value to Airport
			Moody's	S&P	Fitch	
DePfa Bank PLC, New York	\$ 71,973,000	3.8950%	A3	BBB	A-	\$ (13,334,586)
Goldman Sachs Bank USA	143,947,000	3.9250%	Aa3	A	A+	(27,212,875)
(Aggregate notional amount)	\$ 215,920,000					\$ (40,547,461)

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

Risks

Basis Risk - The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds,

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while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ending June 30, 2010, the Airport received \$427,539 in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk - As of June 30, 2010, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps becomes positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk - The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. The Airport's swap policy limits counterparty credit risk by limiting exposure to any one counterparty at the time a swap is executed to not more than 20% of the total portfolio. While the Airport's exposure to J.P. Morgan Chase Bank, N.A. and affiliates complied with the swap policy when the applicable swaps were executed, the Airport's exposure as of June 30, 2010 exceeded this threshold due to JPMorgan's acquisition of Bear Stearns Capital Markets, Inc. The swap policy does not require remedial action in this case.

Termination Risk - All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, 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 all its interest rate swaps except the swaps associated with the Series 2010A Bonds, from the following insurers:

Swap	Swap Insurer	Insurer credit ratings June 30, 2010 (S&P/Moody's)
Issue 36C	Assured Guaranty Municipal Corp.	AAA/Aa3
Issue 36AB (two swaps)	FGIC/National Public Finance Guarantee Corporation	A/Baa1
Issue 36D	Assured Guaranty Municipal Corp.	AAA/Aa3
Issue 37C	Assured Guaranty Municipal Corp.	AAA/Aa3
Series 2009D	Assured Guaranty Municipal Corp.	AAA/Aa3
Series 2010A (two swaps)	None	N/A

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer non-payment 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 with respect to a counterparty include a rating 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.

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The impact of the interest rate swaps on the financial statements for the year ended June 30, 2010 and 2009 is as follows:

	Deferred outflows on derivative instrument	Derivative instrument liabilities
Balance June 30, 2009	\$ 57,157,300	62,614,754
Change in fair value to year end	32,347,202	32,222,978
Balance June 30, 2010	\$ 89,504,502	94,837,732

Deferred outflows on derivative instrument of \$89.5 million as of June 30, 2010 represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), in fiscal year 2010. Per reporting guidelines of GASB 53, deferred outflows on derivative instrument as of June 30, 2009 were restated at the amount of \$57.2 million.

Derivative instrument liabilities of \$94.8 million as of June 30, 2010 represent the recording of the fair values of interest rate swap contracts per the newly implemented GASB 53. Per reporting guidelines of GASB 53, the balance of derivative instrument liabilities as of June 30, 2009 was restated at the amount of \$62.6 million.

Fiscal Year 2009

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 termination 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 termination amounts 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,

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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.

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 Airport	Market value to Airport
Depia Bank PLC, New York	\$ 71,793,000	BBB/A3	3.925%	\$ (8,495,340)
Goldman Sachs Bank USA	143,947,000	A/Aa3	3.925%	(16,988,977)
(Aggregate notional amount)	\$ 215,740,000			\$ (25,484,317)

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The swaps hedging the Issue 36 Bonds terminate by their terms on May 1, 2026, the final maturity date of the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2009:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Market value to Airport
J.P. Morgan Chase Bank, N.A.	\$ 70,000,000	AA+/Aa1	3.444% S	\$ (5,106,166)
J.P. Morgan Chase Bank, N.A.	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)
J.P. Morgan Chase Bank, N.A.	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 Airport	Market value to Airport
Merrill Lynch Capital Services	\$ 79,684,000	A/A2	3.898% S	\$ (10,593,043)
J.P. Morgan Chase Bank, N.A.	89,856,000	A+/Aa3	3.898%	(11,945,316)
(Aggregate notional amount)	\$ 169,540,000			\$ (22,538,359)

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(Continued)

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 Airport has to that counterparty. The Airport has attempted to limit counterparty credit risk by limiting its exposure 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 Airport, 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/Baa3

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.

(g) Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2010 is \$535,005,000 of Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Series 37C-D and Series 2010A (collectively, the "Variable Rate Bonds") in a weekly variable rate mode that mature on May 1, 2026 (Issues 36A-D),

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(Continued)

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May 1, 2029 (Issues 37C), and May 1, 2030 (Issue 37D and Series 2010A). The Variable Rate Bonds are long-term tax-exempt bonds that bear a floating weekly interest rate that provide the holders thereof the option to tender their bonds at par on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The Variable Rate Bonds can be converted to other interest rate modes, including a term rate or a fixed rate to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Issues 36A-B and Series 2010A bonds is secured by three irrevocable direct-pay letters of credit issued to the bond trustee for the benefit of the applicable bondholders by the banks identified in the table below. The scheduled payment of principal of and interest on the Issues 36C/D and 37C/D bonds when due is guaranteed under several bond insurance policies issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), while the payment of the purchase price of the Issues 36C/D and 37C/D bonds upon tender for purchase is payable, subject to the satisfaction of certain conditions precedent, from amounts made available pursuant to three Standby Bond Purchase Agreements with Dexia Credit Local, acting through its New York Branch.

