



San Francisco International Airport

AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

January 22, 2016

The Airport Commission of the City and County of San Francisco (the “Commission”) hereby provides its Continuing Disclosure Annual Report (the “Report”). This Report contains the audited financial statements of the Commission for fiscal year ended June 30, 2015 (the “Audited Financial Statements”), as well as certain operating data and other information (the “Operating Data”) in connection with the following bond issues for the San Francisco International Airport:

Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY, LLC),
Series 1997A/B, dated September 1, 1997;
1997 Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY, LLC),
Series 2000A, dated June 1, 2000;
Second Series Taxable Revenue Refunding Bonds, Issue 31F, dated February 10, 2005;
Second Series Revenue Refunding Bonds, Issue 32F/G, dated November 16, 2006;
Second Series Revenue Refunding Bonds, Issue 34D-F, dated March 27, 2008;
Second Series Revenue Refunding Bonds, Issue 36A/B, dated May 7, 2008 (Converted to
Non-AMT June 3, 2009);
Second Series Revenue Refunding Bonds, Issue 36C, dated May 20, 2008 (Converted to
Non-AMT June 3, 2009);
Second Series Revenue Refunding Bonds, Issue 37C, dated May 15, 2008 (Converted to
Non-AMT June 3, 2009);
Second Series Revenue Refunding Bonds, Series 2009A/B, dated September 3, 2009;
Second Series Revenue Refunding Bonds, Series 2009C, dated November 3, 2009;
Second Series Revenue Refunding Bonds, Series 2009D, dated November 4, 2009;
Second Series Revenue Bonds, Series 2009E, dated November 18, 2009;
Second Series Revenue Refunding Bonds, Series 2010A, dated February 10, 2010;
Second Series Revenue Refunding Bonds, Series 2010C/D, dated April 7, 2010;
Second Series Revenue Refunding Bonds, Series 2010F/G, dated August 5, 2010;
Second Series Revenue Refunding Bonds, Series 2011A/B, dated February 22, 2011;
Second Series Revenue Refunding Bonds, Series 2011C-E, dated July 21, 2011;
Second Series Revenue Refunding Bonds, Series 2011F-H, dated September 20, 2011;
Second Series Revenue Refunding Bonds, Series 2012A/B, dated March 22, 2012;
Second Series Revenue Bonds, Series 2013A-C, dated July 31, 2013; and
Second Series Revenue Bonds, Series 2014A/B, dated September 24, 2014

(collectively, the “Bonds”).

The Audited Financial Statements and Operating Data are included in the Preliminary Official Statement, dated January 19, 2016, relating to the Commission’s San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2016A (the “Preliminary Official Statement”). The Preliminary Official Statement is attached hereto and incorporated by reference herein.

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE
MAYOR

LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

JOHN L. MARTIN
AIRPORT DIRECTOR

This Report is provided solely for the purposes of satisfying the Commission's obligations under its Continuing Disclosure Certificates which were executed in connection with the Bonds in order to assist the respective underwriters of the Bonds to satisfy their obligations under Rule 15c2-12 promulgated by the Securities and Exchange Commission. The filing of this Report does not constitute or imply any representation that the information herein is correct as of any time subsequent to the date hereof. The information contained in this Report has been obtained from officers, employees and records of the Commission and other sources that are believed to be reliable, but such information is not guaranteed as to its accuracy or completeness. No statement in this Report should be construed as a prediction or representation about the future operating results or financial performance of the Commission.

Very truly yours,

/s/ Kevin Kone

Kevin Kone

Capital Finance Director



SFO

San Francisco International Airport

Preliminary Official Statement

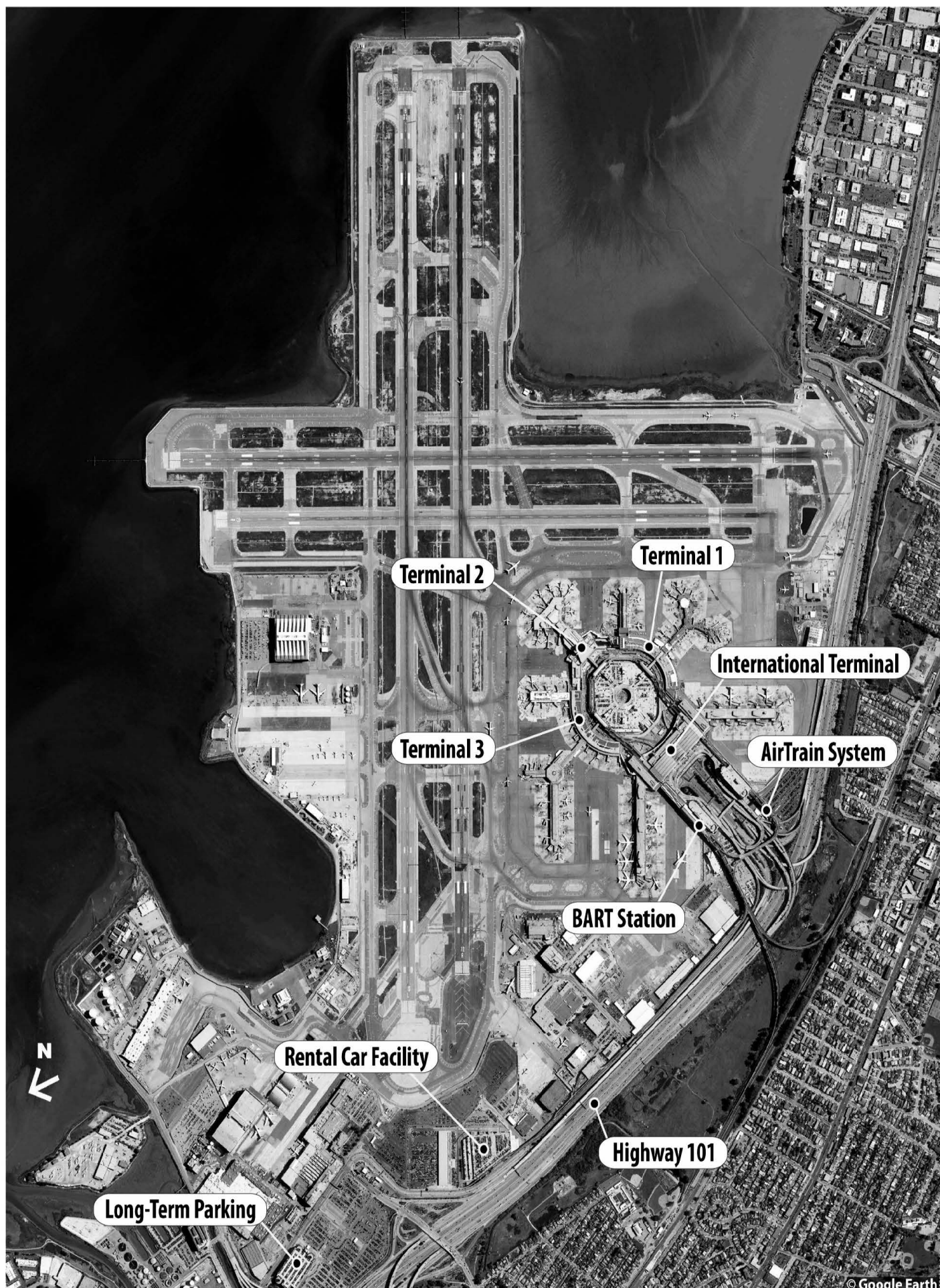
Airport Commission of the

City and County of San Francisco

San Francisco International Airport

Second Series Revenue Refunding Bonds

Series 2016A



NEW ISSUE—BOOK-ENTRY ONLY**RATINGS:****Moody's: A1****S&P: A+****Fitch: A+****(See "Ratings")**

In the opinion of Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes, and is not a specific item of tax preference for purposes of the federal alternative minimum tax, except that interest on the Series 2016A Bonds will be included in a corporate taxpayer's adjusted current earnings for purposes of computing its federal alternative minimum tax. Co-Bond Counsel are further of the opinion that interest on the Series 2016A Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.

\$239,765,000*
**AIRPORT COMMISSION OF THE
 CITY AND COUNTY OF SAN FRANCISCO
 SAN FRANCISCO INTERNATIONAL AIRPORT
 SECOND SERIES REVENUE REFUNDING BONDS
 SERIES 2016A
 (Non-AMT/Governmental Purpose)**

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

The Airport Commission (the "Commission") of the City and County of San Francisco (the "City") will issue \$239,765,000* principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2016A (the "Series 2016A Bonds") pursuant to the terms of the 1991 Master Resolution. The San Francisco International Airport (the "Airport") is an enterprise 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 its Bonds, including the Series 2016A Bonds.

The Commission will use the proceeds of the Series 2016A Bonds, together with other available moneys, to refund certain outstanding Bonds of the Commission and pay costs associated with the issuance of the Series 2016A Bonds.

The Series 2016A Bonds will mature on the dates and bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Series 2016A Bonds will be payable each May 1 and November 1, commencing May 1, 2016.

The Series 2016A Bonds are subject to optional and mandatory redemption prior to their stated maturity dates, as described herein.

The Series 2016A Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"). So long as Cede & Co. is the registered owner of any Series 2016A Bonds, payment of the principal of and interest on the Series 2016A Bonds will be made to Cede & Co. as nominee of DTC, which is required in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners.

The Series 2016A Bonds are special, limited obligations of the Commission, payable as to principal and interest 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 is pledged to the payment of the principal of or interest on the Series 2016A Bonds. No holder of a Series 2016A Bond shall have the right to compel the exercise of the taxing power of the City to pay the principal of or the interest on the Series 2016A Bonds. The Commission has no taxing power whatsoever.

The Series 2016A Bonds are offered when, as and if issued by the Commission and received by the Underwriters, subject to approval of legality by Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission, and certain other conditions. Certain legal matters will be passed upon for the Commission by Nixon Peabody LLP, Disclosure Counsel, and by the City Attorney, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. The Commission expects to deliver the Series 2016A Bonds through the facilities of DTC on or about February __, 2016, against payment therefor.

Wells Fargo Securities**Citigroup****Morgan Stanley**

Dated: _____, 2016

* Preliminary, subject to change.

\$239,765,000*
AIRPORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE REFUNDING BONDS
SERIES 2016A

MATURITY SCHEDULE*

<u>Maturity Date</u> <u>(May 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield/Price⁽¹⁾</u>	<u>CUSIP[†] No.</u>
--	------------------	----------------------	----------------------------------	------------------------------

\$ _____ * ____% Series 2016A Term Bonds maturing May 1, 20____
Price to Yield ____% (CUSIP[†] No. ____)

* Preliminary, subject to change.

⁽¹⁾ The Underwriters provided the initial reoffering yields and prices.

[†] Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by S&P Capital IQ. This information is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the Commission or the Underwriters and are included solely for the convenience of the registered owners of the applicable Series 2016A Bonds. Neither the Commission nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Series 2016A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Series 2016A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2016A Bonds.

CITY AND COUNTY OF SAN FRANCISCO

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

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Linda S. Crayton, *Vice President*

Richard J. Guggenheim

Eleanor Johns

Peter A. Stern

John L. Martin, *Airport Director*

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Aaron Peskin, *District 3*

Katy Tang, *District 4*

Jane Kim, *District 6*

Norman Yee, *District 7*

Scott Wiener, *District 8*

David Campos, *District 9*

Malia Cohen, *District 10*

John Avalos, *District 11*

CONSULTANTS AND ADVISORS

CO-FINANCIAL ADVISORS

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San Francisco, California

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

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Los Angeles, California

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San Francisco, California

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Amira Jackmon, Attorney at Law
Berkeley, California

DISCLOSURE COUNSEL

Nixon Peabody LLP
San Francisco, California

VERIFICATION AGENT

Grant Thornton LLP

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 Series 2016A 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 Series 2016A 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 Series 2016A 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 Series 2016A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Series 2016A 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 Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and Fitch Ratings, 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 any of 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.

Web Sites Not Incorporated. References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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OFFICIAL STATEMENT
\$239,765,000*
AIRPORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE REFUNDING BONDS
SERIES 2016A
(Non-AMT/Governmental Purpose)

INTRODUCTION

The Airport Commission of the City and County of San Francisco (the “Commission”) will issue \$239,765,000* aggregate principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2016A (the “Series 2016A Bonds”).

The Commission authorized the Series 2016A Bonds under Resolution No. 91-0210, which the Commission adopted on December 3, 1991, as supplemented and amended (the “1991 Master Resolution”). The Series 2016A 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.” Capitalized terms used and not defined in this Official Statement have the meanings given those terms in the 1991 Master Resolution. The Commission has appointed The Bank of New York Mellon Trust Company, N.A. to act as trustee (the “Trustee”) for the Bonds, including the Series 2016A Bonds. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions.”

The Commission will use the proceeds of the Series 2016A Bonds, together with other available moneys, to refund certain outstanding Bonds of the Commission and pay costs associated with the issuance of the Series 2016A Bonds. See “REFUNDING PLAN.” The Series 2016A 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 Series 2016A 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 Commission’s other Outstanding Bonds and any additional Bonds issued under the 1991 Master Resolution, which, as of December 31, 2015, were outstanding in the amount of approximately \$4.5 billion. See “SECURITY FOR THE SERIES 2016A BONDS” and “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Currently Outstanding Bonds.” The proceeds of additional Bonds are expected to be a significant source of funding for the Commission’s Capital Plan. See “SECURITY FOR THE SERIES 2016A BONDS—Additional Bonds” and “CAPITAL PROJECTS AND PLANNING—The Capital Plan.” The Series 2016A Bonds will also be secured by the Original Reserve Account. See “SECURITY FOR THE SERIES 2016A BONDS—Reserve Fund; Reserve Accounts; Credit Facilities—Original Reserve Account.”

This Official Statement contains brief descriptions or summaries of, among other things, the Series 2016A Bonds, the 1991 Master Resolution, the 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

The Commission will apply a portion of the proceeds from the sale of the Series 2016A Bonds, together with certain other available moneys, to establish an irrevocable escrow to refund all or a portion of the Outstanding Bonds listed and identified as the Refunded Bonds on ANNEX I—“LIST OF REFUNDED BONDS” (collectively, the “Refunded Bonds”). The Refunded Bonds will be determined based on market conditions at the time of pricing.

* Preliminary, subject to change.

The portion of the proceeds of the Series 2016A 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 February 1, 2016 (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, together with investment earnings thereon, to pay the principal and redemption price of, including premium, if any, and interest on, the Refunded Bonds through the redemption thereof. Amounts so deposited may be invested in United States Treasury securities. The Refunded Bonds will be called for redemption on the dates and at the prices set forth on ANNEX I-“LIST OF REFUNDED BONDS.” See also “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds for the Series 2016A Bonds.

SOURCES OF FUNDS:

Principal Amount	\$
<i>Plus (Minus):</i> Net Original Issue Premium (Discount)	
Other Funds of the Airport ⁽¹⁾	
TOTAL	<u>\$</u>

USES OF FUNDS:

Deposit to Escrow Fund	\$
Underwriters’ Discount	
Costs of Issuance ⁽²⁾	
TOTAL	<u>\$</u>

(1) Represents moneys released from various funds and accounts relating to the Refunded Bonds under the 1991 Master Resolution.

(2) Includes fees and expenses of Co-Bond Counsel, Disclosure Counsel, the Co-Financial Advisors and the Trustee, printing costs, rating agency fees, and other miscellaneous costs associated with the issuance of the Series 2016A Bonds.

DESCRIPTION OF THE SERIES 2016A BONDS

General

The Series 2016A Bonds will be dated their date of issuance. The Series 2016A Bonds 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 Series 2016A Bonds will be payable on May 1 and November 1 of each year, commencing May 1, 2016 (each an “Interest Payment Date”). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Series 2016A 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 of The Depository Trust Company (“DTC”). Beneficial ownership interests in the Series 2016A Bonds will be available in book-entry form only, in Authorized Denominations of \$5,000 and any integral multiple thereof. Purchasers of beneficial ownership interests in the Series 2016A Bonds (“Beneficial Owners”) will not receive certificates representing their interests in the Series 2016A Bonds purchased. While held in book-entry only form, all payments of principal of and interest on the Series 2016A Bonds will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series 2016A 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

The Series 2016A Bonds maturing on or before May 1, 20__ are not subject to optional redemption. The Series 2016A Bonds maturing on and after May 1, 20__ are subject to redemption prior to their 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, 20__, at a redemption price equal to 100% of the principal amount of the applicable Series 2016A Bonds called for redemption, together with accrued and unpaid interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption

The Series 2016A Bonds maturing on May 1, 20__ are subject to redemption prior to their stated maturity date, in part, by lot, from mandatory sinking fund payments, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date of redemption, without premium, on the dates and in the amounts, as set forth below:

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Payment
---	---

† Maturity.

Selection of Series 2016A Bonds for Redemption

The Commission shall select the maturities within the Series of the Series 2016A Bonds to be redeemed in the case of an optional redemption. Except as otherwise described in APPENDIX B–“INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM,” if less than all of a maturity of the Series 2016A Bonds is to be redeemed, the Series 2016A Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall determine. If the Series 2016A Bonds to be redeemed are Term Bonds, the Commission shall designate to the Trustee the mandatory sinking fund payment or payments against which the principal amount of the Series 2016A Bonds redeemed shall be credited.

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 2016A Bonds to be redeemed, all organizations registered with the Securities and Exchange Commission (the “SEC”) as securities depositories and at least two information services of national recognition which disseminate redemption information with respect to municipal securities.

So long as the Series 2016A 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 Series 2016A Bonds, and not directly to the Beneficial Owners.

* Preliminary, subject to change.

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 Series 2016A Bonds will be issued only as fully registered securities, with the privilege of transfer or exchange in Authorized Denominations for Series 2016A Bonds of an equal aggregate principal amount bearing the same interest rate and having the same maturity date, as set forth in the 1991 Master Resolution. All such transfers and exchanges shall be without charge to the owner, with the exception of any taxes, fees or other governmental charges that are required to be paid to the Trustee as a condition to transfer or exchange. While the Series 2016A Bonds are in book-entry only form, beneficial ownership interests in the Series 2016A 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 Series 2016A Bonds, or portions thereof, becoming due, together with all interest accruing thereon to the due date or redemption date, and if the Commission provides for any required notice of redemption prior to maturity, such Series 2016A 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 Series 2016A Bonds, the Owner or Owners of such Series 2016A 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 Series 2016A Bonds. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Defeasance."

SECURITY FOR THE SERIES 2016A BONDS

Authority for Issuance

The Series 2016A Bonds will be 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 to the City pursuant to the Charter.

Pledge of Net Revenues; Source of Payment

Pledge of Net Revenues

The Series 2016A Bonds, together with all Bonds issued and to be issued pursuant to the 1991 Master Resolution, are referred to herein 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 the 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 Series 2016A Bonds will be secured by a pledge of, lien on and security interest in the 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, (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 unless designated as Revenues by the Commission; (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 not deemed to be Revenues in accordance with GAAP; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property of the City.

“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 for amortization, 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 GAAP, 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. Operating and Maintenance Expenses 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 Commission employees.

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 Series 2016A Bonds; the Net Revenues and such other funds were immediately subject to such pledge; and such pledge constitutes a lien and security interest which immediately attaches to such Net Revenues and other funds and is 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”

PFCs as Revenues. 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”) and began collecting PFCs in 2001 in an amount of \$4.50 per enplaning passenger. The Commission’s most recent PFC application was approved by the FAA in June 2015 and extended the authorized PFC collection period through March 1, 2026. The Commission is working to further extend the collection period and increase the total amount it is authorized to collect. 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 2005-06 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 the Bonds. In the absence of such PFC collections, the Airport would have to increase its rates and fees, including landing fees and terminal rental rates, and/or reduce operating expenses in the aggregate by a corresponding amount. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge” and “CERTAIN RISK FACTORS–Availability of PFCs.”

Offsets Against Operating Expenses. 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 has done so in the past, but only in extraordinary circumstances.

Unearned Aviation Revenues. 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 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’s cumulative unearned aviation revenues (previously referred to as deferred aviation revenues) have increased from \$54.5 million in Fiscal Year 2010-11 to \$55.7 million in Fiscal Year 2014-15. The Commission is obligated to reduce future rates and charges by a corresponding amount. However, the cash-on-hand resulting from any such over-collection is available in the interim to pay operating expenses, debt service on Bonds or other amounts in the event that Revenues are unexpectedly low or expenses are unexpectedly high in the course of a given Fiscal Year.

Conversely, if there is an under-collection in any year, that shortfall 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 Lease and Use Agreements to pay such deficiency from future rates and charges. Any under-collection would result in a corresponding reduction in liquidity available to the Airport for operating and other expenses. The Commission may also increase terminal rental rates and/or landing fees at any time during a 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. See “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements.”

Special Limited Obligations

The Series 2016A Bonds are special, limited obligations of the Commission, payable as to principal and interest 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 is pledged to the payment of the principal of or interest on the Series 2016A Bonds. No owner of a Series 2016A Bond shall have the right to compel the exercise of the taxing power of the City to pay the principal of the Series 2016A Bonds or the interest 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 (there have been no such general obligation bonds outstanding for more than 30 years), and (ii) to make the Annual Service Payment to the City as described under “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Payments to the City–Annual Service Payment”; 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 November 30, 2015, the balance in the Contingency Account available for transfer, as described below, was approximately \$94.0 million, which was equal to approximately 26.2% of Maximum Annual Debt Service on the Bonds as of that date. If the Commission maintains the Contingency Account at approximately \$92.5 million, such balance is expected to be a lower percentage of Maximum Annual Debt Service in the future due to the anticipated issuance of additional Bonds in the future. The Commission may consider increasing the balance in the Contingency Account in the future but it is not obligated to do so. Except for transfers to the Revenues Account described in the following paragraph, the Commission has maintained approximately \$92.5 million in the Contingency Account for more than ten years, prior to which time the balance was more than \$55 million. The Commission 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 “--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 on deposit in the Contingency Account may have an adverse effect on debt service coverage for such Fiscal Year and subsequent Fiscal Years. The Commission is not obligated to replenish the Contingency Account in the event amounts are withdrawn therefrom. See “--Rate Covenant.”

Flow of Funds

The application of Revenues 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 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 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

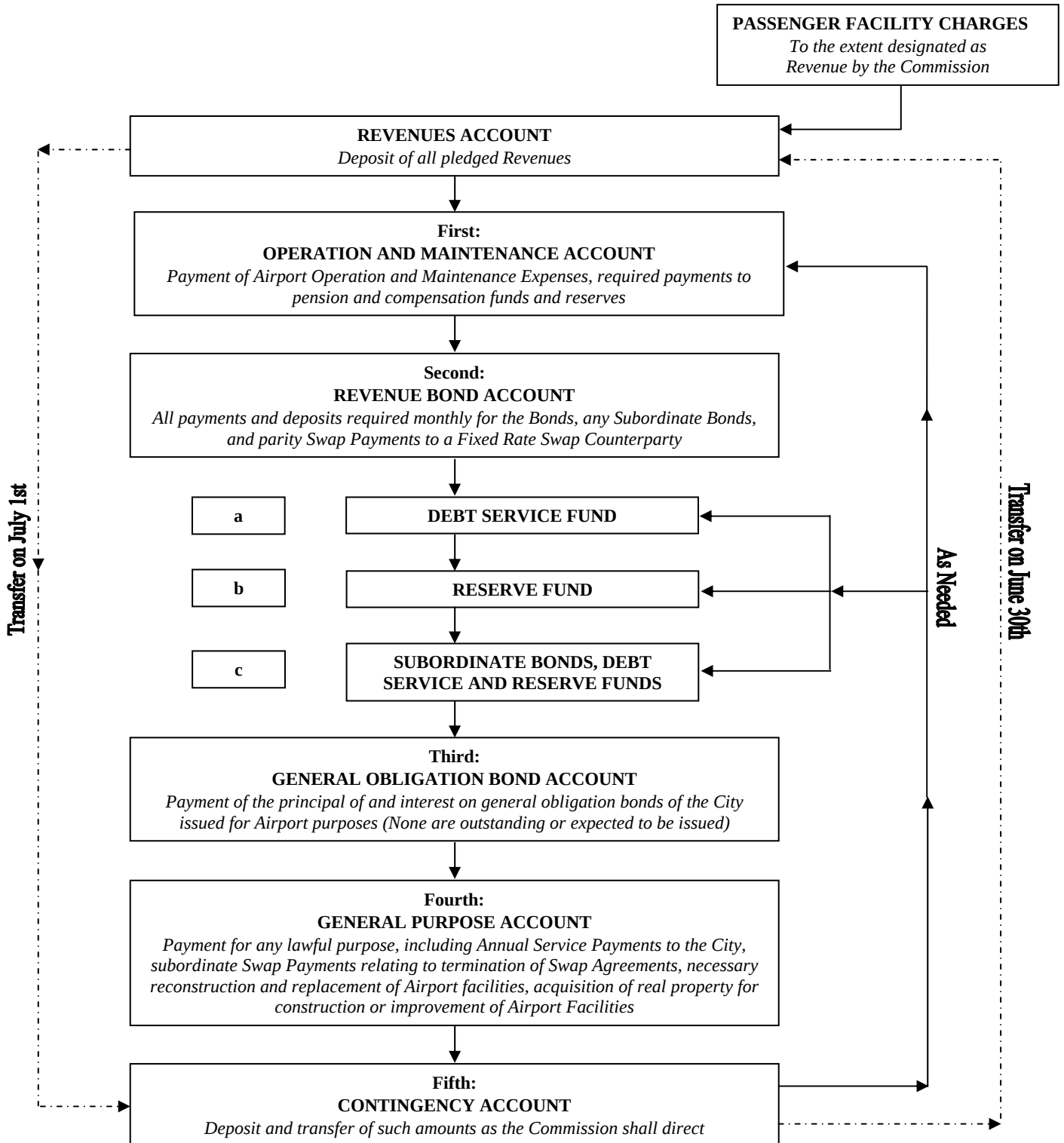
Fifth: to the Contingency Account, such amount as the Commission shall direct.

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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 Series 2016A 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.

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 "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."

Proceeds of additional Bonds are expected to be a significant source of funding for the Commission's Capital Plan. See "CAPITAL PROJECTS AND PLANNING—The Capital Plan." The Commission expects to issue additional Bonds (in addition to the Series 2016A Bonds) to generate approximately \$2.7 billion in funds for capital projects (exclusive of costs of issuance and reserve fund deposits) between Fiscal Years 2015-16 and 2019-20, including approximately \$703 million in Fiscal Year 2016-17. The timing and amounts of additional Bonds may

change depending on the timing of capital expenditures and market conditions. See “CAPITAL PROJECTS AND PLANNING – The Capital Plan.”

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 Commission expects that the Series 2016A Bonds will meet the requirement 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 (each, an “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 Issues 36A, 36B and 36C Bonds and the Series 2009C, 2010A and 2010D Bonds.

The Series 2016A Bonds will be designated as an Original Reserve Series and will be secured by the Original Reserve Account.

The 1991 Master Resolution also established the pooled “2009 Reserve Account” (the “2009 Reserve Account”) in the Reserve Fund as security for each series of Bonds (each, 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.

As permitted under the 1991 Master Resolution, the Commission does not maintain a reserve account for the Issue 36A, 36B or 36C Bonds or the Series 2010A Bonds, all of which are secured by letters of credit.

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 debt service on the Series 2016A Bonds.

Original Reserve Account

The Series 2016A Bonds 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.

The reserve requirement for the Original Reserve Account (the “Original Reserve Requirement”) is an amount equal to Aggregate Maximum Annual Debt Service. Aggregate Maximum Annual Debt Service means the maximum amount of Annual Debt Service on all Outstanding Original Reserve Series of Bonds in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of such Bonds. The Original Reserve Requirement can be funded with cash, Permitted Investments and/or Credit Facilities.

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 has previously deposited in the Original Reserve Account reserve policies in an aggregate amount of \$56.9 million issued by (i) MBIA Insurance Corporation (“MBIA”) and (ii) Financial Guaranty Insurance Company (“FGIC”). The reserve policies from MBIA and FGIC were subsequently reinsured by National Public Finance Guarantee Corporation (“National”). The 1991 Master Resolution requires that a reserve policy deposited in the Original Reserve Account must be from a credit provider rated in the highest rating category by at least two rating agencies. However, the 1991 Master Resolution does not require that those ratings be maintained after the date of deposit of such reserve policy to the Original Reserve Account. See APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Debt Service and Reserve Funds–*Application and Valuation of the Reserve Accounts.*” Moody’s and Standard & Poor’s currently rate the claims-paying ability and financial strength of National “A3” (negative outlook) and “AA-” (stable), respectively. Information concerning National is available in reports and statements filed by National with the SEC. This information is available on the SEC’s website at <http://www.sec.gov>. The Commission does not have any current plans to obtain additional Credit Facilities for the Original Reserve Account.

As of December 31, 2015, the Original Reserve Requirement was \$358.9 million and the balance in the Original Reserve Account was \$420.4 million, including \$363.5 million of cash and Permitted Investments (approximately 101.3% of the Original Reserve Requirement).

Original Reserve Account Balance As of December 31, 2015	
Cash and Permitted Investments	\$363.5 million
Reserve Policies	
National (FGIC) Reserve Policies	15.1 million
National (MBIA) Reserve Policies	41.8 million
SUBTOTAL RESERVE POLICIES	<u>\$ 56.9 million</u>
TOTAL	<u><u>\$420.4 million</u></u>

Following the issuance of the Series 2016A Bonds, the Original Reserve Requirement will be \$_____ million. Subsequent to the issuance of the Series 2016A Bonds, total cash and Permitted Investments in the Original Reserve Account are expected to equal \$_____ million, or _____% of the Original Reserve Requirement.

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.

2009 Reserve Account

The Series 2016A Bonds are NOT secured by the 2009 Reserve Account.

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.

The reserve requirement for each 2009 Reserve Series is equal to the lesser of: (i) Maximum Annual Debt Service for such Series of 2009 Reserve Series Bonds, (ii) 125% of average Annual Debt Service for such Series of 2009 Reserve Series Bonds, and (iii) 10% of the outstanding principal amount of such Series of 2009 Reserve Series Bonds (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 of Bonds is the aggregate of such amounts for each individual Series (the “2009 Reserve Requirement”). The 2009 Reserve Requirement can be funded with cash, Permitted Investments and/or reserve policies.

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 1991 Master Resolution requires that a reserve policy deposited in the 2009 Reserve Account must be from a credit provider rated in the highest rating category by at least two rating agencies. The 1991 Master Resolution, however, 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*.”

The Commission previously deposited in the 2009 Reserve Account a reserve policy issued by Financial Security Assurance Inc. (“FSA”), which was later acquired by an affiliate of Assured Guaranty Corporation (“Assured”) and renamed Assured Guaranty Municipal Corp. (“AGM”). AGM is currently rated “A2” (stable) by Moody’s and “AA” (stable) by S&P.

As of December 31, 2015, the 2009 Reserve Requirement was \$15.6 million and the balance in the 2009 Reserve Account was \$22.6 million. The full amount of the 2009 Reserve Requirement is satisfied by the \$19.2 million of cash and Permitted Investments held in the account (approximately 123.4% of the 2009 Reserve Requirement).

2009 Reserve Account Balance	
As of December 31, 2015	
Cash and Permitted Investments	\$19.2 million
AGM Reserve Policy	3.4 million [†]
	<u>\$22.6 million</u>

[†] Under the terms of this AGM reserve policy, the value may be adjusted downward under certain circumstances and may have experienced a reduction in value.

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. Any amounts on deposit in the 2009 Reserve Account in excess of the 2009 Reserve Requirement may be withdrawn by the Commission.

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 short-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 facility 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. Also see “CERTAIN RISK FACTORS–Limitation of Remedies” and “–Potential Impact of a City Bankruptcy.”

Other Indebtedness

General

In addition to the Series 2016A 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 outstanding at any one time 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 by the Commission on May 20, 1997, as amended and supplemented (the “Subordinate Resolution”). The terms and provisions of the Subordinate Resolution are substantially similar to those of the 1991 Master Resolution, with the exception that the Subordinate Resolution provides that payment of the Commercial Paper Notes, and repayment of amounts drawn on the letters of credit with respect thereto, is secured by a lien on Net Revenues subordinate to the lien of the 1991 Master Resolution securing the Bonds. See “–Contingent Payment Obligations.”

The Commission has obtained three irrevocable direct-pay letters of credit totaling \$400 million in available principal component to support the Commercial Paper Notes. These letters of credit are described in the following table.

LETTERS OF CREDIT FOR COMMERCIAL PAPER NOTES

	Series A-1 Notes, Series B-1 Notes, Series C-1 Notes	Series A-3 Notes, Series B-3 Notes, Series C-3 Notes	Series A-4 Notes, Series B-4 Notes, Series C-4 Notes
Principal Amount	\$100,000,000	\$200,000,000	\$100,000,000
Expiration Date	May 2, 2019	May 19, 2017	June 17, 2016
Credit Provider	State Street ⁽¹⁾	Royal Bank of Canada	Wells Fargo ⁽²⁾
Credit Provider Ratings ⁽³⁾			
Short-Term	P-1/A-1+/F1+	P-1/A-1+/F1+	P-1/A-1+/F1+
Long-Term	Aa2/AA-/AA	Aa3/AA-/AA	Aa1/AA-/AA

(1) State Street Bank and Trust Company.

(2) Wells Fargo Bank, National Association.

(3) As of December 31, 2015. 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. The Commission does not 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. Reflects the ratings of the credit provider, not the rating on the related Commercial Paper Notes. Ratings on related Commercial Paper Notes may be different. Ratings for the Credit Providers are displayed as Moody's/S&P/Fitch.

Source: Commission.

As of December 31, 2015, there was approximately \$220 million of Commercial Paper Notes outstanding.

Special Facility Bonds

The Commission may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or part of any facility or structure at the Airport as a Special Facility, (b) provide that revenues earned by the Commission from or with respect to such Special Facility shall constitute “Special Facility Revenues” and shall not be included as Revenues, and (c) issue Special Facility Bonds for the

purpose of acquiring, constructing, renovating, or improving such Special Facility. The designation of an existing facility as a Special Facility therefore could result in a reduction in Revenues. 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: its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A (AMT), of which \$65,760,000 was outstanding as of December 31, 2015; and its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A, of which \$12,295,000 was outstanding as of December 31, 2015 (collectively, the “SFO Fuel Bonds”). The SFO Fuel Bonds are payable from and secured by payments made by SFO Fuel Company, LLC, 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. The Commission may issue additional Special Facility Bonds for SFO Fuel in 2016. 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.

Airport Hotel Bonds

The Commission anticipates issuing up to \$225 million of San Francisco International Airport Hotel Special Facility Revenue Bonds (the “Hotel Special Facility Bonds”) in Fiscal Year 2016-17 to finance the development and construction of a new Airport-owned Grand Hyatt hotel. The Commission expects to use the proceeds of additional Bonds to purchase these special facility revenue bonds. See “CAPITAL PROJECTS AND PLANNING – The Capital Plan.”

Rights of Bond Insurers

The Commission purchased municipal bond insurance policies with respect to approximately 15.4% of its outstanding Series of Bonds from AGM, Assured and National (each, a “Bond Insurer”). The 1991 Master Resolution provides Bond Insurers with various affirmative rights in connection with the Bonds which they insure. These rights include, among others: (a) the right to consent to any amendment to the 1991 Master Resolution requiring the consent of Owners of the Bonds secured by the Bond Insurer’s bond insurance policy (“Insured Bonds”); (b) the right to consent to the deposit of a Credit Facility in lieu of cash in the reserve account which secures the Insured Bonds; (c) the right to be deemed to be the Owner of the Insured Bonds upon the occurrence of an Event of Default with respect to such Bonds for purposes of any consent or direction, appointment, request or waiver to be provided; and (d) the right to institute any suit, action or proceeding under the same terms under the 1991 Master Resolution as an Owner of such Insured Bonds.

Under the terms of the 1991 Master Resolution, however, the foregoing rights remain in effect only for so long as, among other things: (i) the Bond Insurer’s bond insurance policy is in effect, (ii) the Bond Insurer is not in default under its policy, and (iii) the Bond Insurer is not Insolvent. For a definition of “Insolvent,” see APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Certain Definitions.” Some of the Bond Insurers may be Insolvent, and thus may not have the rights otherwise provided by the 1991 Master Resolution. The

Commission makes no representation as to the respective rights of the Owners and the Bond Insurer for a Series of Insured Bonds in the event the Bond Insurer is now, or were later determined to be, Insolvent.

CERTAIN RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2016A Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2016A Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2016A Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2016A 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

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; visa requirements and other limitations on the ability of foreign citizens to enter the United States; 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 “–Bankruptcy of Airlines Operating at the Airport” and “–Competition” and “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–Potential Effects of an Airline Bankruptcy.”

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 determinant 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 in the future 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 Commission 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.” Past declines in Airport passenger traffic have adversely affected, and future declines may 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 Commission 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 “–Bankruptcy of Airlines Operating at the Airport” and “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. If a bankruptcy case is filed with respect to an airline operating at the Airport, the Lease and Use Agreement to which the debtor airline is a party will be treated as an executory contract or unexpired lease pursuant to Section 365 of the United States Bankruptcy Code (the “Bankruptcy Code”). Under Section 365, a trustee in bankruptcy or the airline as debtor-in-possession might reject the Lease and Use Agreement to which such airline is a party, in which case, among other things, the rights of that airline to continued possession of the facilities subject to the lease (including gates and boarding areas) would terminate. Such facilities could ultimately be leased by the Commission 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, if any, resulting from the airline’s bankruptcy, and on the need for such facilities by other airlines. The rejection of a 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, in any airline bankruptcy the Commission may be required to repay landing fees, terminal rentals and other amounts paid by the airline to the Airport during the 90-day period prior to the date of the bankruptcy filing. Such payments are considered “preferential” and are avoidable and recoverable in a bankruptcy case pursuant to Section 547 of the Bankruptcy Code. The Commission would, however, likely have defenses to any claims brought under Section 547 of the Bankruptcy Code, including that the subject payments were made in the ordinary course of business or that the Airport provided subsequent new value to the airline.

Also, under the Bankruptcy Code, any rejection of a 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 further discussion of the impact of an airline bankruptcy, see “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Potential Effects of an Airline Bankruptcy.*”

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 Airline Bankruptcy.*”

Airline Concentration; Effect of Airline Industry Consolidation

United Airlines and Continental Airlines merged in October 2010, received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. United Airlines, together with Skywest and United Express, was responsible for 45.2% of the Airport’s total enplanements and 41.7% of the Airport’s total revenue landed weight in Fiscal Year 2014-15. The Airport serves as a hub airport for United Airlines. If United Airlines were to reduce or cease connecting service at the Airport, such flights would not necessarily be replaced by other airlines. 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 or another airline 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, on December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015. Also, in May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of Air Tran Airways. The airlines combined operating certificates in March 2012 and operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines. 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/or increased costs for the other airlines serving the Airport.

Availability of PFCs

The Commission has designated \$58.1 million of PFC collections to be included in “Revenues” and used to pay debt service as needed in Fiscal Year 2015-16. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.” PFCs that are designated as Revenues are taken into account in determining whether the rate covenant and additional bonds test described under “SECURITY FOR THE SERIES 2016A BONDS –Additional Bonds” are satisfied.

The Commission’s receipt of PFC revenues is subject to several risks. First, the Commission’s current PFC authorization is estimated to expire on March 1, 2026. For a discussion of the PFC applications, see “AIRPORT’S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge.” 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 rates and fees, including landing fees and terminal rentals, and/or reduce operating expenses to pay debt service costs.

Reduction in FAA Grants

The Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. 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.”

In federal fiscal year ending September 30, 2014, the FAA provided discretionary grants of \$38.6 million, \$11.9 million less than the Airport had requested, as a result of the amount of the Annual Service Payments. In federal fiscal year ending September 30, 2015, the Airport did not apply for discretionary grants. The FAA may continue to reduce discretionary grants in the future. The reduction in discretionary grants awarded to the Airport increases by a corresponding amount the capital expenditures that the Commission needs to fund from other sources, including operating revenues, PFCs and Bond proceeds. Project costs are subject to audit by the funding agencies 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 respective funding agencies. Also see “CAPITAL PROJECTS AND PLANNING – Federal Grants.”

The FAA currently disburses grant funds to the Airport through its Airport Improvement Program (the “AIP”), however there are several proposals that would reduce or eliminate funding for the AIP. Additional proposals to reduce or eliminate AIP funding may be made in the future. The Commission is unable to predict whether or in what form any such proposals will be adopted.