Amounts drawn under a standby bond purchase agreement or a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit and standby bond purchase agreements range between 0.55% and 1.35% per annum. As of June 30, 2010, there were no unreimbursed draws under these facilities.

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The primary terms of the standby bond purchase agreements and letter of credits are as follows:

	Issue 36A	Issue 36B	Issue 36C/D	Issue 37C/D	Series 2010A
Principal Amount	\$100,000,000	\$40,620,000	\$68,830,000	\$109,585,000	\$215,970,000
Type	LOC ⁽¹⁾	LOC ⁽¹⁾	SBPA ⁽²⁾	SBPA ⁽²⁾	LOC ⁽¹⁾
Expiration Date	May 7, 2013	May 6, 2011	May 15, 2013	May 15, 2013	February 8, 2013
Insurer	N/A	N/A	AGM ⁽³⁾	AGM ⁽³⁾	N/A
Credit/Liquidity Provider	Wells Fargo ⁽⁴⁾	UBOC ⁽⁵⁾	Dexia ⁽⁶⁾	Dexia ⁽⁶⁾	JPMorgan ⁽⁷⁾

(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 \$15,890,000 and \$13,058,000 in fiscal years 2010 and 2009, respectively.

A new car rental agreement became effective January 1, 2009 and will expire on December 31, 2013. Under this agreement, the rental car companies will pay 10% of gross revenues or a minimum guaranteed rent whichever is higher; also in accordance with 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).

The MAG attributable to the rental car companies was approximately \$30,870,000 and \$30,870,000 for fiscal years 2010 and 2009, respectively.

¹ Letter of Credit.

² Standby Bond Purchase Agreement.

³ Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

⁴ Wells Fargo Bank, National Association.

⁵ Union Bank, N.A.

⁶ Dexia Credit Local acting through its New York Branch.

⁷ JPMorgan Chase Bank, N.A.

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

Fiscal year ending:	\$
2011	78,337
2012	64,219
2013	59,521
2014	52,728
2015	45,963
	\$ 300,768

(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 2010, 2009, and 2008 range from 7.0% to 8.0% as a percentage of covered payroll. The Airport is required to contribute at an actuarially determined rate. The actuarially determined contribution rate as a percentage of covered payroll was 9.49% in 2010, 4.99% in 2009, and 5.91% in 2008. The Airport contributed 100% of its annual contributions of \$16,443,000 in 2010, \$10,742,000 in 2009, and \$10,630,000 in 2008.

(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

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\$27,585,000 and \$26,160,000 in fiscal years 2010 and 2009, 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 \$7,630,000 and \$7,216,000 for fiscal years 2010 and 2009, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. In addition, the City allocated an additional \$0 and \$173,000 to Airport's contribution allocation for payments made from the Health Service System for postretirement health benefits in fiscal years 2010 and 2009, 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, 2010 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 fiscal year, for the amount contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

	2010	2009
Annual required contribution	\$ 21,363	24,009
Interest on net OPEB obligation	1,491	744
Adjustment to ARC	(1,169)	(551)
Annual OPEB cost (expense)	21,685	24,202
Contribution made	(7,630)	(7,389)
Increase in net OPEB obligation	14,055	16,813
Net OPEB obligation – beginning of year	32,226	15,413
Net OPEB obligation – end of year	\$ 46,281	32,226

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information (RSI) related to the City's postretirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(10) Related-Party Transactions

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statements of revenues, expenses, and changes in net assets. These services include utilities provided to tenants (see note 2(j)) and the Airport. The cost of all services provided by the City work order system totaled approximately \$104,222,000 and \$101,316,000 in fiscal

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years 2010 and 2009, respectively. Included in personnel operating expenses are approximately \$55,296,000 and \$52,044,000 in fiscal years 2010 and 2009, respectively, related to police and fire services.

The Lease and Use Agreement with the airlines provide for continuing annual service payments to the City equal to 1.5% of concession revenues (net of certain adjustments), but not less than \$5,000,000 per fiscal year. Payments to the City were \$28,100,000 and \$26,849,000 in fiscal years 2010 and 2009, 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.

PFC collections and related interest earned for the 12 months ended June 30, 2010 are as follows (in thousands):

Amount collected	\$	73,759
Interest earned		<u>1,228</u>
	\$	<u>74,987</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, 2010 are as follows (in thousands):

Construction	\$	109,539
Operating		<u>11,184</u>
Total	\$	<u>120,723</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 managed by the local communities with SFO funds (using bond proceeds, operating and other internally generated funds), as well as federal grants. In fiscal year 2008, these components of the program were finalized and a new phase was started with the Airport managing all new noise insulation work directly; in fiscal year 2010 the Airport disbursed approximately \$55,000 in this new phase of the program. As of June 30, 2010 and June 30, 2009, 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 on June 30, 2011. In fiscal year 2010, the Airport and airlines reached agreement on a new 10-year Lease and Use Agreement that is to become effective on July 1, 2011. The aforementioned financial terms are unchanged in the new agreement including the residual rate-making methodology whereby the required revenue from airlines for landing fees and terminal rentals is based on Airport costs less non-airline revenue sources.

(c) Litigation

The Airport is a defendant in various legal actions and claims that arise during the normal course of business.

In June 2007, a jury from the San Mateo County Superior Court rendered a verdict finding the Airport in breach of the covenant of good faith and fair dealing and awarded the plaintiffs \$1.05

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million in damages. The damages award entitled plaintiffs to recover reasonable fees and costs, which plaintiffs indicated at that time were approximately \$5.5 million. In April 2008, the Superior Court vacated the judgment against the Airport and ordered that judgment be entered in the Airport's favor. Plaintiffs appealed the Superior Court's ruling and on September 23, 2010, the Court of Appeals granted plaintiffs' appeal and reversed the judgment for the Airport. The Airport has sought review by the California Supreme Court.

In July 2004, the San Francisco Superior Court granted summary judgment to the plaintiff in a case involving contractors who claimed that the City's minority and women-owned business program violates the California Constitution. The Superior Court enjoined the City from enforcing the program, but did not award damages. The City appealed the Superior Court's decision and prevailed, in part, in the Court of Appeals. Plaintiff sought review in the California Supreme Court, which agreed to hear the case. On August 2, 2010, the Supreme Court issued an order affirming the Court of Appeals' decision and remanding the case to the trial court for further proceedings. The case is now pending in the Superior Court. If plaintiffs prevail, they will be entitled to 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 Airport 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 Airport, and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Airport 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 \$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 Airport, 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 Airport 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 the coverage 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 Airport, 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, 2008 resulted from the following activity (in thousands):

Balance, June 30, 2008	\$ 37
Claim payments	(242)
Claims and changes in estimates	<u>271</u>
Balance, June 30, 2009	66
Claim payments	(104)
Claims and changes in estimates	<u>10,051</u>
Balance, June 30, 2010	<u>\$ 10,013</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, 2008	\$ 4,836
Claim payments	(2,004)
Claims and changes in estimates	<u>2,382</u>
Balance, June 30, 2009	5,214
Claim payments	(1,858)
Claims and changes in estimates	<u>1,683</u>
Balance, June 30, 2010	<u>\$ 5,039</u>

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**SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND
EXPENDITURES**

(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 \$76,000 and \$306,000 as of June 30, 2010 and June 30, 2009, respectively.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2(h)) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2010 and June 30, 2009, revenues realized from the following sources exceeded 5% of the Airport's total operating revenues:

	2010	2009
United Airlines	22.0%	22.0%
New South Park	12.6	12.1

(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 ending:			
2011	\$	188	
2012		116	
2013		118	
2014		85	
2015		5	
Total	\$	512	

Net operating lease expense incurred for the fiscal years ended 2010 and 2009 was approximately \$0.3 million and \$5.2 million, respectively.

(13) Subsequent Event

On August 5, 2010 the Airport refunded \$121.9 million of the commercial paper outstanding at fiscal year ended June 30, 2010 through the issuance of Series 2010FG Bonds. Following these transactions, the outstanding principal amount of commercial paper decreased from \$128.7 million to \$6.8 million.

On September 15, 2010 the Airport remarketed \$175 million of Series 2009AB Revenue Refunding Bonds in a new interest period extending to their final maturity date.

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Notes to Schedule of Passenger Facility Charge Revenues and Expenditures
Year ended June 30, 2010

(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.

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Schedule of Passenger Facility Charge Revenues and Expenditures
Years ended June 30, 2010 and 2009
(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, 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
Fiscal year 2009 – 2010 transactions:					
Reversal of prior year passenger facility charges accrual	(8,612)	—	(8,612)	—	(8,612)
Quarter ended September 30, 2009	18,494	140	18,634	—	18,634
Quarter ended December 31, 2009	18,027	210	18,237	—	18,237
Quarter ended March 31, 2010	16,866	292	17,158	—	17,158
Quarter ended June 30, 2010	19,809	280	20,089	(61,000)	(40,911)
Unrealized gain on investments	—	306	306	—	306
Passenger facility charges accrual	9,175	—	9,175	—	9,175
Total fiscal year 2009 – 2010 transactions	73,759	1,228	74,987	(61,000)	13,987
Program to date as of June 30, 2010	\$ 549,439	12,498	561,937	(502,179)	59,758

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



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 San Francisco, CA 94105

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, 2010, and have issued our report thereon dated November 19, 2010. Our report included an explanatory paragraph related to the Airport's adoption of the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009. The financial statements for the year ended June 30, 2009 were restated to reflect the impact of the adoption. 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. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and that is described in the accompanying schedule of findings and responses as 2010-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

Management's response to the findings identified in our audit are described in the accompanying schedule of findings and. We did not audit management's response and, accordingly, we express no opinion on it.