Additional Long-Term Debt

Revisions to the Commission’s five-year Capital Plan that correspond to the period between Fiscal Year 2015-16 and Fiscal Year 2019-20 and ten-year Capital Plan that correspond to the period between Fiscal Year 2015-16 and Fiscal Year 2024-25 were approved by the Commission on February 17, 2015. The five-year Capital Plan includes an aggregate of \$2.8 billion in projects, of which \$84.8 million are expected to be funded with AIP funds and other grants, \$24.1 million with Airport operating funds, \$47 million with PFC revenue, and \$2.7 billion with Bond proceeds. The forecast of capital needs from Fiscal Year 2020-21 to Fiscal Year 2024-25 adds an additional \$1.8 billion in projects for a 10-year total of \$4.5 billion. The Commission is in the process of updating its Five-Year Capital Plan. The Commission anticipates that the new plan will have a higher cost than the existing one. The Commission bases its Bond issuance needs on capital project cash flows, which includes projects budgeted in prior

capital plans and does not include project costs if the cash flows extend beyond the planning period. The Commission expects that it will experience an aggregate increase in debt service costs when it issues these additional Bonds which will likely increase landing fees and terminal rentals at the Airport, which may increase the costs of the airlines serving at the Airport and may make the costs of the Airport to airlines less competitive than competing airports. On the other hand, if the Commission does not make improvements, its facilities may be less attractive to passengers and airlines. The Commission continues to evaluate capital projects based on the risk, passenger demand, asset condition, and Commission's financial position. For further discussion of planned capital projects, see "CAPITAL PROJECTS AND PLANNING—The Capital Plan." The Commission expects to issue additional Bonds to generate approximately \$2.7 billion in funds for capital projects (exclusive of costs of issuance and reserve fund deposits) between Fiscal Years 2015-16 and 2019-20, including approximately \$703 million in Fiscal Year 2016-17 (approximately \$243 million of which will be used to purchase Hotel Special Facility Bonds as described under "CAPITAL PROJECTS AND PLANNING—The Capital Plan"). The timing and amounts of additional Bonds may change depending on the timing of capital expenditures and market conditions. The Commission also may decide to undertake other capital projects in the future that are not in the Capital Plan.

Competition

Metropolitan Oakland International Airport (the "Oakland Airport") and Norman Y. Mineta San Jose International Airport (the "San Jose Airport") are the other airports in the Bay Area that compete with the Airport for passengers and cargo traffic. In addition, the Airport competes with other West Coast airports, primarily Los Angeles International Airport, for international passengers. Competition from these airports, along with potential competition from Seattle-Tacoma International Airport, may affect passenger and cargo demand at the Airport. 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. Construction of the high speed rail system commenced in the Sacramento San Joaquin Valley in 2014. The Commission is unable to predict whether a high-speed rail system will be completed, what areas of the State it would serve, or the effect that any such high-speed rail system 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 FAA. 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 communicable diseases which may arise. In spring 2003, there was an outbreak of a serious strain of bird flu in Asia and Canada called "Severe Acute Respiratory Syndrome" or SARS. That, together with the outbreak of the war in Iraq and other factors at about the same time, resulted in a temporary but significant decline in passenger activity at the Airport of approximately 14% in the second quarter of Fiscal Year 2002-03, and approximately 7% for the year as a whole.

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 Commission is unable to predict how serious such a 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 Commission 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 on the San Andreas fault was an earthquake measuring 7.1 on the Richter scale that occurred in October 1989. On August 24, 2014, the San Francisco Bay Area experienced a 6.0 earthquake centered near Napa along the West Napa fault. The Airport did not suffer any damage as a result of this earthquake.

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, damage to 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*." In addition, a major earthquake could adversely affect the economy of the Bay Area, which could have a negative impact on passengers using the Airport and on Revenues.

The Commission 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 and Possible New and Increased Regulation

Climate change concerns are shaping 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 the Airport. Studies report that airplane emissions equal approximately 5% of the world's carbon emissions. While the U.S. Environmental Protection Agency (the "EPA") does not currently regulate greenhouse gas ("GHG") emissions from aircraft, regulation is likely forthcoming, as described below.

When drafting aircraft emission regulations, the EPA must consult with the Administrator of the FAA and the Secretary of Transportation, and such regulations must not significantly increase noise or adversely affect safety. The President may also disapprove if the Secretary of Transportation advises that the regulations create a hazard to aircraft safety.

In the past, the EPA has not regulated aircraft emissions more stringently than the standards set forth by the International Civil Aviation Organization ("ICAO"), a specialized agency within the United Nations tasked with setting international standards for aircraft. In 1998, the Kyoto Protocol to the United Nations Framework Convention on Climate Change directed developed "Annex I" countries (which include the United States) to work through the ICAO to reduce GHG emissions from international aviation. The ICAO's current proposed GHG standard is drafted to apply to aircraft designed after 2023, is based on a certification requirement for fuel efficiency and emissions, and is expected to be finalized in 2016.

The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act concerning climate change generally. 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, that global warming

endangers public health and welfare, that GHGs are a pollutant, and that GHG emissions from motor vehicles cause or contribute to air pollution.

Environmental groups brought action against the EPA to compel agency action with regard to GHG emissions from nonroad vehicles and engines, including marine vessels and aircraft. In 2011, the U.S. District Court for the District of Columbia issued an order concluding that the EPA has a mandatory obligation under the Clean Air Act to consider whether the GHG and black carbon emissions of aircraft engines endanger public health and welfare, but in 2012, the court ruled that the plaintiffs had failed to show that the EPA unreasonably delayed in making an endangerment decision. The EPA stated it would take 22 months to make a determination. In August 2014, two environmental groups sent notice of intent to sue the EPA for failure to comply with this deadline. In response, in September 2014, the EPA announced it was initiating a U.S. Aircraft Greenhouse Gas Rulemaking Process with the FAA, utilizing the ICAO Committee on Aviation Environmental Protection (“CAEP”) standard setting process and estimated that the international GHG standards for aircraft will be adopted by the ICAO CAEP in February 2016. In compliance with that estimate, in June 2015, the EPA released a proposed endangerment finding that GHG emissions *from commercial aircraft* also cause or contribute to air pollution. In response to numerous public comments, the EPA issued a Supplemental Notice and set a Supplemental hearing for August 2015. The endangerment finding is currently expected to be finalized in February 2016. During the litigation, the EPA admitted that once such an endangerment finding and a related cause/contribute finding has been made, the mandatory language of Section 231 requires EPA to regulate. Therefore, once the positive endangerment finding and a related cause/contribute finding related to aviation GHG emissions are finalized, the EPA regulation will be forthcoming.

Regulation can also be initiated by governmental entities other than the EPA. In 2007, several states, including California, petitioned the EPA to regulate GHGs from aircraft. Suggested compliance approaches included emission limits, operational practices, a cap-and-trade system, minimum engine idling, employing single engine taxiing, and use of ground-side electricity for gate re-powering. On July 11, 2008, the EPA issued an Advanced Notice of Proposed Rulemaking (the “2008 ANPR”) relating to GHG emissions and climate change. Part of the 2008 ANPR requested comments on whether and how to regulate GHG emissions from aircraft. The final rule, the Mandatory Reporting of Greenhouse Gases Rule (74 FR 56260), requires reporting of GHG data and other relevant information from about 10,000 large stationary sources and electricity and fuel suppliers, but not mobile aircraft. More recently, in June 2015, EPA issued another ANPR that provides information and seeks input related to setting international CO₂ emissions standards for aircraft at the ICAO and the potential use of section 231 of the Clean Air Act to adopt a corresponding aircraft engine standard domestically. Specifically, the EPA stated that its adoption of any ICAO standard is “contingent on” whether any such “international aircraft CO₂ standard . . . is consistent with [U.S. law] and is appropriate for domestic needs in the United States.”

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. On October 20, 2011, the California Air Resources Board (“CARB”) made the final adjustments to its implementation of Assembly Bill 32: the “California Cap-and-Trade Program” (the “Program”) which was implemented in January 2012. The Program covers regulated entities emitting 25,000 million metric tons of carbon dioxide equivalent per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the Program. The Program may result in rising electricity and fuel costs, which may adversely affect the airlines serving the Airport and Airport operations.

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, as codified in Chapter 9 of the Environment Code Section 902(a):

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 in response to this goal. Airport management has developed a Departmental Climate Action Plan. In Fiscal Year 2014-15, the Airport reduced its gross baseline carbon footprint from Airport-controlled operations to 33.9% below the 1990 emission level three years ahead of the City's goal stated above to achieve a reduction of 25% by 2017. This was achieved through a 26.8% reduction from 1990 levels of emissions coupled with an additional 7.1% reduction from emission offset measures, including installation of energy and fuel efficiency measures, use of alternate fuels for fleet vehicles, reductions in landfilled solid waste, reductions in the emission of fugitive refrigerant gases and using alternative refrigerant gases, the planting of trees around the Airport, installation of preconditioned air units at jet bridges, initiation of a Green Car Rental Incentive Program, and partial funding for the BART extension. Additional planned GHG emission reduction/offset/mitigation measures by 2017 include natural gas use reduction, more energy efficiency measures, additional reductions in fuel consumption, Enhanced Solid Waste Recycling, and installation of additional preconditioned air units and a 400 Hz power supply system.

The Commission is unable to predict what additional federal, State and local laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on airlines serving the Airport or on Airport operations. The effects, however, could be material.

Risk of Sea-Level Changes and Flooding

The Airport is adjacent to the San Francisco Bay, which in turn opens onto the Pacific Ocean. Since the early 1980s, the Airport has been constructing various types of seawalls, including earth berms, concrete dikes, and vinyl sheet piles. However, there are gaps of various lengths along the shoreline that may allow water to enter the airfield. Currently the Airport occasionally experiences wave overtopping of some flood protection structures. That water is captured in the storm drain system and is pumped back out into the bay. Several reports have suggested that the Airport may be vulnerable to flooding in the event of sea level rise. For example, the National Climate Assessment released in 2014 by the National Science and Technology Council and the U.S. Global Change Research Program at the request of the U.S. government suggested that the Airport's runways are vulnerable to sea level rise. A report released by the San Francisco Bay Conservation Development Commission in 2011 suggested that 72% of the Airport would be at risk from a 16 inch sea level rise. In addition, some experts have warned that a major storm could result in flooding at the Airport.

In September, 2014, the City's Capital Planning Committee adopted Guidance for Incorporating Sea Level Rise Into Capital Planning In San Francisco: Assessing Vulnerability and Risk To Support Adaptation (the "Guidance"). The Guidance, prepared by the City's Sea Level Rise Committee, identifies different areas of the City including the Airport that are vulnerable to sea level rise. The Guidance provides City departments with direction for considering sea level rise vulnerability, risk and adaptation planning within the department's Capital Plans. It also enables the Capital Planning Committee to assess whether department Capital Plans have adequately addressed these issues in their Capital Plan projects. The Guidance recognizes that some departments will choose to address sea level rise on a larger sub-regional level rather than at an individual project level. In such case, the Guidance indicates that future projects within the sub-region area shall satisfy requirements by reference to the sub-regional project.

The Federal Emergency Management Agency ("FEMA") is revising Flood Insurance Rate Maps ("FIRMs") for San Francisco Bay Area communities. FIRMs identify areas that are subject to inundation during a flood having a 1% chance of occurrence in a given year (also known as a "base flood" or "100-year flood"). FEMA refers to an area that is at risk from a flood of this magnitude as a special flood hazard area ("SFHA"). FEMA prepares the FIRMs to support the National Flood Insurance Program ("NFIP"), a federal program that enables property owners, businesses, and residents in participating communities to purchase flood insurance backed by the federal government. The City has elected to participate in the NFIP. On November 12, 2015, FEMA issued a Preliminary FIRM for the City ("San Francisco Preliminary FIRM" or "Preliminary FIRM") for the first time. The Airport is included in the San Francisco Preliminary FIRM. The majority of the Airport is identified as a SFHA in the Preliminary FIRM, with zone designations generally of either AE (areas subject to inundation by the 1% annual chance flood event) or VE (areas along coasts subject to inundation by the 1% annual chance flood event with additional hazards associated with storm-induced waves); base flood elevations are included in the Preliminary

FIRM. The San Francisco Preliminary FIRM is available through FEMA's website at <https://hazards.fema.gov/femaportal/prelimdownload/>.

The Airport, through the San Francisco City Administrator, has submitted an application to FEMA to designate the Airport an A99 zone. This designation applies to areas subject to inundation by the 1% annual chance flood event, but which ultimately will be protected by completion of an under-construction flood protection system that will meet FEMA certification standards. The Airport has over time constructed shoreline protection improvements, and of the eight-mile long shoreline, more than five miles have been protected by engineered berms, concrete seawalls and vinyl sheet piles. Close to half of the protection meets the 100-year flood standards. However, a study conducted by the Airport has identified deficiencies in the Airport's shoreline protection system. Most of these deficiencies occur in the more vulnerable reaches of the system, such as near the Airport's Treatment Plant, and along the reach owned by the federal government and operating as a U.S. Coast Guard facility. Following identification of the shoreline protection deficiencies and prior to submission of the A99 application to FEMA, the Commission included a shoreline protection project ("Shoreline Protection Project") in its five and ten year Capital Plans to address the deficiencies, which project is included in the City's Ten Year Capital Plan approved by the San Francisco Board of Supervisors ("Board of Supervisors") in the spring of 2015. On December 15, 2015, the Board of Supervisors made a determination required under the San Francisco Administrative Code that the Shoreline Protection Project is fiscally feasible and responsible. Environmental review of improvements under the Shoreline Protection Project, as required under the California Environmental Quality Act (California Public Resources Code Section 21000 et seq.) prior to the Airport Commission making decisions regarding project implementation, will commence in 2016.

The Airport's A99 designation application is currently under review by FEMA and, if approved, may replace, on the final San Francisco FIRM, the AE and VE designations shown on the Preliminary FIRM. The Airport anticipates that FEMA will issue a Letter of Final Determination regarding the final San Francisco FIRM in late 2016, with the final FIRM becoming effective six months thereafter. The Airport will be required to comply with any applicable building standards under the zone designations in the final FIRM, and if the Airport is designated as an A99 zone, the Airport will be required to submit periodic reports to FEMA to demonstrate progress with completion of the shoreline protection system.

As presented in a report to the Commission by the head of Engineering at the Airport in June 2014, the design and construction of the remaining sea wall improvements to meet FEMA's NFIP certification standards will take six to eight years and is estimated to cost \$30-\$50 million. A total of \$58 million for the Shoreline Protection Project is included in the Airport's and the City's Ten-Year Capital Plan. Considering sea level rise and the 100 year flood risk, the report estimated that to remain compliant with FEMA requirements over time and to address sea level rise in the longer term would take 10 to 15 years with a cost of about \$200-\$300 million. With that investment, the report predicts protection for the Airport until approximately 2060.

In addition to proceeding with the Shoreline Protection Project to address current FEMA standards and flooding risks, the Commission is in discussion with the U.S. Army Corps of Engineers ("Corps") for starting a feasibility study to address long term sea level rise at the Airport, the cost of which is anticipated to be shared by the Airport and Corps. The Airport's long term goal would be for the Corps to share in the cost of constructing improvements to address sea level rise that may be recommended through the feasibility study. The Commission is unable to predict whether or how the cost of the feasibility study or the improvements will be shared.

Despite the multiple studies and construction, both completed and pending, described above, the Commission remains unable to predict with complete certainty whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, to what extent they 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 and Other Financial Products Relating to Airport Bonds

The Commission has obtained a number of credit enhancement agreements from a variety of financial institutions relating to its Outstanding variable rate Bonds and Commercial Paper Notes, including letters of credit

from commercial banks and municipal bond insurance policies issued by bond insurance companies. Additionally, in connection with various variable rate Bonds, the Commission 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.” Also see “SECURITY FOR THE SERIES 2016A BONDS—Reserve Fund; Reserve Accounts; Credit Facilities” for discussion of the sureties in the reserve accounts.

During and following the U.S. recession in 2007-2009 each of the Rating Agencies downgraded the claims-paying ability and financial strength ratings of most of the nation’s monoline bond insurance companies and many commercial banks and other financial institutions, though many of the institutions have subsequently been upgraded. The Rating Agencies could announce downgrades of these entities in the future. Such adverse ratings developments with respect to credit providers or municipal bond insurers could have a material adverse effect on the Commission, including significant increases in its 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 Commission. See “AIRPORT’S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps.”

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*” and “—*State Proposition 26*.”

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, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, 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 various legal opinions to be delivered with respect to the Series 2016A Bonds are expected to be qualified by reference to bankruptcy and insolvency laws. In the event the Commission fails to comply with its covenants under the 1991 Master Resolution or to pay principal or interest, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2016A Bonds.

Potential Impact of a City Bankruptcy

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of 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 Series 2016A 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 Series 2016A 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 Series 2016A Bonds. As of the date hereof, there have been no public discussions by any City officials, including the Mayor, any member of the Board of Supervisors or the City Attorney, with respect to any potential Chapter 9 filing by the City.

Also see “–Limitation of Remedies” above.

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 Series 2016A 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.

Potential Limitation of Tax Exemption of Interest on Series 2016A Bonds

From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Series 2016A 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. Clarifications of the Internal Revenue Code of 1986, as amended (the “Code”), or court decisions may also cause interest on the Series 2016A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2016A Bonds. Prospective purchasers of the Series 2016A Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel expresses no opinion. See “TAX MATTERS—Changes in Federal and State Tax Law.”

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 Series 2016A Bonds or other Bonds issued by the Commission as tax-exempt bonds, it may have a material adverse effect on the marketability or the market value of the Series 2016A Bonds. The IRS has undertaken limited audits of two prior issues of the Bonds. Those audits were both closed without the IRS taking any action. The Commission is not aware of any other 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 data for calendar year 2014 from the Airports Council International (the “ACI”), the Airport ranked 7th in the United States in terms of passengers and 17th in the United States in terms of air cargo tonnage. According to Fiscal Year 2013-14 U.S. Department of Transportation (“U.S. DOT”) statistics, the Airport is also a major origin and destination point (6th for domestic origin and destination traffic and 6th for overall origin and destination traffic 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. Passenger enplanements and deplanements at the Airport have grown from approximately 32.9 million in Fiscal Year 2005-06 to approximately 48.2 million in Fiscal Year 2014-15.

Organization and Management

Under the Charter, the Commission is responsible for the operation and management of the Airport, which is an enterprise 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.

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>	Retired Business Manager and Financial Secretary/Treasurer, U.A. Local 38 (United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada)	2018
Linda S. Crayton, <i>Vice President</i>	Retired Regional Senior Director, Government Affairs, Comcast Cable Communications	2016
Richard J. Guggenheimer	Attorney (Of Counsel), Schiff Hardin LLP	2017
Eleanor Johns	Executive Director of the Willie L. Brown, Jr. Institute on Politics and Public Service	2019
Peter A. Stern	Chief Revenue Officer at Skedulo	2018

Under the Charter, the Commission is responsible for the “construction, management, supervision, maintenance, extension, operation, use and control of all property, as well as the real, personal and financial assets which are under the Commission’s 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 is managed by a Chief Operating Officer, a Chief Business and Finance Officer, a Chief Administration and Policy Officer and a Chief Communications and Marketing Officer, all of whom report directly to the Director. The Deputy Director of Operations and Security and the Deputy Director of Design and Construction, along with the divisions of Airport Facilities, Information Technology and Telecommunications, Museum, and Planning and Environmental Affairs 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 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 was the founding president of the California Airports Council, a Statewide consortium of 30 commercial airports that was formed in December 2009. He serves on the Executive Committee of the Bay Area Council and the Board of Directors of San Francisco Travel. He is also a past member of the Board of Directors and the Vice President of the Airports Council International, Pacific Region. Mr. Martin has announced that he plans to retire in the summer of 2016.

Ivar Satero was appointed as Chief Operating Officer in April 2014. Prior to this, he served as Deputy Airport Director–Design and Construction Division from 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 Program Manager of transit projects for the Airport’s Master Plan Program, including 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.

Leonardo “Leo” Fermin, Jr. was appointed Deputy Airport Director-Business and Finance in July 2003, renamed Chief Business and Finance Officer under a recent reorganization. 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.

Julian Potter was appointed Chief Administration and Policy Officer in February 2014. Ms. Potter joined the Airport staff in January 2008 as the Federal and Regional Government Affairs manager and became Chief of Staff in December 2013. Prior to joining the Airport, Ms. Potter was the Director of Public Policy for the Mayor’s office in the City. Ms. Potter has an additional 15 years of public policy and administrative experience serving as a Deputy Assistant Secretary at the U.S. Department of Housing and Urban Development, Chief Operating Officer of a building and construction apprenticeship program and Special Assistant to the U.S. President.

Jeff Littlefield was appointed Deputy Airport Director-Operations and Security in November 2011. Mr. Littlefield joined the Airport in 2008 as Airport Duty Manager, a position he held until he was appointed to his current position. Prior to joining the Airport, Mr. Littlefield served 21 years for United Airlines in a variety of operational capacities, including nine years as General Manager at Oakland Airport.

Kandace Bender was appointed Deputy Airport Director-Communications and Marketing in August 2002, renamed Chief Communications and Marketing Officer in a recent reorganization. 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 of experience as a daily print reporter and editor.

Geoffrey Neumayr was appointed Deputy Director of Design and Construction effective in April 2014. He joined the Airport staff as Associate Deputy Airport Director of Design and Construction in August 2011. Prior to that Mr. Neumayr was Vice President of Operations of the Allen Group, LLC for 15 years. With the Allen Group, LLC Mr. Neumayr served as the Project Manager for many of the Airport’s construction projects. Prior to joining the Allen Group in 1995, Mr. Neumayr was an Associate with the architectural and engineering firm of the Watry Design Group where he served as a project manager. Mr. Neumayr is a licensed civil and structural engineer with over 30 years of experience in design and construction.

Sheryl L. Bregman was appointed Airport General Counsel in April 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. Ms. Bregman was construction counsel for numerous projects, including the Transbay Transit Center Program, 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

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 11,381 feet long, respectively. The north-south runways are 8,650 and 7,650 feet long, respectively. The current runway system can accommodate the arrival and departure at maximum loads of all commercial aircraft currently in service, including the Airbus A380. 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.

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) was completed in 2000 and is the largest common-use airport terminal in the United States. The Airport owns and maintains the common-use baggage system that supports all airlines in the ITC.

Other Airport Terminals. In addition to the ITC, the Airport has three other terminal buildings (together with the ITC, the “Terminal Complex”) consisting of a total of approximately 2.7 million square feet of space. Terminals 1, 2 and 3 handle domestic flights and flights to Canada and Mexico. In April 2011, the Airport unveiled the renovated Terminal 2, which houses American Airlines and Virgin America. Terminal 2 was the first airport terminal in the United States to achieve Gold Certification under the U.S. Green Building Council’s Leadership in Energy and Environmental Designs (LEED™) program. Parts of Terminal 3 have also been renovated to the same standards as Terminal 2. These include the ten-gate Boarding Area E, which opened in January 2014, and three gates in Terminal 3 East, which opened in November 2015.

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 91 operational gates, 42 of which can accommodate wide-body aircraft. Of these, 24 gates are located in the ITC, 19 in Terminal 1, 14 in Terminal 2 and 34 in Terminal 3. From time to time, gates are taken out of service during periods of construction and renovation. The Airport opened the newly renovated Boarding Area E located in Terminal 3 in January 2014, adding a net total of ten gates to Terminal 3. Following its opening, the Airport removed from operation nine gates in Terminal 1 and three gates in Terminal 3 East for boarding area renovations. Renovations for Terminal 3 East were completed in November 2015. The Airport expects to maintain at least the same number of operational gates going forward.

Generally, existing airport facilities in the United States are designed for aircraft having a maximum wingspan of 213 feet. New Large Aircraft (such as the Airbus 380) (“NLAs”) have a wingspan of approximately 262 feet. The Airport currently operates four gates in the ITC with sufficient clearance to accept NLAs and is adding a fifth such gate in the ITC.

Gates in the domestic terminals are used by airlines on a preferential or common-use basis and gates in the ITC are 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–Lease and Use Agreements” and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS.”

Jet Fuel Distribution System

Pursuant to a Fuel System Lease, dated as of July 1, 1997, the Airport leases its on-Airport jet fuel receipt, storage, distribution and other related facilities (collectively, the “Fuel System”) to SFO Fuel. Substantially all of the airlines with regularly-scheduled service to the Airport are members of SFO Fuel. Pursuant to an interline agreement governing the business relationship between SFO Fuel and its members, 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 151,300 usable barrels (representing approximately 2.3 days of operations based upon 2015 consumption); above-ground storage tanks owned by SFO Fuel, operated by Aircraft Service International Inc. and located on land leased from the Airport with total storage capacity of approximately 134,000 usable barrels (representing approximately 2.1 days of operations based upon 2015 consumption); and other related facilities.

SFO Fuel has various arrangements with other entities to increase its off-Airport jet fuel storage capacity. SFO Fuel has an arrangement with an affiliate of Shell Oil for additional off-Airport jet fuel storage capacity of approximately 186,000 total usable barrels (representing approximately 2.9 days of operations based on 2015 consumption) immediately adjacent to the Airport. In addition, SFO Fuel has an arrangement with Kinder Morgan for an additional approximately 75,000 total usable barrels (representing approximately one additional day of operations based on 2015 consumption) of off-Airport jet fuel storage capacity. SFO Fuel anticipates constructing an approximate additional 150,000 barrels of on-Airport storage capacity to provide increased security of fuel supply as well as to satisfy recent and projected potential fuel demand increases, contingent upon SFO Fuel's ability to obtain bond financing.

Bay Area Rapid Transit ("BART") Service to SFO

BART has provided service to the Airport since 2003. This service provides 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 2014-15, a weekday average of 6,782 riders exited at the SFO BART station. BART service to the Airport travels directly through San Francisco from various points in the East Bay. Additionally, 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 in rent for the BART station in the ITC, plus an additional amount (budgeted at \$843,023.92 for Fiscal Year 2015-16) for custodial and electrical support services.

Public Parking and Rental Car Facilities

Public Parking. A 5,773 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 (domestic and international). Two public garages located near the ITC provide 2,227 spaces for short-term parking. Approximately 2,621 indoor covered spaces and 4,482 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.

Off-Airport Parking Facilities. In addition, parking facilities located near the Airport and operated by private companies offer more than 8,000 public remote parking spaces for Airport patrons, including a 1,500 space parking garage that is located near the long-term parking facility operated by the Airport.

Maintenance and Cargo Facilities

Airlines have made various investments in facilities at the Airport. The United Airlines maintenance center, containing approximately three million square feet of building and hangar floor area, is one of the country's largest private aircraft maintenance facilities. United Airlines also operates a large cargo facility at the Airport.

Both of these facilities are owned by the Airport but leased to the airline. Certain other airlines operate significant cargo and other 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 exceed the minimum code requirements for a building of its type located in seismic zone 4, and is therefore expected to perform as an “essential facility” (*i.e.*, a facility that is immediately occupiable following a maximum credible seismic event). In addition, other buildings and facilities constructed by the Airport during the 1990s and early 2000s as part of the Airport’s Master Plan Expansion Program were designed to comply with, and in some cases exceed, the then-current seismic design standards. These facilities include the AirTrain System (guideway, stations, and maintenance building); the elevated circulation roads and inbound/outbound freeway ramps; international, long-term and employee parking garages; the Rental Car Center; the Communications Center located in a portion of the North Connector Building that links Terminal 2 to Terminal 3; and the on-Airport BART station and guideway.

As part of the Airport’s Terminal 2 Renovations program, the Terminal 2/Boarding Area D facility received a seismic upgrade which is expected to 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 a new Air Traffic Control Tower, which is located between Terminals 1 and 2 and is scheduled to open in late July 2016, as further described below.

The Airport, in partnership with the FAA, is in the process of replacing the existing FAA Air Traffic Control Tower, which was constructed in 1982 atop, and structurally integrated with, the original 1951 Terminal 2 facility. The planned Air Traffic Control Tower replacement is a result of seismic studies that indicated that the facility is susceptible to significant damage in the event of a major earthquake in the vicinity of the Airport, which could render it inoperable for an extended period. The FAA and the Airport have entered into an agreement to replace the Air Traffic Control Tower as expeditiously as possible. To date, the Airport has received \$66.9 million from the FAA to fund the Air Traffic Control Tower design activities and construction activities. The agreement between the Airport and the FAA provides for federal funding, subject to federal appropriation, for the full replacement cost of the existing Air Traffic Control Tower, which is currently estimated at \$88.6 million, and assigns project management responsibility to the Airport. The Airport completed construction work in August 2015, and the FAA is scheduled to activate and commission the replacement Air Traffic Control Tower in mid-2016. Following activation of the new Air Traffic Control Tower and once the FAA removes all sensitive equipment from the existing Air Traffic Control Tower, the Airport will be responsible for the demolition of the existing tower. The current Capital Plan provides for the demolition of the existing Air Traffic Control Tower and upper floors of Terminal 2.

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.

Terminals 1 and 3 and certain boarding areas in these terminals do not meet current seismic requirements. The Airport has implemented a first phase of the Terminal 3 improvement program, with improvements to Terminal 3 East and Boarding Area E that resulted in a complete seismic upgrade of the Boarding Area E facility, as well as a seismic upgrade to the eastern half of Terminal 3. Boarding Area E was completed in January 2014 and Terminal 3 East opened in November 2015. This work is part of the Airport’s longer-term strategy of bringing the entire Terminal 3 facility, including Boarding Area F up to current seismic standards. See “CAPITAL PROJECTS AND PLANNING—The Capital Plan.”

Terminal 1 improvements are currently in the design and initial stages of construction. Planned improvements include a complete replacement of Boarding Area B, a major renovation of Terminal 1, and significant improvements to Boarding Area C. The new Boarding Area B facility and the central section of Terminal 1 are expected to be completed in 2019 for 17 gates and in 2020 for the remaining 7 gates. The remaining north section of Terminal 1 and Boarding Area C are expected to be completed in 2023. The proposed improvements included in the Terminal 1 improvement program are expected to bring the entire facility up to current seismic code requirements upon completion.

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. Approximately 75% of domestic arrivals at the Airport were on time in the twelve-month period from November 2014 to October 2015, according to the U.S. DOT statistics. The Airport, which operates four runways, was equal to or better than the other Bay Area airports in on-time arrivals during this period, with approximately 71% of on-time domestic arrivals at Oakland Airport, and approximately 75% of on-time domestic arrivals at San Jose Airport. Arrival on-time performance is historically 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.

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), up to 60 planes per hour can land at the Airport. Prior to installation of the PRM, in adverse weather conditions (cloud ceiling of between 1,600 feet and 3,600 feet), 30 planes per hour were permitted to land at the Airport. The PRM, combined with the implementation of a Simultaneous Offset Instrument Approach flight procedure, allows as many as 40 planes per hour to land during adverse weather conditions. In addition, the FAA approved Closely Spaced Parallel Runway procedures for the Airport that increased dual runway availability beginning in the fall of 2013.

The FAA has declared the Airport a Level 2 hub under the International Air Transport Association Worldwide Slot Guidelines. A Level 2 rating indicates an Airport where there is potential for congestion during some periods of the day, week or season, which can be resolved by voluntary cooperation between airlines.

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 Transportation Security Administration (“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; and (iii) security screeners be federal employees, United States citizens and satisfy other specified requirements. All of these requirements have been implemented at the Airport.

The TSA operates nine separate security checkpoints containing 51 security lanes using employees of a private security firm. The Airport is one of 21 airports in the nation at which the TSA operates security through its Screening Partnership Program. The Screening Partnership Program contracts security screening services at commercial airports to qualified private companies. 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. The Screening Partnership Program at the Airport has been in operation since 2002. TSA management utilizes staffing models and closed circuit cameras to monitor demand checkpoints to quickly accommodate increases in passenger flow.

Airline Service

General

For the first five months of Fiscal Year 2015-16 (July through November), the Airport was served by 46 passenger and 6 cargo-only airlines. Domestic passenger air carriers provided non-stop service to 74 destinations and scheduled one-stop service to an additional 20 destinations in the United States. Thirty-three passenger airlines provided non-stop scheduled passenger service to 38 international destinations and one-stop service to an additional 13 international destinations.

During Fiscal Year 2014-15, the Airport was served by 49 passenger and nine cargo-only airlines. Domestic passenger air carriers provided non-stop service to 80 destinations and scheduled one-stop service to an additional 32 destinations in the United States. Thirty-two passenger airlines provided non-stop scheduled passenger service to 40 international destinations and one-stop service to an additional 23 international destinations.

In December 2015, Air India and Qantas Airways commenced service from the Airport to New Delhi and Sydney, respectively. Recently announced service to begin in 2016 includes new service to Tel Aviv, Xi'an and Auckland by United Airlines, new service to Denver by Virgin America, return of service to Dusseldorf by Air Berlin, and new service to Fiji by Fiji Airways.

During Fiscal Year 2014-15, United Airlines (including SkyWest Airlines/United Express) handled 45.2% of the total enplaned passengers at the Airport (a decrease in market share of 1.1 percentage points compared to Fiscal Year 2013-14); American Airlines (including Compass Airlines and Mesa Airlines) and U.S. Airways (including Mesa Airlines) together handled 9.8% of total enplaned passengers; Delta Air Lines (including SkyWest Airlines/Delta Connection and Compass Airlines) handled 8.4% of total enplaned passengers; and Virgin America handled 8.3% of total enplaned passengers.

Although United Airlines (including SkyWest Airlines/United Express) handled 45.2% of the Airport's total enplanements during Fiscal Year 2014-15, audited results for Fiscal Year 2014-15 indicate that payments by United Airlines accounted for 23.5% of the Airport's operating revenues. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Principal Revenue Sources."

Low-Cost Carriers

A significant factor in the Airport's continuing strong performance has been its success in attracting low-cost carriers to the Airport. A "low-cost carrier" is an airline that operates under a generally recognized low-cost business model, which may include a single passenger class of service, use of standardized aircraft utilization, in-flight services, use of smaller and less expensive airports, and lower employee wages and benefits. Virgin America chose the Airport as its home base and currently utilizes more than half of the gates in Terminal 2. The Airline commenced new service to Honolulu and Maui in November and December 2015, respectively, and announced the startup of new service to Denver beginning March 2016. According to Virgin America's website, the Airline plans to acquire 10 new aircraft beginning in the first quarter of 2017.

During the first five months of Fiscal Year 2015-16, the following five airlines at the Airport offered low-cost carrier service:

- Frontier Airlines
- jetBlue Airways
- Southwest Airlines
- Sun Country Airlines
- Virgin America Airlines

During Fiscal Year 2014-15, approximately 24.3% of total domestic enplanements at the Airport were provided by low-cost carriers, up from 24.2% in Fiscal Year 2013-14. Domestic enplanements by low-cost carriers

were approximately 80.5% of the domestic enplanements at Oakland Airport and 54.4% of the domestic enplanements at San Jose Airport in Fiscal Year 2014-15.

The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during the first five months of Fiscal Year 2015-16. Additionally, in December 2015, Air India and Qantas Airways commenced service from the Airport to New Delhi and Sydney, respectively.

**AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT
(First Five Months of Fiscal Year 2015-16, through November 2015)**

Domestic Passenger Air Carriers

Alaska Airlines^{(1)*}
American Airlines^{(2)*}
Delta Air Lines*
Frontier Airlines*
Hawaiian Airlines*
jetBlue Airways*
Southwest Airlines*
Sun Country Airlines/MN Airlines*
US Airways^{(2)*}
United Airlines^{(1)*}
Virgin America Airlines^{(1)*}

Foreign Flag Carriers

Aer Lingus
Aeromexico
Air Canada*
Air China (CAAC)*
Air France*
Air New Zealand*
All Nippon Airways*
Asiana Airlines*
British Airways*
COPA Airlines*
Cathay Pacific Airways*
China Airlines*
China Eastern*
China Southern Airlines
EVA Airways*
Emirates Airlines*
Etihad Airways
Japan Airlines*
KLM Royal Dutch Airlines*

Foreign Flag Carriers (continued)

Korean Air*
Lufthansa German Airlines*
Philippine Airlines*
Scandinavian Airlines*
Singapore Airlines*
Swiss International*
TACA International Airlines*
Turkish Airlines
Virgin Atlantic Airlines*
WestJet Airlines*
XL Airways France

Cargo-Only Carriers

ABX Air*
Air Cargo Carriers*
Ameriflight*
Atlas Air
Federal Express*
Kalitta Air*
Nippon Cargo Airlines*

Regional Affiliates⁽³⁾

Compass Airlines (American Airlines and Delta Air Lines)
Mesa Airlines (American Airlines)
SkyWest Airlines (Delta Connection and United Express)

Charter Air Carriers

Republic Airlines

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

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

(2) On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.

(3) Airlines designated as affiliates by Signatory Airlines per the Lease and Use Agreement. Affiliates may (i) be a wholly-owned subsidiary of a Signatory Airline, (ii) be a subsidiary of the same corporate parent of the Signatory Airline, (iii) share flight codes with a Signatory Airline, or (iv) operate cargo feeder flights under the direction and control of a Signatory Airline. Affiliates do not sell their own seats or flights at the Airport.

Source: Commission.

Passenger Traffic

During Fiscal Year 2014-15, according to traffic reports submitted by the airlines, the Airport served approximately 48.2 million passengers (enplanements and deplanements, excluding passengers who fly into and out of the Airport on the same aircraft), and handled 428,171 total flight operations, including 412,539 scheduled passenger airline operations. Scheduled passenger aircraft arrivals and departures during Fiscal Year 2014-15 decreased by 0.5%, domestic passenger traffic (enplanements and deplanements) increased by 4.4%, international passenger traffic increased by 5.6%, and total passenger traffic increased by 4.7% compared to Fiscal Year 2013-14.

The Airport was ranked the 6th most active airport in the United States in terms of overall origin and destination passengers and the 6th most active airport in the United States in terms of domestic origin and destination passengers, according to Fiscal Year 2013-14 U.S. DOT statistics. For calendar year 2014, the Airport was ranked the 7th most active airport in the United States in terms of total passengers, according to data from ACI. The Airport accounted for approximately 70.3% of the total air passenger traffic at the three San Francisco Bay Area airports during Fiscal Year 2014-15.

Compared to the first five months (July through November) of Fiscal Year 2014-15, scheduled passenger aircraft arrivals and departures increased 0.2%, domestic passenger traffic (enplanements and deplanements) increased 6.5%, international passenger traffic increased 11.3% and total passenger traffic increased 7.6% during the first five months of Fiscal Year 2015-16.

Air traffic data for the past ten Fiscal Years and the first five months of Fiscal Years 2014-15 and 2015-16 is presented in the table below.

PASSENGER TRAFFIC

Fiscal Year	Scheduled Passenger Aircraft Arrivals and Departures		Passenger Enplanements and Deplanements					
	Total	% Change	Domestic	% Change	International	% Change	Total	Total % Change
<i>First Five Months 2015-16*</i>	179,757	0.2%	17,116,832	6.5%	5,017,422	11.3%	22,184,254	7.6%
<i>First Five Months 2014-15</i>	179,353		16,115,995		4,506,253		20,622,248	
2014-15	412,539	(0.5)	37,580,982	4.4	10,631,812	5.6	48,212,794	4.7
2013-14	414,452	2.3	35,985,757	2.7	10,072,231	5.1	46,057,988	3.3
2012-13	405,320	0.8	35,024,595	4.3	9,583,582	3.3	44,608,177	4.1
2011-12	402,131	6.7	33,588,149	9.3	9,275,507	3.1	42,863,656	7.9
2010-11	376,939	2.3	30,725,774	3.5	9,000,697	5.8	39,726,471	4.0
2009-10	368,638	1.5	29,697,949	5.9	8,506,012	0.7	38,203,961	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

* Preliminary.
Source: Commission.

Passenger traffic has grown at a compound annual growth rate of 3.9% over the last ten full Fiscal Years, with a 4.7% increase in Fiscal Year 2014-15. Passenger traffic was 7.6% higher during the first five months of Fiscal Year 2015-16 as compared to the first five months of Fiscal Year 2014-15. While the Airport expects traffic to continue to grow, such growth is likely to be at a more moderate pace than over the last few years.

During Fiscal Year 2014-15 an estimated 79% 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. See “CERTAIN RISK FACTORS—Airline Concentration; Effect of Airline Industry Consolidation.”

Enplanements

Total Enplanements. Total enplanements at the Airport increased 4.5% during Fiscal Year 2014-15 to approximately 24.0 million as compared to Fiscal Year 2013-14. The increase in total enplanements during Fiscal Year 2014-15 represents an increase of 1,027,925 passengers, 762,704 of which were domestic and the remaining 265,221 of which were international.

During the first five months of Fiscal Year 2015-16, total enplanements increased by 782,978 (7.6%) compared to the first five months of Fiscal Year 2014-15.

Total enplanements for the Airport’s 10 most active airlines for Fiscal Years 2010-11 through 2014-15, as well as total enplanements for Fiscal Year 2014-15’s most active airlines during the first five months of Fiscal Years 2014-15 and 2015-16, are shown in the table below, ranked in the order of the results from Fiscal Year 2014-15. Enplanements for airlines include enplanements by affiliates.