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, others within the entity, 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

November 19, 2010



KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

**Report on Compliance with Requirements
That Could Have a Direct and Material Effect on the Passenger Facility
Charge Program and on Internal Control over Compliance in Accordance
with the Passenger Facility Charge Audit Guide for Public Agencies**

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

Compliance

We have audited the Airport Commission, City and County of San Francisco, San Francisco International Airport's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide) that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2010. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the 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 types of 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 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 Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program. In planning and performing our audit, we considered Airport's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 Airport's internal control over compliance.

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

**AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT**
Schedule of Findings and Responses
Year ended June 30, 2010

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

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.

This report is intended solely for the information and use of management, the City and County of San Francisco Government Audit and Oversight Committee, the Airport Commission, others within the entity, 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

November 19, 2010

I. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinion**
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements:
Yes
Material weaknesses: **None**
3. Noncompliance which is material to the financial statements: **None**
4. Significant deficiencies in internal control over the passenger facility charge program: **None reported**. Material weaknesses: **None**
5. The type of report issued on compliance for the passenger facility charge program: **Unqualified opinion**
6. Any audit findings: **No**

II. Findings and Responses Related to the Passenger Facility Charge Program

None

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

Schedule of Findings and Responses

Year ended June 30, 2010

2010-01 Lack of control over the review of cash flow statement presentation of cash paid for employees' services, and cash paid to suppliers of goods and services

Criteria

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition

In preparing the statement of cash flows for the fiscal year ended June 30, 2010, cash paid for employees' services was erroneously misclassified as cash paid to suppliers of goods and services and vice versa. The result was understatement in cash paid for employees' services of approximately \$53.6 million and an overstatement of the same in cash paid to suppliers of goods and services. The supporting cash flow worksheet that reconciles the cash paid for employees' services and cash paid to suppliers of goods and services was correct.

Cause

An adequate control over the preparation of the statement of cash flows was not in place.

Recommendation

Management should ensure that the statement of cash flows is appropriately reviewed and reconciled to the supporting cash flow worksheet.

Management Response

Airport management concurs with the auditors' recommendation to carefully review and reconcile the statement of cash flows to the supporting cash flow worksheet. The misclassification identified by the auditors resulted from a transposition error between "Cash paid to supplier" and "Cash paid for employee services" when cross-referencing to the supporting cash flow worksheet.

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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 2011C/D/E 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E Bonds. The 2011C/D/E Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered 2011C/D/E Bond certificate will be issued for each maturity and Series of 2011C/D/E Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. 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 and www.dtc.org. The information contained in such websites is not incorporated by reference herein.

Purchases of the 2011C/D/E Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011C/D/E Bonds on DTC's records. The ownership interest of each actual purchaser of each 2011C/D/E 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 2011C/D/E 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 2011C/D/E Bonds, except in the event that use of the book-entry system for the 2011C/D/E Bonds is discontinued.

To facilitate subsequent transfers, all 2011C/D/E 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 2011C/D/E 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 2011C/D/E 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. Beneficial Owners of the 2011C/D/E Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Issue 2011C/D/E Bonds, such as redemptions, defaults, and proposed amendments to the authorizing documents. For example, Beneficial Owners of the 2011C/D/E Bonds may wish to ascertain that the nominee holding the 2011C/D/E Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011C/D/E 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 MMI 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 2011C/D/E Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments on the 2011C/D/E Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, 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 depository with respect to the 2011C/D/E Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a

successor depository is not obtained, 2011C/D/E 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, 2011C/D/E Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

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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 2011C/D/E BONDS." Taken together, the 1991 Master Resolution, as previously amended and supplemented by subsequent resolutions of the Commission (collectively, the "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 2011C/D/E 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 (pursuant to the Lease and Use Agreements, this amount is limited to approximately 15% of concession revenues at the Airport).

Authorized Denominations means with respect to the 2011C/D/E 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 for a Variable Rate Bond in the Index Rate Mode, the SIFMA Rate plus the Applicable Spread determined pursuant to the Resolution.

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 2011C/D/E Bonds, May 1 and November 1 of each year, commencing on November 1, 2011.

Issue 1 Reserve Account means the Issue 1 Reserve Account established in the Reserve Fund pursuant to the 1991 Master Resolution 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, including the 2011C Bonds, the 2011D Bonds and the 2011E Bonds.

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, including the 2011C Bonds, the 2011D Bonds and the 2011E Bonds.

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 2011C/D/E 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 each 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* amount of original issue discount), 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, 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.

Issue 1 Reserve Account

The 1991 Master Resolution establishes the "Issue 1 Reserve Account" as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account. The 2011C Bonds, the 2011D Bonds, and the 2011E Bonds are a Participating Series secured by the Issue 1 Reserve Account.

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.

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. The 1991 Master Resolution further requires that any such Credit Facility provided in the form of a surety bond be issued by an institution then rated in the highest rating category, without regard to subcategories, by Moody's and Standard & Poor's, and that any such Credit Facility provided in the form of a letter of credit be issued by an institution then rated in at least the second highest rating category, without regard to subcategories, by Moody's and Standard & Poor's.

Any draw on any Credit Facility on deposit in a Reserve Account shall be made only after all the funds in such Reserve Account have been expended. In such event, draws on each Credit Facility shall be made on a pro rata basis to fund the insufficiency. The 1991 Master Resolution provides that a Reserve Account shall be replenished in the following priority: (i) principal of each Credit Facility shall be paid from first available Net Revenues on a pro rata basis to the extent that such payments will cause the amounts available to be drawn under each Credit Facility to be reinstated in an amount at least equal to such payments; and (ii) after all such amounts are paid in full, amounts necessary to fund a Reserve Account to the required level, after taking into account the amounts available under each Credit Facility shall be deposited from next available Net Revenues.

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 2011C/D/E BONDS" in the front portion of this Official Statement for a summary of the provisions related to the Series 2011C/D/E Bonds.

Funds and Accounts

The 1991 Master Resolution establishes the following funds and accounts:

Within the Costs of Issuance Fund:

Refunding Series 2011C/D/E Costs of Issuance Account

Within the Debt Service Fund:

Refunding Series 2011C Interest Account

Refunding Series 2011D Interest Account

Refunding Series 2011E Interest Account

Refunding Series 2011C Principal Account

Refunding Series 2011D Principal Account

Refunding Series 2011E Principal Account

Refunding Series 2011C Redemption Account

Refunding Series 2011D Redemption Account

Refunding Series 2011E Redemption Account

Within the Rebate Fund:
Refunding Series 2011C/D/E 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 2011C Bonds, the 2011D Bonds and the 2011E Bonds have each been designated as a Participating Series of Bonds with respect to the Issue 1 Reserve Account.

Application of Refunding Series 2011C/D/E Bonds Costs of Issuance Account

The 1991 Master Resolution requires the Trustee to apply moneys in the Refunding Series 2011C/D/E Costs of Issuance Account to the payment of costs of issuance of the 2011C/D/E Bonds. Amounts in the Series 2011C/D/E Costs of Issuance Account may be invested in any Permitted Investment.

Application of Series 2011C/D/E Debt Service Accounts

The Refunding Series 2011C Interest Account, the Refunding Series 2011C Principal Account and the Refunding Series 2011C Redemption Account are sometimes referred to herein as the Series 2011C Debt Service Accounts. The Refunding Series 2011D Interest Account, the Refunding Series 2011D Principal Account and the Refunding Series 2011D Redemption Account are sometimes referred to herein as the Series 2011D Debt Service Accounts. The Refunding Series 2011E Interest Account, the Refunding Series 2011E Principal Account and the Refunding Series 2011E Redemption Account are sometimes referred to herein as the Series 2011E Debt Service Accounts. The Supplemental Resolutions require the Trustee to apply moneys in the Refunding Series 2011C Interest Account, the Refunding Series 2011D Interest Account and the Refunding Series 2011E 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 Refunding Series 2011C Principal Account, the Refunding Series 2011D Principal Account and the Refunding Series 2011E 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 2011C/D/E 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 2011C/D/E Term Bonds at public or private sale as and when and at such prices (including brokerage and other expenses, but excluding accrued interest on 2011C/D/E Bonds, which is payable from the Refunding Series 2011C Interest Account, the Refunding Series 2011D Interest Account or the Refunding Series 2011E Interest Account, as applicable) as the Commission may in its discretion determine, but not to exceed the par value thereof. All 2011C/D/E 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 Refunding Series 2011C Redemption Account, the Refunding Series 2011D Redemption Account and the Refunding Series 2011E Redemption Account to the payment of the redemption price of the applicable Series of Bonds called for redemption. Accrued interest on 2011C/D/E Bonds redeemed pursuant to the 1991 Master Resolution will be paid from the Refunding Series 2011C Interest Account, the Refunding Series 2011D Interest Account or the Refunding Series 2011E Interest Account, as applicable.

In the event that the amount on deposit in any Series 2011C Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2011C Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Refunding Series 2011C Interest Account, the Refunding Series 2011C Principal Account or the Refunding Series 2011C 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 2011D Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2011D Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Refunding Series 2011D Interest Account, the Refunding Series 2011D Principal Account or the Refunding Series 2011D 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 2011E Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2011E Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Refunding Series 2011E Interest Account, the Refunding Series 2011E Principal Account or the Refunding Series 2011E 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 2011C/D/E 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 Refunding Series 2011C/D/E Rebate Account for purposes of ultimate rebate to the United States. Pending payment to the United States, moneys held in the Refunding Series 2011C/D/E 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 2011C/D/E 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 Refunding Series 2011C/D/E Rebate Account in Nonpurpose Investments (as defined in the Tax Certificate for the 2011C/D/E Bonds), as directed by the Commission in the Tax Certificate for the 2011C/D/E 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 Issue 1 Reserve Account, the 2009 Reserve Account or any Refunding Series Reserve Account shall be invested in Permitted Investments described in clauses (a) or (b) of the definition of Permitted Investments maturing no later than seven years after the date of purchase of said Permitted Investment. Amounts in Refunding Series Construction Accounts may be invested in any Permitted Investment. Amounts in the Series Escrow Funds shall be invested as provided in the corresponding Series Escrow Agreement.