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TOTAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2010-11	2011-12	2012-13	2013-14	2014-15	% of 2014-15 ⁽¹⁾	<i>First Five Months (July through November)</i>	
							2014-15	2015-16*
United Airlines ⁽²⁾	7,865,157	9,707,269	10,280,401	10,655,513	10,867,589	45.2%	4,687,872	4,868,434
Delta Air Lines ⁽³⁾	1,687,309	1,708,370	1,742,918	1,843,363	2,023,216	8.4	889,590	957,931
Virgin America	1,340,921	1,825,382	1,934,777	1,965,310	1,997,367	8.3	843,257	915,858
Southwest Airlines ⁽⁴⁾	1,504,611	1,476,055	1,554,598	1,567,768	1,682,298	7.0	718,131	755,420
American Airlines ⁽⁵⁾	1,583,671	1,540,149	1,507,407	1,464,378	1,476,862	6.1	633,624	774,078
US Airways ⁽⁵⁾	837,410	787,453	806,183	827,146	878,176	3.7	393,502	293,408
Alaska Airlines	578,161	562,944	596,236	663,557	725,137	3.0	306,168	313,560
jetBlue Airways	411,683	489,903	533,375	542,761	602,206	2.5	223,097	310,560
Air Canada	297,069	287,014	284,664	337,424	388,401	1.6	178,614	199,741
Lufthansa German Airlines	—	240,641	251,864	241,483	262,802	1.1	116,915	108,547
Continental Airlines ⁽²⁾	784,173	—	—	—	—	—	—	—
SUBTOTAL	16,890,165	18,625,180	19,492,423	20,108,703	20,904,054	87.0	8,990,770	9,497,537
All others	2,946,545	2,794,362	2,780,999	2,886,971	3,119,545	13.0	1,267,371	1,543,582
TOTAL	19,836,710	21,419,542	22,273,422	22,995,674	24,023,599	100.0%	10,258,141	11,041,119
Percentage Change	3.9%	8.0%	4.0%	3.2%	4.5%			7.6%

* Preliminary.

(1) Figures do not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines combined for Fiscal Year 2011-12 and thereafter.

(3) Delta Air Lines ceased its international service at the Airport in March 2014.

(4) In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of Air Tran Airways. The airlines combined operating certificates in March 2012 but operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines.

(5) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.

Source: Commission.

Total enplanements have grown at a compound annual growth rate of 4.9% over the last five full Fiscal Years, with a 4.5% increase in Fiscal Year 2014-15. Total enplanements were 7.6% higher in the first five months of Fiscal Year 2015-16 as compared to the first five months of Fiscal Year 2014-15. While the Airport expects enplanements to continue to grow, such growth is likely to be at a more moderate pace than over the last few years.

Domestic Enplanements. During Fiscal Year 2014-15, total domestic passenger enplanements were 18,749,797, an increase of 4.2% compared to Fiscal Year 2013-14. During the first five months of Fiscal Year 2015-16, domestic enplanements increased 553,568 (6.9%) compared to the first five months of Fiscal Year 2014-15. Domestic enplanements for the 10 most active airlines for Fiscal Years 2010-11 through 2014-15, ranked in the order of the results from Fiscal Year 2014-15, as well as domestic enplanements for Fiscal Year 2014-15's most active airlines during the first five months of Fiscal Years 2014-15 and 2015-16, are shown in the table below. Enplanements for airlines include enplanements by affiliates.

DOMESTIC ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2010-11	2011-12	2012-13	2013-14	2014-15	% of 2014-15 ⁽¹⁾	First Five Months (July through November)	
							2014-15	2015-16*
United Airlines ⁽²⁾	6,290,503	8,053,026	8,544,790	8,849,198	9,016,438	48.1%	3,884,664	4,066,941
Delta Air Lines	1,625,114	1,653,717	1,686,655	1,804,080	2,023,216	10.8	889,590	957,931
Virgin America	1,298,276	1,760,998	1,877,622	1,918,610	1,954,493	10.4	827,466	895,483
Southwest Airlines ⁽³⁾	1,504,611	1,476,055	1,554,598	1,567,768	1,682,298	9.0	718,131	755,420
American Airlines ⁽⁴⁾	1,583,671	1,540,149	1,507,407	1,464,378	1,476,862	7.9	633,624	774,078
US Airways ⁽⁵⁾	837,410	787,453	806,183	827,146	878,176	4.7	393,502	293,408
Alaska Airlines	490,817	483,883	524,535	583,892	658,480	3.5	275,938	283,628
jetBlue Airways	411,683	489,903	533,375	542,761	602,206	3.2	223,097	310,560
Frontier Airlines	205,594	227,010	199,018	195,353	229,093	1.2	92,843	138,147
Hawaiian Airlines	—	—	—	97,966	134,713	0.7	39,364	67,778
AirTran Airways	—	201,179	133,278	—	—	—	—	—
Continental Airlines ⁽²⁾	784,173	—	—	—	—	—	—	—
SUBTOTAL	15,031,852	16,673,373	17,367,461	17,851,152	18,655,975	99.5	7,978,219	8,543,374
All others	339,917	135,271	148,517	135,941	93,822	0.5	54,552	42,965
TOTAL	15,371,769	16,808,644	17,515,978	17,987,093	18,749,797	100.0%	8,032,771	8,586,339
Percentage Change	3.4%	9.3%	4.2%	2.7%	4.2%			6.9%

* Preliminary.

(1) Figures do not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines is combined for Fiscal Year 2011-12 and thereafter.

(3) In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of Air Tran Airways. The airlines combined operating certificates in March 2012 but operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines.

(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.

Source: Commission.

International Enplanements. International enplanements during Fiscal Year 2014-15 totaled 5,273,802, an increase of 5.3% compared to Fiscal Year 2013-14. International enplanements during the first five months of Fiscal Year 2015-16 increased by 229,410 (10.3%) compared to the first five months of Fiscal Year 2014-15.

International enplanements for the 10 most active airlines for Fiscal Years 2010-11 through 2014-15, ranked in the order of the results from Fiscal Year 2014-15, as well as international enplanements for Fiscal Year 2014-15's most active airlines during the first five months of Fiscal Years 2014-15 and 2015-16, are shown in the table on the following page. Enplanements for airlines include enplanements by affiliates.

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INTERNATIONAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)

First Five Months
(July through November)

Airline	2010-11	2011-12	2012-13	2013-14	2014-15	% of 2014-15 ⁽¹⁾	2014-15	2015-16*
United Airlines ⁽²⁾	1,574,654	1,654,243	1,735,611	1,806,315	1,851,151	35.1%	803,208	801,493
Air Canada	297,069	287,014	284,664	337,424	388,401	7.4	178,614	199,741
Lufthansa Airlines	217,226	240,641	251,864	241,483	262,802	5.0	116,915	108,547
British Airways	203,366	214,014	209,358	210,648	217,643	4.1	91,010	106,932
Cathay Pacific Airlines	243,098	235,253	211,684	210,445	205,483	3.9	85,022	94,386
EVA Airways	131,970	145,531	151,684	168,930	192,962	3.7	76,850	78,152
Singapore Airlines	167,251	168,043	191,310	176,721	166,875	3.2	69,262	72,912
Air France	135,705	153,600	163,755	159,965	159,143	3.0	76,850	88,256
Emirates	—	—	—	—	135,387	2.6	49,423	60,589
Aeromexico	—	—	—	—	132,009	2.5	52,011	52,994
Virgin Atlantic Airways	—	118,233	126,170	119,471	—	—	—	—
China Airlines	113,701	—	116,306	119,365	—	—	—	—
Philippine Airlines	122,823	112,652	—	—	—	—	—	—
SUBTOTAL	3,206,863	3,329,224	3,442,406	3,550,767	3,711,856	70.4	1,599,165	1,664,002
All others	1,258,078	1,281,674	1,315,038	1,457,814	1,561,946	29.6	626,206	790,778
TOTAL	4,464,941	4,610,898	4,757,444	5,008,581	5,273,802	100.0%	2,225,370	2,454,780
Percentage Change	5.3%	3.3%	3.2%	5.3%	5.3%			10.3%

* Preliminary.

(1) Column does not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines is combined for Fiscal Year 2011-12 and thereafter.

Source: Commission.

In Fiscal Year 2014-15, enplanements to Asia and the Middle East increased by 7.0%; enplanements to Canada increased by 8.6%; enplanements to Europe increased by 6.0%; enplanements to Latin America decreased by 1.5%; and enplanements to Australia and Oceania decreased by 9.6%, all as compared to Fiscal Year 2013-14.

In the first five months of Fiscal Year 2015-16, enplanements to Asia and the Middle East increased by 8.7%; enplanements to Canada increased by 10.0%; enplanements to Europe increased by 14.7%; enplanements to Latin America increased by 8.6%; and enplanements to Australia and Oceania decreased by 1.7%, all as compared to the first five months of Fiscal Year 2014-15.

International enplanements by destination for Fiscal Years 2010-11 through 2014-15 and the first five months of Fiscal Years 2014-15 and 2015-16 are shown in the table on the following page.

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INTERNATIONAL ENPLANEMENTS BY DESTINATION
(Fiscal Years)

Destination	2010-11	2011-12	2012-13	2013-14	2014-15	% of 2014-15		<i>First Five Months (July through November)</i>	
						International Enplanements ⁽¹⁾	Total Enplanements	2014-15	2015-16*
Asia/Middle East	2,058,424	2,099,129	2,129,047	2,162,721	2,315,144	43.9%	9.6%	923,864	1,004,297
Europe	1,146,595	1,227,484	1,286,374	1,389,903	1,473,694	27.9	6.1	664,698	762,384
Canada	670,818	625,058	629,379	678,770	736,844	14.0	3.1	334,252	367,785
Latin America	362,719	472,534	511,149	563,870	555,266	10.5	2.3	222,705	241,846
Australia/Oceania	226,385	186,693	201,495	213,317	192,854	3.7	0.8	79,851	78,468
TOTAL	4,464,941	4,610,898	4,757,444	5,008,581	5,273,802	100.0%	22.0%	2,225,370	2,454,780
Percentage Change	5.3%	3.3%	3.2%	5.3%	5.3%				10.3%

* Preliminary.

(1) Column does not total due to rounding.

Source: Commission.

Cargo Traffic and Landed Weight

Cargo Traffic

In Fiscal Year 2014-15, according to traffic reports submitted by the airlines, Airport air cargo volume was approximately 441,797 metric tons, including U.S. mail, freight and express shipments, an increase of 71,272 metric tons (19.2%) compared to reported cargo volume for Fiscal Year 2013-14. A total of approximately 273,149 metric tons of international cargo, mail, freight and express shipments were handled at the Airport during Fiscal Year 2014-15, compared to approximately 168,649 metric tons of domestic cargo, mail, freight and express shipments. The Airport was ranked 17th in the United States in terms of air cargo volume in calendar year 2014, according to 2014 data from ACI. Cargo volume can vary depending on a number of factors including, but not limited to, the local and global economies, fuel prices, tariffs on shipments, and labor issues at shipping ports.

Compared to Fiscal Year 2013-14, domestic cargo and mail traffic tonnage increased 31,944 metric tons (23.4%) and international cargo and mail traffic tonnage increased 39,329 metric tons (16.8%) during Fiscal Year 2014-15.

Compared with the first five months of Fiscal Year 2014-15, domestic cargo and mail traffic tonnage increased 14,115 metric tons (21.3%) and international cargo and mail traffic tonnage increased 3,198 metric tons (3.0%) during the first five months of Fiscal Year 2015-16.

The following table provides combined domestic and international cargo traffic information for the Airport for the last five Fiscal Years and the first five months of Fiscal Years 2014-15 and 2015-16.

AIR CARGO ON AND OFF (in metric tons)

Fiscal Year	Freight and Express	U.S. and Foreign Mail	Total Cargo	Percent Change
<i>First Five Months 2015-16*</i>	<i>161,482</i>	<i>30,335</i>	<i>191,817</i>	<i>9.9%</i>
<i>First Five Months 2014-15</i>	<i>151,512</i>	<i>22,991</i>	<i>174,504</i>	
2014-15	383,351	58,447	441,797	19.2
2013-14	328,828	41,697	370,525	0.1
2012-13	329,571	40,624	370,195	(3.9)
2011-12	342,193	42,920	385,113	(3.3)
2010-11	358,357	40,026	398,383	(7.8)

* Preliminary.

Source: Commission.

Landed Weight

For Fiscal Year 2014-15, total revenue landed weight at the Airport increased 982,349 thousand pounds (3.1%) when compared with Fiscal Year 2013-14. Total revenue landed weight at the Airport increased 848,693 thousand pounds (6.1%) during the first five months of Fiscal Year 2015-16 as compared to the first five months of Fiscal Year 2014-15.

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 2010-11 through 2014-15, ranked in the order of the results from Fiscal Year 2014-15, as well as the revenue landed weights for 2014-15's most active airlines during the first five months of Fiscal Years 2014-15 and 2015-16, are shown in the table on the following page. Landed weights for airlines include landed weight of affiliates.

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

Airline	2010-11	2011-12	2012-13	2013-14	2014-15	% of 2014-15 ⁽¹⁾	First Five Months (July through November)*	
							2014-15	2015-16
United Airlines ⁽²⁾	11,530,643	13,162,108	13,161,654	13,607,516	13,587,731	41.7%	5,914,601	5,919,624
Virgin America	1,697,154	2,265,639	2,465,082	2,494,821	2,424,728	7.4	1,038,454	1,106,626
Delta Air Lines ⁽³⁾	2,009,910	2,054,885	2,091,497	2,230,034	2,350,648	7.2	1,032,091	1,103,285
Southwest Airlines ⁽⁴⁾	1,842,278	1,831,956	1,877,368	1,832,578	1,872,090	5.7	805,666	795,416
American Airlines ⁽⁵⁾	1,991,480	1,898,722	1,888,888	1,865,682	1,802,575	5.5	772,943	880,765
US Airways ⁽⁵⁾	912,566	863,749	826,201	859,552	921,285	2.8	412,695	292,998
Alaska Airlines	666,027	663,800	678,452	734,442	827,323	2.5	347,546	363,113
jetBlue Airways	495,140	539,933	571,217	596,813	672,117	2.1	235,360	352,962
Lufthansa Airlines	—	479,171	481,557	459,455	503,285	1.5	215,812	209,218
Air Canada	—	—	—	—	492,160	1.5	215,489	248,260
British Airways	—	—	—	457,210	—	—	—	—
Cathay Pacific	509,194	500,419	466,191	—	—	—	—	—
Continental Airlines ⁽²⁾	825,332	—	—	—	—	—	—	—
SUBTOTAL	22,479,724	24,260,382	24,508,107	25,138,103	25,453,942	78.1	10,990,657	11,272,267
All others	6,564,369	6,199,386	6,164,463	6,490,469	7,156,979	21.9	2,868,493	3,435,575
TOTAL	29,044,093	30,459,768	30,672,570	31,628,572	32,610,921	100.0%	13,859,150	14,707,842
Percentage Change	1.6%	4.9%	0.7%	3.1%	3.1%			6.1%

* Preliminary.

(1) Figures do not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines combined for Fiscal Year 2011-12 and thereafter.

(3) Delta ceased its international service at the Airport in March 2014.

(4) In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of Air Tran Airways. The airlines combined operating certificates in March 2012 but operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines.

(5) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.

Source: Commission.

Competition

General

According to 2014 data from ACI, the Airport is the principal airport in the San Francisco Bay Area and the second largest international gateway on the West Coast after Los Angeles International Airport (LAX). The San Francisco Bay Area is also served by Metropolitan Oakland International Airport (OAK) and Norman Y. Mineta San Jose International Airport (SJC). The passenger traffic data with respect to LAX, OAK, and SJC discussed below was obtained from websites maintained by LAX, OAK, and SJC, respectively.

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.

Substantially all of the international passenger traffic (enplanements and deplanements) in the Bay Area is at the Airport. Thus, the primary competitor of the Airport on the West Coast for international passengers is LAX, rather than Oakland Airport or San Jose Airport. During Fiscal Year 2014-15, international passenger traffic (enplanements and deplanements) at the Airport totaled approximately 10.6 million (an increase of 5.6% over the prior Fiscal Year) compared to approximately 19.6 million at LAX (an increase of 5.2%). The choice by air carriers between the Airport and LAX for their international routes is affected by many factors, including the much larger population served by LAX, and the distance of each airport from various destinations.

In 2014, Delta Air Lines announced that the creation of an international gateway in Seattle was among its network strategies. According to statistics published by Seattle-Tacoma International Airport (SEA) in Fiscal Year 2014-15, its international enplanements and deplanements totaled 4.2 million compared to 10.6 million at the Airport. Delta Air Lines ceased its international service at the Airport in March 2014, although the total number of Delta Air Lines passengers at the Airport has not declined. Delta Air Lines' enplanements and deplanements in the twelve months following cessation of its international service at the Airport increased by 11.8% or 420,776 passengers, due to domestic growth.

Passenger Traffic

According to traffic reports released by the three Bay Area airports for Fiscal Year 2014-15, the Airport accounted for approximately 65.6% of total domestic passenger traffic and approximately 94.5% of total international passenger traffic. The combined total passenger traffic increase at the three Bay Area airports during Fiscal Year 2014-15 was 3.5 million enplanements and deplanements (approximately 5.4%) higher than in Fiscal Year 2013-14. While the Airport's enplanements and deplanements increased by 4.7%, Oakland Airport increased by 8.7% and San Jose Airport increased by 5.4%, resulting in a slight decrease in market share for the Airport, from 70.8% in Fiscal Year 2013-14 to 70.3% in Fiscal Year 2014-15.

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	2010-11	2011-12	2012-13	2013-14	2014-15*	
					Number	% Change
San Francisco	39,726,471	42,863,656	44,608,177	46,057,988	48,212,794	4.7%
Oakland	9,367,577	9,643,555	9,950,856	9,890,271	10,754,556	8.7
San Jose	8,389,050	8,256,223	8,488,459	9,063,012	9,554,866	5.4
TOTAL BAY AREA	57,483,098	60,763,434	63,047,492	65,011,272	68,522,216	5.4%
Percentage Change	2.7%	5.7%	3.8%	3.1%	5.4%	

* Preliminary.

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

Air Cargo

During Fiscal Year 2014-15, the Airport accounted for approximately 43.0% of total air cargo at the three San Francisco Bay Area airports, compared with 39.5% in Fiscal Year 2013-14. Oakland Airport accounted for approximately 52.4% and San Jose accounted for approximately 4.6% of the total air cargo in the Bay Area during Fiscal Year 2014-15. The Airport handled approximately 23.3% of domestic loaded and unloaded cargo and approximately 89.4% of the Bay Area's international loaded and unloaded air cargo. Oakland Airport had the largest share of the domestic air cargo market (approximately 72.5% compared to approximately 73.0% during Fiscal Year 2013-14). This 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 39,329 tons (16.8%) compared to Fiscal Year 2013-14, and an increase in domestic cargo (including mail) of 31,944 tons (23.4%) over the same period, resulting in an overall increase of

71,272 tons (19.2%). During Fiscal Year 2014-15, Oakland Airport experienced an increase in total cargo of 18,544 tons (3.6%) and San Jose Airport experienced an increase in total cargo of 216 tons (0.5%) each compared to Fiscal Year 2013-14. As a result, the Airport experienced a 3.5 percentage point increase in cargo tonnage market share, while Oakland Airport had a decrease in cargo tonnage market share of 3.1 percentage points and San Jose Airport had a decrease in cargo tonnage market share of 0.4 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	2010-11	2011-12	2012-13	2013-14	2014-15*	
					Number	% Change
San Francisco	398,383	385,113	370,195	370,525	441,797	19.2%
Oakland	510,121	500,950	493,127	520,486	539,030	3.6
San Jose	42,935	37,996	37,177	46,961	47,177	0.5
TOTAL BAY AREA	951,438	924,059	902,498	937,972	1,028,005	9.6
Percentage Change	(1.9%)	(2.9%)	(2.3%)	3.9%	9.6%	

* Preliminary.

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

Airline Agreements

The City and 44 airlines have entered into 10-year Lease and Use Agreements that became effective on and after July 1, 2011 (the “Lease and Use Agreements”) following the expiration of prior lease and operating agreements with the airlines. The airlines that are party to a 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. A brief description of certain major terms of the Lease and Use Agreements follows. For a more detailed summary of the Lease and Use Agreements, see APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS.” For information on which airlines currently serving the Airport are party to the Lease and Use Agreements, see the table entitled “Air Carriers Reporting Air Traffic at the Airport” under “–Airline Service” above.

Lease and Use Agreements

Signatories. The Lease and Use Agreements took effect on July 1, 2011 and expire on June 30, 2021. Eight airlines currently operating scheduled passenger flights at the Airport are non-signatory. These airlines’ passengers comprised less than 2% of the Airport’s total passengers in the month of November 2015. Airlines in addition to the 44 current signatories may sign the Lease and Use Agreement from time to time.

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

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 non-Airline revenues, 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 commercially reasonable efforts to provide a 60-day notice to, and consult with, the Signatory Airlines. The Signatory Airlines are required to pay such increased terminal rentals and/or landing fees sufficient to cover the projected deficiency for the remaining months of the then-current Fiscal Year. The Airport has not made any such mid-year adjustments since Fiscal Year 2000-01.

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 Lease and Use Agreements) of a Signatory Airline pay a 25% premium on landing fees. However, if a Signatory Airline ceases or substantially reduces its operations at the Airport, it remains liable for certain terminal rentals 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 are made up either from a mid-year rate adjustment, or from adjustments to landing fee rates in the succeeding Fiscal Years.

Funding of Capital Improvements. The Commission, subject to the limited exception described below, must use commercially reasonable efforts to finance all capital improvements through grants, TSA funding, PFCs or the issuance of Airport revenue bonds. However, the Commission may annually budget for capital improvements from current revenues up to \$4,200,000 in Fiscal Year 2008-09 dollars (\$4,869,000 in 2015 dollars based on the Implicit Price Deflator), or a greater amount approved by 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).

Airline Review of Capital Improvements. The Commission is required to notify the Signatory Airlines in writing of proposed capital improvements. Within 45 days of the receipt of such notice, a Majority-In-Interest 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. Capital improvements that are (i) required by a federal or state agency having jurisdiction over Airport operations, (ii) required by an emergency which, if the improvements are not made, would result in the closing of the Airport within 48 hours, or (iii) financed by the issuance of Special Revenue Bonds, are not subject to the airline review requirement. "Special Revenue Bonds" are obligations issued by the Commission or on behalf of the Airport, the debt service on which is payable from or secured in whole or substantial part by revenues other than Revenues.

Optional Reduction of Exclusive Use Space. Signatory Airlines are 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. To exercise this option, a Signatory Airline must give the Airport ninety days written notice between July 1, 2015 and February 1, 2016, requesting the City's consent to relinquish space. While some airlines have exercised this option and others may do so before the

deadline, the Airport believes there is sufficient demand for the space and that there will not be any significant impact.

Joint Use of Space. Gates in the domestic terminals are used by airlines on a preferential or common-use basis while gates in the ITC are used on a common or joint use basis. Gates assigned to an airline for preferential use are allocated annually according to 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 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 leased to a group of airlines on a joint use basis and allocated for use among the various airlines as needed during the day in accordance with management protocols. Rental charges for joint use facilities are based on a formula, with 80% of the charges allocated pro rata to the airlines based on passenger levels, and 20% shared equally by the airlines in the group. 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 domestic terminal and ITC gates and related facilities are designated for common use to accommodate itinerant airlines and overflow domestic departures and arrivals. Fees for common use facilities are charged on a per-turn basis.

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 Signatory Airline may have more than one agreement, lease or permit with the Airport. If a default occurs under any one of such other agreements, a cross-default is triggered under the Signatory Airline's Lease and Use Agreement. In addition, if a Signatory Airline is in default under its Lease and Use Agreement, the Airport may terminate any other agreement with such Signatory Airline.

Payments per Enplaned Passenger. The Airport has agreed to a goal of limiting airline payments 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. For further discussion of payments per enplaned passenger, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Operating Revenues—Terminal Rental Rates and Landing Fees."

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 the United States Bankruptcy Code. A trustee in bankruptcy or the airline as debtor in possession may reject any executory contracts or unexpired leases of non-residential real property. Among other things, rejection of an unexpired lease is deemed to be a default of the lease immediately before the date of the filing of the bankruptcy petition. Under the Bankruptcy Code, upon rejection of an unexpired lease the airline debtor must surrender non-residential real property to the lessor. As a result, rejection of an unexpired lease by an airline debtor may result in the Commission regaining control of the applicable facilities (including gates and boarding areas). The Commission could then lease or permit such facilities 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 debtor airline, and on the need for such facilities. Alternatively, under the Bankruptcy Code an airline debtor can "assume" its executory contracts and unexpired leases. The Bankruptcy Code further provides for an airline debtor to assume and assign its executory contracts and leases, subject to certain conditions. If the bankruptcy trustee or the airline assumes its executory contracts or unexpired leases as part of a reorganization, the airline debtor must "cure" or provide adequate assurance that the airline debtor

will promptly cure its prepetition defaults, including 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 120 days from the date of filing of the bankruptcy petition to decide whether to assume or reject a nonresidential lease, such as a Lease and Use Agreement. The 120-day period may be extended by court order for an additional 90 days for cause. Any additional extensions are prohibited unless the debtor airline or trustee obtains the Airport's consent and a court order.

Under the Bankruptcy Code, any rejection of a lease could result in a claim by the Airport for lease rejection damages against the debtor airline. Such claim would be in addition to all pre-bankruptcy amounts owed by the debtor airline. A rejection damages claim is for the rent due under the lease and is capped under the Bankruptcy Code at the greater of one year, or 15%, not to exceed three years, of the remaining term of the lease. Rejection damages claims are generally treated as a general unsecured claim of the airline debtor. However, the Airport may have rights against any faithful performance bond or letter of credit required of an airline to secure its obligations under the Airport agreements or the right to set off against credits owed to the airline under the Airport agreements.

There can be no assurance that all claim amounts could be collected if an airline rejects its Lease and Use Agreement in connection with a bankruptcy proceeding. In addition, in the event an airline rejects its lease agreements, the Airport may be required to repay landing fees and terminal rentals paid by the airline in the 90-day period prior to the date of the bankruptcy filing, since such payments are treated as "preferential" and may be avoidable under the Bankruptcy Code.

Even if a 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. In that event, the Airport's claim against the bankruptcy estate would be treated as 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 remaining 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.

Also see "CERTAIN RISK FACTORS—Bankruptcy of Airlines Operating at the Airport."

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 subsidies 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 direct 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" and "CERTAIN RISK FACTORS—Reduction in FAA Grants."

On November 7, 2014, the FAA amended its 1999 *Policies and Procedures Concerning the Use of Airport Revenue* to confirm that state and local taxes on aviation fuel, whether part of a general sales tax or otherwise, and whether imposed by an airport operator or by state or local taxing authorities, are subject to the federal restrictions on the uses of airport revenue. These restrictions do not apply to taxes in effect on or before December 30, 1987. The FAA's policy amendment became effective on December 8, 2014, but the FAA has provided a three-year transition period for state and local governments to comply. The FAA's policy amendment also requires the Airport to inform state and local taxing entities of these provisions and take reasonable actions within its power to influence state and local tax laws to conform to these requirements. The Airport has made the required notifications and is working with the City and other taxing entities to comply with these provisions. Any sales taxes on aviation fuel sold at the Airport and received by state and local governments that cannot be grandfathered or used in accordance with the FAA's revenue use policy, likely would be returned to the Airport, resulting in a modest amount of additional revenue that cannot be quantified at this time.

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 XIIC and XIID 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 XIIC 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 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. 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 Commission budgeted 1,641 full-time equivalent positions for Fiscal Year 2014-15 and budgeted 1,688 full-time equivalent positions for Fiscal Year 2015-16. The Charter governs the Airport's employment policies. The Charter authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies.

There are presently 18 labor unions representing Airport employees. The 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, and most unions entered into new agreements with the City on July 1, 2014 that expire June 30, 2017. Not all agreements were open for negotiation, such as agreements covering public safety employees. 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 at least 1976. In 1976, an amendment to the City's Charter was approved which prohibits strikes and similar work actions by City employees.

For discussion of employee benefit plans, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION – Payments to the City – *Employee Benefit Plans*."

Hazardous Material Management

Environmental Staff

The Commission employs environmental staff responsible for management of hazardous materials and compliance with environmental regulations.

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 and requirements of the California Regional Water Quality Control Board, San Francisco Bay Region (the “Regional Board”). The contamination has primarily consisted of leaked fuel constituents that most likely resulted from fueling practices of the 1940s through the early 1960s, accidental spills of fuel hydrocarbons, or releases from leaky pipes or underground tanks. However, the Commission has instituted regulations establishing fueling practices and facilities requirements that are intended to prevent hazardous materials from being discharged into the environment. 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 the use of *in situ* remediation methods approved by the regulatory agencies with jurisdiction. Substantial hazardous material management work in connection with projects under the Airport’s Master Plan has been completed and continues to be undertaken in connection with remaining Master Plan projects and other Airport Capital Plan projects.

Pursuant to requirements of the Regional Board, remediation activities have been and continue to be undertaken in specific locations at the Airport by tenants responsible for the contamination in those locations, and the Airport has cleaned up contamination, and expects to continue to clean up contamination, that it encounters during construction on Airport property. As a result of litigation initiated by the Commission in 1997 over contamination on Airport property, the Commission reached settlement agreements with a number of current and former tenants that require such tenants to pay a set percentage of future environmental clean-up costs incurred by the Airport to address any residual contamination caused by such tenants’ activities. Since costs incurred by the Airport are not known until the Airport embarks on a construction project or undertakes operation and maintenance activities that encounter such residual contamination, the agreement with the settling tenants provides for compensation of relevant incurred expenses as the Airport incurs such costs. While the total clean-up costs that the Airport will incur are not presently known, the settlement agreements provide that the tenants’ obligation terminates when clean-up costs exceed either \$75 million or \$98 million, depending on the tenant and the specific agreement. Some tenants’ obligations also terminate after October 2048 regardless of the amount of incurred cost. In the event a settling tenant is no longer in business or is otherwise unable to pay its percentage share, the Commission may become responsible for the remediation costs attributable to that tenant.

The July 6, 2013 crash of Asiana Airlines’ Flight 214 at the Airport resulted in contamination of Airport property. The Airport incurred expenses to undertake emergency clean up of contamination in the soil at the crash site and in one of the storm drains and an associated pump station. Asiana Airlines, through its consultant, has investigated and has completed the remediation of the known contamination under a Remedial Action Workplan approved by the Regional Board. Asiana Airlines has submitted a Remedial Action Completion Report to the Regional Board and is waiting for the Regional Board to approve the report.

CAPITAL PROJECTS AND PLANNING

The Capital Plan Process

The Airport’s capital plan process is led by the Capital Project Review Committee (the “CPRC”) and the Capital Improvement Program Working Group (the “CIP Working Group”). The CPRC is comprised of senior staff, and the CIP Working Group is comprised of management staff. The CIP Working Group evaluates and ranks 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 reviews and approves the CIP Working Group’s selection of projects for funding in a Capital Plan (the “Capital Plan”). In reviewing and approving 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. Generally, capital projects require the approval of the Commission, the Board of Supervisors and the Mayor. In most cases, an airline review is also required (see “SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements”).

The Capital Plan

The most recent revisions to the five-year Capital Plan correspond to the period between Fiscal Year 2015-16 and Fiscal Year 2019-20 and the most recent revisions to the ten-year Capital Plan correspond to the period between Fiscal Year 2015-16 and 2024-25. The Airport's current five-year Capital Plan includes projects related to health, safety and security enhancements; improvements to the airfield, groundside activities, terminals and customer service functions; environmental mitigation; asset preservation; utilities infrastructure upgrades; cost savings and revenue generating enhancements; and seismic retrofit of certain facilities. These revisions were approved by the Commission on February 17, 2015. The five-year Capital Plan includes an aggregate of \$2.8 billion in projects, of which \$84.8 million are expected to be funded with AIP funds and other grants, \$24.1 million are expected to be funded with Airport operating funds, \$47 million are expected to be funded with PFC revenue designated for pay-go purposes, and \$2.7 billion are expected to be funded with proceeds of additional Bonds expected to be issued in the future. The Commission expects to issue additional Bonds to generate approximately \$703 million for capital projects (exclusive of costs of issuance and reserve fund deposits) in Fiscal Year 2016-17, approximately \$243 million of which will be used to purchase Hotel Special Facility Bonds as described below. The timing and amounts of additional Bonds may change depending on the timing of capital expenditures and market conditions. The Airport bases its bond issuance needs on capital project cash flows, which includes projects budgeted in prior capital plans and does not include project costs if the cash flows extend beyond the planning period.

Included in the current five-year Capital Plan are initial planning and design funds for projects in the planning stage, including redevelopment of Boarding Area C in Terminal 1 and maintenance and rehabilitation projects. Based on traffic and other economic indicators, the Commission will decide whether to commence each phase of these projects.

Included in the \$4.5 billion ten-year Capital Plan are additional projects such as the full planned improvements of the southern and central portions of Terminal 1 including all of Boarding Area B with a total cost likely in excess of \$1.7 billion. These projects have anticipated phased completion dates through 2020.

In addition, the Airport is evaluating another subset of projects in the ten-year Capital Plan which are in the early review and conceptual planning stages and may proceed in the future. These projects include renovations to the northern portions of Terminal 1 including Boarding Area C with a total cost of approximately \$483 million and anticipated phased completion dates through 2023.

The Airport presented \$185.0 million of projects that exceed the capital project review threshold in the current five-year Capital Plan to the Signatory Airlines for review on September 18, 2015. The Signatory Airlines did not request the deferral of any capital projects.

The Airport is in the process of updating its five-year Capital Plan for the period from Fiscal Year 2016-17 through Fiscal Year 2020-21. This update to the Capital Plan may include new major capital improvement projects, as well as revisions in scope and cost to existing projects, and is likely to exceed the cost of the most recent five-year Capital Plan by a significant amount. The update to the five-year Capital Plan is expected to be completed in Spring 2016.

In September 2015, the Commission awarded a Hotel Management Agreement to Hyatt Corporation and authorized the issuance of \$243 million of additional Bonds and \$225 million of San Francisco International Airport Hotel Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned Grand Hyatt hotel and related AirTrain station. The Commission also designated the planned hotel as a "special facility" under the 1991 Master Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Commission does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of the additional Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately \$243 million, which will be applied to the \$225 million construction costs of the hotel and AirTrain station, deposits to reserve funds, capitalized interest and other costs of issuance. The bonds have received the approval of the City's Board of Supervisors and will likely be issued in Fiscal Year 2016-17. The hotel is anticipated to open during Summer 2019.

Airport Development Plan

The Airport is in the process of completing a new Airport Development Plan (the “ADP”). The goal of the ADP is to provide the long-range planning framework needed to guide future Airport development to cost-effectively satisfy aviation demand while considering other potential constraints. The current Master Plan was finalized in 1989, and covered Airport growth to about 51 million annual passengers. The new ADP will include alternatives that cover potential growth up to about 71 million annual passengers. The focus of the ADP is on meeting projected demand for gate capacity, as well as ground-side capacity. The types of potential projects included in the ADP are a new rental car center, new terminal concourse, replacement of the Central Garage, and improvements to the International Terminal Complex. The Airport expects to begin the environmental review process for the ADP in early 2016. The environmental review process is anticipated to last 18 to 24 months. Not all projects in the ADP will necessarily be undertaken. Projects will be added to Capital Plans when and as they are warranted by traffic growth or other factors.

Federal Grants

The Airport receives federal funding from the FAA, the TSA, and other federal agencies. The FAA administers the Airport’s AIP and grants are made available to airport operators in the form of entitlement funds and discretionary funds. See “CERTAIN RISK FACTORS—Reduction in FAA Grants.”

Grants receivable of \$20.6 million and \$60.8 million as of June 30, 2015 and 2014, respectively, were based on actual costs incurred, subject to federal reimbursement limits. Project costs are subject to audit by the funding agencies 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 respective funding agencies.

The Airport received \$13.2 million in federal funds under the American Recovery and Reinvestment Act of 2009 (“ARRA”) from the TSA in the Department of Homeland Security (“DHS”) (for checked baggage screening equipment) and two grants totaling \$14.5 million from the FAA in the Department of Transportation (“DOT”) (for runway improvements).

The Office of Inspector General (“OIG”) for each of the DHS and DOT have audited ARRA grants for a number of airports nationwide, including the above three grants received by the Airport. The DHS audit concluded that one Airport expenditure was questionable because it was not adequately supported by the Airport’s accounting records. The Airport has repaid \$0.1 million of the TSA funding. The initial DOT audit concluded that several Airport expenditures of the two FAA ARRA grants were questionable because of inadequate documentation, work outside the approved scope for otherwise eligible projects, and non-qualifying expenditures. The Airport repaid approximately \$1.8 million of the two ARRA grants and voluntarily reduced other AIP grant reimbursement requests by \$1.2 million. Following an internal review, the Airport identified an additional \$0.9 million of ineligible expenditures reimbursed from grant proceeds that was reimbursed to the FAA in December 2015. The Airport has been and continues to be audited with respect to these grants, other grants, and PFCs. In the past, audits have resulted in repayments of grants and reductions of other grant reimbursement requests. In addition, audits have resulted in changes to the Airport’s internal controls and procedures. While some of these audits remain pending and the Airport may be required to repay grants it has received, the Commission does not believe any required repayments will have any material adverse impact on the business operations or financial condition of the Airport.

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 Signatory Airlines are obligated under the 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 Lease and Use Agreements, to the extent there is an over-collection in any year (that is, receipts from the airlines exceed the Airport's 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 Lease and Use Agreements to pay such deficiency from future rates and charges. For a description of the Lease and Use Agreements, see "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements." Also see "SECURITY FOR THE SERIES 2016A BONDS –Pledge of Net Revenues; Source of Payment–*Certain Adjustments to 'Revenues' and 'Operation and Maintenance Expenses'–Unearned Aviation Revenues.*"

Summary of Financial Statements

Summary of Statements of Net Position. A summary of the Airport's Statements of Net Position as reported in the Airport's annual financial statements for Fiscal Years 2012-13 through 2014-15 is shown in the table on the next page. See APPENDIX A – "FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2015 AND 2014 (WITH INDEPENDENT AUDITORS' REPORT THEREON)."

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

	2012-13 ⁽¹⁾ (Restated)	2013-14	2014-15 ⁽⁶⁾
Assets:			
Unrestricted current assets ⁽²⁾⁽³⁾⁽⁴⁾	\$ 399,014	\$ 425,951	\$ 450,598
Restricted current assets	197,112	278,346	245,719
Restricted non-current assets	389,162	579,933	643,686
Capital assets, net	3,720,791	3,869,718	3,936,426
Total assets	4,706,079	5,153,948	5,276,429
Deferred outflows of resources:			
Unamortized loss on refunding of debt	108,581	92,147	78,388
Deferred outflows on derivative instruments	64,743	64,964	66,809
Deferred outflows on employer pensions contributions	—	—	37,517
Total deferred outflows of resources	173,324	157,111	182,714
Liabilities:			
Current liabilities ⁽⁴⁾	500,511	268,723	285,929
Current liabilities payable from restricted assets	295,698	410,087	154,611
Noncurrent liabilities ⁽⁵⁾	3,729,562	4,285,257	4,608,523
Net pension liability	—	—	111,932
Derivative instruments	81,338	80,235	80,722
Total liabilities	4,607,109	5,044,302	5,241,717
Deferred inflows of resources:			
Deferred inflows related to pensions	—	—	100,290
Total deferred inflows of resources	—	—	100,290
Net position:			
Net investment in capital assets	(52,581)	(149,894)	(103,109)
Restricted for debt service	19,757	25,390	37,427
Restricted for capital projects	139,981	200,219	165,224
Unrestricted	165,137	191,042	17,594
Total net position	\$ 272,294	\$ 266,757	\$ 117,136

(1) The Airport implemented GASB Statement No. 65, *Items previously reported as Assets & Liabilities*, effective July 1, 2012. GASB 65 sets standards for accounting and reporting of deferred outflows of resources and deferred inflows of resources and reclassification of certain items that were previously reported as assets or liabilities. As a result, the Airport restated the beginning net position of Fiscal Year 2012-13 in the amount of \$24.5 million to write-off unamortized bond issuance cost previously classified as assets. The Airport has also reclassified \$108.6 million of unamortized loss on refunding of debt from a contra liability to a deferred outflow of resource.

(2) For a description of the cash and investments of the Airport, see “—Investment of Airport Funds.”

(3) Net of allowance for doubtful accounts (in thousands): 2015: \$633; 2014: \$547; 2013: \$384.

(4) Includes unearned aviation revenue (formerly referred to as deferred aviation revenue) of (in thousands): 2015: \$55,704; 2014: \$55,633; 2013: \$51,923. Unearned 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.”

(5) Amounts include compensated absences, accrued worker's compensation, claims payable and long-term debt outstanding.

(6) The Airport has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The July 1, 2014 beginning financial position has been restated for the retroactive application of this new accounting guidance. The cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2014. The restatement resulted in the net position being reduced from \$266.8 million as of July 1, 2014, to \$61.0 million to record beginning net pension liability and beginning deferred outflows of resources.

Source: Commission.