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 2011C/D/E Bonds amounts from Net Revenues, as follows:

- (a) In each Refunding 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 2011C/D/E Bonds on the next succeeding semiannual interest payment date; provided, however, that no moneys need be deposited in the Refunding 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E Bonds minus one, and the aggregate amount of interest becoming due and payable on the applicable Series of 2011C/D/E Bonds on said interest payment date.

- (b) In each Refunding Series Principal Account in approximately equal monthly installments, commencing on the second Business Day of the month determined pursuant to a Refunding 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 Refunding Series of 2011C/D/E 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 2011C/D/E Bonds maturing by their terms on the next Principal Payment Date.
- (c) The Treasurer shall also transfer to the Trustee for deposit in each Refunding Series Principal Account in approximately equal monthly installments, commencing on or before the second Business Day of the month determined pursuant to a Refunding 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 Refunding Series Sale Resolution or Bond Purchase Contract for such Series.

APPENDIX D

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 form of Lease and Use Agreement (the “2011 Lease and Use Agreement”) with a majority of the airlines (“Signatory Airlines”) operating at the Airport. The following summary of the 2011 Lease and Use Agreements 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 Lease and Use Agreements take effect on July 1, 2011, following the expiration of the prior agreements with the Signatory Airlines on June 30, 2011. The 2011 Lease and Use Agreements expire on June 30, 2021.

Any airline that holds over with the Commission’s consent beyond the expiration date of its 2011 Lease and Use Agreement 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.

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 and Use Agreement, 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 and Use Agreement 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 Commission leases terminal space under the 2011 Lease and Use Agreements on an exclusive use basis, a preferential use basis, a joint use basis and a common-use basis, each 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 Lease and Use Agreements 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 are 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 and Use Agreement, 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 and Use Agreements provide that, no later than October 1 of each year, 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 has 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 is to notify in writing all Signatory Airlines of its determination with respect to common-use gates no later than December 1 of each Fiscal Year.

Common Use Ticket Counters and Support Facilities

As of the effective date of the 2011 Lease and Use Agreement, the Director is to 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 retains 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 are to 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 is to apply the following methodology to determine the total number of preferential use gates that are to 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 of each Fiscal Year, 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.

(h) 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 of each Fiscal Year, the Commission will provide Signatory Airlines notice of the assignments of preferential use gates and the locations of common-use gates, to be effective the following July 1.

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 the 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 60 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.

(d) 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 Lease and Use Agreements, 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 Lease and Use Agreements set forth 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 Lease and Use Agreements provide for 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 Lease and Use Agreements 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 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 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 Use Agreements 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 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 2011 Lease and Use Agreements, 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 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 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 Commission 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 its 2011 Lease and Use Agreement 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 and Use Agreement, 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 and Use Agreement, 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 and Use Agreements 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 and Use Agreement, 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 and Use Agreement.

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 and Use Agreement.

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 and Use Agreement 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 and Use Agreement. 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 and Use Agreement 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 and Use Agreement 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.

Payments from Commission to City

The 2011 Lease and Use Agreements 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. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City" in the forepart of this Official Statement.

"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 and Use Agreement. 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 2011 Lease and Use Agreements 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.

The 2011 Lease and Use Agreements provide that if a Signatory Airline was a signatory to certain prior agreements with the Airport or signed certain releases relating to prior litigation, that such Signatory Airline waives any rights it may have either under the prior agreements or by reason of such releases, to challenge any Annual Service Payments made after June 30, 2011.

The 2011 Lease and Use Agreements further provide that the Commission may 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.

Events of Default; Termination or Suspension of 2011 Lease and Use Agreement Provisions

Each of the following events constitutes an Event of Default under the 2011 Lease and Use Agreement: (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 and Use Agreement 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 and Use Agreement 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 leased premises and recover statutory damages from the Signatory Airline; (ii) not terminate the 2011 Lease and Use Agreement 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 and Use Agreement.

If a Signatory Airline fails to perform a duty under its 2011 Lease and Use Agreement 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 and Use Agreement 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 and Use Agreement 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 Commission 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 Commission to remedy such default in a timely manner as provided in the 2011 Lease and Use Agreement; (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 60 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 and Use Agreement. See “–*Commission’s Right to Suspend Part of 2011 Lease and Use Agreement*” 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.

Commission’s Right to Suspend Part of 2011 Lease and Use Agreement

In the event that the Annual Service Payments 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 and Use Agreements, including, but not limited to, supervening legislation or court decision, the Commission may elect to suspend uniformly as to all Signatory Airlines, all or some of the provisions of the 2011 Lease and Use Agreements 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 Commission’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 and Use Agreement 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 Payments 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 Use Agreement, and maintaining the relationships between rental rates for each category of space described in the 2011 Lease and Use Agreement.

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 Payments will be deemed to have been satisfied.

Upon resumption of the Annual Service Payments or receipt of an equivalent amount by City’s General Fund, the right of the Commission to suspend the provisions of the 2011 Lease and Use Agreements described above will terminate and the Commission will release any segregated amounts to the Airport 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 and Use Agreements 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 and Use Agreements will not obligate the City to make any appropriation from its General Fund for any payment due hereunder. No breach by the Commission under the 2011 Lease and Use Agreements will impose any pecuniary liability upon the Commission, other than from Revenues, or be payable from or constitute a charge upon the general credit or against the taxing power of the City.

West of Bayshore Lands

The 2011 Lease and Use Agreements restrict 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.

Other 2011 Lease and Use Agreement Covenants

The Commission covenants in the 2011 Lease and Use Agreements 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 and Use Agreements or as the Commission and Signatory Airlines may subsequently agree, the Commission may not to 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 and Use Agreement. The Commission, however, may impose and use passenger facility charges in accordance with applicable law.

In the 2011 Lease and Use Agreement, the Commission 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E Bonds, including persons holding 2011C/D/E 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.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean any of the original underwriters of the 2011C/D/E Bonds required to comply with the Rule in connection with offering of the 2011C/D/E Bonds.

“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.

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 Fiscal Year 2010-11, provide to the MSRB 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 MSRB, 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 MSRB, 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 MSRB an Annual Disclosure Report by the date required above, the Commission shall send a notice, in electronic format to the MSRB, 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. Ten Highest Revenue Producing Concessionaires (name, lease expiration, minimum annual rent, if any, and concession revenues).
7. Ten 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 made available to

the public on MSRB's website. The Commission shall clearly identify each such other document so included by reference.

Reporting of Significant Events

A. 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 events with respect to the 2011C/D/E Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

B. The Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2011C/D/E Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in subparagraph A5 above, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2011C/D/E Bonds or other material events affecting the tax status of the 2011C/D/E Bonds;
2. Modifications to rights of the 2011C/D/E Bond holders;
3. Optional, unscheduled or contingent the 2011C/D/E Bond calls;
4. Release, substitution, or sale of property securing repayment of the 2011C/D/E Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the

termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

Whenever the Commission obtains knowledge of the occurrence of an event listed in the paragraph B above, the Commission shall as soon as possible determine if such event would be material under applicable federal securities laws.

If the Commission learns of the occurrence of an event listed in A above or determines that knowledge of the occurrence of an event listed in paragraph B above would be material under applicable federal securities laws, the Commission shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in A.7 and B.3 above need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected 2011C/D/E 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 2011C/D/E 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 two paragraphs 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E 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 2011C/D/E Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the 2011C/D/E 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.

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 2011C/D/E Bonds, and shall create no rights in any other person or entity.

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APPENDIX F

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

Co-Bond Counsel expect to each deliver separate but identical opinions substantially in the form set forth below, subject to the matters discussed under “TAX MATTERS” in the Official Statement.

[Closing Date]

Airport Commission of the City
and County of San Francisco
San Francisco International Airport
San Francisco, California

Re: \$350,415,000
Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Refunding Bonds,
Series 2011C (AMT),
Series 2011D (Non-AMT/Governmental Purpose), and Series 2011E (Taxable)
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel to the Airport Commission of the City and County of San Francisco (the “Commission”) in connection with the issuance by the Commission of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2011C (AMT) (the “2011C Bonds”), Series 2011D (Non-AMT/Governmental Purpose) (the “2011D Bonds”), and Series 2011E (Taxable) (the “2011E Bonds” and, together with the 2011C Bonds and the 2011D Bonds, the “Bonds”), in the aggregate principal amount of \$350,415,000, issued pursuant to the Charter of the City and County of San Francisco (the “Charter”) and all laws of the State of California supplemental thereto (collectively, the “Law”), and Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as supplemented and amended to the date hereof, including as supplemented by the Certificate of Additional Terms of the Commission relating to the Bonds dated the date hereof (collectively, the “1991 Master Resolution”).