Summary of Statement of Revenues, Expenses, and Changes in Net Position. A summary of the Airport's Statements of Revenues, Expenses, and Changes in Net Position as reported in the Airport's annual financial statements for Fiscal Years 2010-11 through 2014-15 is shown in the table below. See APPENDIX A – “FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2015 AND 2014 (WITH INDEPENDENT AUDITORS' REPORT THEREON).”

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

	2010-11	2011-12 (Restated)	2012-13 (Restated)	2013-14	2014-15
Aviation Revenues	\$340,812	\$374,767	\$413,918	\$441,259	\$464,610
Concession Revenues ⁽¹⁾	201,207	226,620	243,096	253,290	269,868
Net Sales and Services	65,304	67,285	69,344	76,142	80,886
Total Operating Revenues	607,323	668,672	726,358	770,691	815,364
Total Operating Expenses ⁽²⁾	(494,940)	(538,375)	(559,050)	(625,660)	(609,029)
Operating Income	112,383	130,297	167,308	145,031	206,335
Nonoperating Revenue (Expense) ⁽³⁾	(103,370)	(106,512)	(190,587)	(203,598)	(141,826)
Income (Loss) Before Capital Contribution and Transfers	9,013	23,785	(23,279)	(58,567)	64,509
Capital Contributions ⁽⁴⁾	24,033	14,538	65,958	91,024	32,119
Transfer to the City	(30,608)	(33,993)	(36,464)	(37,994)	(40,480)
Changes in Net Position	\$2,438	\$4,330	\$6,215	\$(5,537)	\$56,148

(1) Also includes parking and transportation revenues.

(2) Includes depreciation expense in the amounts of \$160.0 million for Fiscal Year 2010-11, \$167.3 million for Fiscal Year 2011-12, \$176.5 million for Fiscal Year 2012-13, \$222.8 million for Fiscal Year 2013-14 and \$216.1 for Fiscal Year 2014-15.

(3) Includes interest expense in the amount of \$195.9 million for Fiscal Year 2010-11, \$203.5 million for Fiscal Year 2011-12, \$195.5 million for Fiscal Year 2012-13, \$202.0 million for Fiscal Year 2013-14 and \$210.6 million for Fiscal Year 2014-15.

(4) Represents federal and state grant funds.

Source: Commission.

Operating Revenues

General

Under the 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—Lease and Use Agreements."

Terminal Rental Rates and Landing Fees

For Fiscal Year 2015-16, annual terminal rental rates range from \$275.55 per square foot for Category I space (ticket counters and hold rooms) to \$27.56 per square foot for Category V space (unenclosed or covered areas at ramp level), with an average rate per square foot of \$157.18. For Fiscal Year 2014-15, annual terminal rental rates range from \$260.14 per square foot for Category I space (ticket counters and hold rooms) to \$26.01 per square foot for Category V space (unenclosed or covered areas at ramp level), with an average rate per square foot of \$149.98.

The landing fee rate for Fiscal Year 2015-16 is \$4.87 per thousand pounds of landed weight compared to \$4.57 per thousand pounds of landed weight for Fiscal Year 2014-15. Operators without a lease or operating permit pay a landing fee charge of \$6.09 per thousand pounds of landed weight. For Fiscal Year 2015-16, the minimum landing fee for fixed wing aircraft is \$245 compared to \$220 for Fiscal Year 2014-15.

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 are set forth in the table below. Overall, costs to the airlines are expected to rise in the near term, primarily due to the issuance of additional Bonds to fund the construction of capital projects needed to serve the current demand for domestic terminal space. See "CAPITAL PROJECTS AND PLANNING."

AIRLINE PAYMENTS PER PASSENGER

<u>Fiscal Year</u>	<u>Amount</u>
2014-15	\$16.24
2013-14	15.85
2012-13	15.35
2011-12	14.41
2010-11	13.85

Terminal rental rates and landing fees are adjusted annually on July 1. The 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 Fiscal Years 2011-12 through 2015-16 is set forth below.

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

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Landing Fees (per 1,000 pounds)	\$3.79	\$4.01	\$4.29	\$4.57	\$4.87
Minimum Landing Fee (fixed wing)	185	205	208	220	245
Minimum Landing Fee (rotary)	93	103	104	110	123
Average Terminal Rental Rate (per square foot)	122.93	131.55	140.85	149.98	157.18

Source: Commission.

Airline Incentive and Stimulus Programs

The Airport has successfully attracted several new international flights and air carriers with airline incentive and stimulus programs. Beginning in January 2012, the Commission implemented a new Air Carrier Incentive Program, which provides a 100% waiver of landing fees for twelve months for any new non-stop international route to or from the Airport (including Mexico and Canada) that is not currently served by an existing carrier. On May 21, 2013, the Program was revised to increase the time period of the landing fee waiver from 12 months to up to 24 months. The Incentive Program replaced the prior Aviation Market Stimulus Program which offered a 50% landing fee reduction for certain new flights between 2004 and 2011, and resulted in six new international destinations offered by six international carriers (five of them new). As of December 31, 2015, the Incentive Program has resulted in six new destinations offered by five new carriers, which include: Etihad Airways service to Abu Dhabi (November 2014), China Southern service to Wuhan continuing to Guangzhou (December 2014), Turkish Airlines service to Istanbul (April 2015), COPA Airlines service to Panama (September 2015) and Air India service to New Delhi (December 2015). In addition, United Airlines has recently announced service to two destinations beginning in 2016 that will qualify for the incentive program: Tel Aviv, Israel and Xi'an, China.

SFO Transportation and Facility Fees

The rental car companies collect a \$20.00 per rental contract fee that is paid to the Commission for reimbursement of certain costs of operating and providing the AirTrain facilities between the Terminal Complex and the rental car facility located one mile north of the Terminal Complex.

Concessions

Retail and Food and Beverage Program

Since the reopening of Terminal 2 in April 2011, the Airport has been recognized with numerous concessions and travel industry awards and public accolades. The 22 restaurants and shops that comprise the concession offerings in Terminal 2 have become the model for quality and revenue generation for future development of food and beverage and retail locations at the Airport. In Fiscal Year 2014-15, Terminal 2 passengers spent 25.1% more than the amount spent by passengers at the domestic terminals at the Airport as a whole on retail and food and beverage items, excluding duty free.

A fully renovated Boarding Area E in Terminal 3 opened in late January 2014 and includes eleven new food and beverage and retail locations. The ambiance and quality of concessions in Boarding Area E is modeled after Terminal 2. Eight additional renovated concession locations opened in a newly renovated portion of Terminal 3 in November 2015. Fourteen more restaurant locations and thirteen retail locations are expected to be opened over the next four years.

Terminals 1 and 3 currently feature 36 food and beverage locations and 25 retail locations. Five of the food and beverage locations in these terminals are located in pre-security areas accessible to the general public. A newly constructed Boarding Area B in Terminal 1 is expected to open in phases during calendar years 2019 through 2020. Lease extensions were granted to food and beverage and retail tenants operating eight locations to provide service between lease expirations and the opening of Phase I of Boarding Area B. While a concessions layout is still under development, the layout is expected to include significantly more square footage than the existing one. The redevelopment is expected to align Terminal 1 with the ambiance and customer service experience of Terminal 2 and the recently renovated portions of Terminal 3. New concessions have opened and more are expected to open through 2016 in Terminal 3. The leases for the majority of the food and beverage and retail locations in Terminal 3 will expire during calendar years 2017 through 2019.

The ITC currently features 20 restaurants and over 40 retail concessions, including duty free. The ITC food and beverage program is intended to provide international and domestic passengers with a welcoming taste of the Bay Area culinary experience. The retail program in the ITC provides passengers the opportunity to shop for luxury fashion, beauty, and spirits brands. The Airport is planning a comprehensive renovation of the ITC concessions program, anticipated to roll out during calendar years 2016 through 2018. In conjunction with this renovation, all food and beverage leases, the duty free lease and nearly all of the specialty retail leases will expire during calendar years 2015 through 2018. The Airport is currently re-leasing the food and beverage program with an announcement of the new concessionaires expected in January 2016. The Airport expects to issue a Duty Free Request for Proposals in mid-2016.

The majority of the Commission's retail and food and beverage leases are structured for the Commission to receive a percentage of gross revenues or a minimum annual guarantee, whichever is higher. The minimum annual guarantee provides the Airport with a guaranteed amount of revenues paid on the first of each month, which amount is unaffected by customer sales activity. Tenants compute their percentage of rent due and report sales to the Airport on a monthly basis. If the figure calculated is greater than the minimum annual guarantee, as prorated for such month, the tenant will pay an additional percentage of rent to the Airport. In Fiscal Year 2014-15, food and beverage domestic terminal sales increased over the prior year by 5.4% and ITC sales increased over the prior year by 19.5%. In Fiscal Year 2014-15, food and beverage domestic terminal revenues to the Airport increased by 5.7% over Fiscal Year 2013-14 and ITC revenues increased over the prior year by 21.7%. The increase in both sales and revenues is attributable to an increase in enplanements and deplanements at the Airport and, for the domestic terminals, a higher spend rate per passenger. The difference between sales and revenue growth reflects how the Airport's concessionaire leases are structured. Certain tenants pay a minimum annual guarantee rather than rent based on a percentage of sales. Overall, the domestic terminal passenger spend rate increased by 4.7% in Fiscal Year 2014-15 over the prior Fiscal Year to \$13.49 from \$12.88 and the ITC spend rate declined 0.5% from \$14.18 to \$14.11. The overall passenger spend rate at the Airport in Fiscal Year 2014-15 was \$13.66, up 3.4% from Fiscal Year 2013-14.

In Fiscal Year 2014-15, retail sales, excluding duty free increased 9.1% compared to the prior year, with a per passenger spend rate increase of 4.4% to \$3.55 from \$3.39. In Fiscal Year 2014-15, rent from retail concessions increased 8.3% due to the completion of tenant improvements.

Duty Free Program

The Commission's duty free concessionaire is DFS Group under a lease expiring on December 31, 2017. DFS Group, one of the Airport's principal retail concessionaires, pays the greater of \$27.3 million (as adjusted pursuant to the lease) per year or a tiered percentage rent structure. Duty free sales grew by 4.4% in Fiscal Year 2014-15 over Fiscal Year 2013-14. DFS Group has completed renovating and re-concepting various stores and kiosks, bringing more luxury brands to the Airport, such as a stand-alone Hermes boutique, a second Gucci store, a second Burberry store and the expansion of beauty and spirits brands in the large galleria stores.

Advertising Program

Clear Channel Airports has held the advertising concession lease with the Commission since 2001. The Commission entered into an eight year lease with Clear Channel commencing January 1, 2015, which requires Clear Channel Airports to pay the Commission a fixed rent amount of \$10.0 million (as adjusted pursuant to the lease) per lease year.

Rental Cars

In January 2009, the Airport entered into new rental car leases with five on-Airport rental car companies representing nine brands to operate at the consolidated rental car facility, which is located approximately one mile north of the Terminal Complex. The Commission has exercised its option to extend each rental car company lease through a final maturity date of December 2018.

The on-Airport rental car companies generated aggregate concession revenue to the Airport of approximately \$50.3 million in Fiscal Year 2013-14 and \$51.2 million in Fiscal Year 2014-15.

The aggregate rent (the total concession fees and building space rental) received from the on-Airport rental car companies for Fiscal Year 2013-14 was \$67.2 million and for Fiscal Year 2014-15 was \$69.2 million.

Parking

In February 2012, New South Parking-California was selected by the Commission through a competitive process to provide public and employee parking management services, commencing July 1, 2012, for a guaranteed maximum fixed price ("GMP") of \$19.7 million for year four of the contract. Subsequent year GMPs are capped at a 3% increase from the previous year's GMP. The parking management agreement has a term of five years.

In Fiscal Year 2014-15, parking volume declined by 0.8% and revenues increased by 0.7% or \$0.8 million from the prior fiscal year, as the average price per exit increased 1.6% from \$28.68 in Fiscal Year 2013-14 to \$29.13 in Fiscal Year 2014-15.

The Airport's parking facilities compete with off-airport facilities located near the Airport that are operated by private companies. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Current Airport Facilities—Public Parking and Rental Car Facilities."

Ground Transportation

Revenue from commercial ground transportation totaled \$22.6 million in Fiscal Year 2014-15, an increase of \$7.6 million or 51.3%, mainly due to commercial vehicle trip fee rate increases of up to 3.6%, and the commencement of transportation network companies' ("TNCs") operations at the Airport. TNCs, which include Uber Technologies Inc., Lyft, Inc, Tickengo, Inc. d/b/a/ Wingz and Sidecar Technologies, Inc. (which ceased operations on December 31, 2015) were permitted to operate at the Airport in a 12-month pilot program that

commenced in September 2014 and resulted in over 1.7 million Airport pick-ups/drop-offs and \$6.5 million in trip fee revenue during Fiscal Year 2014-15. The pilot program was extended through February 29, 2016 to further review operational impacts, and the Airport intends to finalize a regular permit beginning March 1, 2016. Limousines experienced a volume increase of 12.4% in Fiscal Year 2014-15, while other modes of transportation experienced declines, including door-to-door pre-arranged vans (31.1%), charter buses (8.6%), off-airport parking vans (4.9%), shared-ride vans (1.4%) and taxis (0.8%).

Top Ten Sources of Concession Revenues

In Fiscal Year 2014-15, concession revenues, including revenues for parking and other ground transportation, were approximately \$269.9 million, a 6.5% increase compared to the previous Fiscal Year's revenues of approximately \$253.3 million.

The table below summarizes concession revenues for Fiscal Years 2013-14 and 2014-15 and projected concession revenues for Fiscal Year 2015-16 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; and (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 2013-14 Concession Revenue (\$ in thousands)	FY 2014-15 Concession Revenue (\$ in thousands)*	Projected FY 2015-16 Concession Revenue (\$ in thousands)
DFS Group, L.P.	Duty Free and General Merchandise	12/31/17 ⁽¹⁾	\$28,236	\$31,036	\$29,179
Hertz Corporation	Rental Car	12/31/18 ^(2,3)	15,555	14,990	14,458
EAN, LLC	Rental Car	12/31/18 ^(2,4)	13,797	15,996	16,820
Avis Budget Rental Car, LLC	Rental Car	12/31/18 ^(2,5)	13,324	13,281	12,798
Clear Channel Airports	Advertising	6/30/21 ⁽⁶⁾	10,000	10,000	10,125
DTG Operations Rental Car	Rental Car	12/31/18 ^(2,7)	5,636	4,995	4,449
Travelex America, Inc.	Currency Exchange	1/31/20 ⁽⁸⁾	4,553	4,908	5,400
WDFG North America, LLC (Formerly Host International Inc.)	General Merchandise	Various ⁽⁹⁾	3,554	3,657	3,527
D-Lew Enterprises	Food and Beverage	Various ⁽¹⁰⁾	3,063	2,368	2,766
Pacific Gateway Concessions LLC	General Merchandise	Various ⁽¹¹⁾	2,370	2,094	1,649
SUB TOTAL			\$100,087	103,326	101,170
Other Revenue ⁽¹²⁾			153,203	166,542	177,002
TOTAL CONCESSION REVENUE			\$253,290	\$269,868	\$278,172

* See also “–Concessions–Retail and Food and Beverage Program.”

- (1) The minimum annual guaranteed rent was \$27.3 million in Calendar Year 2015.
- (2) For each rental car company there are two leases: a concession lease and a facility lease. Revenue reflects only the concession lease.
- (3) The minimum annual guaranteed rent for Fiscal Year 2015-16 is \$13.0 million.
- (4) Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental. The minimum annual guaranteed rent for Fiscal Year 2015-16 is \$12.9 million.
- (5) Doing business as Avis Rent-A-Car and Budget Rent-A-Car. The minimum annual guaranteed rent for Fiscal Year 2015-16 is \$11.3 million.
- (6) The minimum annual guaranteed rent for Fiscal Year 2015-16 is \$10.6 million.
- (7) Doing business as Dollar Rent-A-Car and Thrifty Car Rental. The minimum annual guaranteed rent for Fiscal Year 2015-16 is \$4.4 million.
- (8) The minimum annual guaranteed rent for the contract year ending April 2016 is \$5.4 million.
- (9) WDFG North America (formerly Host International Inc.) operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2015-16 is \$3.5 million. On January 1, 2014, WDFG of North America, LLC purchased the retail unit of Host International Inc. and continues to operate its location under the existing lease terms.
- (10) D-Lew Enterprises operates various locations within the Airport, each with a different lease expiration date. The total minimum annual guaranteed rent for Fiscal Year 2015-16 is \$0.4 million.
- (11) Pacific Gateway Concessions LLC operates various locations within the Airport, each with a different lease expiration date. The total minimum annual guaranteed rent for Fiscal Year 2015-16 is \$1.2 million.
- (12) Represents the aggregate concession revenue received from approximately 85 additional concessionaires operating 136 concessions, public parking and ground transportation operators at the Airport, including parking revenues of approximately \$101.6 million in Fiscal Year 2013-14 and approximately \$102.4 million in Fiscal Year 2014-15 and a projected \$102.1 million in Fiscal Year 2015-16, and TNC revenues of approximately \$6.8 million in Fiscal Year 2014-15 and a projected \$14.5 million in Fiscal Year 2015-16.

Source: Commission.

Principal Revenue Sources

Set forth in the table below is a description of the Airport’s principal revenue sources. No single tenant accounted for more than 24% of total operating revenue or more than 21% of total revenue in Fiscal Year 2014-15. 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.

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TOP TEN SOURCES OF REVENUE

	FY 2013-14 ⁽¹⁾		FY 2014-15 ⁽¹⁾	
<u>Company/Source</u>	<u>Revenues</u> <u>(\$ in thousands)</u>	<u>Revenues</u> <u>(\$ in thousands)</u>	<u>Percent of Operating</u> <u>Revenue⁽²⁾</u>	<u>Percent of</u> <u>Total Revenue ⁽²⁾</u>
United Airlines	\$182,392	\$191,538	23.49%	20.87%
On Airport Parking ⁽³⁾	101,610	102,364	12.55	11.15
The Hertz Corporation	32,409	31,899	3.91	3.48
EAN, LLC	29,305	33,635	4.13	3.66
DFS Group, L.P.	28,823	31,627	3.88	3.45
Avis Budget Car Rental, LLC	27,615	27,702	3.40	3.02
American Airlines ⁽⁴⁾	26,536	27,494	3.37	3.00
Virgin America	25,542	26,310	3.23	2.87
Delta Air Lines	24,115	24,515	3.01	2.67
Southwest Airlines ⁽⁵⁾	<u>15,854</u>	<u>16,893</u>	<u>2.07</u>	<u>1.84</u>
Subtotal Ten Highest	\$494,201	\$513,977	63.04%	56.00%
Other Operating Revenue	<u>276,490</u>	<u>301,387</u>	<u>36.96</u>	<u>32.84</u>
Total Operating Revenue	\$770,691	<u>\$815,364</u>	<u>100.00%</u>	<u>88.83%</u>
Other Revenue ⁽⁶⁾	6,762	<u>10,441</u>		1.14
PFC Collections	<u>86,966</u>	<u>92,042</u>		<u>10.03</u>
Total Airport Revenue	<u>\$864,419</u>	<u>\$917,847</u>		<u>100.00%</u>

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

(2) Column does not total due to rounding

(3) New South Parking-California manages the Airport's public short-term garages and long-term parking facility and collects parking revenues on behalf of the Airport.

(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.

(5) In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of Air Tran Airways. The airlines combined operating certificates in March 2012 but operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines.

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

Source: Commission.

Passenger Facility Charge

Prior to 2001, the Airport financed its capital program primarily through the issuance of revenue bonds and commercial paper secured by a pledge of the Net Revenues of the Airport, federal grants and Airport operating revenues. In 2001, the Airport received authorization from the FAA to commence collection and use of 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.

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PFC Applications

The following is a summary of the Airport's approved PFC applications through September 30, 2015.

SUMMARY OF AIRPORT PFC APPLICATIONS As of September 30, 2015

Application #	Date of Application	Date of FAA Approval	Original Amount (millions)	Revised Amount (millions)	Expiration Date	Collected ^(a) (millions)	Remaining (millions)
1 ^(b)	March 2001	July 2001	\$113	\$ 0	June 2003	\$ 0	\$ 0
2	November 2001	March 2002	224	224	November 2005	224	0
3 ^(c)	July 2003	November 2003	539	609	January 2017	609	0
5 ^(d)	October 2010	October 2013	610	742	October 2024	170	572
6	July 2013	June 2015	141	141	March 2026	0	141
TOTAL:				<u>\$1,716</u>		<u>\$1,003</u>	<u>\$713</u>

(a) Includes interest earnings on collections.

(b) The Airport suspended the project to be funded by PFC revenues under Application #1 in June 2003 and submitted an amendment to delete Application #1 in December 2003. The FAA approved this request in January 2004. The PFC collections under the original Application #1, totaling \$112.7 million, were applied toward Application #2. As such, the \$224.0 million of PFC collections under Application #2 includes \$112.7 million collected under Application #1.

(c) The Airport submitted, and later withdrew, PFC Application #4 for an authorization of \$70 million. The \$70 million was then included in the revised authorization amount under Application #3.

(d) On November 7, 2014, the FAA approved the Airport's amendment to PFC Application #5 for an additional \$131.3 million with an extended collection period through October 1, 2024.

Source: Commission.

In June 2015, the FAA approved the Airport's sixth PFC application ("PFC #6") for \$141 million. The FAA estimates the charge expiration date for PFC #6 to be March 1, 2026.

Designation of PFC Collections as Revenues

PFC collections are not included in the definition of "Revenues" under the 1991 Master Resolution. The Commission, however, has the ability under the 1991 Master Resolution to designate some portion or all of such collections as "Revenues" for a given Fiscal Year. These amounts thus contribute to the Airport's calculation of debt service coverage for purposes of its rate covenant. The actual amount of PFC collections to be designated as "Revenues" and used to pay debt service is dependent, in part, upon the amounts permitted for such use by PFC regulations and the Airport's PFC applications. The Commission to date has determined the amount to be designated as Revenues prior to the start of each Fiscal Year. The amount may later be adjusted downward, depending upon actual PFC collections during the Fiscal Year, Airport net revenues relative to budget, and other factors. PFC collections that are not applied as "Revenues" and used to pay debt service on related Bonds are deposited and retained in a separate account and are available to be applied for such purposes in future Fiscal Years. Set forth in the table on the next page is a summary of Airport PFC collections and amounts applied to pay debt service for the ten most recent Fiscal Years.

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**PFC COLLECTIONS APPLIED BY THE COMMISSION
FOR PAYMENT OF DEBT SERVICE ON OUTSTANDING BONDS**

Applicable Fiscal Year	PFC Collections (millions) ⁽¹⁾	PFC Designated as Revenues (millions) ⁽²⁾	Amount Applied to Pay Debt Service (millions) ⁽³⁾
2015-16	— ⁽⁴⁾	\$58.1	— ⁽⁴⁾
2014-15	\$93.2	62.6	\$47.6
2013-14	88.0	60.2	35.7
2012-13	85.1	51.5	45.0
2011-12	82.3	88.5	73.0
2010-11	77.9	87.2	87.2
2009-10	75.0	61.0	61.0
2008-09	70.3	51.0	51.0
2007-08	71.5	54.4	54.4
2006-07	66.7	58.4	58.4
2005-06	64.0	67.7	67.7

(1) Includes PFC collections and related interest earned for the year.

(2) Amount designated as Revenues to be applied to pay debt service.

(3) Amount actually applied to pay debt service.

(4) Final numbers are not available at this time.

Source: Commission.

The Commission's receipt of PFC revenues is subject to certain 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 debt service on the Bonds.

Collection of PFCs in the Event of Airline 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 2014-15 operating expenses decreased \$16.7 million (2.7%) to \$609.0 million from \$625.7 million in Fiscal Year 2013-14. Personnel expenses were \$23.3 million (9.3%) lower primarily due to the adoption of GASB 68 in Fiscal Year 2014-15 which reduced pension expenses by \$31.1 million. Excluding the cost of GASB 68, personnel costs increased \$6.9 million due to cost of living adjustments and additional positions. Contractual service increased by \$2.4 million (3.6%), due primarily to costs incurred for consultant services in support of Airport long-term planning and the buy-back of a Terminal 3 concession lease. Light, heat and power expenses increased \$1.4 million (6.6%), primarily due to the net effect of higher electric rates and lower consumption. Repairs and maintenance increased \$3.5 million (11.6%), primarily due to higher costs to support and

maintain additional networking hardware installed as part of various Airport improvement projects. General and administrative expenses increased \$1.8 million (53.9%), primarily due to increased legal expense. Environmental remediation costs increased \$3.4 million (238.8%) primarily due to remediation costs related to capital improvement projects.

Fiscal Year 2013-14 operating expenses increased \$66.6 million (11.9%) to \$625.7 million from \$559.1 million in Fiscal Year 2012-13. Personnel expenses were higher by \$10.9 million (4.6%) due to higher salary costs and pension contribution. Contractual service increased by \$2.2 million (3.5%), due primarily to costs incurred in the issuance of the Airport's Second Series Revenue Bonds, Series 2013A/B/C. Light, heat and power expenses increased \$1.6 million (8.7%) due to increases in the electricity rate and energy consumption, and the reopening of Boarding Area E in Terminal 3. Repairs and maintenance increased \$2.2 million (8.1%) due to airfield, facilities, and groundside maintenance projects. Materials and supplies expenditures increased \$0.5 million (3.5%) due to increases in electrical materials and supplies, uniforms, and expenses related to the crash of Asiana flight 214.

Review and Adjustment to Operating Expenditures

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

Payments to the City

Annual Service Payment

Under the Lease 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 or (ii) 15% of "Concession Revenues" (as defined in the Lease Agreements), and is paid by the Commission in quarterly installments based on estimates and reconciled at year-end. The Annual Service Payment is made only after the payment of Operation and Maintenance Expenses and debt service on outstanding revenue bonds of the Commission, including the Bonds, and certain other expenditures. See "SECURITY FOR THE SERIES 2016A BONDS–Flow of Funds." The amount of Annual Service Payment for each of the last five fiscal years is set forth below.

The Annual Service Payment has been grandfathered under the FAA's 1999 *Policies and Procedures Concerning the Use of Airport Revenue*. However, the grandfathered status may not 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*." Also see "CERTAIN RISK FACTORS–Reduction in FAA Grants."

Payments for Direct Services

In addition to the Annual Service Payment, the 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 Fiscal Years 2010-11 through 2014-15. The Commission is otherwise prohibited under the Lease and Use Agreements from making any payments to the City, directly or indirectly. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements." Also 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	<u>Reimbursement for Direct Services</u>				Subtotal	Total
		Police	Fire	Other ⁽¹⁾	Utility Costs		
2014-15	\$40.5	\$47.4	\$20.7	\$24.2	\$43.5 ⁽²⁾	\$135.8	\$186.3
2013-14	38.0	45.7	20.6	20.8	44.2 ⁽³⁾	131.3	169.3
2012-13	36.5	44.8	18.9	16.7	37.9 ⁽⁴⁾	118.3	154.8
2011-12	34.0	44.4	18.9	14.0	38.1 ⁽⁵⁾	115.4	149.4
2010-11	30.2	40.4	18.0	15.4	38.2 ⁽⁶⁾	111.9	142.5

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

(2) Approximately \$21.7 million in utility costs were recovered from Airport tenants.

(3) Approximately \$20.6 million in utility costs were recovered from Airport tenants.

(4) Approximately \$16.1 million in utility costs were recovered from Airport tenants.

(5) Approximately \$16.2 million in utility costs were recovered from Airport tenants.

(6) Approximately \$16.4 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 and a member of the Board of Supervisors appointed by the President of the Board of Supervisors. There may not be more than one retired person on the Retirement Board.

The table on the next page shows Fund contributions for Fiscal Years 2009-10 through 2013-14. "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. 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 2009-10 through 2013-14. The Fund's last actuarial valuation was as of July 1, 2014 and was issued in March 2015.

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CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM
Fiscal Years 2009-10 through 2013-14
(\$ in thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Actuarial Liability	Percent Funded	Employee and Employer Contribution	Employer Contribution Rates [†]
2013-14	\$19,920,607	\$18,012,088	\$21,122,567	85.3%	\$821,902	24.82%
2012-13	17,011,545	16,303,397	\$20,224,777	80.6	701,596	20.71
2011-12	15,293,725	16,027,683	19,393,854	82.6	608,957	18.09
2010-11	15,598,840	16,313,120	18,598,726	87.7	490,578	13.56
2009-10	13,136,786	16,069,058	17,643,394	91.1	413,563	9.49

[†] Employer contribution rates are shown before required employer/employee cost-sharing first effective for Fiscal Year 2012-13.
Source: Retirement System Actuarial Valuation reports as of July 1, 2010, July 1, 2011, July 1, 2012, July 1, 2013 and July 1, 2014.

The Airport is required to contribute at an actuarially determined rate. The Airport's required contributions for Fiscal Years 2010-11 through 2015-16 are set forth below.

AIRPORT CONTRIBUTIONS TO THE RETIREMENT SYSTEM

Fiscal Year	Contribution Rate	Airport Contribution
2015-16	22.80%	\$31.7 million [†]
2014-15	26.76	37.5 million
2013-14	24.82	33.7 million
2012-13	20.71	28.1 million
2011-12	18.09	25.8 million
2010-11	13.56	21.7 million

[†] Based on budget for Fiscal Year 2015-16.
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 Fiscal Year 2010-11 (though there was some recovery in Fiscal Year 2013-14) and the market value of the Retirement System's assets was substantially below the actuarial value of those assets through July 1, 2012. At the July 1, 2014 actuarial valuation, the market value of assets exceeds the actuarial value of assets.

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 Fiscal Years 2010-11 through 2014-15 and budgeted for Fiscal Year 2015-16 are set forth in the table on the next page:

AIRPORT CONTRIBUTIONS TO THE HEALTH SERVICE SYSTEM⁽¹⁾
(\$ in millions)

Fiscal Year	Active Employees	Retirees	Total
2015-16	\$27.3 ⁽²⁾	\$10.3 ⁽²⁾	\$37.6 ⁽²⁾
2014-15	24.2	9.4	33.6
2013-14	24.0	10.8	34.8
2012-13	24.4	10.4	34.8
2011-12	24.6	9.4	34.0
2010-11	21.4	9.0	30.4

(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.

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 one member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; one member nominated by the City Controller; and three 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 under 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 hired prior to January 2009 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. Employees hired after January 2009 and a spouse or dependent are potentially eligible for gradually vesting health benefits following retirement after age 50 and completing 20 years of City service (for full benefits), 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 2007-08. 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 record and report a portion of the liability in each year if they do not fund it.

The following table shows the components of the City's annual OPEB allocation for the Airport for Fiscal Years 2010-11 through 2014-15, the amount contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

	2011	2012	2013	2014	2015
Annual Required Contribution (ARC)	\$22,752	\$24,488	\$24,956	\$21,071	\$21,409
Interest on net OPEB Obligation	2,146	2,875	3,501	4,410	4,872
Adjustment to ARC	(1,683)	(2,383)	(2,902)	(3,677)	(4,062)
Annual OPEB Cost (expense)	23,215	24,980	25,555	21,804	22,219
Contribution Made	(8,959)	(9,693)	(10,666)	(8,734)	(10,705)
Increase in Net OPEB Obligation	14,256	15,287	14,889	13,070	11,514
Net OPEB Obligation - beginning of year	46,281	60,537	75,824	90,713	103,783
Net OPEB Obligation - end of year	<u>\$60,537</u>	<u>\$75,824</u>	<u>\$90,713</u>	<u>\$103,783</u>	<u>\$115,297</u>

Source: Commission.

For purposes of determining the Airport's OPEB costs and obligations above, the City has allocated to the Airport a portion of the City-wide OPEB costs and obligations based on the Airport's percentage of City-wide payroll costs. This allocation is for purposes of calculating the Airport's costs and obligations under GASB 45 and does not represent an assessment of the Airport's legal obligation to pay OPEB costs and obligations.

As of July 1, 2012, the most recent actuarial valuation date, the City's funded status of the retiree health care benefits was 0.4%. The City's actuarial accrued liability for benefits was approximately \$4.0 billion, and the City's actuarial value of assets in the Retiree Health Care Trust Fund was approximately \$17.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of the City of approximately \$4.0 billion. The Retiree Health Care Trust Fund was established in 2009. These figures are for the retiree health care benefits for all eligible City employees and retirees and not just those allocable to the Airport. The City has not calculated how much of the UAAL is allocable to the Airport; however, if the City were to allocate to the Airport a portion of the UAAL in accordance with its percentage of City-wide payroll costs in Fiscal Year 2014-15, then the Airport's portion of the UAAL would be equal to approximately 6.1%.

Since Fiscal Year 2007-08, the Airport has deposited funds within a sub-fund of the Airport's operating fund for the purpose of setting aside funds to pay its OPEB costs. As of June 30, 2015, \$97.5 million was on deposit in this sub-fund. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

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 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.

Budget Process

The Airport budget is a part of the overall budget which is reviewed and approved according to the City's laws and policies. Starting in Fiscal Year 2012-13, the City's enterprise departments, which include the Airport, submitted two-year budget proposals for review and approval. The Airport's proposed two-year budget 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 second year of the two-year budget may be amended through a supplemental

appropriation request, which is prepared by the Controller, submitted by the Mayor's Office and reviewed and approved by the Board of Supervisors.

The approved operating budget for the Airport for Fiscal Year 2015-16 is \$970.8 million. Proposed total revenues in the amount of \$970.8 million include aviation revenues (\$495.5 million), parking and concessions (\$272.3 million), other non-aviation revenues (\$103.0 million) and non-operating revenues (\$99.5 million). Proposed total expenditures for Fiscal Year 2015-16 total \$970.8 million, including personnel costs (\$218.3 million), non-personnel services, materials and supplies, equipment, and contribution to surety bond fund (\$125.2 million), small capital outlay (\$4.9 million), debt service (\$424.4 million), utilities (\$45.2 million), services of other departments, including Fire and Police Departments (\$99.8 million), the Annual Service Payment (\$40.8 million), and facilities maintenance and other transfers (\$12.1 million). This compares to an overall operating budget of \$940.2 million for Fiscal Year 2014-15.

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 carries general liability insurance coverage of \$1,000,000,000 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. The Airport is self-insured as part of the City's workers' compensation program. The Airport carries public officials and employment practices liability coverage of \$5 million, subject to a deductible of \$100,000 per occurrence for Public Officials' and Public Entity Liability matters, and \$250,000 per occurrence for Employment Practices Liability matters. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment, target range liability and watercraft liability for Airport fire 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. 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 Director of Risk Management, 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. 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."

Under the Treasurer's current investment procedures, amounts in the Airport's Revenue Fund, Contingency Account, PFC Account and Construction Fund are invested in the City's larger pooled investment fund (the "City Pool"). Payments due from the Revenue Fund and the Construction Fund are made from 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.

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. 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 more limited than Permitted Investments. The Treasurer calculated the current weighted average maturity of these investments as of November 30, 2015 to be 391 days.

Set forth in the table below are the approximate book values, as of November 30, 2015, of amounts in the City Pool allocable to the Construction Fund, the PFC Account, the Revenue Fund, the Contingency Account and the Airport's Special Revenue Fund. These amounts include certain minimum balances maintained in the City Pool for liquidity purposes. Also set forth below are the types of investments in the City Pool, and the percentage of total book value of the City Pool as of such date. As of November 30, 2015, the book value of the City Pool was approximately \$6.8 billion and the book value of the amounts allocable to the Airport's various funds and accounts in the City Pool was approximately \$923.9 million.

CITY POOLED INVESTMENT FUND

(As of November 30, 2015)

<u>Book Value of Airport Funds in City Pool</u>		<u>Investment Distribution (as Percentage of Book Value)</u>	
Construction Funds	\$357.29 million	U.S. Treasuries	6.27%
Operating Fund	289.39 million	Federal Agencies	57.66
Contingency Account	93.99 million	Money Market Funds	1.99
PFC Funds	181.95 million	State and Local Obligations	3.32
Special Revenue Fund	<u>1.28 million</u>	Supranationals	0.59
TOTAL	<u>\$923.90 million</u>	Public Time Deposits	0.02
		Negotiable Certificates of Deposit	12.52
		Commercial Paper	8.39
		Medium Term Notes	9.25
		TOTAL	<u>100.00%</u>

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

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Currently Outstanding Bonds

The Commission had Outstanding \$4,496,390 in aggregate principal amount of Second Series Revenue Bonds as of December 31, 2015.

Series	Dated Date	Original Principal Amount Issued	Outstanding Principal (as of December 31, 2015)	Purpose
Issue 31F (Taxable) [†]	February 10, 2005	\$ 111,695,000	\$ 26,270,000	Refunding
Issue 32F (Non-AMT) [†]	November 16, 2006	260,115,000	225,145,000	Refunding
Issue 32G (Non-AMT) [†]	November 16, 2006	158,195,000	155,265,000	Refunding
Issue 34D (Non-AMT) [†]	March 27, 2008	81,170,000	81,170,000	Refunding
Issue 34E (AMT) [†]	March 27, 2008	299,365,000	205,655,000	Refunding
Issue 34F (Non-AMT/Private Activity) [†]	March 27, 2008	16,645,000	16,645,000	Refunding
Issue 36A (Non-AMT/Private Activity) [*]	May 7, 2008	100,000,000	100,000,000	Refunding
Issue 36B (Non-AMT/Private Activity) [*]	May 7, 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 37C (Non-AMT/Private Activity) ^{†*}	May 15, 2008	89,895,000	89,080,000	Refunding
2009A (Non-AMT/Private Activity) [†]	September 3, 2009	92,500,000	92,500,000	Refunding
2009B (Non-AMT/Private Activity) [†]	September 3, 2009	82,500,000	82,500,000	Refunding
2009C (Non-AMT/Private Activity) [‡]	November 3, 2009	132,915,000	80,590,000	Refunding
2009D (Non-AMT/Private Activity) [†]	November 4, 2009	88,190,000	83,900,000	Refunding
2009E (Non-AMT/Private Activity) [†]	November 18, 2009	485,800,000	485,800,000	New Money
2010A (AMT)	February 10, 2010	215,970,000	213,295,000	Refunding
2010C (Non-AMT/Governmental Purpose) [†]	April 7, 2010	345,735,000	288,240,000	Refunding
2010D (Non-AMT/Private Activity) [‡]	April 7, 2010	89,860,000	74,910,000	Refunding
2010F (Non-AMT/Private Activity) [†]	August 5, 2010	121,360,000	121,360,000	New Money
2010G (Non-AMT/Governmental Purpose) [†]	August 5, 2010	7,100,000	7,100,000	New Money
2011A (AMT) [†]	February 22, 2011	88,815,000	49,070,000	Refunding
2011B (Non-AMT/Governmental Purpose) [†]	February 22, 2011	66,535,000	33,565,000	Refunding
2011C (AMT) [†]	July 21, 2011	163,720,000	163,720,000	Refunding
2011D (Non-AMT/Governmental Purpose) [†]	July 21, 2011	124,110,000	124,110,000	Refunding
2011E (Taxable) [†]	July 21, 2011	62,585,000	37,590,000	Refunding
2011F (AMT) [†]	September 20, 2011	123,325,000	123,325,000	Refunding
2011G (Non-AMT/Governmental Purpose) [†]	September 20, 2011	106,195,000	106,195,000	Refunding
2011H (Taxable) [†]	September 20, 2011	125,055,000	101,600,000	Refunding
2012A (AMT) [†]	March 22, 2012	208,025,000	208,025,000	Refunding
2012B (Non-AMT/Governmental Purpose) [†]	March 22, 2012	108,425,000	108,265,000	Refunding
2013A (AMT)	July 31, 2013	360,785,000	360,785,000	New Money
2013B (Non-AMT/Governmental Purpose)	July 31, 2013	87,860,000	87,860,000	New Money
2013C (Taxable)	July 31, 2013	12,480,000	12,480,000	New Money
2014A (AMT)	September 24, 2014	376,320,000	376,320,000	New Money
2014B (Non-AMT/Governmental Purpose)	September 24, 2014	97,290,000	97,290,000	New Money
TOTAL		<u>4,967,300,000</u>	<u>4,496,390,000</u>	

* This Issue of Bonds was converted to Bonds the interest on which is not subject to the federal alternative minimum tax.

† Secured by Original Reserve Account. See "SECURITY FOR THE SERIES 2016A BONDS—Reserve Fund; Reserve Accounts; Credit Facilities—Original Reserve Account."

‡ Secured by 2009 Reserve Account. See "SECURITY FOR THE SERIES 2016A BONDS—Reserve Fund; Reserve Accounts; Credit Facilities—2009 Reserve Account."

Source: Commission.

Additional Bonds are expected to be a significant source of funding for the Commission's Capital Plan. See "CAPITAL PROJECTS AND PLANNING—The Capital Plan." The Commission expects to issue additional Bonds (in addition to the Series 2016A Bonds) to generate approximately \$2.7 billion in funds for capital projects (exclusive

of costs of issuance and reserve fund deposits) between Fiscal Years 2015-16 and 2019-20, including approximately \$703 million in Fiscal Year 2016-17. The timing and amounts of additional Bonds may change depending on the timing of capital expenditures and market conditions.

Liquidity Facilities and Credit Facilities

As of December 31, 2015, the Commission had outstanding approximately \$479 million of variable rate tender option bonds, in each case secured by a bank letter of credit, as summarized in the table below. If amounts on the bonds are paid under a letter of credit, the obligation of the Commission to repay such amounts would constitute “Repayment Obligations” under the 1991 Master Resolution and would be accorded the status of Bonds. See “SECURITY FOR THE SERIES 2016A BONDS—Additional Bonds—*Repayment Obligations*.”

CREDIT FACILITIES FOR BONDS

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Outstanding Principal Amount	\$100,000,000	\$40,620,000	\$36,145,000	\$89,080,000	\$213,295,000
Type	LOC ⁽¹⁾	LOC ⁽¹⁾	LOC ⁽¹⁾	LOC ⁽¹⁾	LOC ⁽¹⁾
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	January 28, 2019	December 14, 2016
Credit Provider	U.S. Bank ⁽²⁾	Bank of Tokyo ⁽³⁾	Bank of Tokyo ⁽³⁾	Union Bank ⁽⁵⁾	JPMorgan ⁽⁴⁾
Credit Provider Ratings ⁽⁶⁾					
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
Long-Term	Aa1/AA-/AA	A1/A+/A	A1/A+/A	Aa2/A+/A	Aa2/A+/AA-

(1) Letter of credit.

(2) U.S. Bank National Association.

(3) The Bank of Tokyo-Mitsubishi UFJ, Ltd. acting through its New York Branch.

(4) JPMorgan Chase Bank, N.A.

(5) MUFG Union Bank, N.A.

(6) As of December 31, 2015. 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. The Commission does not 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. Reflects the ratings of the credit provider, not the rating on the related Bonds. Ratings on related Bonds may be different. Ratings for the Credit Providers are displayed as Moody's/S&P/Fitch.

Source: Commission

In addition to the credit facilities described above, the Commission has obtained three irrevocable direct-pay letters of credit to support its Commercial Paper Notes. Repayment of amounts drawn on these letters of credit are secured by a lien on Net Revenues that is subordinate to the lien of the 1991 Master Resolution securing the Bonds. See “SECURITY FOR THE SERIES 2016A BONDS—Other Indebtedness—*Subordinate Bonds*” for additional information concerning these letters of credit.

Interest Rate Swaps

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 agreements 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 as of December 31, 2015.

SUMMARY OF INTEREST RATE SWAP AGREEMENTS

Associated Bonds	Effective Date	Initial Notional Amount	Counterparty	Counterparty Credit Ratings (Moody's/S&P/Fitch) ⁽¹⁾	Insurer	Fixed Rate Payable by Commission	Market Value to Commission ⁽⁶⁾	Expiration Date
Issue 36A/B	02/10/05	\$70,000,000	JPMorgan Chase Bank, N.A.	Aa2/A+/AA-	FGIC/National	3.444%	(\$8,014,320.00)	May 1, 2026
	02/10/05	69,930,000	JPMorgan Chase Bank, N.A.	Aa2/A+/AA-	FGIC/National	3.445	(8,016,223.61)	May 1, 2026
Subtotal Issue 36A/B		139,930,000					(\$16,030,543.61)	
Issue 36C	02/10/05	30,000,000	JPMorgan Chase Bank, N.A. ⁽²⁾	Aa2/A+/AA-	AGM	3.444	(\$3,434,708.57)	May 1, 2026
Series 37B⁽³⁾	05/15/08	79,684,000	Merrill Lynch Capital Services ⁽⁴⁾	Baa1/NR/NR	AGM	3.773	(\$14,793,375.35)	May 1, 2029
Issue 37C	05/15/08	89,856,000	JPMorgan Chase Bank, N.A. ⁽²⁾	Aa2/A+/AA-	AGM	3.898	(\$17,858,766.57)	May 1, 2029
Series 2010A	02/01/10	143,947,000	Goldman Sachs Bank USA ⁽⁵⁾	A1/A/A+		3.925	(\$31,145,484.23)	May 1, 2030
TOTAL		<u>\$483,417,000</u>					<u>(\$83,262,878.33)</u>	

(1) As of December 31, 2015. 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. The Commission takes no responsibility for the accuracy of such ratings, or gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.

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

(3) The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds and the unhedged portions of the Issue 36B Bonds and Issue 36C Bonds for accounting purposes.

(4) Guaranteed by Merrill Lynch Derivative Products AG, which is rated Aa3/AA-/NR as of December 31, 2015.

(5) Guaranteed by The Goldman Sachs Group, which is rated A3/BBB+/A as of December 31, 2015.

(6) The market values of the swaps were calculated by an independent third-party consultant to the Commission who does not have an interest in the Swap Agreements.

Source: Commission.

Debt Service Requirements

The following table presents the annual debt service requirements for the Series 2016A Bonds and the Outstanding Bonds, based upon monthly deposits,

DEBT SERVICE SCHEDULE⁽¹⁾

Fiscal Year Ending June 30,	Debt Service on Outstanding Bonds ⁽²⁾	Series 2016A Bonds			Aggregate Debt Service
		Principal	Interest	Total Debt Service	
2016	\$ 394,676,436				
2017	412,213,427				
2018	412,832,511				
2019	413,505,967				
2020	411,160,102				
2021	414,044,668				
2022	412,987,395				
2023	412,497,940				
2024	401,266,701				
2025	381,712,865				
2026	352,811,387				
2027	338,920,276				
2028	341,295,937				
2029	224,545,679				
2030	174,419,083				
2031	126,338,469				
2032	134,630,983				
2033	235,762,721				
2034	84,213,117				
2035	84,215,600				
2036	84,212,042				
2037	93,193,058				
2038	135,635,925				
2039	123,411,167				
2040	123,410,542				
2041	123,411,333				
2042	123,414,167				
2043	123,413,417				
2044	102,843,125				
Total⁽³⁾	\$7,196,996,037				

(1) Gross debt service. Includes interest amounts expected to be paid from Bond proceeds.

(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. Includes debt service on the Refunded Bonds.

(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 2010-11 through 2014-15.

HISTORICAL DEBT SERVICE COVERAGE					
	(Fiscal Year)				
	(\$ in thousands)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Net Revenues ⁽¹⁾	\$279,071	\$310,514	\$348,294	\$367,336	\$391,831
PFCs Treated as Revenues	87,200	73,000	45,000	35,700	47,550
Transfer from the Contingency Account ⁽²⁾	92,894	93,427	92,559	93,327	93,883
TOTAL AVAILABLE FOR DEBT SERVICE	\$459,164	\$476,941	\$485,854	\$496,363	\$533,264
Total Annual Debt Service ⁽³⁾	\$312,381	\$325,456	\$337,355	\$365,314	\$393,449
Historical Debt Service Coverage per the 1991 Master Resolution ⁽⁴⁾	147.0%	146.5%	144.0%	135.9%	135.5%
Historical Debt Service Coverage Excluding Transfer	117.3%	117.8%	116.6%	110.3%	111.7%

(1) Using the definition of Net Revenues contained in the 1991 Master Resolution, but excluding PFCs treated as “Revenues” pursuant to the 1991 Master Resolution. See “–Passenger Facility Charge.”

(2) Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year. See “SECURITY FOR THE SERIES 2016A 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 SERIES 2016A BONDS–Rate Covenant.”

Source: Commission.

SFOTEC

The thirty-two airlines that operate in the ITC are members of the San Francisco Terminal Equipment Company, LLC (“SFOTEC”), which was formed to use, operate and maintain certain Airport-owned 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, baggage handling systems, passenger boarding 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 for the airlines (including five domestic airlines) operating in the ITC in accordance with the Lease and Use Agreement and with Airport-approved protocols.

The Airport and SFOTEC have entered an agreement through June 30, 2021, pursuant to which SFOTEC is obligated to maintain, operate, repair and schedule the use of such equipment; pay the associated utility and custodial costs; and provide nondiscriminatory 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. Nonmember airlines are subject to a separate rate based on use.

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 SEC. Certain information, including financial information, concerning such domestic airlines or their respective parent corporations and such foreign airlines, is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected at the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, 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 Room, at prescribed rates or from the SEC website at: [http:// www.sec.gov](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 Series 2016A Bonds or the issuance or delivery thereof, the existence of the Commission, the title of the officers thereof who executed or will execute the Series 2016A Bonds to their respective offices, or the pledge of Net Revenues to the payment of the Series 2016A 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" (stable outlook) to the Series 2016A Bonds, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("Standard & Poor's") has assigned a rating of "A+" (stable outlook) to the Series 2016A Bonds and Fitch Ratings, Inc. ("Fitch") has assigned a rating of "A+" (stable outlook) to the Series 2016A Bonds.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2016A 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 Series 2016A Bonds.

UNDERWRITING

Purchase of Series 2016A Bonds

Wells Fargo Bank, National Association ("WFBNA") on its own behalf and as representative of Citigroup Global Markets Inc. ("Citi") and Morgan Stanley & Co. LLC (together with WFBNA and Citi, the "Underwriters") has entered into a purchase contract that will commit the Underwriters to purchase the Series 2016A Bonds. The purchase contract provides that the Underwriters will purchase all of the Series 2016A Bonds if any are purchased.

Under the terms of the purchase contract, the obligation of the Underwriters to make the purchase is subject to certain terms and conditions set forth in the purchase contract.

The Series 2016A Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$_____ (representing the principal amount of the Series 2016A Bonds, plus/minus a net original issue premium/discount equal to \$_____ and less an underwriters' discount equal to \$_____).

The Underwriters may offer and sell the Series 2016A Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover. See "CERTAIN RELATIONSHIPS" herein.

Retail Brokerage Arrangements

The following paragraphs have been provided by and are being included in this Official Statement at the request of the respective Underwriters. The Commission does not assume any responsibility for the accuracy or completeness of such statements or information.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including WFBNA. WFBNA, the senior Underwriter of the Series 2016A Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2016A Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2016A Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2016A Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Citigroup Global Markets Inc., an Underwriter of the Series 2016A Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under the distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Series 2016A Bonds.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an Underwriter of the Series 2016A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2016A Bonds.

CERTAIN RELATIONSHIPS

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing, brokerage services, providing credit and liquidity facilities, and providing swaps and other derivative products. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, such services for the Commission for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities

and instruments. Such investment and securities activities may involve securities and instruments of the Commission.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Certain subsidiaries of Wells Fargo & Company (parent company of WFBNA, senior Underwriter for the Series 2016A Bonds) have provided, from time to time, investment banking services, commercial banking services or advisory services to the Commission, for which they have received customary compensation. Wells Fargo & Company or its subsidiaries may, from time to time, engage in transactions with and perform services for Commission in the ordinary course of their respective businesses.

WFBNA serves as a letter of credit provider for the Commission's commercial paper program and remarketing agent on the Commission's Issue 36B Bonds.

In addition, the Underwriters may currently be serving as underwriters, remarketing agents or dealers in connection with the Commission's other outstanding obligations. For a description of certain relationships of the Underwriters to the Commission, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Liquidity Facilities and Credit Facilities" and "—Interest Rate Swaps."

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2016A 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 sufficiency, 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

General

In the opinion of Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be met subsequent to the issuance of the Series 2016A Bonds. Failure to comply with such requirements could cause interest on the Series 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016A Bonds. The Commission has covenanted to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the Series 2016A Bonds.

Notwithstanding Co-Bond Counsel's opinion that interest on the Series 2016A Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax, such interest will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Co-Bond Counsel are further of the opinion that interest on the Series 2016A Bonds is exempt from present State of California personal income taxes.

Special Considerations With Respect to the Series 2016A Bonds

The accrual or receipt of interest on the Series 2016A Bonds may otherwise affect the federal income tax liability of the owners of the Series 2016A Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Co-Bond Counsel have expressed no opinion regarding any such consequences. Purchasers of the Series 2016A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2016A Bonds.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2016A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2016A Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series 2016A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2016A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2016A Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2016A Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2016A Bonds, and Co-Bond Counsel have expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2016A Bonds maturing on May 1, 20__ through, and including, May 1, 20__ (collectively, the "Premium Series 2016A Bonds") are being sold at a premium. An amount equal to the excess of the issue price of a Series 2016A Premium Bond over its stated redemption price at maturity constitutes premium on such Series 2016A Premium Bond. An initial purchaser of a Series 2016A Premium Bond must amortize any premium over such Series 2016A Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Series 2016A Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Series 2016A Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2016A Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series 2016A Premium Bonds should

consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series 2016A Premium Bond.

Tax Treatment of Original Issue Discount

The Series 2016A Bonds maturing on May 1, 20__ through, and including, May 1, 20__ (collectively, the “Discount Series 2016A Bonds”) are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Series 2016A Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described under “General” above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Series 2016A Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Series 2016A Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Series 2016A Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Series 2016A Bond, on days which are determined by reference to the maturity date of such Discount Series 2016A Bond. The amount treated as original issue discount on such Discount Series 2016A Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Series 2016A Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Series 2016A Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Series 2016A Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Series 2016A Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Series 2016A Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Series 2016A Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Series 2016A Bond.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the Series 2016A Bonds are subject to the approval of Kutak Rock LLP and Amira Jackmon, Attorney at Law, 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 Series 2016A Bonds each substantially in the form set forth in APPENDIX F—“PROPOSED FORM OF OPINION OF CO-BOND COUNSEL.”

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. and Backstrom McCarley Berry & Co., LLC, to serve as Co-Financial Advisors with respect to the issuance of the Series 2016A Bonds.

The Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel and Underwriters’ Counsel will receive compensation with respect to the Series 2016A Bonds which is contingent upon the sale and delivery of the Series 2016A Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the Commission for Fiscal Years 2014-15 and 2013-14 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 served as independent auditor under a four-year contract awarded pursuant to a regular request for proposal process conducted by the City. The term of this contract expired following the Fiscal Year 2014-15 audit. A new contract will be established with a successful proposer for the Fiscal Year 2015-16 audit. 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.

CONTINUING DISCLOSURE

The Commission will covenant for the benefit of the Holders and Beneficial Owners (as defined in the Continuing Disclosure Certificate) of the Series 2016A 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 on EMMA. The specific nature of the information to be contained in the Annual Disclosure Report or the notices of enumerated 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 Series 2016A Bonds in complying with SEC Rule 15c2-12(b)(5).

The Commission believes that it has complied in all material respects with its undertakings to provide Annual Disclosure Reports or notices of enumerated events. However, the Commission has become aware of certain facts that it does not consider to be material but that are disclosed below for the benefit of the Holders and Beneficial Owners of its Bonds.

Some information that was made available in a timely manner on EMMA was not linked to all relevant CUSIP numbers. This includes the Commission’s Annual Disclosure Report for the Fiscal Year ended June 30, 2012, for which a cover letter indicating that a previously filed remarketing memorandum contained the required financial and operating data was inadvertently omitted from the filing. Also some of the CUSIP numbers to which various other continuing disclosure filings related were not properly inputted. The Commission has taken action to link such information to the applicable CUSIP numbers, including filing the missing 2012 cover letter.

In addition, the Commission executed an enhanced master continuing disclosure certificate in 2011 in which it undertook to update additional tables in its Annual Disclosure Report. However, the Annual Disclosure Report for the Fiscal Year ended June 30, 2011 did not include all or a portion of the information in three of these tables, although two of the tables were included in offering documents filed on EMMA prior to the filing of the Annual Disclosure Report and the third table was included in an offering document posted sooner than two months after the filing. Subsequent Annual Disclosure Reports included the additional data.

In addition, certain of the Commission’s filings with respect to bond insurer downgrades and other ratings changes during 2009 and 2010 were made one to six months following such changes, and one other ratings change was disclosed in an offering document made available on EMMA but was not disclosed in separate filings linked to all applicable CUSIP numbers. Further, AGM and National, the insurers of certain Commission bonds, received ratings upgrades in March 2014. The Commission did not make filings with respect to these ratings changes until May and June, 2014, respectively.

The Commission is enhancing its continuing disclosure filing procedures to ensure that information that is filed on EMMA in the future contains all required information and is linked to the appropriate CUSIP numbers.

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 Lease and Use Agreements, the purchase contract pursuant to which the Underwriters are purchasing the Series 2016A 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: _____
John L. Martin
Airport Director

APPENDIX A

**FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY
CHARGES JUNE 30, 2015 AND 2014 (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, 2015 and 2014

(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:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Airport Commission, City and County of San Francisco, San Francisco International Airport as of June 30, 2015 and 2014, the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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 net position of the City as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(b) to the financial statements, in 2015, the Airport adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The July 1, 2014 beginning financial position has been restated for the retrospective application of this new accounting guidance.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport's basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Passenger Facility Charge Revenues and Expenditures is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of



America. In our opinion, the Schedule of Passenger Facility Charge Revenues and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
November 5, 2015

**AIRPORT COMMISSION
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The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), an enterprise fund of City and County of San Francisco (the City), presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2015, with comparative data for the fiscal year ended June 30, 2014.

The Airport's financial statements comprise the following components: (1) Financial Statements and (2) Notes to Financial Statements. The Airport's financial statements include:

Statements of Net Position present information on the Airport's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the year end, with the difference between the amounts as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Airport is improving or weakening.

While the statements of net position provide information about the nature and amount of resources and obligations at the year end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of the Airport's operations over the course of the fiscal year and information as to how the net position changed during the fiscal 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 position 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 not displayed on the face of the financial statements but is essential to a full understanding of the financial statements.

Highlights of Airline Operations at the Airport

Fiscal year 2015 passenger traffic at SFO concluded with 24.0 million enplanements, an increase of 4.5% compared to the prior fiscal year, establishing a new peak for the Airport. In the domestic sector, Delta and Alaska airlines expanded their services on the west coast, while SFO's hub carrier United Airlines (United) increased capacity. New international service was commenced by Ethad Airways, China Southern, and Turkish Airlines, while Emirates, British Airways, and EVA Air served the Airport with larger aircraft or increased frequencies. Total cargo and U.S. mail tonnage increased by 19.2% with increases in both international and domestic shipments.

The 4.5% fiscal year-over-year enplanement increase at SFO compares to increases of 8.6%¹ at Oakland International Airport and 5.5%² at Mineta San Jose International Airport, resulting in relatively stable Bay Area passenger market share of 70.3% for SFO. As compared to data from the United States Department of

¹ Source: Oakland International Airport Traffic Report.

² Source: Mineta San Jose International Airport Traffic Report.

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Transportation (DOT), Bureau of Transportation Statistics, through June 2015, SFO's enplanement increase of 4.5% fared better than a national average increase of 3.8%.

Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) decreased 0.3% fiscal year-over-year, mainly due to a reduction in scheduled commuter aircraft operations (aircraft with less than 100 seats). Aircraft revenue landed weight, which impacts revenue generated by landing fees, increased 3.1% above prior fiscal year levels, indicating larger overall aircraft size. Total Airport passengers, which comprise enplaned, deplaned and in-transit passengers (defined as passengers who fly into and out of SFO on the same aircraft) were 48.2 million, establishing a new peak for the Airport. Overall enplaned passengers totaled 24.0 million, a 4.5% increase, with 18.7 million domestic and 5.3 million international enplaned passengers, increases of 4.2% and 5.3%, respectively. Cargo and U.S. mail tonnage increased by 19.2%, with a mail increase of 40.2% and a freight increase of 16.6%.

The following table³ presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2015, 2014, and 2013:

	FY 2015	FY 2014	FY 2013*	% Change FY 2015	% Change FY 2014
Flight operations	428,171	429,377	420,262	(0.3)%	2.2%
Landed weight (in 000 lbs.)	32,610,921	31,628,572	30,672,570	3.1	3.1
Total Airport passengers	48,243,910	46,191,454	44,742,521	4.4	3.2
Enplaned passengers	24,023,599	22,995,674	22,273,422	4.5	3.2
Domestic enplaned passengers	18,749,797	17,987,093	17,515,978	4.2	2.7
International enplaned passengers	5,273,802	5,008,581	4,757,444	5.3	5.3
Cargo and U.S. mail tonnage (in metric tons)	441,797	370,525	370,195	19.2	0.1

* Numbers updated to include revised data received subsequent to the 2013 fiscal year end.

Fiscal Year 2015

Passenger Traffic

Compared to fiscal year 2014, passenger enplanements in fiscal year 2015 increased by 4.5% from 23.0 million to 24.0 million passengers. Domestic passenger enplanements increased 4.2%, while international enplanements increased 5.3%. The enplanement increase totaled 1,027,925 passengers, 762,704 of which were domestic and 265,221 were international. The domestic sector grew mostly from Delta, Alaska, and United service additions, while the international sector had a number of new and added services. Asia/Mid East had the highest international enplaned passenger growth with 152,423, followed by Europe with 83,791, and Canada with 58,074. The Asia/Mid East region increase was due to new and increased service from China Southern, Ethad Airways, United, and EVA Air. Europe's increase was due to new service by Turkish Airlines and service increases by Lufthansa, British Airways, Virgin Atlantic, and Scandinavian Airlines (SAS). Latin America

³ Sources: Analysis of Airline Traffic, Fiscal Years 2014 and 2015.

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decreased by 8,604 passengers mainly due to LAN Peru's discontinued service since March 2014, and schedule adjustments by Alaska Airlines, Virgin America, and TACA. Australia/Oceania declined by 20,463 resulting from United's operation of smaller aircraft compared to the previous year.

The fiscal year quarterly growth outpaced the previous year with strong performance in both domestic and international sectors, with growth rates of 4.8%, 3.1%, 5.1%, and 4.9% in each of the four consecutive quarters. The increases were due to added frequencies and operations of larger average aircraft size, and three new international service additions. Airline seat capacity increased by 3.6%, with a domestic increase of 2.6% and an international increase of 7.2%. The overall load factor increased by 0.7 percentage point to 84.6%. Domestic load factor increased 1.3 percentage points to 84.7% and international decreased by 1.5 percentage point to 84.1%.

Flight Operations

During fiscal year 2015, the number of aircraft operations (takeoffs and landings) decreased by 1,206 flights (0.3%). Commercial traffic decreased by 1,913 flights (0.5%). Civil and military traffic increased by 707 flights (4.7%).

Total scheduled airline passenger and cargo landings decreased by 0.3% with an increase in landed weight of 3.1%. Domestic passenger landings decreased by 1.1%, while landed weight increased by 1.4%. International passenger landings increased by 4.6%, while landed weight increased by 7.3%. Average passenger aircraft size increased from approximately 137 to 142 seats per flight. Domestic scheduled seats per flight increased from 123 to 128 while international scheduled seats per flight increased from 226 to 232 in fiscal year 2015. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) shifted slightly towards mainline, which increased in share by 2.0 percentage points to 74.0% for domestic and international operations combined. Mainline landings increased by 3,496, and commuter landings decreased by 4,176. Cargo only aircraft landings increased by 2.4%, while landed weight increased by 2.6%.

Cargo Tonnage

Fiscal year 2015 cargo and U.S. mail tonnage increased by 71,272 metric tons (19.2%). Mail increased by 16,750 metric tons (40.2%), and cargo volume excluding mail increased by 54,522 metric tons (16.6%). Growth in cargo shipments was particularly strong during the third quarter of the fiscal year as labor issues at west coast seaports led to activity backlogs. According to industry media, this may have resulted in some goods being sent by air instead of by sea. Cargo-only carriers' tonnage share increased by 2.9 percentage points to 20.2%. Tonnage on cargo-only carriers increased by 39.4%, while those on passenger carriers increased by 15.0%.

Fiscal Year 2014

Passenger Traffic

Compared to fiscal year 2013, passenger enplanements in fiscal year 2014 increased by 3.2% from 22.3 million to 23.0 million passengers. Domestic passenger enplanements increased 2.7%, while international enplanements increased 5.3%. The enplanement increase totaled 722,252 passengers, 471,115 of which were domestic and 251,137 were international. The domestic sector grew mostly from Delta and United service additions, while the international sector had a number of new and added services. Europe had the highest international passenger growth with 103,529, followed by Latin America with 52,721. Europe's increase was due to new and increased

(Continued)

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service from Scandinavian Airlines (SAS), United, and Aer Lingus, while Latin America benefitted from service additions by Aeromexico.

The fiscal year started with a 1.0% decline in traffic in the first quarter due to flight cancellations in July resulting from the crash of Asiana flight 214 and a high comparison base from the prior summer. With new and added services from a number of airlines beginning in the fall, growth ensued over the next three consecutive quarters by 3.8%, 5.3% and 5.5%. Airline seat capacity increased by 4.8%, with a domestic increase of 4.9% and an international increase of 4.1%. Because enplanement growth was outpaced by the seat capacity increase, overall load factor decreased 1.2 percentage points to 84.1%. Domestic load factor decreased 1.8 percentage points to 83.6% and international increased by 1.0 percentage point to 85.9%.

Flight Operations

During fiscal year 2014, the number of aircraft operations (takeoffs and landings) increased by 9,115 flights (2.2%). Commercial traffic increased by 9,132 flights (2.3%). Civil and military traffic declined by 17 flights (0.1%).

Total scheduled airline passenger and cargo landings increased by 2.1% with an increase in landed weight for these landings of 3.1%. Domestic passenger landings increased by 1.8%, while landed weight increased by 2.6%. International passenger landings increased by 4.6%, while landed weight increased by 4.1%. Average passenger aircraft size increased from approximately 136 to 139 seats per flight. Domestic scheduled seats per flight increased from 122 to 126 while international scheduled seats per flight decreased from 228 to 227 in fiscal year 2014. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) shifted slightly towards mainline, which increased in share by 0.9% to 72.0% for domestic and international operations combined. Mainline landings increased by 4,817, and commuter landings decreased by 677. Cargo only aircraft landings increased by 1.9%, while landed weight increased by 5.5%.

Cargo Tonnage

Fiscal year 2014 cargo and U.S. mail tonnage increased by 330 metric tons (0.1%). Mail increased by 1,073 metric tons (2.6%), and cargo volume excluding mail decreased by 743 metric tons (0.2%). The decline in shipments was primarily in the domestic sector, which had a decrease in cargo volume excluding mail of 10,832 metric tons. This was partially offset by an increase in the international sector of 10,088 metric tons. Cargo-only carriers' tonnage share decreased by 0.6 percentage point to 17.3%. Tonnage on cargo-only carriers decreased by 3.1%, while those on passenger carriers increased by 0.8%.

Financial Highlights, Fiscal Year 2015

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$117.1 million.
- Total revenue bonds payable by the Airport increased by \$320.3 million.
- Operating revenues were \$815.4 million.
- Operating expenses were \$609.0 million.

(Continued)

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- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of \$92.0 million from passenger facility charges) were \$141.8 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP), Airport Traffic Control Tower, and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System were \$32.1 million.
- Transfers to City and County of San Francisco as annual service payment were \$40.5 million.
- Net position decreased by \$149.6 million due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions*.

Financial Highlights, Fiscal Year 2014

- Assets and deferred outflows of resources exceeded liabilities at the close of the fiscal year by \$266.8 million.
- Total revenue bonds payable by the Airport increased by \$299.2 million.
- Operating revenues were \$770.7 million.
- Operating expenses were \$625.7 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of \$87.0 million from passenger facility charges), were \$203.6 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP), Airport Traffic Control Tower, and Runway Status Lights System; and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System and Closed Circuit TV Enhancement Program were \$91.0 million.
- Transfers to City and County of San Francisco as annual service payment were \$38.0 million.
- Net position decreased by \$5.5 million.

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June 30, 2015 and 2014

Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2015, 2014, and 2013 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NET POSITION

	FY 2015	FY 2014	FY 2013 (As Restated)	Percentage Increase (Decrease) FY 2015	Percentage Increase (Decrease) FY 2014
Assets:					
Unrestricted current assets	\$ 450,598	425,951	399,014	5.8%	6.8%
Restricted current assets	245,719	278,346	197,112	(11.7)	41.2
Restricted non-current assets	643,686	579,933	389,162	11.0	49.0
Capital assets, net	3,936,426	3,869,718	3,720,791	1.7	4.0
Total assets	5,276,429	5,153,948	4,706,079	2.4	9.5
Deferred outflows of resources:					
Unamortized loss on refunding of debt	78,388	92,147	108,581	(14.9)	(15.1)
Deferred outflows on derivative instruments	66,809	64,964	64,743	2.8	0.3
Deferred outflows on employer pensions contributions	37,517	—	—	—	—
Total deferred outflows of resources	182,714	157,111	173,324	16.3	(9.4)
Liabilities:					
Current liabilities	285,929	268,723	500,511	6.4	(46.3)
Current liabilities payable from restricted assets	154,611	410,087	295,698	(62.3)	38.7
Noncurrent liabilities	4,608,523	4,285,257	3,729,562	7.5	14.9
Net pension liability	111,932	—	—	—	—
Derivative instruments	80,722	80,235	81,338	0.6	(1.4)
Total liabilities	5,241,717	5,044,302	4,607,109	3.9	9.5
Deferred inflows of resources:					
Deferred inflows related to pensions	100,290	—	—	—	—
Total deferred inflows of resources	100,290	—	—	—	—
Net position:					
Net investment in capital assets	(103,109)	(149,894)	(52,581)	31.2	(185.1)
Restricted for debt service	37,427	23,390	19,757	47.4	28.5
Restricted for capital projects	165,224	200,219	139,981	(17.5)	43.0
Unrestricted	17,594	191,042	165,137	(90.8)	15.7
Total net position	\$ 117,136	266,757	272,294	(56.1)%	(2.0)%

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The Airport adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) as of July 1, 2014. As indicated in this statement, if restatement of all prior periods is not practical, then the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2014. (See note 2, Summary of Significant Accounting Policies, (b) for the effects of GASB 68 on restatement of beginning net position.)

Fiscal Year 2015

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$117.1 million and \$266.8 million as of June 30, 2015 and 2014, respectively, representing a decrease of \$149.6 million (56.1%). Unrestricted net position represented 15.0% and 71.6% of total net position as of June 30, 2015 and 2014, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by \$24.6 million (5.8%) as of June 30, 2015, primarily due to the increase in the Airport's cash and investments held in the City Treasury and accounts receivable generated from Airport operations.

Restricted current assets consist of cash and investments held in the City Treasury, primarily from passenger facility charges (PFC) collected, debt service funds held by the bond trustee, grants receivables and PFC receivable. Restricted current assets decreased \$32.6 million (11.7%) as of June 30, 2015. The decrease was primarily due to the decrease in grant reimbursable capital improvement projects.

Restricted non-current assets increased by \$63.8 million (11.0%) as of June 30, 2015. The increase was primarily due to an increase of \$28.3 million in cash and investments held in the City Treasury and a \$32.7 million increase in the debt service reserve fund held by trustee in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2014A/B.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by \$66.7 million (1.7%) as of June 30, 2015, primarily due to the capitalization of capital improvement project costs.

Unamortized loss on refunding of debt decreased by \$13.8 million (14.9%) as of June 30, 2015. The decrease was due to the amortization of deferred refunding loss.

Deferred outflows on derivative instruments increased by \$1.8 million (2.8%) as of June 30, 2015, representing 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).

Deferred outflows on employer pension contributions – See note 10a.

Current liabilities payable from unrestricted assets increased by \$17.2 million (6.4%) as of June 30, 2015, primarily due to increases in current maturities of the Airport's long-term debt and accounts payable.

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Current liabilities payable from restricted assets decreased by \$255.5 million (62.3%) as of June 30, 2015, primarily due to the retirement of commercial paper notes with the proceeds of the Airport's Second Series Revenue Bonds, Series 2014A/B during fiscal year 2015 and a decrease in accounts payable.

Noncurrent liabilities before net pension liability and derivative instruments increased by \$323.3 million (7.5%) as of June 30, 2015, primarily due to the issuance of the Airport's Second Series Revenue Bonds, Series 2014A/B during fiscal year 2015.

Net pension liability (NPL) – See note 10a.

Derivative instruments increased by \$0.5 million (0.6%) as of June 30, 2015, due to the change in fair values of interest rate swap contracts per GASB 53.

Deferred inflows related to pension – See note 10a.

The Airport's net investment in capital assets increased by \$46.8 million (31.2%) as of June 30, 2015, primarily due to the increase in capital assets and refinancing of commercial paper debt.

Restricted for debt service increased \$12.0 million (47.4%) as of June 30, 2015, primarily due to the increase in capitalized interest in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2014A/B.

Restricted for capital projects decreased \$35.0 million (17.5%) as of June 30, 2015, primarily due to the issuance of the Airport's Second Series Revenue Bonds, 2014A/B and the decrease in grants receivables.

Unrestricted net position decreased \$173.5 million (90.8%) as of June 30, 2015, primarily due to the adoption of GASB 68.

Fiscal Year 2014

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources exceeded liabilities by \$266.8 million and \$272.3 million as of June 30, 2014 and 2013, respectively, representing a decrease of \$5.5 million (2.0%). Unrestricted net position represented 71.6% and 60.6% of total net position as of June 30, 2014 and 2013, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by \$26.9 million (6.8%) as of June 30, 2014, primarily due to the increase in the Airport's cash and investments held in the City Treasury and accounts receivable generated from Airport operations.

Restricted current assets consist of cash and investments held in the City Treasury, primarily from passenger facility charges (PFC) collected, debt service funds held by the bond trustee, grants receivable, and PFC receivable. Restricted current assets increased by \$81.3 million (41.2%) as of June 30, 2014. The increase was primarily due to the increase in cash and investments held in the City Treasury generated from strong growth of passenger traffic and the increase in grant reimbursable capital improvement projects.

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Restricted non-current assets increased by \$190.8 million (49.0%) as of June 30, 2014. The increase was primarily due to an increase of \$146.3 million in cash and investments held in the City Treasury and a \$47.8 million increase in the debt service reserve fund held by trustee in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2013A/B/C.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by \$148.9 million (4.0%) as of June 30, 2014, primarily due to the capitalization of capital improvement project costs.

Unamortized loss on refunding of debt decreased by \$16.4 million (15.1%) as of June 30, 2014. The decrease was primarily due to the amortization of deferred refunding loss.

Deferred outflows on derivative instruments increased by \$0.2 million (0.3%) as of June 30, 2014, representing 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).

Current liabilities payable from unrestricted assets decreased by \$231.8 million (46.3%) as of June 30, 2014, primarily due to the reclassification of two Variable Rate Bonds from current liabilities in fiscal year 2013 to noncurrent liabilities in fiscal year 2014 as the associated letters of credit were renewed.

Current liabilities payable from restricted assets increased by \$114.4 million (38.7%) as of June 30, 2014, primarily due to the issuance of commercial paper notes and increase in accounts payable during fiscal year 2014 for capital improvement projects.

Noncurrent liabilities before derivative instruments increased by \$555.7 million (14.9%) as of June 30, 2014, primarily due to the reclassification of two Variable Rate Bonds from current liabilities in fiscal year 2013 to noncurrent liabilities in fiscal year 2014 as the associated letters of credit were renewed.

Derivative instruments decreased by \$1.1 million (1.4%) as of June 30, 2014, due to the change in fair values of interest rate swap contracts per GASB 53.

The Airport's net investment in capital assets decreased by \$97.3 million (185.1%) as of June 30, 2014, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt and the disposition of capital assets.

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Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2015, 2014, and 2013 (in thousands):

	SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET POSITION			
	FY 2015	FY 2014	FY 2013	FY 2014
			(As Restated)	Percentage Increase (Decrease)
Operating revenues	\$ 815,364	770,691	726,358	5.8%
Operating expenses	(609,029)	(625,660)	(559,050)	6.1%
Operating income	206,335	145,031	167,308	11.9
Nonoperating expenses, net	(141,826)	(203,598)	(190,587)	(42.3)
Income (loss) before capital contributions and transfers	64,509	(58,567)	(23,279)	(30.3)
Capital contributions	32,119	91,024	65,958	210.1
Transfers to City and County of San Francisco	(40,480)	(37,994)	(36,464)	(64.7)
Changes in net position	56,148	(5,537)	6,215	6.5
Total net position at beginning of year				1,114.1
(as restated for FY 2015 and FY 2013)				
Total net position at end of year	\$ 117,136	272,294	266,079	(77.6)
		266,757	272,294	(56.1)%
				(2.0)%

Operating Revenues

The Airport derives its revenues from rates, fees, and charges assessed to the airlines; the operation of the public and employee parking facilities; rents and fees assessed to concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Terminal rental rates and landing fees assessed to air carriers are set periodically based on formulas and procedures described in the Lease and Use Agreement (Agreement).⁴

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

The Agreement establishes a residual rate-setting methodology for the calculation of the landing fees and terminal rental rates using certain cost centers. Under this methodology, landing fees and terminal rentals are established each year to produce projected revenues from the airlines equal to the difference between the

⁴ In fiscal year 2010, the Airport and airlines reached agreement on a new ten-year Lease and Use Agreement that became effective on July 1, 2011. The Lease and Use 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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Airport's estimated non-airline revenues and the Airport's budgeted total costs, including operating expenses and debt service costs for that year. 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 statements of net position 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 overcharge balance of \$55.6 million as of June 30, 2014, increased to \$55.7 million as of June 30, 2015, and was recorded as unearned aviation revenue in the statements of net position.

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The following table shows the air carriers that served the Airport in fiscal year 2015:

AIR CARRIERS SERVING THE AIRPORT

Fiscal Year 2015		
Domestic passenger air carriers	Foreign flag carriers	Cargo only carriers
AirTran Airways	Aer Lingus	ABX Air Inc.
Alaska Airlines	Aeromexico	Air Cargo Carriers
American Airlines	Air Canada	Ameriflight
Delta Air Lines	Air China (CAAC)	Atlas Air (DHL)
Frontier Airlines	Air France	Federal Express
Hawaiian Airlines	Air New Zealand	Kalitta Air
JetBlue Airways	All Nippon Airways	Nippon Cargo Airlines
Southwest Airlines	Asiana Airlines	Southern Air
Sun Country (MN Airlines)	British Airways	United Parcel Service
United Airlines	Cathay Pacific Airways	
US Airways	China Airlines	
Virgin America	China Eastern Airlines	
	China Southern Airlines	
	Emirates Airlines	
	Etihad Airways	
	EVA Airways	
	Japan Airlines	
	KLM Royal Dutch Airlines	
	Korean Air Lines	
	Lufthansa German Airlines	
	Philippine Airlines	
	Scandinavian Airlines	
	Singapore Airlines	
	Swiss International Air Lines	
	TACA (Avianca)	
	Turkish Airlines	
	Virgin Atlantic Airlines	
	WestJet Airlines	
	XL Airways France	
Commuter air carriers		
Compass Airlines (Delta Air Lines)		
Compass Airlines (American Air Lines)		
Mesa Airlines (American Airlines)		
Mesa Airlines (US Airways)		
SkyWest Airlines (Delta Airlines)		
SkyWest Airlines (United Airlines)		
Charter air carriers		
		Qantas Airways (Swissport)
		Republic Airlines

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The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2015, 2014, and 2013:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

	FY 2015	FY 2014	FY 2013
Effective average terminal rental rate (per sq. ft.)	\$ 149.98	140.85	131.55
Signatory Airline – landing fee rate (per 1,000 lbs.)	4.57	4.29	4.01
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	5.03	4.72	4.41

During fiscal years ended June 30, 2015, 2014, and 2013, revenues realized from the following source equal or exceed 5% of the Airport's total operating revenues:

	FY 2015	FY 2014	FY 2013
United Airlines	23.5%	23.6%	22.2%

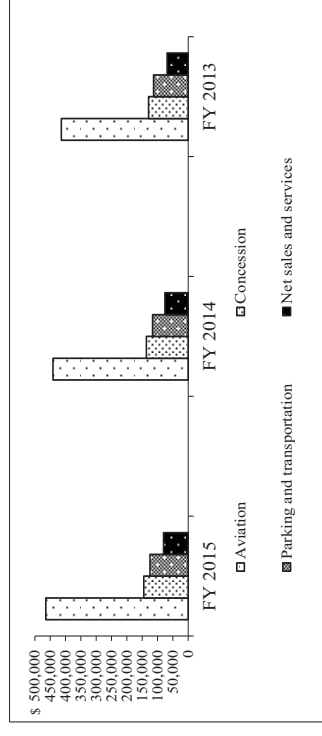
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The following shows a comparative summary of operating revenues for fiscal years 2015, 2014, and 2013 (in thousands):

COMPARATIVE SUMMARY OF AIRPORT'S OPERATING REVENUES

	FY 2015	FY 2014	FY 2013	FY 2015 Percentage Increase	FY 2014 Percentage Increase
Aviation	\$ 464,610	441,259	413,918	5.3%	6.6%
Concession	144,781	136,587	129,545	6.0	5.4
Parking and transportation	125,087	116,703	113,551	7.2	2.8
Net sales and services	80,886	76,142	69,344	6.2	9.8
Total operating revenues	\$ 815,364	770,691	726,358	5.8%	6.1%



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Fiscal Year 2015

Operating revenues increased by 5.8%, from \$770.7 million in fiscal year 2014 to \$815.4 million in fiscal year 2015. The Airport experienced increases in aviation revenues, concession revenues, parking & transportation revenues, and net sales and services revenues.