In such connection, we have reviewed the 1991 Master Resolution, the Charter, the Tax Certificate dated the date hereof (the “Tax Certificate”), certificates of the Commission, the Co-Financial Advisors, the Trustee, the Underwriters and others, opinions of counsel to the Commission, the Trustee and the Underwriters, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the 1991 Master Resolution.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded

with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Commission. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the 1991 Master Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2011C Bonds and the 2011D Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the 1991 Master Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the 1991 Master Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the Commission with respect to the Bonds, dated June 30, 2011, or any other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Commission.
2. The 1991 Master Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the Commission. The 1991 Master Resolution creates a valid pledge of Net Revenues to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds, subject to the provisions of the 1991 Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.
3. The Bonds are not a debt of the City and County of San Francisco, nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except Net Revenues. Neither the faith and credit nor the taxing power of the City and County of San Francisco is pledged to the payment of the principal of, redemption premium, if any, or interest on the Bonds, and the Commission is not obligated to pay the principal of, redemption premium, if any, and interest on the Bonds except from Net Revenues. The Commission has no taxing power.
4. Interest on the 2011C Bonds and the 2011D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any 2011C Bond for any period that such 2011C Bond is held by a "substantial user" of the facilities financed or refinanced by the proceeds of the 2011C Bonds, or by a "related person" within the meaning of Section 147(a) of the Code. Interest on the 2011E Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the 2011C Bonds is a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Interest on the 2011D Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although we observe that interest on the 2011D Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

2011E Taxable Bonds Circular 230 Disclaimer: Investors are urged to obtain independent tax advice regarding the 2011E Bonds based upon their particular circumstances. The tax discussion above regarding the 2011E Bonds was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the 2011E Bonds.

Faithfully yours,

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ANNEX I

LIST OF REFUNDED BONDS

Refunded Bonds

The Commission expects the Refunded Bonds will consist of certain maturities of the following:

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 15A Bonds (AMT)
Dated Date: January 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2020	\$11,755,000	5.000%	August 1, 2011	100%	L77
2021	12,425,000	5.000	August 1, 2011	100	L85
2022	13,145,000	5.000	August 1, 2011	100	L93
2025*	13,900,000	5.000	August 1, 2011	100	M43

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 16B Bonds (Non-AMT)
Dated Date: April 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2029*	\$9,275,000	4.750%	August 1, 2011	100%	X82

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. None of the Commission or the Underwriters take any responsibility for the accuracy of such numbers.

* Redemption of only a portion of this maturity.

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 17 Bonds (Non-AMT)
Dated Date: April 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2029*	\$3,960,000	4.750%	August 1, 2011	100%	2K9

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 18A Bonds (AMT)
Dated Date: July 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2022	\$16,820,000	5.000%	August 1, 2011	100%	3F9
2029*	6,235,000	5.000	August 1, 2011	100	3N2

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

**Issue 20 Bonds (Non-AMT)
Dated Date: October 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2026*	\$18,455,000	4.500%	August 1, 2011	100%	6Z2

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. None of the Commission or the Underwriters take any responsibility for the accuracy of such numbers.

* Redemption of only a portion of this maturity.

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**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 21 Bonds (Non-AMT)
Dated Date: October 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2026*	\$4,255,000	4.500%	August 1, 2011	100%	7Z1

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 22 Bonds (AMT)
Dated Date: December 1, 1998**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (797652)[†]</u>
2023*	\$10,785,000	4.750%	August 1, 2011	100%	8W7

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds**

**Issue 23A Bonds (AMT)
Dated Date: May 1, 1999**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (79765A)[†]</u>
2023	\$22,460,000	5.000%	August 1, 2011	100%	6H4

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

**Issue 27A Bonds (AMT)
Dated Date: June 15, 2001**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (79765A)[†]</u>
2019	\$ 7,340,000	5.125%	August 1, 2011	100%	TF3
2020	7,760,000	5.125	August 1, 2011	100	TG1
2021	8,200,000	5.125	August 1, 2011	100	TH9
2026*	37,415,000	5.250	August 1, 2011	100	TN6

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

**Issue 27B Bonds (Non-AMT)
Dated Date: June 15, 2001**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (79765A)[†]</u>
2022	\$ 7,510,000	5.000%	August 1, 2011	100%	6U5
2023	7,865,000	5.000	August 1, 2011	100	6V3
2026	43,955,000	5.125	August 1, 2011	100	UU8
2031	34,485,000	5.125	August 1, 2011	100	UZ7

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

**Issue 28A Bonds (AMT)
Dated Date: February 15, 2002**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (79765A)[†]</u>
2014	\$2,975,000	5.500%	May 1, 2012	100%	VS2
2015	3,135,000	5.500	May 1, 2012	100	VT0
2016	3,300,000	5.500	May 1, 2012	100	VU7
2017	3,480,000	5.250	May 1, 2012	100	VV5
2018	3,665,000	5.250	May 1, 2012	100	VW3

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

**Issue 30 Bonds (Non-AMT)
Dated Date: February 10, 2004**

<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP (79765A)[†]</u>
2015	\$ 6,540,000	5.250%	May 1, 2012	102%	ZR0
2016	11,270,000	5.250	May 1, 2012	102	ZS8

**Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Notes**

**Series 2008A-4 (AMT)
Dated Date: November 13, 2008
Mandatory Tender Date: May 1, 2012**

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Tender Price</u>	<u>CUSIP (79765A)[†]</u>
\$25,460,000	6.500%	100%	X50

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