Aviation revenues increased by 5.3%, from \$441.3 million in fiscal year 2014 to \$464.6 million in fiscal year 2015, due to increases in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 6.5%, from \$4.29 in fiscal year 2014 to \$4.57 in fiscal year 2015. The airline average annual terminal rent per square foot increased 6.5%, from \$140.85 in fiscal year 2014 to \$149.98 in fiscal year 2015, partially due to a 7.7% increase in airline terminal rental revenue requirement. Airline leased space increased 1.4% to 1.62 million square feet.

Before the unearned aviation revenue adjustment, revenues from landing fees increased by \$11.2 million (8.2%), which reflects the rate increase and a 3.1% increase in airline landed weight. Terminal rentals increased by \$10.7 million (4.6%), based on the rate increase and additional leased space. The overcharge balance increased by \$0.1 million, from \$55.6 million in fiscal year 2014 to \$55.7 million at the end of fiscal year 2015. In aggregate, all other aviation revenues declined by \$2.2 million (2.8%), from \$76.8 million in fiscal year 2014 to \$74.6 million in fiscal year 2015, with net aviation rental revenue and activity-based fees including aircraft parking, jet bridge fees, and employee parking showing decreases.

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 6.0%, from \$136.6 million in fiscal year 2014 to \$144.8 million in fiscal year 2015. The higher revenues primarily resulted from a 4.7% increase in passenger enplanements and deplanements, and a higher spend rate per passenger. Revenues from rental car concessions increased by \$1.2 million (2.4%), primarily due to a 4.8% increase in rental car transactions. Food and beverage revenues increased \$1.7 million (9.2%), due to passenger increases and the reopening of Boarding Area E in Terminal 3 on January 28, 2014. Retail merchandise excluding duty free revenue increased \$0.9 million (6.5%) primarily from Consumer Price Index (CPI) Minimum Annual Guarantee (MAG) adjustments and stronger than expected increases in passenger spending in the international terminal. Revenues from duty free sales increased \$2.8 million (9.9%) from higher international passenger traffic and an increased level of marketing and promotional activity by DFS, which experienced an increase in gross sales of 4.4% compared to the prior year. Other concession revenues increased by \$1.4 million (18.3%), primarily from the opening of the American Express Centurion Lounge in November 2014. Net miscellaneous changes for other concession services and non-airline terminal space rental revenues increased by \$0.2 million (1.4%).

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 7.2%, from \$116.7 million in fiscal year 2014 to \$125.1 million in fiscal year 2015. The average ticket price for public parking increased by 1.6% from \$28.68 in fiscal 2014 to \$29.13 in fiscal year 2015; partly offset by a decline of 29,432 parking transactions (0.8%). The net result was a parking revenue increase of \$0.8 million (0.7%). Ground transportation, including taxi trip fee revenue increased by \$7.7 million (51.3%) in fiscal year 2015, due to commercial vehicle trip fee rate increases of up to 3.6% and the commencement of transportation network companies' (TNC) operations at the Airport. The TNC pilot program began in September 2014 and resulted in over 1.7 million Airport pick-ups/drop-offs and \$6.5 million in

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trip fee revenue during fiscal year 2015. Limousines experienced a volume increase of 12.4% compared to the prior fiscal year, while other modes of transportation experienced declines including door-to-door pre-arranged vans (31.1%), charter buses (8.6%), off-airport parking vans (4.9%), shared-ride-vans (1.4%), and taxis (0.8%).

Net sales and service revenues consist of revenue derived from utility services, telecommunication access fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 6.2%, from \$76.1 million in fiscal year 2014 to \$80.9 million in fiscal year 2015. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased \$1.7 million (4.6%), due to the aforementioned 4.8% increase in rental car contracts. The per rental car contract rate of \$20 was unchanged in fiscal year 2015. Fees collected for the cost of the Rental Car Center (RCC) increased \$1.1 million (7.9%) due to RCC structure and surface rent adjustments that were part of rental car companies' five-year lease extensions in January 2014. Miscellaneous airport revenue increased \$0.7 million (152.4%) primarily due to an Airline environmental settlement credit. Penalties increased by \$0.3 million (2910.2%) resulting from revisions to airfield safety rules and regulations and its enforcement. Governmental agency rentals increased \$0.2 million (4.9%) due to the opening of the Airport Data Center in November 2013. Licenses and permits fees increased \$0.2 million (15.1%) from increased badging activity from tenant employees and contractors. Miscellaneous terminal fees increased \$0.2 million (6.5%) due to increases to the Terminal 2 baggage handling system maintenance contract. Revenue from the sale of water-sewage disposal increased \$0.1 million (3.6%) from an 11.8% water rate increase partly offset by an 8.1% usage decline. Net revenue from all other sales and services including electricity usage, food court infrastructure and cleaning fees, refuse disposal, telecommunication access fees, and settlements increased \$0.2 million (2.0%).

Fiscal Year 2014

Operating revenues increased by 6.1%, from \$726.4 million in fiscal year 2013 to \$770.7 million in fiscal year 2014. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 6.6%, from \$413.9 million in fiscal year 2013 to \$441.3 million in fiscal year 2014, due to increases in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 7.0%, from \$4.01 in fiscal year 2013 to \$4.29 in fiscal year 2014. The airline average annual terminal rent per square foot increased 7.1%, from \$131.55 in fiscal year 2013 to \$140.85 in fiscal year 2014, partially due to a 7.7% increase in airline terminal rental revenue requirement. Airline leased space increased 0.6% to 1.59 million square feet.

Before the unearned aviation revenue adjustment, revenues from landing fees increased by \$11.9 million (9.5%), which reflects the rate increase and a 3.1% increase in airline landed weight. Terminal rentals increased by \$20.0 million (9.5%), based on the rate increase and additional leased space. The overcharge balance increased by \$3.7 million, from \$51.9 million in fiscal year 2013 to \$55.6 million at the end of fiscal year 2014. In aggregate, all other aviation revenues increased by \$4.8 million (6.7%), from \$71.9 million in fiscal year 2013 to \$76.8 million in fiscal year 2014, with net aviation rental revenue, activity-based fees, including aircraft parking, jet bridge fees, and employee parking all showing increases.

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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 5.4%, from \$129.5 million in fiscal year 2013 to \$136.6 million in fiscal year 2014. The higher revenues were primarily driven by a 3.2% increase in passenger enplanements and deplanements, and a higher spend rate per passenger. Revenues from rental car concessions increased by \$4.3 million (9.1%), primarily due to a 5.6% increase in rental car transactions. Food and beverage revenues increased \$1.6 million (10.0%), due to the aforementioned passenger increases and the reopening of Boarding Area E in Terminal 3 on January 28, 2014. Retail merchandise excluding duty free revenue increased \$0.5 million (3.7%) primarily from Consumer Price Index (CPI) Minimum Annual Guarantee (MAG) adjustments. Revenues from duty free sales increased \$1.3 million (5.0%) from increased demand on luxury goods as DFS Group (DFS) gross sales increased 13.3% compared to the prior year. Other concession revenues increased by \$0.4 million (8.8%), primarily from higher foreign currency exchange activity. Advertising revenues experienced a year-over-year decline of \$0.9 million (8.5%). Starting in fiscal year 2014, advertising revenue was based on a fixed annual MAG of \$10.0 million. Net miscellaneous changes for other concession services and non-airline terminal space rental revenues declined by \$0.2 million (1.7%).

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 2.8%, from \$113.6 million in fiscal year 2013 to \$116.7 million in fiscal year 2014. Total parking transactions increased by 93,886 exits (2.7%) while the average ticket price declined by 1.9% from \$29.25 in fiscal 2013 to \$28.68 in fiscal year 2014. As a result, parking revenues in fiscal year 2014 increased by \$0.7 million (0.7%). Ground transportation, including taxi trip fee revenues increased by \$2.4 million (19.5%) in fiscal year 2014, partly due to commercial vehicle trip fee increases of up to 3.6%. All modes of transportation experienced volume increases, including limousines (43.5%), hotel shuttles (35.0%), charter buses (30.8%), door-to-door pre-arranged vans (14.3%), off-airport parking vans (7.9%) and taxis (7.7%).

Net sales and service revenues consist of revenues derived from utility services, telecommunication access fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 9.8%, from \$69.3 million in fiscal year 2013 to \$76.1 million in fiscal year 2014. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased \$2.5 million (7.3%), due to the aforementioned 5.6% increase in rental car contracts. The per rental car contract rate of \$20 was unchanged in fiscal year 2014. Fees collected for the cost of the Rental Car Center (RCC) increased \$1.0 million (8.1%) due to RCC structure and surface rent adjustments that were part of rental car companies' five-year lease extensions. Revenues from governmental agency rent increased \$0.8 million (24.9%) due to the opening of the Airport Data Center in November 2013, a portion of which is leased to the City. Revenues from electricity usage increased by \$2.2 million (95.8%), due to increased consumption and the expiration of a settlement between the San Francisco Public Utilities Commission (PUC), under which airline tenants' electricity was charged at 74% of PUC rates compared to 100% in fiscal year 2014. Revenues from water and sewage disposal increased by \$0.5 million (14.9%) resulting from a 6.3% water rate increase and a modest increase in water usage. Collection charges, which can be variable, decreased by \$0.5 million (55.2%). Net revenue from all other sales and services including food court infrastructure and cleaning fees, settlements, licenses and permits, refuse disposal, and telecommunication access fees, was flat.

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Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2015, 2014, and 2013 (in thousands):

	FY 2015	FY 2014	FY 2013 (As Restated)	FY 2015 Percentage Increase (Decrease)	FY 2014 Percentage Increase (Decrease)
Personnel	\$ 226,790	250,088	239,194	(9.3)%	4.6%
Depreciation	216,146	222,815	176,522	(3.0)	26.2
Contractual services	67,491	65,126	62,939	3.6	3.5
Light, heat, and power	22,296	20,919	19,250	6.6	8.7
Services provided by other City departments	17,958	16,918	14,576	6.1	16.1
Repairs and maintenance	33,278	29,831	27,593	11.6	8.1
Materials and supplies	14,592	14,536	14,038	0.4	3.5
General and administrative	5,132	3,334	2,807	53.9	18.8
Amortization of prepaid bond insurance costs	522	669	1,985	(22.0)	(66.3)
Environmental remediation	4,824	1,424	146	238.8	875.3
Total operating expenses	\$ 609,029	625,660	559,050	(2.7)%	11.9%

Fiscal Year 2015

Operating expense decreased \$16.7 million (2.7%), from \$625.7 million in fiscal year 2014 to \$609.0 million in fiscal year 2015, due to decrease in personnel, amortization expense and depreciation. The decrease was partially offset by an increase in contractual services, services provided by other City departments, repairs and maintenance, and environmental remediation. In fiscal year 2015, the Airport capitalized \$12.7 million of indirect costs related to construction of capital projects as overhead, compared to \$14.8 million in fiscal year 2014. The variance in the different operating expense categories are discussed below.

Personnel costs decreased \$23.3 million (9.3%), from \$250.1 million in fiscal year 2014 to \$226.8 million in fiscal year 2015. The decrease was primarily due to the adoption of GASB 68 in fiscal year 2015 which reduced pension expense by \$31.1 million. Excluding the effect of GASB 68, personnel costs increased \$6.9 million due to cost of living adjustment and additional positions.

Depreciation decreased \$6.7 million (3.0%), from \$222.8 million in fiscal year 2014 to \$216.1 million in fiscal year 2015. The decrease was primarily due to the prior year depreciation adjustment of \$18.0 million in fiscal year 2014. Excluding the prior year adjustment, current year depreciation expense increased \$12.0 million due to the addition of completed capital improvement projects such as Terminal 3 Boarding Area E Refurbishment, Runway Safety Area Program, Checked Baggage Inspection System, West Field Cargo Building, Security Connector Terminal 2 (T2) to Terminal 1 (T1), Network Infrastructure Improvement, and Public Wi-Fi.

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Contractual services increased \$2.4 million (3.6%), from \$65.1 million in fiscal year 2014 to \$67.5 million in fiscal year 2015. The increase was primarily driven by costs incurred for consultant services in support of Airport long-term planning and the buy-back of a Terminal 3 concession lease.

Light, heat, and power expenses increased \$1.4 million (6.6%), from \$20.9 million in fiscal year 2014 to \$22.3 million in fiscal year 2015. The increase was primarily due to the net effect of higher electric rates and lower consumption.

Services provided by other City departments increased \$1.1 million (6.1%), from \$16.9 million in fiscal year 2014 to \$18.0 million in fiscal year 2015. The increase was primarily due to higher costs for city attorney legal services and the FAMIS replacement project.

Repairs and maintenance expense increased \$3.5 million (11.6%), from \$29.8 million in fiscal year 2014 to \$33.3 million in fiscal year 2015. This increase was primarily due to higher costs to support and maintain additional networking hardware installed as part of various Airport improvement projects.

Materials and supplies expenditures increased \$0.1 million (0.4%), from \$14.5 million in fiscal year 2014 to \$14.6 million in fiscal year 2015. The increase was due to higher spending on building maintenance supplies and computer equipment.

General and administrative expenses increased \$1.8 million (53.9%), from \$3.3 million in fiscal year 2014 to \$5.1 million in fiscal year 2015. The increase was primarily due to an increase in legal expense.

Amortization of bond issue costs decreased \$0.2 million (22.0%), from \$0.7 million in fiscal year 2014 to \$0.5 million in fiscal year 2015. The decrease was primarily due to the decrease of unamortized prepaid bond insurance costs.

Environmental remediation costs increased \$3.4 million (238.8%), from \$1.4 million in fiscal year 2014 to \$4.8 million in fiscal year 2015. The increase was primarily due to the remediation costs related to capital improvement projects.

Fiscal Year 2014

Operating expenses increased \$66.6 million (11.9%), from \$559.1 million in fiscal year 2013 to \$625.7 million in fiscal year 2014, due to increases in personnel, contractual services, services provided by other City departments, repairs and maintenance, and depreciation. The increase was partially offset by a decrease in amortization expense. In fiscal year 2014, the Airport capitalized \$14.8 million of indirect costs related to construction of capital projects as overhead, compared to \$11.7 million in fiscal year 2013. The variances in the different operating expense categories are discussed below.

Personnel costs increased \$10.9 million (4.6%), from \$239.2 million in fiscal year 2013 to \$250.1 million in fiscal year 2014. The increase in personnel costs was primarily due to higher salary costs and pension contribution. In fiscal year 2014, the City's pension contribution rate was 24.82% as compared to 20.71% in fiscal year 2013. The increase in personnel costs was partially offset by the increase of \$1.8 million of personnel costs allocated to capital improvement projects as overhead.

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Depreciation increased \$46.3 million (26.2%), from \$176.5 million in fiscal year 2013 to \$222.8 million in fiscal year 2014. The increase was primarily due to the addition of completed capital improvement projects such as Terminal 3 Boarding Area E, Runway Safety Area (RSA) Program, and Checked Baggage Inspection System (CBIS). Included in current year was \$18.0 million of prior year's depreciation expense due to a change in the estimated useful lives of certain asset class that was not recorded in fiscal year 2013.

Contractual services increased \$2.2 million (3.5%), from \$62.9 million in fiscal year 2013 to \$65.1 million in fiscal year 2014. The increase was primarily due to the costs incurred in the issuance of the Airport's Second Series Revenue Bonds, Series 2013A/B/C. The increase was partially offset by a decrease in airfield shuttle service.

Light, heat, and power expenses increased \$1.6 million (8.7%), from \$19.3 million in fiscal year 2013 to \$20.9 million in fiscal year 2014. The increase was primarily due to increases in electricity rates and energy consumption, and the reopening of Boarding Area E in Terminal 3.

Services provided by other City departments increased \$2.3 million (16.1%), from \$14.6 million in fiscal year 2013 to \$16.9 million in fiscal year 2014. The increase was primarily due to increases in risk management costs.

Repairs and maintenance increased \$2.2 million (8.1%), from \$27.6 million in fiscal year 2013 to \$29.8 million in fiscal year 2014. The increase was primarily due to airfield, facilities, and groundside maintenance projects, and expenses related to the crash of Asiana flight 214.

Materials and supplies expenditures increased \$0.5 million (3.5%), from \$14.0 million in fiscal year 2013 to \$14.5 million in fiscal year 2014. The increase was primarily due to increases in electrical materials and supplies, uniforms, and expenses related to the crash of Asiana flight 214.

General and administrative expenses increased \$0.5 million (18.8%), from \$2.8 million in fiscal year 2013 to \$3.3 million in fiscal year 2014. The increase was primarily due to an increase in legal expenses.

Amortization of prepaid bond insurance costs decreased \$1.3 million (66.3%), from \$2.0 million in fiscal year 2013 to \$0.7 million in fiscal year 2014. The decrease was primarily due to a decrease in unamortized prepaid bond insurance costs.

Environmental remediation costs increased \$1.3 million (875.3%), from \$0.1 million in fiscal year 2013 to \$1.4 million in fiscal year 2014. The increase was primarily due to the expenses of the crash of Asiana flight 214 and the remediation costs related to capital improvement projects.

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Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2015, 2014, and 2013 (in thousands):

	FY 2015	FY 2014	FY 2013	FY 2015 Percentage Increase (Decrease)	FY 2014 Percentage Increase (Decrease)	FY 2013 Percentage Increase (Decrease)
Nonoperating revenues:						
Passenger facility charges (PFC)	\$ 92,042	86,966	84,329		5.8%	3.1%
Investment income	9,118	5,425	1,686		68.1	221.8
Other	1,323	1,337	(485)		(1.0)	375.7
Total nonoperating revenues	102,483	93,728	85,530		9.3	9.6
Nonoperating expenses:						
Interest expense	210,608	201,998	195,503		4.3	3.3
Write-offs and loss on disposal	8,104	42,552	52,442		(81.0)	(18.9)
Other	25,597	52,776	28,172		(51.5)	87.3
Total nonoperating expenses	244,309	297,326	276,117		(17.8)	7.7
Capital contributions	32,119	91,024	65,958		(64.7)	38.0
Transfers to City and County of San Francisco	(40,480)	(37,994)	(36,464)		6.5	4.2
Total	<u>\$ (150,187)</u>	<u>(150,568)</u>	<u>(161,093)</u>		<u>(0.3)%</u>	<u>(6.5)%</u>

Fiscal Year 2015

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet the capitalization requirement. PFCs, which became effective in October 2001, generated \$92.0 million during fiscal year 2015, an increase of 5.8% compared to the \$87.0 million received in fiscal year 2014. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income increased \$3.7 million (68.1%), from \$5.4 million in fiscal year 2014 to \$9.1 million in fiscal year 2015. The increase was primarily due to the \$5.8 million of fair value adjustment of the City's investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Excluding the effect of the fair value adjustments, actual investment income decreased \$2.1 million due to the expiration of the last Forward Purchase and Sale Agreement with Merrill Lynch Capital Services on November 1, 2014.

Other nonoperating revenues in fiscal years 2015 and 2014 were primarily operating grants received during the fiscal year.

Interest expense increased \$8.6 million (4.3%), from \$202.0 million in fiscal year 2014 to \$210.6 million in fiscal year 2015, primarily due to increase in financing activities to fund capital improvement projects.

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Write-offs and loss on disposal decreased \$34.4 million (81.0%), from \$42.5 million in fiscal year 2014 to \$8.1 million in fiscal year 2015, primarily due to no significant write-off of capital assets during fiscal year 2015.

Other nonoperating expenses decreased \$27.2 million (51.5%), from \$52.8 million in fiscal year 2014 to \$25.6 million in fiscal year 2015. The decrease was primarily due to the decrease in capital improvement project costs that did not meet the capitalization requirement.

Capital contributions received from federal grants decreased \$58.9 million (64.7%), from \$91.0 million in fiscal year 2014 to \$32.1 million in fiscal year 2015. The decrease was primarily due to the completion of the TSA Checked Baggage Inspection System, Airport Traffic Control Tower, and Runway Safety Area Program.

The annual service payments transferred to the City increased \$2.5 million (6.5%), from \$38.0 million in fiscal year 2014 to \$40.5 million in fiscal year 2015. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2015.

Fiscal Year 2014

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet the capitalization requirement. PFCs, which became effective in October 2001, generated \$87.0 million during fiscal year 2014, an increase of 3.1% compared to the \$84.3 million received in fiscal year 2013. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income increased \$3.7 million (221.8%), from \$1.7 million in fiscal year 2013 to \$5.4 million in fiscal year 2014. The increase was primarily due to the fair value adjustment of the two Forward Purchase Sales Agreements (FPSAs) in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and the investment fair value adjustment of the City's investment pool in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Excluding the effect of the fair value adjustment, investment income decreased \$5.0 million. The decrease was primarily due to the expiration of two FPSAs on May 1, 2013, and November 1, 2013, which produced guaranteed earnings of 3.450% and 4.349%, respectively.

Other nonoperating revenues in fiscal years 2014 and 2013 were primarily operating grants received during the fiscal year. Excluding the effect of the reclassification of two federal grants in fiscal year 2013, totaling \$1.2 million, from operating to capital grants, operating grants increased \$0.6 million. The increase was primarily due to donations received for the marketing and reopening of Boarding Area E.

Interest expense increased \$6.5 million (3.3%), from \$195.5 million in fiscal year 2013 to \$202.0 million in fiscal year 2014, primarily due to increase in financing activities to fund capital improvement projects.

Write-offs and loss on disposal decreased \$9.9 million (18.9%), from \$52.4 million in fiscal year 2013 to \$42.5 million in fiscal year 2014, primarily due to the disposal and write-off of capital assets that should have been expensed in prior years.

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Other nonoperating expenses increased \$24.6 million (87.3%), from \$28.2 million in fiscal year 2013 to \$52.8 million in fiscal year 2014. The increase was primarily due to capital improvement costs that did not meet the capitalization requirement.

Capital contributions received from federal grants during fiscal year 2014 were \$91.0 million for FAA's Airport Improvement Program, Airport Traffic Control Tower, and Runway Status Lights System, and TSA's Airport Checked Baggage Screening System.

The annual service payments transferred to the City increased \$1.5 million (4.2%), from \$36.5 million in fiscal year 2013 to \$38.0 million in fiscal year 2014. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2014.

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Fiscal Year 2015

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the Airport Commission is obligated to use commercially reasonable efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds, grants, TSA funding, and PFCs. The Lease and Use Agreement also provides for airline review of capital projects that meet the dollar thresholds established in the Agreement.

Fiscal year 2015 major capital projects included:

	<u>Amount</u>
Terminal 3 East Improvements	\$ 115,228,647
Runway Safety Area Program	43,804,471
Airport Traffic Control Tower	25,282,642
Terminal 1 ATCT Integrated Facilities	24,260,616
Terminal 1 Redevelopment Program	20,112,615
Ground Transportation Management System Replacement	10,113,011
International Terminal and Terminal 3 Checked Baggage Inspection System Modernization	7,326,224
Network Infrastructure Upgrades	6,067,684
Airfield Miscellaneous Improvements	5,762,176
Power & Lighting Improvements	5,546,249
International Terminal Renovation	5,348,097
Terminal 2 Renovation	3,941,476
Waste Water Improvements	2,239,293
Mobile Command Post	1,722,605
Terminal 3 Boarding Area E Refurbishment Project	1,639,336
South Field Redevelopment Program	1,503,292
West Field Cargo Redevelopment	1,375,685
Capital Equipment	1,292,375
Aerial Ladder With Pumper Replacement	1,101,144
Consolidated Administrative Campus	1,089,303
Noise Insulation Improvements	1,043,435
Total	<u>\$ 285,800,376</u>

The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects continuing in fiscal year 2016 include the Terminal 3 East and Terminal 3 West Improvement Projects, and the T1 Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the T1 Central Area, and a new baggage handling system. Other notable fiscal year 2016 continuing projects include the Southfield Tenant Relocation Project, the Boarding Area A 400 Hertz System and Infrastructure Improvement Project, and the new Industrial Waste Treatment Plant.

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

Fiscal Year 2014

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the Airport Commission is obligated to use commercially reasonable efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds, grants, TSA funding, and PFCs. The Lease and Use Agreement also provides for airline review of capital projects that meet the dollar thresholds established in the Agreement.

Fiscal year 2014 major capital projects included:

	<u>Amount</u>
Runway Safety Area Program	\$ 116,943,861
Terminal 3 Boarding Area E Refurbishment	75,811,987
Terminal 3 East Improvements	63,427,064
Air Traffic Control Tower and Terminal 1 Integrated Facility	55,644,414
International Terminal and Terminal 3 Checked Baggage Inspection System Modernization	37,475,203
West Field Cargo Redevelopment Phase 1	25,180,233
S-LAN Replacement	13,127,279
Airfield Operation Facility	10,359,326
Terminal 1 Redevelopment Program	6,737,027
Ground Transportation Management System	3,728,386
Terminal 2 Boarding Area D Renovations	3,687,789
Boarding Area A 400 Hertz System and Infrastructure	3,634,986
Industrial Waste Treatment Plant Construction	2,513,876
Superbay Hangar Door Upgrade	2,133,603
SFO Training Center	1,591,837
Terminal 1 Lighting Improvement	1,251,627
Boarding Area A Checkpoint Expansion	1,233,565
Public Wi-Fi - Terminals	1,198,312
New Data Center Facility	1,181,994
SharePoint ERP Phase I	1,160,680
Total	<u>\$ 428,023,049</u>

The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects continuing in fiscal year 2015 include Terminal 3 East Checkpoint Reconfiguration, the Runway Safety Area Program with partial funding from the FAA, West Field Cargo Redevelopment, the Air Traffic Control Tower Program with partial funding from the FAA, improvement to the Baggage Handling System, and the Checked Baggage Inspection System with partial funding from the TSA. Several of these projects are expected to be completed in fiscal year 2015, including the Runway Safety Area Program and the West Field Cargo Redevelopment Project.

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Fiscal Year 2015

Debt Administration

Capital Plan Bonds: During fiscal year 2015, the Airport issued two new series of bonds to fund new capital projects. On September 24, 2014, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2014A (Alternative Minimum Tax (AMT)/Private Activity) and 2014B (Non-AMT/Governmental Purpose) in the principal amount of \$473.6 million, to finance and refinance (through the repayment of commercial paper notes) the following projects: (a) completion of ongoing projects such as the air traffic control tower, baggage handling system modernization, runway safety area improvement, and Terminal 3 East check point reconfiguration, (b) Terminal 1 redevelopment, (c) Terminal 3 redevelopment, (d) construction of an extension of the AirTrain, and (e) development of a new long-term parking garage and other projects in the Airport's five-year Capital Plan.

Refunding Bonds: The Airport did not issue any refunding bonds during fiscal year 2015.

Cash Defeasance: In November 2014, the Airport redeemed \$1.1 million of the Second Series Variable Rate Revenue Refunding Bonds, Series 2010A in connection with a Closing Agreement with the Internal Revenue Service under its Voluntary Closing Agreement Program (see note 7g).

On June 25, 2015 the Airport used available cash on hand to defease all of the Second Series Revenue Refunding Bonds, Issue 29A (AMT) (\$2.7 million) and a portion of the Second Series Revenue Refunding Bonds, Issue 32G (Non-AMT) (\$2.9 million).

Remarketed Bonds: The Airport did not remarket any outstanding bonds during fiscal year 2015.

Credit Enhancement: On January 28, 2015, the Airport closed a four-year extension of the irrevocable letter of credit issued by MUFG Union Bank, N.A. (formerly known as Union Bank, N.A.) supporting the Second Series Variable Rate Revenue Refunding Bonds, Series 37C. The letter of credit will expire January 28, 2019. The extension of the letter of credit did not require a remarketing of the bonds.

Subordinate Commercial Paper Notes: During fiscal year 2015, the Airport retired \$249.0 million in commercial paper notes that were outstanding as of July 1, 2014, and issued \$40.0 million in new money commercial paper notes that remain outstanding as of June 30, 2015.

Interest Rate Swaps: The Airport ended fiscal year 2015 with six interest rate swaps outstanding with a total notional amount of \$480.9 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate 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, while 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,

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2015, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C, Issue 37C, and Series 2010A Bonds, either directly or indirectly.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6 and 7 to the financial statements.

During fiscal year 2015, 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 2014

Debt Administration

Capital Plan Bonds: During fiscal year 2014, the Airport issued three series of bonds to fund new capital projects. On July 31, 2013, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2013A (Alternative Minimum Tax (AMT)/Private Activity), 2013B (Non-AMT/Governmental Purpose) and 2013C (Taxable) in the principal amount of \$461.1 million, to finance a portion of the engineering and construction costs associated with the Terminal 3 East improvements, the renovation of Boarding Area E, and other projects in the Airport's five-year Capital Plan.

Refunding Bonds: The Airport did not issue any refunding bonds during fiscal year 2014.

Remarketed Bonds: The Airport remarketed two series of outstanding bonds during fiscal year 2014:

- On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit provided by U.S. Bank, National Association that expired on May 4, 2014.
- On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit provided by U.S. Bank, National Association with an expiration date of July 11, 2014.

Credit Enhancement: The Airport negotiated an extension of the letter of credit associated with the following series of outstanding bonds during fiscal year 2014:

- On December 17, 2013, the Airport closed a three-year extension of the expiration date (from January 31, 2014, to December 14, 2016) of the irrevocable letter of credit issued by JP Morgan Chase Bank, National Association supporting the Second Series Variable Rate Revenue Refunding Bonds, Series 2010A (AMT/Private Activity). The extension of the letter of credit did not require a remarketing of the bonds.

Subordinate Commercial Paper Notes: During fiscal year 2014, the Airport issued \$249.4 million in new money commercial paper notes. The Airport negotiated changes to the following letters of credit during fiscal year 2014,

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each of which supports a separate subseries of commercial paper notes, thereby increasing the overall size of the commercial paper program from \$300.0 million to \$400.0 million:

- On January 10, 2014, the Airport closed a five-year extension of the expiration date (from May 1, 2014, to May 2, 2019) of the \$100.0 million irrevocable direct-pay letter of credit issued by State Street Bank and Trust Company.
- On June 18, 2014, Royal Bank of Canada amended and restated its irrevocable direct-pay letter of credit to increase the principal amount thereof from \$100.0 million to \$200.0 million and extend its expiration date to May 19, 2017.

Interest Rate Swaps: The Airport ended fiscal year 2014 with six interest rate swaps outstanding with a total notional amount of \$482.2 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate 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, while 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, 2014, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C, Issue 37C, and Series 2010A Bonds, either directly or indirectly.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6 and 7 to the financial statements.

During fiscal year 2014, 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 Resolution.

Fiscal Year 2015

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2015, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings on the outstanding debt of the Airport of "A1", "A+", and "A+" with Stable Rating Outlooks, respectively.

On September 4, 2014, Moody's, S&P, and Fitch assigned ratings of "A1", "A+", and "A+", respectively, to the Series 2014A/B Bonds that were issued on September 24, 2014.

Ratings on each subseries of the Airport's commercial paper notes reflect the short-term credit ratings of the bank whose letter of credit support that subseries.

On December 2, 2014, Moody's Investors Service (Moody's) downgraded the rating of Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU). The Second Series Variable Rate Revenue Refunding Bonds, Series 36B and 36C (Non-AMT/Private Activity) are secured by an irrevocable direct-pay letter of credit issued by BTMU. As a result, the long-term rating of the bonds were lowered from "Aa1" to "Aa2".

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On May 19, 2015, Fitch upgraded the long-term and short-term credit ratings of JPMorgan Chase Bank, National Association (JPMorgan). The Second Series Variable Rate Revenue Refunding Bonds, Series 2010A are secured by an irrevocable direct-pay letter of credit issued by JPMorgan. Fitch's long-term rating on the Bonds was raised from "AA" to "AA+" and the short term rating was raised from "F-1" to "F-1+."

Bond Insurance: In prior years, the Airport generally purchased municipal bond insurance policies in connection with the issuance of many series of its outstanding revenue bonds from monoline bond insurance companies that enjoyed "AAA" ratings at the time. The insured credit ratings on these Airport bonds declined in tandem with the credit ratings of most bond insurance companies as a result of the global financial crisis that began in fiscal year 2008.

In fiscal year 2015, the Airport's bond insurance companies ratings were unchanged. The public ratings of Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) were "A2" by Moody's and "AA" by S&P. The public ratings of National Public Finance Guarantee Corp. (which has assumed the obligations of MBIA Insurance Corporation and Financial Guaranty Insurance Corp.) were "A3" by Moody's and "AA-" by S&P.

Fiscal Year 2014

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2014, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings of the Airport of "A1", "A+", and "A+" with Stable Rating Outlooks, respectively.

On July 3, 2013, Moody's, S&P, and Fitch assigned ratings of "A1", "A+", and "A+", respectively, to the Series 2013A-C Bonds, which were sold on July 18, 2013, and closed on July 31, 2013.

On April 25, 2014, the Airport remarketed the Issue 36B Bonds and the Issue 36C Bonds, each with a new irrevocable letter of credit issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd. that replaced the prior letters of credit issued by U.S. Bank, National Association. In connection with the new letters of credit, Fitch lowered its joint-support ratings on each series of the Bonds from "AA+/F1+" to "AA/F1", S&P lowered its joint-support ratings from "AAA/A-1+" to "AAA/A-1-", and Moody's affirmed its joint-support ratings of "Aa1/VMI1".

Ratings on each subseries of the Airport's commercial paper notes reflect the short-term credit ratings of the bank whose letter of credit support that subseries. On June 11, 2014, Moody's, S&P, and Fitch confirmed their assigned ratings of "P-1", "A-1+", and "F1+", respectively, to the subseries of commercial paper notes supported by the Royal Bank of Canada letter of credit.

Bond Insurance: In prior years, the Airport generally purchased municipal bond insurance policies in connection with the issuance of many series of its outstanding revenue bonds from monoline bond insurance companies that enjoyed "AAA" ratings at the time. The insured credit ratings on these Airport bonds has declined in tandem with the credit ratings of most bond insurance companies as a result of the global financial crisis that began in fiscal year 2008.

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In fiscal year 2014, several of the Airport's bond insurance companies were upgraded by the credit rating agencies. On March 18, 2014, S&P upgraded the rating of Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) from "AA-" to "AA" and the rating of National Public Finance Guarantee Corp. (which has assumed the obligations of MBIA Insurance Corporation and Financial Guaranty Insurance Company) from "A" to "AA-". On May 21, 2014, Moody's upgraded the rating of National Public Finance Guarantee Corp. from "Baa1" to "A3".

Fiscal Year 2016 Airline Rates and Charges

Rates and Charges, Fiscal Year 2016

Terminal rental rates and airline landing fees for fiscal year 2016 have been developed as part of the annual budget process that started in October 2014. The Lease and Use Agreement between the Airport and the Signatory Airlines provides the rate-setting methodology for calculating the terminal rental rates and Airline landing fees. 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 2016, which became effective on July 1, 2015, are as follows:

Effective average terminal rental rate (per sq. ft.)	\$157.18
Signatory Airline – landing fee rate (per 1,000 lbs.)	4.87
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	6.09
General aviation – landing fee rate (per 1,000 lbs.)	5.36

The effective average terminal rental rate increased by 4.8%, from \$149.98 per sq. ft. in fiscal year 2015 to \$157.18 per sq. ft. in fiscal year 2016. The fiscal year 2015 landing fee rate for Signatory Airlines increased by 6.7%, from \$4.57 per 1,000 pounds in fiscal year 2015 to \$4.87 per 1,000 pounds in fiscal year 2016, while the fiscal year 2016 landing fee rate for general aviation aircraft increased by 6.7%, from \$5.03 per 1,000 pounds in fiscal year 2015 to \$5.36 per 1,000 pounds in fiscal year 2016. The Non-Signatory Airline landing fee rate increased by 6.7%, from \$5.71 per 1,000 pounds in fiscal year 2015 to \$6.09 per 1,000 pounds in fiscal year 2016.

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 Chief Business & Finance Officer, San Francisco International Airport, P.O. Box 8097, San Francisco, California 94128.

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Statements of Net Position
June 30, 2015 and 2014

(In thousands)

Assets	2015	2014
Current assets:		
Cash and investments held in City Treasury	\$ 403,522	380,170
Cash and investments outside City Treasury	6,435	6,616
Cash – Revolving Fund	10	10
Accounts receivable (net of allowance for doubtful accounts: 2015: \$633; 2014: \$547)	38,895	37,027
Accrued interest – City Treasury	341	423
Accrued interest – outside City Treasury	734	968
Inventories	42	56
Other current assets	619	681
Restricted assets:		
Cash and investments held in City Treasury	141,013	141,692
Cash and investments outside City Treasury	74,491	65,551
Accrued interest - Other	3	—
Grants receivable	20,563	60,794
Passenger facility charges receivable	9,649	10,309
Total current assets	696,317	704,297
Non-current assets:		
Restricted assets:		
Cash and investments held in City Treasury	259,152	230,817
Cash and investments outside City Treasury	382,146	346,217
Accrued interest – City Treasury	436	425
Prepaid bond insurance costs	1,952	2,474
Capital assets, net	3,936,426	3,869,718
Total non-current assets	4,580,112	4,449,651
Total assets	5,276,429	5,153,948
Deferred outflows of resources		
Unamortized loss on refunding of debt	78,388	92,147
Deferred outflows on derivative instruments	66,809	64,964
Deferred outflows on employer pension contributions	37,517	—
Total deferred outflows of resources	\$ 182,714	157,111

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(In thousands)

Liabilities	2015	2014
Current liabilities:		
Accounts payable	\$ 55,734	40,782
Accrued payroll	7,370	15,285
Compensated absences	9,860	8,728
Accrued workers' compensation	1,363	1,243
Estimated claims payable	2,427	1,319
Unearned aviation revenue	55,704	55,633
Current maturities of long-term debt	153,471	145,733
Payable from restricted assets:		
Accounts payable	43,544	87,072
Accrued payroll	347	861
Grants received in advance	6,439	13,000
Accrued bond interest payable	33,587	31,007
Commercial paper	40,000	249,000
Current maturities of long-term debt	30,694	29,147
Total current liabilities	440,540	678,810
Noncurrent liabilities:		
Compensated absences, net of current portion	6,433	7,224
Accrued workers' compensation, net of current portion	4,718	4,427
Estimated claims payable, net of current portion	1,345	68
Long-term debt, net of current maturities	4,480,730	4,169,755
Other postemployment benefits obligation	115,297	103,783
Net pension liability	111,932	—
Derivative instrument	80,722	80,235
Total noncurrent liabilities	4,801,177	4,365,492
Total liabilities	5,241,717	5,044,302
Deferred inflows of resources		
Deferred inflows related to pensions	100,290	—
Total deferred inflows of resources	100,290	—
Net position		
Net investment in capital assets	(103,109)	(149,894)
Restricted for debt service	37,427	25,390
Restricted for capital projects	165,224	200,219
Unrestricted	17,594	191,042
Total net position	\$ 117,136	266,757

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Operating revenues		
Aviation	\$ 464,610	441,259
Concession	144,781	136,587
Parking and transportation	125,087	116,703
Net sales and services	80,886	76,142
Total operating revenues	815,364	770,691
Operating expenses		
Personnel	226,790	250,088
Depreciation	216,146	222,815
Contractual services	67,491	65,126
Light, heat, and power	22,296	20,919
Services provided by other City departments	17,958	16,918
Repairs and maintenance	33,278	29,831
Materials and supplies	14,592	14,536
General and administrative	5,132	3,334
Amortization of prepaid bond insurance costs	522	669
Environmental remediation	4,824	1,424
Total operating expenses	609,029	625,660
Operating income	206,335	145,031
Nonoperating revenues (expenses)		
Investment income	9,118	5,425
Interest expense	(210,608)	(201,998)
Passenger facility charges	92,042	86,966
Write-offs and loss on disposal	(8,104)	(42,552)
Other nonoperating revenues	1,323	1,337
Other nonoperating expenses	(25,597)	(52,776)
Total nonoperating expenses, net	(141,826)	(203,598)
Gain/(Loss) before capital contributions and transfers	64,509	(58,567)
Capital contributions		
Grants	32,119	91,024
Transfers to City and County of San Francisco	(40,480)	(37,994)
Changes in net position	56,148	(5,537)
Total net position – beginning of year (as original reported)	266,757	272,294
Restatement due to adoption of GASB 68	(205,769)	—
Total net position – beginning of year (as restated)	60,988	272,294
Total net position – end of year	\$ 117,136	266,757

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Cash flows from operating activities		
Cash received from airline carriers, concessionaires, and others	\$ 835,229	784,560
Cash paid for employees' services	(253,502)	(234,514)
Cash paid to suppliers of goods and services	(168,295)	(163,472)
Net cash provided by operating activities	413,432	386,574
Cash flows from noncapital financing activities		
Transfers to City and County of San Francisco	(40,480)	(37,994)
Other noncapital financing revenues	1,323	1,337
Other noncapital financing expenses	(25,597)	(52,776)
Net cash used in noncapital financing activities	(64,754)	(89,435)
Cash flows from capital and related financing activities		
Principal paid on revenue bonds and commercial paper notes	(182,645)	(163,445)
Interest paid on revenue bonds and commercial paper notes	(221,630)	(207,763)
Acquisition and construction of capital assets	(325,039)	(375,053)
Revenues from passenger facility charges	92,702	86,868
Proceeds from sale of revenue bonds	268,420	295,322
Proceeds from commercial paper notes	40,000	249,350
Capital contributed by federal agencies and others	65,789	82,047
Net cash used in capital and related financing activities	(262,403)	(32,674)
Cash flows from investing activities		
Sales of investments with Trustee	764,511	2,406,640
Purchases of investments with Trustee	(808,924)	(2,459,855)
Interest received on investments	8,016	9,055
Net cash used in investing activities	(36,397)	(44,160)
Net increase in cash and cash equivalents	49,878	220,307
Cash and cash equivalents, beginning of year	759,954	539,647
Cash and cash equivalents, end of year	\$ 809,832	759,954
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and investments held in City Treasury – unrestricted	\$ 403,522	380,170
Cash and investments held in City Treasury – restricted	400,165	372,509
Cash and investments outside City Treasury – unrestricted	6,435	6,616
Cash and investments outside City Treasury – restricted	149	1,110
Cash – Revolving Fund	10	10
Cash, cash equivalents, and investments	810,281	760,415
Unrealized gain on investments	(449)	(461)
Cash and cash equivalents, June 30	\$ 809,832	759,954

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Statements of Cash Flows

Years Ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 206,335	145,031
Adjustments for non-cash and other activities:		
Depreciation	216,146	222,815
Allowance for doubtful accounts	86	163
Amortization of prepaid bond insurance costs	522	670
GASB 68 pension expense adjustment	(205,769)	—
Cost of issuance paid from bond proceeds	1,527	1,817
Changes in assets and liabilities:		
Accounts receivable	(1,955)	(10,617)
Inventories	14	31
Other current assets	62	(5)
Accrued payroll receivable	1	(1)
Deferred outflows on employer pension contributions	(37,517)	—
Accounts payable and other liabilities	17,336	7,385
Accrued payroll	(7,915)	1,715
Compensated absences	341	353
Accrued workers' compensation	411	437
Other postemployment benefits obligation	11,514	13,070
Unearned aviation revenue	71	3,710
Deferred inflows related to pension	100,290	—
Net pension liability	111,932	—
Net cash provided by operating activities	<u>\$ 413,432</u>	<u>386,574</u>
Noncash transactions		
Accrued capital asset costs	\$ 43,890	87,932
Bond refunding	249,527	182,342

See accompanying notes to financial statements.

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(1) Definition of Reporting Entity

The accompanying financial statements reflect the net position and changes in net position of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), a commercial service airport owned and operated as an enterprise department of the City and County of San Francisco (the City). The Airport opened in 1927 and is currently the seventh busiest airport in the United States in terms of passengers and seventeenth in terms of cargo.⁵ 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. Airport 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 are no component units considered for inclusion in the Airport's financial reporting entity. The accompanying financial statements present only the financial operations of the Airport and do not purport to, and do not, present the financial position of the City, and the results of its operations and the cash flows of its proprietary fund types.

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The Airport's financial activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

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, concessionaires, and parking and transportation charges. Operating expenses of the Airport include personnel costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the actuarial consultancy firm Cheiron for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

⁵ Source: Airports Council International – North America, 2014 North American Traffic Report.

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(b) Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions*, which is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Also, in November 2013, the GASB issued GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The provisions of the Statements No. 68 and No. 71 are effective for fiscal years beginning after June 15, 2014. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2014. As of July 1, 2014, the Airport restated its net position from \$266.8 million to \$61.0 million to record beginning net pension liability and beginning deferred outflows of resources.

Governmental Accounting Standards Board (GASB) Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards for governments that combine or dispose of their operations. The new standard is effective for periods beginning after December 15, 2013. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. GASB Statement No. 72 changes how fair value is measured and provides guidance for applying fair value. The new standard is effective for periods beginning after June 15, 2015. The Airport will implement the provisions of Statement No. 72 in fiscal year 2016.

Governmental Accounting Standards Board (GASB) Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension Plans*. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other postemployment benefits other than pensions (OPEB). The new standard is effective for periods beginning after June 15, 2017. The Airport will implement the provisions of Statement No. 75 in fiscal year 2018.

Governmental Accounting Standards Board (GASB) Statement No. 76

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. The new standard is effective for periods beginning after June 15, 2015. The Airport will implement the provisions of Statement No. 76 in fiscal year 2016.

Governmental Accounting Standards Board (GASB) Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. GASB Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. The Airport will implement the provisions of Statement No. 77 in fiscal year 2017.

(c) Cash, Cash Equivalents, and Investments

The Airport maintains its cash, cash equivalents, 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 statements of net position 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 position and recognizes the corresponding change in fair value of investments in the year in which the change occurred.

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash for financial reporting. The City considers highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and investments held by the bond trustees are not considered to be cash and cash equivalents.

The debt service fund, the debt service reserve fund, the cost of issuance fund, the debt service holding fund, and the variable rate demand bond fee account for the Airport's revenue bonds are held and invested at the Airport's direction by an independent bond trustee. A portion of the debt service reserve fund was also invested in accordance with a Forward Purchase and Sale Agreement that was intended to produce a guaranteed earnings rate. The last Forward Purchase and Sale Agreement expired on November 1, 2014. The Airport reports these investments at fair value based on quoted market information obtained from fiscal agents or other sources.

(d) Capital Assets

Capital assets are stated at historical cost, or if donated, at fair value at the date of donation. The capitalization threshold for real property is \$100,000 and \$5,000 for personal property with a useful life greater than one year.

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Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings, structures, and improvements	5 – 50
Equipment	5 – 20
Intangible assets	3 – 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).

(e) **Capitalized Interest**

Interest cost of debt issued for acquiring a capital asset is capitalized as part of the historical cost of the asset. 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.

(f) **Derivative Instruments**

The Airport has entered into certain derivative instruments, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53. Under hedge accounting, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statements of net position.

(g) **Bond Issuance Costs, Discounts, and Premiums**

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

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(h) **Compensated Absences**

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

(i) **Net Position**

Net position consists of the following:

Net Investment in Capital Assets – consists of capital assets, including restricted capital assets, reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets (including any unamortized original issue discounts or premiums related to the debt). Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt (such as deferred losses on advance refundings) are also included in this component of net position.

Restricted for Debt Service and Capital Projects – consists of restricted assets and deferred outflows of resources reduced by liabilities related to those assets and deferred outflows of resources. Restricted assets are those assets with restrictions on their use that are externally imposed (by creditors, grantors, contributors, or the laws or regulations of other governments).

Unrestricted Net Position – consists of the net amount of the assets, deferred outflows of resources, and liabilities, of the Airport that are not restricted for any project or other purpose.

A significant portion of the Airport's net position is restricted by master bond resolutions and the Lease and Use Agreement with the airlines for the purpose of capital improvements and contingencies.

(j) **Aviation Revenue and Unearned 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; annual service 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. During fiscal year 2010, the Airport reached an agreement with the airlines on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. Airlines that are not signatories to one of these long-term agreements operate under month-to-month permits.

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service, 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. Non-cash accrued pension obligations other than those actually paid or budgeted to be paid during the fiscal year are excluded. Aviation revenue collected in

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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 has aviation revenue collected in advance from the airlines of approximately \$55.7 million and \$55.6 million as of June 30, 2015 and 2014, respectively.

(k) Concession Revenues

Concession revenues consist of rentals and fees derived from food and beverage concessions, duty free, retail merchandise and rental car concessions. Revenues are based on terms of lease agreements entered between the Airport and concessionaires, and are the greater of a percentage of tenant's gross revenues or a MAG amount.

(l) Parking and Transportation Revenues

Parking and transportation revenues consist of fees derived from parking facilities and ground transportation operations. Parking revenues are parking fees collected from all public parking facilities at the Airport. Transportation revenues are ground transportation trip fees assessed to commercial vehicles that service the Airport.

(m) Net Sales and Services 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 11).

(n) Environmental Remediation Expenses and Recoveries

The Airport incurs costs associated with environmental remediation activities, which arise during the normal course of business. These costs are recorded as a liability when the Airport is required to perform the remediation and if the costs can be reasonably estimated. The Airport records environmental remediation cost recoveries as nonoperating revenues in the financial statements.

(o) 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 generally earned upon expenditures of the funds.

(p) 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.

(q) Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

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(3) Cash, Cash Equivalents, and Investments

(a) Pooled Cash and Investments

The Airport maintains its operating cash, cash equivalents, investments, and its restricted cash and investments as part of the City's pool of cash and investments. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Cash and investments, at fair value, held by the City in the City's pool as of June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Pooled cash and investments		
Cash and investments held in City Treasury – unrestricted	\$ 403,522	380,170
Cash and investments held in City Treasury – restricted current	141,013	141,692
Cash and investments held in City Treasury – restricted non-current	259,152	230,817
Total cash and investments in City Treasury	<u>\$ 803,687</u>	<u>752,679</u>

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

	Investment maturities (in months)		
	Under 1	1 – less than 6	6 – less than 12
	12.6%	11.9%	10.5%
			65.0%

(b) Cash and Investments with Fiscal Agent

The restricted assets for revenue bond reserves, debt service and costs of issuance are held by an independent bond trustee for the Airport's senior lien bonds (the Senior Trustee) and a separate independent bond trustee for the Airport's subordinate lien bonds (the Subordinate Trustee, and collectively with the Senior Trustee, the Trustees). The unrestricted assets in the debt service holding fund and the variable rate demand bond fee account are not pledged to the payment of the Airport Commission's bonds, but are held by the Senior Trustee for the convenience of the Airport Commission in the administration and investment of monies delivered to the Senior Trustee prior to the time the Airport Commission is required to make deposits into the Debt Service Fund or pay the fees of the remarketing agents for the Airport Commission's variable rate bonds, respectively. As of June 30, 2015 and 2014, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

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Investments	Credit Ratings June 30, 2015 (S&P/Moody's/ Fitch)	June 30, 2015		June 30, 2014	
		Maturities	Fair value	Maturities	Fair value
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	October 30, 2015	\$ 32,207	—	—
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	September 28, 2016	20,005	—	—
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	November 23, 2016	15,759	—	—
Federal Home Loan Bank Discount Notes	AA+/Aaa/na	May 30, 2017	7,485	—	—
Federal National Mortgage Association Discount Notes	AA+/Aaa/AAA	September 27, 2017	13,893	October 26, 2017	41,989
Federal National Mortgage Association Discount Notes	AA+/Aaa/na	October 26, 2017	62,329	—	—
US Treasury Notes	AA+/Aaa/AAA	November 30, 2016	30,226	—	—
US Treasury Notes	AA+/Aaa/AAA	May 31, 2017	48,777	July 31, 2014	820
US Treasury Notes	AA+/Aaa/AAA	July 31, 2018	14,514	August 31, 2014	819
US Treasury Notes	AA+/Aaa/AAA	February 28, 2019	13,582	September 30, 2014	820
US Treasury Notes	AA+/Aaa/AAA	April 30, 2019	14,098	October 31, 2014	819
US Treasury Notes	AA+/Aaa/AAA	May 31, 2019	11,011	November 30, 2014	212
US Treasury Notes	AA+/Aaa/AAA	August 31, 2019	28,497	December 31, 2014	212
US Treasury Notes	AA+/Aaa/AAA	September 30, 2019	51,314	January 31, 2015	212
US Treasury Notes	AA+/Aaa/AAA	November 30, 2019	7,248	February 28, 2015	212
US Treasury Notes	AA+/Aaa/AAA	—	—	March 31, 2015	212
US Treasury Notes	AA+/Aaa/AAA	—	—	April 30, 2015	212
US Treasury Notes	AA+/Aaa/AAA	—	—	May 31, 2015	1
US Treasury Notes	AA+/Aaa/AAA	—	—	August 15, 2015	54,151
US Treasury Notes	AA+/Aaa/AAA	—	—	May 15, 2016	54,048
US Treasury Notes	AA+/Aaa/AAA	—	—	November 30, 2016	49,101
US Treasury Notes	AA+/Aaa/AAA	—	—	May 31, 2017	32,185
Federal Home Loan Mortgage Corp Discount Notes	AA+/Aaa/AAA	May 27, 2016	19,258	November 3, 2014	102,167
Federal Home Loan Mortgage Corp Discount Notes	AA+/Aaa/AAA	February 22, 2017	11,050	February 22, 2017	11,018
Federal Home Loan Mortgage Corp Discount Notes	AA+/Aaa/AAA	January 12, 2018	12,935	—	—
Goldman Sachs Financial Square Treasury Obligations Fund	AAAm/Aaa/NR	—	6,486	—	7,627
Cash	—	—	42,388	—	61,547
Total cash and investments with fiscal agent	—	—	\$ 463,072	—	418,384

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 Trustees 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 investment 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 in any principal and interest payment accounts are to mature no later than the dates on which the principal or interest payments are due.

The Airport will maximize the retainable earnings of all bond proceeds after meeting the requirements of safety and liquidity. After these objectives are met, the Airport's investment policy will attempt to achieve net investment yield as close to each bond fund's arbitrage yield.

Funds held by the Senior Trustee in funds and accounts established under the Airport Commission's Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (the 1991 Master Resolution), are invested in "Permitted Investments" as defined in the 1991 Master Resolution.

Funds held by the Subordinate 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 \$463.1 million and \$418.4 million in investments held by, and in the name of, the Trustees as of June 30, 2015 and 2014, 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.

During fiscal year 2015, the last of the Airport's Forward Purchase and Sale Agreements (FPSA) with Merrill Lynch Capital Services (MLCS) expired on November 1, 2014. MLCS has fulfilled all of its delivery obligations under the FPSA. Since the expiration of this agreement, the Airport has not entered into any new FPSAs.

(c) Forward Purchase and Sale Agreement

Objective and Terms – During fiscal year 2015, a portion of the Airport's debt service reserve fund was invested by the Senior Trustee in investments delivered in accordance with a ten-year FPSA with Merrill Lynch Capital Services that was intended to produce guaranteed earnings at rates of 4.329%. Under this FPSA, the Senior Trustee was required to purchase \$100.0 million of investment securities every six months, maturing on the following May 1 or November 1, as applicable, for the

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bond reserve fund. The final delivery of securities for purchase occurred on May 1, 2014. This agreement expired on November 1, 2014. Since the expiration of this agreement the Airport has not entered into any new FPSAs.

The Airport accounted for and disclosed the FPSA as an investment derivative in accordance with GASB 53 as of and for the years ended June 30, 2015 and June 30, 2014.

(4) Grants Receivable

The Airport receives federal funding from the FAA, the TSA, and other federal agencies. Grants receivable of \$20.6 million and \$60.8 million as of June 30, 2015 and 2014, respectively, were based on actual costs incurred, subject to federal reimbursement limits.

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 Airport Commission pays a portion of the Airport's revenues to the City's General Fund as an Annual Service Payment (ASP), in part as compensation for all indirect services, management and facilities provided by the City to the Airport. The Airport Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. In the federal fiscal year ended September 30, 2013, the FAA did not award discretionary grants to the Airport. In federal fiscal year ended September 30, 2014, the FAA provided discretionary grants of \$45.6 million, \$11.9 million, less than the Airport had requested, as a result of the amount of the Annual Service Payments. In federal fiscal year ended September 30, 2015, the Airport did not apply for any discretionary grants. The FAA may continue to reduce discretionary grants in the future. The reduction in discretionary grants awarded to the Airport increases by a corresponding amount the capital expenditures that the Airport Commission needs to fund from other sources, including operating revenues, PFCs and bond proceeds.

Project costs are subject to audit by the funding agencies 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 respective funding agencies.

The Airport received \$13.2 million in federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA) from the TSA in the Department of Homeland Security (DHS) (for checked baggage screening equipment) and two grants totaling \$14.5 million from the FAA in the DOT (for runway improvements). The Office of Inspector General (OIG) for each of the DHS and DOT have audited ARRA grants for several airports nationwide, including the above three grants received by the Airport.

The DHS audit concluded that one Airport expenditure was questionable because it was not adequately supported by the Airport's accounting records. The Airport has repaid \$0.1 million of the TSA funding. The initial DOT audit concluded that several Airport expenditures of the two FAA ARRA grants were questionable because of inadequate documentation, work outside the approved scope for otherwise eligible projects, and non-qualifying expenditures. The Airport repaid approximately \$1.8 million of the two ARRA grants and voluntarily reduced other AIP grant reimbursement requests by \$1.2 million. Following an internal review, the Airport identified an additional \$0.9 million of ineligible expenditures reimbursed

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from grant proceeds that will be reimbursed to the FAA. The Airport continues to be reviewed and audited with respect to these and other grants and may be required to repay additional grant amounts it has received.

(5) Capital Assets

Capital assets consist of the following (in thousands):

Fiscal Year 2015

	July 1, 2014	Additions	Deletions	June 30, 2015
Capital assets not being depreciated				
Land	\$ 3,074	—	—	3,074
Intangible assets	6,881	—	—	6,881
Construction in progress	384,422	204,257	(228,880)	359,799
Total capital assets not being depreciated	394,377	204,257	(228,880)	369,754
Capital assets being depreciated/amortized				
Buildings, structures, and improvements	5,465,525	287,006	(9,428)	5,743,103
Equipment	258,086	22,483	(8,486)	272,083
Intangible assets	141,546	786	—	142,332
Total capital assets being depreciated/amortized	5,865,157	310,275	(17,914)	6,157,518
Less accumulated depreciation/amortization				
Buildings, structures, and improvements	(2,167,711)	(179,010)	6,726	(2,339,995)
Equipment	(105,372)	(30,528)	8,390	(127,510)
Intangible assets	(116,733)	(6,608)	—	(123,341)
Total accumulated depreciation/amortization	(2,389,816)	(216,146)	15,116	(2,590,846)
Total capital assets being depreciated/amortized, net	3,475,341	94,129	(2,798)	3,566,672
Total capital assets, net	\$ 3,869,718	298,386	(231,678)	3,936,426

Total interest costs were approximately \$220.6 million for fiscal year 2015 and \$210.4 million for fiscal year 2014, of which approximately \$10.0 million and \$8.4 million, respectively, were capitalized.

In fiscal year 2007, the Airport completed a cost allocation plan (CAP) developed in accordance with OMB Circular A-87, *Cost Principles for State and Local Governments*. Capturing indirect costs as a component of a building or other capital asset will enable the Airport to capture the full and true cost of a capital asset. The indirect costs capitalized for the years ended June 30, 2015 and 2014, were \$12.7 million and \$14.8 million, respectively.

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Fiscal Year 2014

	July 1, 2013	Additions	Deletions	Reclassification	June 30, 2014
Capital assets not being depreciated					
Land	\$ 3,074	—	—	—	3,074
Intangible assets	—	—	—	6,881	6,881
Construction in progress	227,278	289,951	(132,807)	—	384,422
Total capital assets not being depreciated	230,352	289,951	(132,807)	6,881	394,377
Capital assets being depreciated/amortized					
Buildings, structures, and improvements	5,430,018	168,878	(133,371)	—	5,465,525
Equipment	187,100	72,142	(1,156)	—	258,086
Intangible assets	148,229	198	—	(6,881)	141,546
Total capital assets being depreciated/amortized	5,765,347	241,218	(134,527)	(6,881)	5,865,157
Less accumulated depreciation/amortization					
Buildings, structures, and improvements	(2,080,859)	(193,605)	106,753	—	(2,167,711)
Equipment	(84,496)	(22,030)	1,154	—	(105,372)
Intangible assets	(109,553)	(7,180)	—	—	(116,733)
Total accumulated depreciation/amortization	(2,274,908)	(222,815)	107,907	—	(2,389,816)
Total capital assets being depreciated/amortized, net	3,490,439	18,403	(26,620)	(6,881)	3,475,341
Total capital assets, net	\$ 3,720,791	308,354	(159,427)	—	3,869,718

Included in the fiscal year 2014 addition of accumulated depreciation of buildings, structures, and improvements was \$18.0 million of prior year depreciation expense, due to a change in the estimated useful lives of certain asset class that was not recorded in fiscal year 2013. Included in the deletion of buildings, structures, and improvements was \$23.5 million of net book value write-off related to fiscal years prior to 2012.

(6) Subordinate Commercial Paper Notes

Fiscal Year 2015

On May 20, 1997, the Airport Commission adopted Resolution No. 97-0146, as amended and supplemented (the Note Resolution), authorizing the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of \$400.0 million or the stated amount of the letter(s) of credit securing the CP.

The Airport issues CP in three series that are subdivided into nine subseries according to tax status and that are secured by three direct-pay letters of credit. Two \$100.0 million direct-pay letters of credit are issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and June 17, 2016, respectively. The third letter of credit issued by Royal Bank of Canada in the amount of \$200.0 million expires May 19, 2017. Each of the letters of credit supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of \$400.0 million as of June 30, 2015.

In addition to the applicable letter of credit, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Commission's San Francisco International Airport Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as amended and supplemented (the Senior Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Note Resolution) (see note 8).

The CP notes are special, limited obligations of the Commission, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on a parity with any other bonds or other obligations from time to time outstanding under the Note Resolution. As of June 30, 2015, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2015, the Airport issued \$40.0 million of new money CP (AMT) to fund capital improvement projects.

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The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2015 (in thousands):

	Interest rate	July 1, 2014	Increases	Decreases	June 30, 2015
Commercial paper (Taxable)	0.1%-0.14%	\$ 1,000	—	(1,000)	—
Commercial paper (AMT)	0.07%-0.09%	163,000	40,000	(163,000)	40,000
Commercial paper (Non-AMT)	0.07%	85,000	—	(85,000)	—
Total		\$ 249,000	40,000	(249,000)	40,000

Fiscal Year 2014

On May 20, 1997, the Airport Commission adopted Resolution No. 97-0146, as amended and supplemented (the Note Resolution), authorizing the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of \$400.0 million or the stated amount of the letter(s) of credit securing the CP.

The Airport issues CP in three series that are subdivided into nine subseries according to tax status and that are secured by three direct-pay letters of credit. Two \$100.0 million direct-pay letters of credit are issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and June 17, 2016, respectively. The third letter of credit issued by Royal Bank of Canada was amended and restated June 18, 2014, to increase the principal component thereof from \$100.0 million to \$200.0 million and extend the expiration date to May 19, 2017. Each of these letters of credit supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of \$400.0 million as of June 30, 2014.

In addition to the applicable letter of credit, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Commission's San Francisco International Airport Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as amended and supplemented (the Senior Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Note Resolution) (see note 8).

The CP notes are special, limited obligations of the Commission, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on a parity with any other bonds or other obligations from time to time outstanding under the Note Resolution. As of June 30, 2014, there were no obligations other than the CP notes outstanding under the Note Resolution.

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During fiscal year 2014, the Airport issued \$248.0 million of new money CP (AMT and Non-AMT) to fund capital improvement projects and \$1.4 million of taxable CP to fund costs of issuance. A portion of the taxable CP was retired with Airport operating funds during the fiscal year.

The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2014 (in thousands):

	Interest rate	July 1, 2013	Increases	Decreases	June 30, 2014
Commercial paper (Taxable)	0.10%	\$ 15,425	1,350	(15,775)	1,000
Commercial paper (AMT)	0.08%-0.15%	125,150	163,000	(125,150)	163,000
Commercial paper (Non-AMT)	0.07%	39,950	85,000	(39,950)	85,000
Total		\$ 180,525	249,350	(180,875)	249,000

(7) Long-Term Obligations

Long-term obligation activity for the years ended June 30, 2015 and 2014, was as follows (in thousands):

	July 1, 2014 (As Restated)	Additions	Reductions	June 30, 2015	Due within one year
Revenue bonds payable	\$ 4,204,425	473,610	(181,645)	4,496,390	184,165
Less unamortized discounts	(287)	—	8	(279)	—
Add unamortized premiums	140,497	44,336	(16,049)	168,784	—
Total revenue bonds payable	4,344,635	517,946	(197,686)	4,664,895	184,165
Compensated absences	15,952	12,775	(12,434)	16,293	9,860
Accrued workers' compensation	5,670	2,681	(2,270)	6,081	1,363
Estimated claims payable	1,387	2,403	(18)	3,772	2,427
Other postemployment benefits obligation	103,783	11,514	—	115,297	—
Net pension liability (see note 10a)	239,459	—	(127,527)	111,932	—
Derivative instruments	80,235	487	—	80,722	—
Total	\$ 4,791,121	547,806	(339,935)	4,998,992	197,815

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	July 1, 2013	June 30, 2014	Due within one year
Revenue bonds payable	\$ 3,906,395	4,204,425	174,880
Less unamortized discounts	(294)	7	—
Add unamortized premiums	139,332	16,539	140,497
Total revenue bonds payable	4,045,433	4,221,061	315,377
Compensated absences	15,599	12,759	8,728
Accrued workers' compensation	5,233	2,661	1,243
Estimated claims payable	1,562	386	1,319
Other postemployment benefits obligation	90,713	13,070	—
Derivative instruments	81,338	—	—
Total	\$ 4,239,878	\$ 4,551,662	\$ 186,170

Bond Transactions and Balances

On December 3, 1991, the Commission adopted Resolution No. 91-0210, as amended and supplemented (the Senior Bond Resolution), authorizing the issuance from time to time of San Francisco International Airport Second Series Revenue Bonds to finance capital projects at the Airport. The maximum principal amount of such bonds is not limited by the Senior Bond Resolution, but the Commission must satisfy an additional bonds test prior to the issuance of any such bonds. The Senior Bond Resolution constitutes a contract between the Commission and the registered owners of the bonds under which the Commission has irrevocably pledged the Net Revenues of the Airport to the payment of the principal of and interest on the bonds.

Net Revenues are generally defined in the Senior Bond Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Senior Bond Resolution) (see note 8).

The bonds are special, limited obligations of the Commission, and the payment of the principal of and interest on the bonds is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Senior Bond Resolution. The payment of the principal of and interest on all previously issued bonds under the Senior Bond Resolution 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 any additional bonds issued thereunder.

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As of June 30, 2015 and 2014, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2015	2014
Second Series Revenue Bonds				
Issue 29 A/B	02/05/03	4.00% – 5.50%	\$ —	11,845
Issue 31F	02/10/05	4.75% – 4.91%	26,270	45,175
Issue 32F/G	11/16/06	4.00% – 5.25%	380,410	406,495
Issue 34C/D/E/F	03/27/08	4.25% – 5.75%	303,470	317,110
Issue 36A	06/03/09	Variable rate	100,000	100,000
Issue 36B	06/03/09	Variable rate	40,620	40,620
Issue 36C	06/03/09	Variable rate	36,145	36,145
Issue 37C	06/03/09	Variable rate	89,080	89,495
Issue 2009A/B	09/03/09	4.90%	175,000	175,000
Issue 2009C	11/03/09	3.88% – 5.00%	80,590	103,490
Issue 2009D	11/04/09	2.00% – 4.00%	83,900	84,295
Issue 2009E	11/18/09	4.38% – 6.00%	485,800	485,800
Issue 2010A	02/10/10	Variable rate	213,295	215,220
Issue 2010C	04/07/10	3.00% – 5.00%	288,240	328,550
Issue 2010D	04/07/10	3.00% – 5.00%	74,910	85,390
Issue 2010F	08/05/10	5.00%	121,360	121,360
Issue 2010G	08/05/10	5.00%	7,100	7,100
Issue 2011A	02/22/11	5.00% – 5.75%	49,070	60,520
Issue 2011B	02/22/11	5.00% – 5.50%	33,565	40,435
Issue 2011C	07/21/11	5.00%	163,720	163,720
Issue 2011D	07/21/11	5.00%	124,110	124,110
Issue 2011E	07/21/11	2.63% – 4.48%	37,590	50,785
Issue 2011F	09/20/11	5.00%	123,325	123,325
Issue 2011G	09/20/11	5.00% – 5.25%	106,195	106,195
Issue 2011H	09/20/11	1.92% – 4.15%	101,600	104,830
Issue 2012A	03/22/12	5.00%	208,025	208,025
Issue 2012B	03/22/12	4.00% – 5.00%	108,265	108,265
Issue 2013A	07/31/13	5.00% – 5.50%	360,785	360,785
Issue 2013B	07/31/13	5.00%	87,860	87,860
Issue 2013C	07/31/13	2.12% – 2.86%	12,480	12,480
Issue 2014A	09/24/14	5.00%	376,320	—
Issue 2014B	09/24/14	5.00%	97,290	—
Unamortized discount			4,496,390	4,204,425
Unamortized premium			(279)	(287)
Total revenue bonds payable			168,784	140,497
Less current portion			4,664,895	4,344,635
			(184,165)	(174,880)
Total long-term revenue bonds payable			\$ 4,480,730	\$ 4,169,755

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(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008, 2012 and 2014, the Airport Commission has authorized the issuance of up to \$4.8 billion of San Francisco International Airport Second Series Revenue Bonds to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2015, \$3.2 billion of the authorized capital plan bonds remained unissued.

On September 24, 2014, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2014A (AMT/Private Activity), and Series 2014B (Non-AMT/Governmental Purpose) in the total amount of \$473.6 million. The Series 2014A/B Bonds are unsecured, long-term, fixed rate bonds. The Series 2014A Bonds mature between May 1, 2039 and May 1, 2044 with an interest rate of 5.0%. The Series 2014B Bonds mature on May 1, 2044, with an interest rate of 5.0%.

The net proceeds of \$460.1 million (comprised of a \$473.6 million bond principal amount, less \$1.5 million in underwriting fees, deposits to the capitalized interest accounts and the reserve account, and payment of costs of issuance, together with \$44.3 million in net original issue premium) were used to retire the outstanding balance of subordinate commercial paper notes (\$248.0 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport (\$212.1 million).

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission has authorized the issuance of up to \$8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums.

As of June 30, 2015, net of expired sale authorizations, \$1.4 billion of such refunding bonds remained unissued. During fiscal year 2015, no new refunding bonds were issued and no refunding bonds were remarketed.

(c) Variable Rate Demand Bonds

As of June 30, 2015, the Airport Commission had outstanding an aggregate principal amount of \$479.1 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and Issue 37C, and Series 2010A, (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days' notice. Any tendered Variable Rate Bonds are remarketed by the

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applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by separate irrevocable letters of credits issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables below.

Amounts drawn under 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 range between 0.520% and 0.570% per annum. As of June 30, 2015, there were no unreimbursed draws under these facilities.

On January 28, 2015, the Airport closed a four-year extension of the irrevocable letter of credit issued by MUFG Union Bank, N.A. (formerly known as Union Bank, N.A.) supporting the Second Series Variable Rate Revenue Refunding Bonds, Issue 37C. The letter of credit will expire January 28, 2019. The extension of the letter of credit did not require a remarketing of the bonds.

The primary terms of the letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2015, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	\$100,000,000	\$40,620,000	\$36,145,000	\$89,080,000	\$213,295,000
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	January 28, 2019	December 14, 2016
Credit Provider	U.S. Bank ⁽¹⁾	BTMU ⁽²⁾	BTMU ⁽²⁾	MUFG Union Bank ⁽³⁾	JP Morgan ⁽⁴⁾
(1) U.S. Bank National Association					
(2) The Bank of Tokyo-Mitsubishi UFI, Ltd.					
(3) Formerly Union Bank, N.A.					
(4) JP Morgan Chase Bank, N.A.					

(d) Interest Rate Swaps

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the 2004 swaps) with an aggregate notional amount of \$405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

On July 26, 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and Second Series Variable Rate Revenue

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Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, on October 30, 2008 and December 3, 2008, the Airport refunded Issue 37A and Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps with an aggregate notional amount of \$205.1 million were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

On December 16, 2010, the Airport terminated a swap associated with the Series 2010A-3 Bonds, with a notional amount of \$72.0 million. The Airport paid a termination amount of \$6.7 million to the counterparty, Depfa Bank plc. The payment was funded with taxable commercial paper, which was subsequently retired with Airport operating funds on March 28, 2011.

Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B Bonds, however, is now associated with the Series 2010A-3 Bonds and the unhedged portions of Issue 36A/B/C.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notional amount of \$30.0 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of \$4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.50% of USD-LIBOR-BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.

As of June 30, 2015, the Airport's derivative instruments comprised six interest rate swaps that the Airport 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, 2015.

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#	Current Bonds	Initial Notional Amount	Notional Amount June 30, 2015	Effective Date
1	36AB	\$ 70,000,000	70,000,000	2/10/2005
2	36AB	69,930,000	69,930,000	2/10/2005
3	36C	30,000,000	30,000,000	2/10/2005
4	2010A*	79,684,000	78,965,000	5/15/2008
5	37C	89,856,000	89,045,000	5/15/2008
6	2010A	143,947,000	142,927,000	2/1/2010
	Total	\$ 483,417,000	480,867,000	

*The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of Issues 36A/B/C.

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 bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2015, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport Commission are as follows:

#	Current Bonds	Counterparty/guarantor*	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by counterparty Commission	Fair value to Commission
1	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa2/A-	3.444% \$	(8,100,871)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa2/A-	3.444%	(8,101,725)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa2/A-	3.444%	(3,471,522)
4	2010A	Merrill Lynch Capital Services, Inc./Merrill Lynch Derivative Products AG	A+/Aa3/NR	3.773%	(14,262,278)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa2/A-	3.898%	(17,082,892)
6	2010A	Goldman Sachs Bank USA/Goldman Sachs Group, Inc.	A-/A3/A	3.925%	(29,483,515)
		Total		\$	(80,502,803)

*The ratings for the 2010A swaps are the ratings of the guarantor.

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The impact of the interest rate swaps on the financial statements for the year ended June 30, 2015 is as follows (in thousands):

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2014	\$ 64,964	80,235
Change in fair value to year end	1,845	487
Balance as of June 30, 2015	\$ 66,809	80,722

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2015.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (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, 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 ended June 30, 2015, the Airport paid a total of \$1.9 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2015, 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 become 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. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2015, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer, or substitute such swaps.

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, 2015 (S&P/Moody's/Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
6	Series 2010A	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

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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 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 with respect to a counterparty or its guarantor include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), 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.

The Airport's swap guarantor Goldman Sachs Group, Inc. was upgraded by one of the rating agencies during the year ended June 30, 2015.

The Airport's swap counterparties Goldman Sachs Bank USA, Merrill Lynch Capital Services and JPMorgan Chase Bank, National Association, were each upgraded by one or more of the rating agencies during the year ended June 30, 2015.

The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2015, the fair value of each swap was negative to the Airport as shown above. The risks and termination rights related to the Airport's swaps are discussed in further detail above.

(e) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A and 2000A, were outstanding in the principal amounts of \$78.1 million and \$82.6 million, respectively, as of June 30, 2015 and 2014. SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities in an amount equal to debt service payments on the

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bonds and any required bond reserve account deposits. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to 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 the Net Revenues of 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 SFO Fuel bonds other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the accompanying financial statements.

(f) Debt Service Reserve and Covenants

The Airport Commission issues its senior lien San Francisco International Airport Second Series Revenue Bonds under the 1991 Master Resolution, which provides, among other things, the general terms and conditions of the bonds, the funds and accounts relating to the bonds, and certain covenants made by the Airport Commission for the benefit of bondholders. Such covenants include not creating liens on its property essential to operations or disposing of any property essential to maintaining revenues or operating the Airport, and maintaining specified levels of insurance or self-insurance. The Airport Commission may also establish one or more reserve accounts with different reserve requirements to secure one or more series of bonds. Accordingly, the Airport Commission has established two reserve accounts in the Reserve Fund: the Issue 1 Reserve Account and the 2009 Reserve Account, both of which are held by the Senior Trustee.

Issue 1 Reserve Account

The Issue 1 Reserve Account is the Airport's original parity reserve account established in connection with the first issuance of bonds under the 1991 Master Resolution and which now secures most of the Airport Commission's outstanding bonds. The Airport Commission may designate any series of bonds as a "participating series" secured by the Issue 1 Reserve Account. The reserve requirement is equal to the maximum annual debt service accruing in any year during the life of all participating series of bonds secured by the Issue 1 Reserve Account. As of June 30, 2015, the reserve requirement was \$358.9 million, which was satisfied by \$361.7 million of cash and investment securities, and reserve fund surety policies in the principal amount of \$132.7 million. All of the providers of such reserve policies have one or more credit ratings below the Airport's rating or are no longer rated. In addition, \$75.8 million of such surety policies have likely experienced a reduction in value in accordance with their terms.

2009 Reserve Account

The Airport Commission has established an additional pooled reserve account identified as the 2009 Reserve Account 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. Currently, only the Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account. The reserve requirement for each 2009 Reserve Series is the lesser of: (i) maximum annual debt service for such 2009 Reserve Series Bonds, (ii) 125% of average annual debt service for such 2009 Reserve Series Bonds, and (iii) 10% of the outstanding principal amount of such series (or allocable issue price of such series if such

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series is sold with more than a de minimis (2%) amount of original issue discount), in each case as determined from time to time. With respect to all 2009 Reserve Series, the reserve requirement is the aggregate of such amounts for each individual series. As of June 30, 2015, the reserve requirement for the 2009 Reserve Account was \$15.6 million, which was satisfied by \$19.1 million in cash and investment securities, and a reserve policy in the principal amount of \$3.4 million issued by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.). The value of this reserve policy may be adjusted downward under certain circumstances and may have experienced a reduction in value.

Series Secured by Other or No Reserve Accounts

As permitted under the 1991 Master Resolution, the Airport Commission may establish separate reserve accounts for individual series of bonds, or may issue bonds without a reserve account.

The Airport Commission originally established a separate reserve account for its Second Series Revenue Refunding Bonds, Series 2009D, which were issued on November 4, 2009, and remarketed on December 4, 2012. The Series 2009D Bonds are now secured by the Issue 1 Reserve Account. In connection with the remarketing, the entire \$8.8 million in the Series 2009D Reserve Account was transferred to the Issue 1 Reserve Account.

The Airport Commission did not establish reserve accounts for its Second Series Variable Rate Revenue Refunding Bonds, Issue 36A/B/C and Series 2010A, all of which are secured by letters of credit.

Reserve Policies

Under the 1991 Master Resolution, the Airport Commission may satisfy a portion of a reserve requirement by depositing with the Senior Trustee one or more reserve policies issued by a credit provider rated in the highest category by at least two rating agencies. However, the 1991 Master Resolution does not require that those ratings be maintained after the date of deposit. Each of the providers of the reserve policies in the reserve accounts was rated "AAA" at the time the policies were deposited. However, as a result of the financial crisis that began in 2007, all of the major municipal bond insurance companies have been downgraded, and several are no longer providing current financial and operating information. In addition, under the terms of several of the reserve policies, the value of the policies may be adjusted downward from time to time as related bonds are refunded and such policies may have experienced a reduction in value. The Airport has periodically deposited additional cash in the Issue 1 Reserve Account to satisfy the reserve requirement and compensate for the diminished value or downgraded providers of these reserve policies.

Rate Covenant

Under the terms of the 1991 Master 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:

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- (a) Net revenues (as defined in the 1991 Master Resolution) 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 the ASP 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 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. For example, the 1991 Master Resolution includes in the definition of Operating and Maintenance Expenses (which is used to calculate Net Revenues) "the payment of pension charges ... with respect to employees of the Commission..." (emphasis added) and excludes a number of non-cash accrual items. Accordingly, the Commission excludes from its rate covenant calculations any non-cash accrued pension obligations other than those actually paid during the fiscal year.

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

Fiscal year:	Principal	Interest	Total
2016	\$ 184,165	222,512	406,677
2017	194,125	214,223	408,348
2018	203,190	205,372	408,562
2019	226,025	195,967	421,992
2020	269,125	185,074	454,199
2021 - 2025	1,242,585	737,387	1,979,972
2026 - 2030	962,150	445,000	1,407,150
2031 - 2035	401,120	271,611	672,731
2036 - 2040	376,290	177,040	553,330
2041 - 2044	437,615	56,036	493,651
Total	\$ 4,496,390	2,710,222	7,206,612

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The table below presents the revenue bond debt service requirements in the event the letters of credit securing the Airport's outstanding variable rate bonds had to be drawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreements with the banks providing such letters of credit (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2016	\$ 182,915	222,512	405,427
2017	490,305	209,306	699,611
2018	256,100	193,920	450,020
2019	287,920	180,497	468,417
2020	240,650	167,127	407,777
2021 - 2025	1,053,860	668,700	1,722,560
2026 - 2030	769,615	420,492	1,190,107
2031 - 2035	401,120	271,611	672,731
2036 - 2040	376,290	177,040	553,330
2041 - 2044	437,615	56,036	493,651
Total	<u>\$ 4,496,390</u>	<u>2,567,241</u>	<u>7,063,631</u>

(g) Post-Issuance Compliance with Federal Tax Law

The Airport follows certain federal tax law post-issuance compliance procedures that are intended to ensure that proceeds of its tax-exempt bonds are invested and expended consistent with applicable federal tax law, including the Internal Revenue Code of 1986, the Regulations promulgated thereunder, and other applicable guidance from the U.S. Treasury Department and the Internal Revenue Service (IRS). As a result, the Airport from time to time identifies and addresses relatively minor tax law compliance issues. As part of its tax diligence procedures, the Airport determined in August 2012 that small portions of the proceeds of a number of outstanding series of bonds were applied for purposes that present tax law compliance issues. In particular, a small portion of the Airport's passenger terminal facilities financed from proceeds of those bonds (less than 0.1%) were used for retail locations where wine was sold for consumption off-Airport. Such uses of proceeds are prohibited by the Code. If not addressed with the IRS, the failure to observe such limitation could cause the interest on such bonds to be includable in gross income for federal income tax purposes retroactively to the date of their issuance. In November 2013, the Airport finalized a closing agreement with the IRS under its Tax Exempt Bond Voluntary Closing Agreement Program (VCAP) with respect to the Airport's Series 2009C/D Bonds pursuant to which the Airport made a payment to the IRS of approximately \$5,000 and retired a small portion (\$200,000) of the Series 2009D Bonds allocable to such use of bond proceeds. In November 2014, the Commission executed a second closing agreement with the IRS with respect to the other bonds affected by this compliance issue, pursuant to which the Commission made a payment to the IRS of approximately \$67,000 and retired \$1,145,000 of the Commission's Series 2010A Bonds.

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(h) Cash Defeasance of Bonds

In November 2014, the Airport redeemed \$1.1 million of the Second Series Variable Rate Refunding Bonds, Series 2010A in connection with a Closing Agreement with the IRS (see note 7g). On June 25, 2015, the Airport used cash on hand to defease \$5.6 million principal amount of outstanding Airport Second Series Revenue Refunding Bonds:

- Issue 29A (AMT) Bonds (\$2.7 million)
- Issue 32G (Non-AMT) Bonds (\$2.9 million)

Fiscal Year 2014

(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008, 2012 and 2014, the Airport Commission has authorized the issuance of up to \$4.8 billion of San Francisco International Airport Second Series Revenue Bonds to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2014, \$3.7 billion of the authorized capital plan bonds remained unissued.

On July 31, 2013, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2013A (AMT), Series 2013B (Non-AMT/Governmental Purpose) and Series 2013C (Taxable) in the total amount of \$461.1 million. The Series 2013A-C Bonds are unsecured, long-term, fixed rate bonds. The Series 2013A (AMT) Bonds mature between May 1, 2020 and May 1, 2038 with interest rates from 5.00% to 5.50%. The Series 2013B (Non-AMT/Governmental Purpose) Bonds mature on May 1, 2043, with an interest rate of 5.00%. The Series 2013C (Taxable) Bonds mature between May 1, 2017 and May 1, 2019, with interest rates from 2.12% to 2.86%.

The net proceeds of \$405.8 million (comprised of a \$461.1 million bond principal amount, less \$71.8 million in underwriting fees, deposits to the capitalized interest accounts and the reserve account, and payment of costs of issuance, together with \$16.5 million in net original issue premium) were used to retire the outstanding balance of subordinate commercial paper notes (\$180.5 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport (\$225.3 million).

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission has authorized the issuance of up to \$8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. As of June 30, 2014, net of expired sale authorizations, \$1.4 billion of such refunding bonds remained unissued. During fiscal

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year 2014, no new refunding bonds were issued, and the following refunding bonds were remarketed with new letters of credit:

Second Series Variable Rate Revenue Refunding Bonds, Series 36B

On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit from U.S. Bank National Association that expired on May 4, 2014. The Issue 36B Bonds were remarketed with the original maturity date of May 1, 2026, and no changes to principal amortization.

Second Series Variable Rate Revenue Refunding Bonds, Series 36C

On April 25, 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new irrevocable letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a letter of credit provided by U.S. Bank National Association with an expiration date of July 11, 2014. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026, and no changes to principal amortization.

(c) Variable Rate Demand Bonds

As of June 30, 2014, the Airport Commission had outstanding an aggregate principal amount of \$481.5 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and Issue 37C, and Series 2010A, (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days' notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by separate irrevocable letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables below.

Amounts drawn under 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 range between 0.52% and 0.78% per annum. As of June 30, 2014, there were no unreimbursed draws under these facilities.

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On December 17, 2013, the Airport obtained an extension of the letter of credit issued by JP Morgan Chase Bank, N.A. securing the Series 2010A Bonds, and on April 25, 2014, the Airport obtained a replacement letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. for the Issue 36B Bonds in advance of the expiration dates of the letters of credit securing both series of bonds.

On April 25, 2014, the Airport obtained an additional letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd. to support the Issue 36C Bonds in advance of the July 11, 2014 stated expiration date of the prior letter of credit securing those bonds.

The primary terms of the letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2014, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	\$100,000,000	\$40,620,000	\$36,145,000	\$89,895,000	\$215,970,000
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	July 13, 2015	December 14, 2016
Credit Provider	U.S. Bank ⁽¹⁾	BTMU ⁽²⁾	BTMU ⁽²⁾	Union Bank ⁽³⁾	JP Morgan ⁽⁴⁾

(1) U.S. Bank National Association

(2) The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(3) Union Bank, N.A.

(4) JP Morgan Chase Bank, N.A.

(d) Interest Rate Swaps

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the 2004 swaps) with an aggregate notional amount of \$405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

On July 26, 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, on October 30, 2008 and December 3, 2008, the Airport refunded Issue 37A and Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps with an aggregate notional amount of \$205.1 million were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

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On December 16, 2010, the Airport terminated a swap associated with the Series 2010A-3 Bonds, with a notional amount of \$72.0 million. The Airport paid a termination amount of \$6.7 million to the counterparty, Depfa Bank plc. The payment was funded with taxable commercial paper, which was subsequently retired with Airport operating funds on March 28, 2011.

Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B Bonds, however, is now associated with the Series 2010A-3 Bonds and the unhedged portions of Issue 36A/B/C.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notional amount of \$30.0 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of \$4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.50% of USD-LIBOR-BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.

As of June 30, 2014, the Airport's derivative instruments comprised six interest rate swaps that the Airport 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, 2014.

#	Current Bonds	Initial Notional Amount	Notional Amount June 30, 2014	Effective Date
1	36AB	\$ 70,000,000	70,000,000	2/10/2005
2	36AB	\$ 69,930,000	69,930,000	2/10/2005
3	36C	30,000,000	30,000,000	2/10/2005
4	2010A*	79,684,000	79,331,000	5/15/2008
5	37C	89,856,000	89,459,000	5/15/2008
6	2010A	143,947,000	143,447,000	2/1/2010
	Total	\$ 483,417,000	482,167,000	

*The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of the Issue 36A-C.

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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 bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2014, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport Commission are as follows:

#	Current Bonds	Counterparty/guarantor*	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission	Fair value to Commission
1	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.444%	\$ (8,554,207)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.445%	(8,553,738)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.444%	(3,665,905)
4	2010A	Merrill Lynch Capital Services, Inc./Merrill Lynch Derivative Products AG	A+/Aa3/NR	3.773%	(13,918,663)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.898%	(16,776,927)
6	2010A	Goldman Sachs Group, Inc.	A-/Baa1/A	3.925%	(28,480,952)
	Total				\$ (79,950,392)

*The ratings for the 2010A swaps are the ratings of the guarantor.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2014, is as follows (in thousands):

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2013	\$ 64,743	81,338
Change in fair value to year end	221	(1,103)
Balance as of June 30, 2014	\$ 64,964	80,235

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of

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remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2014.

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, 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 ended June 30, 2014, the Airport paid a total of \$1.8 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2014, 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 become 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. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2014, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed

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to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer, or substitute such swaps.

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, 2014	(S&P/Moody's/Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR	
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR	
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR	
4	Series 2010A	None	N/A	
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR	
6	Series 2010A	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 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 with respect to a counterparty or its guarantor include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), 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 Airport's swap guarantors Goldman Sachs Group, Inc. and Merrill Lynch Derivative Products AG were each downgraded by one of the rating agencies during the year ended June 30, 2014.

The downgrades to Goldman Sachs and Merrill Lynch did not constitute Additional Termination Events under the swap agreement with either counterparty. The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2014, the fair value of each swap was negative to the Airport as shown above. The risks and termination rights related to the Airport's swaps are discussed in further detail above.

(e) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A and 2000A, were outstanding in the principal amounts of \$82.6 million and \$87.0 million, respectively, as of June 30, 2014 and 2013. SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities in an amount equal to debt service payments on the bonds and any required bond reserve account deposits. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to 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 the Net Revenues of 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 SFO Fuel bonds other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the accompanying financial statements.

(8) Revenue Pledged

The Commission has pledged all of the Net Revenues of the Airport to repay the following obligations when due, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds (Senior Bonds) issued and to be issued under the Commission's Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (Senior Bond Resolution), and amounts due under the letters of credit securing the Senior Bonds to the extent provided in the Senior Bond Resolution, (2) the San Francisco International Airport Subordinate Commercial Paper Notes and any other obligations (Subordinate Bonds) issued and to be issued under the Commission's Resolution No. 97-0146 adopted on May 20, 1997, as amended and supplemented (Note Resolution) and amounts due to reimburse drawings under the letters of credit securing the Commercial Paper Notes, (3) remaining amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, and (4) interest rate swap termination payments. The Senior Bonds and Commercial Paper Notes are issued to finance capital projects at the

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Airport and to refund previously issued Senior Bonds and Commercial Paper Notes. The pledges of Net Revenues described above are in force so long as the secured obligations are outstanding. As of June 30, 2015, the final maturities of the obligations secured by the Net Revenues are Senior Bonds that mature in fiscal year 2044.

Net Revenues are defined in the Senior Bond Resolution and the Note Resolution as Revenues less Operation and Maintenance Expenses. Revenues are defined to include all revenues earned by the Commission with respect to the Airport, as determined in accordance with GAAP. Revenues do not include: (a) investment income from moneys in (i) the Construction Fund, (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 (as defined in the Senior Bond Resolution); (c) Special Facility Revenues (as defined in the Senior Bond Resolution) and any income realized from the investment thereof unless designated as Revenues by the Commission; (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 not deemed to be Revenues in accordance with GAAP; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property of the City.

Operation and Maintenance Expenses are defined in the Senior Bond Resolution and the Note 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 Senior Bonds or Subordinate Bonds (including Commercial Paper Notes); (b) any allowance for amortization, 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 to the City; (f) any costs, or charges made therefor, for capital additions, replacements or improvements to the Airport which, under GAAP, 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. Operating and Maintenance Expenses 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 Commission employees.

During fiscal years 2015 and 2014, the original principal amount of Senior Bonds and Commercial Paper Notes issued, principal and interest remaining due on outstanding Senior Bonds and Commercial Paper Notes, principal and interest paid on such obligations, and applicable Net Revenues are set forth in the table below (in thousands). There were no unreimbursed drawings under any letter of credit or interest rate swap termination payments due.

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	2015	2014
Bonds issued with revenue pledge	\$ 473,610	461,125
Bond principal and interest remaining due at the end of the fiscal year	7,206,612	6,491,433
Commercial paper issued with subordinate revenue pledge	40,000	249,350
Commercial paper principal and interest remaining due at the end of the fiscal year	40,001	249,047
Net revenues	439,381	403,036
Bond principal and interest paid in the fiscal year	384,427	354,387
Commercial paper principal and interest paid in the fiscal year	3,418	2,298

Pledged Facilities Rent from Fuel System Lease with SFO Fuel Company LLC

The Commission entered into a Fuel System Lease dated as of September 1, 1997, with SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport. The facilities rent payable by SFO Fuel has been pledged and assigned to the bond trustee to secure the repayment of the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A and 2000A, which were outstanding in the aggregate principal amounts of \$78.1 million and \$82.6 million, respectively, as of June 30, 2015 and 2014. The SFO Fuel bonds were issued to finance improvements to the jet fuel storage and distribution system at the Airport. The pledge of the facilities rent will be in effect until the maturity of the SFO Fuel bonds on January 1, 2027, unless additional bonds (including refunding bonds) with a later maturity are issued.

(9) 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 \$29.5 million and \$25.1 million as of June 30, 2015 and 2014, respectively.

A five-year car rental lease agreement option was exercised effective January 1, 2014. Under this agreement, the rental car companies will continue to pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher. Also in accordance with the terms of their concession agreement, the MAG for the rental car operators does not apply if the actual enplanements achieved during a one-month period is less than 80% of the actual enplanements of the same reference month in the reference year, and such shortfall continues for three consecutive months.

The MAG attributable to the rental car companies was approximately \$43.2 million and \$41.5 million as of June 30, 2015 and 2014, respectively.

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

Fiscal year ending:	
2016	\$ 97,139
2017	93,117
2018	75,966
2019	37,894
2020	14,667
2021 and thereafter	34,861
Total	<u>\$ 353,644</u>

(10) Employee Benefit Plans

(a) Retirement Plan

The City administers a cost-sharing multiple-employer defined benefit pension plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System).

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Employers Retirement System (SFERS) – Cost Sharing

Valuation Date (VD)	June 30, 2013 updated to June 30, 2014
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

The City is an employer of the Plan with a proportionate share of 93.78% as of June 30, 2014. The Airport's allocation percentage was determined based on the Airport's employer contributions divided by the City's total employer contributions for fiscal year 2014. The Airport's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Airport's allocated percentage. The Airport's allocation of the City's proportionate share was 6.74% as of the measurement date.

Plan Description

The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The Charter and Administrative Code of the City and County of San Francisco are the legal authorities that establish and amend 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

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San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits

The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of Plan members are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including the Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

Funding and Contribution Policy

Contributions are made to the basic Plan by both the City and its participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2015 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2015, most employee groups agreed through collective bargaining for employees to contribute

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the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2013 actuarial report, the required employer contribution rate for fiscal year 2015 ranged from 22.26% to 26.76%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2014 was \$499.8 million. The Airport's allocation of employer contributions for fiscal year 2014 was \$33.7 million and \$37.5 million for fiscal year 2015.

Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of \$1.66 billion. The Airport's net pension liability for the Plan is measured as the proportionate share of the City's net pension liability. The City's net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Airport's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was \$239.5 million and \$111.9 million, respectively. In fiscal year 2015, there were no changes in benefits and amounts reported as changes in assumptions resulted primarily from a change in the discount rate and a change in the Supplemental COLA assumption.

For fiscal year ended June 30, 2015, the City's recognized pension expense was \$95.7 million including amortization of deferred outflow/inflow related pension items. The Airport's allocation of pension expense including amortization of deferred outflow/inflow related pension items was \$6.5 million. At June 30, 2015, the Airport's reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources set forth below (in thousands).

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Schedule of Deferred Inflows and Outflows

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments	\$ —	3,708
Change in proportionate share	—	95,890
Pension contributions subsequent to the measurement date	—	692
	37,517	—
Total	\$ 37,517	100,290

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized as pension expense as follows (in thousands):

Fiscal year	Deferred outflows of resources	Deferred inflows of resources
2016	\$ —	25,073
2017	—	25,073
2018	—	25,073
2019	—	25,071
Total	\$ —	100,290

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2014, is provided below, including any assumptions that differ from those used in the July 1, 2013 actuarial valuation. The July 1, 2013 actuarial valuation report with complete description of all other assumptions can be found on the Retirement System's website <http://mvsfers.org/>.

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Key Actuarial Assumptions

Valuation Date	June 30, 2013 updated to June 30, 2014			
Measurement Date	June 30, 2014			
Actuarial Cost Method	Entry-Age Normal Cost Method			
Expected Rate of Return	7.58%			
Municipal Bond Yield	4.39% as of June 30, 2013 4.31% as of June 30, 2014			
Discount Rate	Bond Buyer 20-Bond GO Index, July 3, 2013 and July 2, 2014 7.52% as of June 30, 2013 7.58% as of June 30, 2014			
Administrative Expenses	0.45% of payroll			
Basic COLA	Old Miscellaneous and all New Plans	Old Police & Fire pre 7/1/75	Old Police & Fire, Charters A8,595 and A8,596	Old Police & Fire, Charters A8,559 and A8,585
	Retirements			
	2.00%	3.00%	4.00%	5.00%

Basic COLA

Mortality rates for active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020.

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Discount Rate

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rates were 7.52% as of June 30, 2013 and 7.58% as of June 30, 2014, respectively.

The discount rate used to measure the total pension liability as of June 30, 2014, was 7.58%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date plus an amortization payment on the unfunded actuarial liability. The amortization payment is based on 15-year closed amortization as a level percentage of payment and closed 20-year amortization as a level percentage of payroll of experience gains and losses and assumption changes. Supplemental COLAs are amortized over a closed 5-year period from the date they are granted. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For a Supplemental COLA to be granted, the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the System, we developed an assumption as of June 30, 2014, of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for member with a 2.00% basic COLAs for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

<u>Fiscal year</u>	<u>Assumption</u>
2015	0.000%
2020	0.364%
2025	0.375%
2030	0.375%
2035+	0.375%

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The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2083 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.58% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 4.31% to the extent they are not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2014 is 7.58%.

The long-term expected rate of return on pension plan investments was 7.58%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

<u>Asset class</u>	<u>Long-term Expected Real Rates of Return</u>	
	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	47%	5.3%
Fixed income	25%	1.8%
Private equity	16%	8.8%
Real assets	12%	5.8%

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airport's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the Airport's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

<u>Employer</u>	<u>Proportionate share</u>	<u>1% decrease share of NPL @ 6.58%</u>	<u>Share of NPL @ 7.58%</u>	<u>1% increase share of NPL @ 8.58%</u>
Airport	6.7414%	\$ 277,262	\$ 111,932	\$ (26,901)

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(b) Health Care Benefits

Health care benefits of Airport employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through City and County of San Francisco Health Service System (the Health Service System). The Airport's annual contribution, which amounted to approximately \$33.6 million and \$34.8 million in fiscal years 2015 and 2014, 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 \$9.4 million and \$10.8 million for fiscal years 2015 and 2014, respectively, to provide postretirement benefits for retired Airport employees on a pay-as-you-go basis, as well as \$0.4 million and \$0.3 million for fiscal years 2015 and 2014, respectively, to fund the Airport's share of the City's retiree health care trust fund. The City did not allocate to the Airport any additional share of the payments made by the City's Health Service System for postretirement health benefits in fiscal years 2015 and 2014.

The City has determined a Citywide annual required contribution (ARC), interest on net other postemployment benefits other than pensions (OPEB), 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 years ended June 30, 2015 and 2014, based upon its percentage of Citywide payroll costs is presented below.

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

	2015	2014
Annual required contribution	\$ 21,409	21,071
Interest on net OPEB obligation	4,872	4,410
Adjustment to ARC	(4,062)	(3,677)
Annual OPEB cost	22,219	21,804
Contribution made	(10,705)	(8,734)
Increase in net OPEB obligation	11,514	13,070
Net OPEB obligation – beginning of year	103,783	90,713
Net OPEB obligation – end of year	\$ 115,297	\$ 103,783

As of June 30, 2015, the Airport has set aside \$97.5 million in a separate fund for purposes of the OPEB obligations and such amount is included in Unrestricted Cash and Investment in the accompanying statements of net position. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

The City issues a publicly available financial report for Citywide level that includes the complete note disclosures and required supplementary information related to the City's postretirement health care obligations. The report may be obtained by writing to 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.

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

Notes to Financial Statements

June 30, 2015 and 2014

(11) 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 position. These services include utilities provided to tenants (see note 2m) and the Airport. The cost of all services provided by the City work order system totaled approximately \$135.8 million and \$131.3 million in fiscal years 2015 and 2014, respectively. Included in personnel operating expenses are approximately \$68.1 million and \$66.3 million in fiscal years 2015 and 2014, respectively, related to police and fire services.

The Lease and Use Agreement with the airlines provides for continuing annual service payments to the City equal to 15% of concession revenues (net of certain adjustments), but not less than \$5.0 million per fiscal year. Annual service payments to the City were \$40.5 million and \$38.0 million in fiscal years 2015 and 2014, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net position.

(12) Passenger Facility Charges

As of June 30, 2015, the FAA has approved several Airport applications to collect and use passenger facility charges (from PFC #2 to PFC #6) in a total cumulative amount of \$1.7 billion, with a final charge expiration date estimated to be March 1, 2026. During the fiscal years ended June 30, 2014 and 2015, the following changes occurred to the Airport's PFC collection authorizations.

In October 2013, the FAA approved the Airport's fifth application (PFC #5) for \$610.5 million to pay for debt service related costs associated with the reconstruction and reopening of Terminal 2 and Boarding Area D renovations. The earliest charge effective date is January 1, 2017 and is based upon the estimated charge expiration date of PFC #3. The FAA estimates the charge expiration date for PFC #5 to be June 1, 2023. In November 2014, the FAA approved an amendment to PFC #5 that increased the imposition and use authority by \$131.3 million from \$610.5 million to \$741.7 million. The estimated expiration date for PFC #5 was changed from June 1, 2023 to October 1, 2024. The Airport is working with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels.

In June 2015, the FAA approved the Airport's sixth PFC application (PFC #6) for \$141.1 million to pay for debt service related to the Runway Safety Area Program and the installation of ten passenger boarding bridges at Boarding Area E. The FAA estimates the charge expiration date for PFC #6 to be March 1, 2026.

PFC collections and related interest earned for the years ended June 30, 2015 and 2014, are as follows (in thousands):

	2015	2014
Amount collected	\$ 92,042	86,966
Interest earned	1,155	1,050
Total	\$ 93,197	\$ 88,016

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CITY AND COUNTY OF SAN FRANCISCO
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Interest earned on PFC revenues is included in investment income in the accompanying financial statements.

(13) Commitments, Litigation, and Contingencies

(a) Commitments

Purchase commitments for construction, material, and services as of June 30, 2015 are as follows (in thousands):

Construction	\$ 58,296
Operating	16,213
Total	<u>\$ 74,509</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 acquire easements for noise, vibration, and other effects resulting from aircraft operations at the Airport, and implementation of a supplemental program in 2000 to complete the work. This program was managed by the local communities with Airport 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 2015, the Airport disbursed approximately \$1.0 million in this phase of the program (\$0.5 million in federal grants and \$0.5 million in Airport funds). In fiscal year 2014, the Airport disbursed approximately \$0.3 million in this phase of the program (\$0.2 million in federal grants and \$0.1 million in Airport funds). As of June 30, 2015, the cumulative disbursements of Airport funds under this program were approximately \$122.2 million.

(b) Security Deposits

Airline leases and permits require airlines to deliver a security deposit to the Airport prior to the effective date of the lease or permit. Such deposits are either in the form of (a) a surety bond payable to the City or (b) a letter of credit naming the City as a beneficiary. Under the 2011 Lease and Use Agreement, security deposits are renewed and increased annually in order to equal to two months of fees, as established by the Airport Director each fiscal year in accordance with the lease. Under most other leases and permits, a deposit equal to six months is required.

The bonds or letters of credit are required to be kept in full force and effect at all times to ensure the faithful performance by the respective lessee or permittee of all covenants, terms, and conditions of the leases or permits, including payment of the monthly fees.

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June 30, 2015 and 2014

(c) Litigation

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. Insurance policies cover certain actions, claims, and defense costs. Only those items not covered by insurance are included in the financial statements. The Airport's potential liabilities have been estimated and reported in the financial statements, in conformity with U.S. generally accepted accounting principles.

(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 \$1.0 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 \$5.0 million, subject to a deductible of \$100,000 per single occurrence for each wrongful act other than employment practices' violations, and \$250,000 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 and Target Range Liability for the San Francisco Police Department's firearms range located at the Airport.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of \$750.0 million per occurrence for war, terrorism, and hijacking. Immediately following the events of September 11, 2001, insurers canceled 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 Terrorism Risk Insurance Program Reauthorization Act (TRIPA) of 2015. However, the scope of the coverage is limited and the premiums are high. Due to these factors, the

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Airport, in consultation with the City's Director of Risk Management, 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, 2013, resulted from the following activity (in thousands):

Balance as of June 30, 2013	\$ 1,562
Claim payments	(561)
Claims and changes in estimates	386
Balance as of June 30, 2014	1,387
Claim payments	(18)
Claims and changes in estimates	2,403
Balance as of June 30, 2015	<u>\$ 3,772</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 as of June 30, 2013	\$ 5,233
Claim payments	(2,224)
Claims and changes in estimates	2,661
Balance as of June 30, 2014	5,670
Claim payments	(2,270)
Claims and changes in estimates	2,681
Balance as of June 30, 2015	<u>\$ 6,081</u>

(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) Financial Guarantees

The Airport participates in the City and County of San Francisco's surety bond program which provides training, support and City-funded surety bond guarantees for local business enterprise (LBE) contractors who want to bid on construction contracts for City departments (including the Airport), but cannot qualify for the required surety bonds on their own. If program parameters are met, the Airport may guarantee the lesser of \$750,000 or 40% of the face amount of the surety bond, which would enable the LBE contractor to bid on Airport construction work. There were no outstanding Airport guarantees under the program as of June 30, 2015.

**AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
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Notes to Financial Statements
June 30, 2015 and 2014

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2i) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2015 and 2014, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

	<u>2015</u>	<u>2014</u>
United Airlines	23.5%	23.6%

(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 year ending:	
2016	\$ 162
2017	87
2018	87
Total	<u>\$ 336</u>

Net operating lease expense incurred for the fiscal year ended 2015 was the same as 2014 at approximately \$0.2 million.

(14) Subsequent Events

Credit Rating Changes

On September 11, 2015, Fitch upgraded the credit rating on the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A, and San Francisco International Airport 1997 Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 2000A, from "BBB+" to "A-." (Stable Outlook).

On October 5, 2015, Fitch upgraded the long-term credit rating of U.S. Bank National Association. The Commission's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A are secured by an irrevocable direct-pay letter of credit issued by U.S. Bank. As a result, on October 6, 2015, Fitch raised its long-term credit rating (joint support) on the Issue 36A Bonds from "AA+" to "AAA."

Issuance of Capital Plan Bonds

In September 2015, the Airport Commission authorized the issuance of an additional \$243 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and \$225 million of San Francisco International Airport Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned hotel and related AirTrain station. The Commission also designated the planned hotel as a "special facility" under the 1991 Master Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and

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

Notes to Financial Statements

June 30, 2015 and 2014

debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Commission does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of the Capital Plan Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately \$243 million, which will be applied to the \$225 million construction costs of the hotel and AirTrain station, capitalized interest and other costs of issuance. The bonds require the approval of the City's Board of Supervisors before they can be issued.

SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND
EXPENDITURES

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

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures
Year ended June 30, 2015

(1) General

The accompanying schedule of passenger facility charge revenues and expenditures includes activities related to applications 02-02-C-00-SFO, 03-03-C-01-SFO, 11-05-C-00-SFO, and 13-06-C-00-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:

<u>Application number</u>	<u>Level of PFCs authorized</u>	<u>Charge effective date for collection</u>	<u>Amounts approved for collection (in thousands)</u>
02-02-C-00-SFO	\$	October 1, 2001	\$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
11-05-C-00-SFO	4.50	January 1, 2017	741,744
13-06-C-00-SFO	4.50	October 1, 2024	141,076
Total			<u>\$ 1,715,963</u>

(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 2a of the Airport's basic financial statements.

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

Schedule of Passenger Facility Charge Revenues and Expenditures

Years ended June 30, 2015 and 2014

(In thousands)

	<u>Passenger Facility Charge revenues</u>	<u>Interest earned</u>	<u>Total revenues</u>	<u>Expenditures on approved projects</u>	<u>Over (under) expenditures on approved projects</u>
Program to date as of June 30, 2013	\$ 792,209	15,046	807,255	(707,379)	99,876
Fiscal year 2013 – 2014 transactions:					
Reversal of prior year passenger facility charges accrual	(10,212)	—	(10,212)	—	(10,212)
Quarter ended September 30, 2013	22,486	175	22,661	—	22,486
Quarter ended December 31, 2013	22,553	128	22,681	—	22,475
Quarter ended March 31, 2014	20,031	258	20,289	—	20,031
Quarter ended June 30, 2014	20,694	307	21,001	—	20,387
Unrealized gain on investments	24,131	182	24,313	(35,700)	(11,387)
Passenger facility charges accrual	10,310	—	10,310	—	10,310
Total fiscal year 2013 – 2014 transactions	86,966	1,050	88,016	(35,700)	52,316
Program to date as of June 30, 2014	\$ 879,175	16,096	895,271	(743,079)	152,192
Fiscal year 2014 – 2015 transactions:					
Reversal of prior year passenger facility charges accrual	(10,309)	—	(10,309)	—	(10,309)
Quarter ended September 30, 2014	22,486	291	22,777	—	22,486
Quarter ended December 31, 2014	22,553	255	22,808	—	22,553
Quarter ended March 31, 2015	21,320	330	21,650	(47,000)	(25,350)
Quarter ended June 30, 2015	26,343	287	26,630	(47,550)	(20,920)
Unrealized loss on investments	—	(8)	(8)	—	(8)
Passenger facility charges accrual	9,649	—	9,649	—	9,649
Total fiscal year 2014 – 2015 transactions	92,042	1,155	93,197	(94,550)	(1,353)
Program to date as of June 30, 2015	\$ 971,217	17,251	988,468	(837,629)	150,839

See accompanying independent auditors' report and notes to schedule of passenger facility charge revenues and expenditures.



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55 Second Street
San Francisco, CA 94105



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Airport's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
November 5, 2015

Independent Auditors' Report on Internal Control Over Financial Reporting 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, 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, the financial statements of the business-type activities 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), which comprise the statement of financial position as of and for the year ended June 30, 2015, and the related statements of revenues, expenses, and changes in financial position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued a report thereon dated November 5, 2015. Our report included an emphasis of matter paragraph related to the Airport's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The July 1, 2014 beginning net position was restated for the retrospective application of this new accounting guidance.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

Independent Auditors' 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:

Report on Compliance for Passenger Facility Charge Program

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 (the Guide) that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. 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 passenger facility charge occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion

In our opinion, the Airport complied, in all material respects, with the types of 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, 2015.



Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 the Airport's internal control over compliance.

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 a federal 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 a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

San Francisco, California
November 5, 2015

KPMG LLP

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
Schedule of Findings and Responses
Year ended June 30, 2015

I. Summary of Auditors' Results

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

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

None

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APPENDIX B

INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM

Introduction

The information below concerning DTC and DTC's book-entry system has been obtained from DTC, and the Commission assumes no responsibility for the accuracy or completeness thereof. DTC has established a book-entry depository system pursuant to certain agreements between DTC and its participants (the "Participants"). The Commission is not a party to those agreements. The Commission and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, or to any other person who is not shown on the registration books as being an owner of the Series 2016A Bonds, with respect to any matter including (i) the accuracy of any records maintained by DTC or any of its Participants, (ii) the payment by DTC or its Participants of any amount in respect of the principal of, redemption price of, or interest on the Series 2016A Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the 1991 Master Resolution; (iv) the selection by DTC or any of its Participants of any person to receive payment in the event of a partial redemption of the Series 2016A Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter. The Commission and the Trustee cannot and do not give any assurances that DTC, its Participants or others will distribute payments of principal of or interest on the Series 2016A 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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2016A Bonds. The Series 2016A 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 Series 2016A Bond certificate will be issued for each maturity and series of Series 2016A 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained in such websites is not incorporated by reference herein.

Purchases of the Series 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as

well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016A Bonds, except in the event that use of the book-entry system for the Series 2016A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A 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 Series 2016A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the authorizing documents. For example, Beneficial Owners of the Series 2016A Bonds may wish to ascertain that the nominee holding the Series 2016A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016A 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 the Series 2016A 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 Series 2016A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2016A 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 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 SERIES 2016A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR OWNERS OF THE SERIES 2016A BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2016A BONDS.

Discontinuance of DTC Services

DTC may discontinue providing its services as depository with respect to the Series 2016A 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, Series 2016A Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2016A 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 SERIES 2016A BONDS." Taken together, the 1991 Master Resolution, as previously amended and supplemented, (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 Series 2016A 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 on all Participating Series in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Participating 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 Series 2016A 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 Variable Rate Bonds paid by the original purchaser thereof.

Costs of Issuance means payment of, or reimbursement of the Commission for, all reasonable costs incurred by the Commission in connection with the issuance of a Series of 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 Bonds; (c) rating agency fees; (d) fees of any Credit Provider for the provision of a Credit Facility, as applicable; (e) the initial fees and expenses of the Trustee, the Registrar, the Authenticating Agent, Underwriters and any Series Escrow Agent; (f) accountant fees and any escrow verification fees related to the issuance of such Series of Bonds; (g) printing and publication costs; (h) costs of engineering and feasibility studies necessary to the issuance of such Series of Bonds; and (i) any other cost incurred in connection with the issuance of the 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.

Electronic Means means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication of a written image, and shall include a telephonic communication promptly confirmed in writing or by electronic transmission of a written image.

Event of Default means any one or more of the events described hereinafter under the caption "Events of Default".

Financial Consultant means a firm or firms of financial advisors of national recognition with knowledge and experience in the field of municipal finance selected or employed by the Commission

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 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 Series 2016A Bonds, May 1 and November 1 of each year, commencing May 1, 2016.

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 Series 2016A Bonds.

Mandatory Sinking Fund Payment means a principal amount of Bonds of a Series which is subject to mandatory redemption on a Mandatory Sinking Fund Redemption Date.

Mandatory Sinking Fund Redemption Date means each May 1 upon which Bonds of a Series are subject to mandatory redemption under the Supplemental Resolutions.

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 Series 2016A 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 Series 2016A Bonds, The Bank of New York Mellon Trust Company, N.A., and its successors and assigns and any other person or entity which may at any time be substituted for it, as successor trustee and paying agent under the Resolution.

2009 Reserve Account means the 2009 Reserve Account established in the Reserve Fund pursuant to the Refunding Series Sale Resolution for the 2009C Bonds as security for the 2009C Bonds and any other 2009 Reserve Account Series designated by Supplemental Resolution or Refunding Series Sale Resolution as being secured by the 2009 Reserve Account.

2009 Reserve Account Series means the 2009C Bonds, the 2010D Bonds and any other Series of Bonds designated by Supplemental Resolution or Refunding Series Sale Resolution as being secured by the 2009 Reserve Account.

2009 Reserve Requirement means an amount with respect to each 2009 Reserve Account Series equal to the lesser of: (i) Maximum Annual Debt Service for such Series of Bonds, (ii) 125% of average Annual Debt Service for such Series of Bonds, and (iii) 10% of the outstanding principal amount of such Series, (or allocable issue price of such Series if such Series is sold with more than a *de minimis* amount of original issue discount or premium), in each case as determined from time to time, and with respect to all 2009 Reserve Account Series means the aggregate of such amounts for each individual 2009 Reserve Account Series.

2009C Bonds means the Airport Commission of the City and County of San Francisco, San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009C.

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

Variable Rate Bonds means one or more Series of variable rate bonds authorized by the Supplemental Resolutions to be issued under the 1991 Master Resolution, in the aggregate principal amounts specified in one or more Series Sale Resolutions. Variable Rate Bonds may bear interest at Daily Rates, Weekly Rates, Index Rate, 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 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.

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.

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.

Issue 1 Reserve Account

The 1991 Master Resolution establishes the “Issue 1 Reserve Account” as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account. ***The Series 2016A 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 Series Sale Resolution as being secured by the 2009 Reserve Account. ***The Series 2016A Bonds are not a 2009 Reserve Account Series and are not 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 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 Series Sale Resolution.

Application and Valuation of the Reserve Accounts

The moneys in the Issue 1 Reserve Account, the 2009 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 12 months from the date the Commission receives notice from the Trustee of such deficiency.

Subject to the terms and conditions of the 1991 Master Resolution, each Reserve Account is to be replenished from available Net Revenues in the following order of priority, each requirement to be satisfied in full before the next requirement in priority: (1) on a pro rata basis, payments to Credit Providers of principal then due with respect to any Credit Facility deposited in such Reserve Account to the extent that such payments will cause the amounts available to be drawn under such Credit Facility or Credit Facilities to be reinstated in an amount at least equal to such payments; and (2) other amounts required to be deposited in such Reserve Account to increase the amount therein to the Aggregate Maximum Annual Debt Service on the then outstanding Bonds to which such accounts are pledged.

Under the 1991 Master Resolution, the Trustee is required to determine the amount in each Reserve Account from time to time but not less frequently than annually. Permitted Investments in each Reserve Account are to be valued at cost plus accreted value. In the event that the Trustee determines on any valuation date that the amount in each Reserve Account exceeds Aggregate Maximum Annual Debt Service on all then outstanding Bonds to which such accounts are pledged, upon the request of the Commission, the Trustee will transfer the amount of such excess to the Treasurer for deposit in the applicable Revenues Account.

In the event Bonds of a Series are to be redeemed in whole or in part pursuant to the 1991 Master Resolution, or the Commission notifies the Trustee in writing of its intention to refund Bonds of a Series in whole or in part, the Trustee is required to value the amount in the Reserve Account applicable to such Bonds, and if the Trustee determines that the amount in the applicable Reserve Account exceeds Aggregate Maximum Annual Debt Service on the Bonds to which such accounts are pledged to remain outstanding after such redemption or refunding, upon the request of the Commission, the Trustee will transfer the amount of such excess in accordance with such request.

At its option, the Commission may at any time substitute a Credit Facility meeting the requirements of the 1991 Master Resolution for amounts on deposit in each Reserve Account. The 1991 Master Resolution requires that the substitution of a Credit Facility for amounts on deposit in each Reserve Account not cause the then-current ratings on the Bonds to which such accounts are pledged to be downgraded or withdrawn. In the event that after the substitution of a Credit Facility for all or any part of the amounts on deposit in a Reserve Account, the amount in such Reserve Account is greater than the amount required to be on deposit therein, upon the request of an authorized Commission representative, the Trustee will transfer such excess to the Commission to be used solely for Airport purposes. The 1991 Master Resolution further requires that any such Credit Facility provided in the form of a surety bond be issued by an institution then rated in the highest rating category, without regard to subcategories, by Moody's and Standard & Poor's, and that any such Credit Facility provided in the form of a letter of credit be issued by an institution then rated in at least the second highest rating category, without regard to subcategories, by Moody's and Standard & Poor's.

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

Permitted Investments

Amounts in the Debt Service Accounts are to be invested in Permitted Investments described in clause (a) or (b) of the definition thereof maturing on or before the Bond payment date on which the proceeds of such Permitted Investments are intended to be applied for the purposes of the Debt Service Account to which such Permitted Investments are allocated. Amounts in each Reserve Account are to be invested in Permitted Investments described in clause (a) or (b) of the definition thereof maturing no later than seven years after the date of purchase of the Permitted Investment. Amounts in Series Construction Accounts may be invested in any Permitted Investment. For a further description of the Permitted Investments with respect to the Series 2016A Bonds, see also "Summary of the Supplemental Resolutions – Application of 2016A Debt Service Account" in this Appendix C.

Issuance of Additional Series of Bonds

General Requirements

Whenever the Commission determines to issue any additional Bonds, the Commission is required to adopt a Supplemental Resolution authorizing the issuance of such Series of Bonds and to deliver to the Trustee (i) a certificate to the effect that the Commission is not then in default under the terms and provisions of the 1991 Master Resolution or any Supplemental Resolution; (ii) an opinion of bond counsel to the effect that such Series of Bonds has been duly authorized in conformity with law and all prior proceedings of the Commission; and (iii) certain other items specified by the 1991 Master Resolution or the Supplemental Resolution or which may be reasonably requested by the Commission or the Trustee.

Additional Bonds Test

The Commission is not permitted to issue any Series of Bonds (other than refunding Bonds) unless the Trustee has been provided with either:

- (a) a certificate of an Airport Consultant dated within 30 days prior to the date of delivery of the Bonds stating that:
 - (i) for the period, if any, from and including the first full Fiscal Year following the issuance of such additional Bonds through and including the last Fiscal Year during any part of

which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and

- (ii) for the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, (1) projected Net Revenues in each such Fiscal Year will be at least sufficient to make all required payments and deposits in such Fiscal Year into the Revenue Bond Account and the General Obligation Bond Account pursuant to the 1991 Master Resolution, and to make the Annual Service Payment to the City and (2) projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year; or

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

For purposes of (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of Maximum Annual Debt Service on the Bonds. In determining projected Net Revenues for purposes of (a) above, the Airport Consultant may take into account reasonably anticipated changes in Revenues and Operation and Maintenance Expenses over such period. In determining Annual Debt Service for purposes of (a) or (b) above, Bonds that will be paid or discharged immediately after the issuance of the Series of Bonds proposed to be issued will be disregarded, and Variable Rate Bonds will be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to 1.25 times the rate determined pursuant to paragraphs (b) and (c), as the case may be, of the definition of "Annual Debt Service" herein.

In the event that the Commission proposes to assume any indebtedness for borrowed money in connection with assuming the possession, management, supervision and control of any airport or other revenue-producing facilities, such indebtedness may constitute additional Bonds under the 1991 Master Resolution entitled to an equal pledge of and lien on Net Revenues as the Bonds provided that the requirements of the 1991 Master Resolution relating to additional Bonds are satisfied with respect to the assumption of such indebtedness.

Refunding Bonds

The Commission may issue Bonds for the purpose of refunding any Bonds or Subordinate Bonds. The Commission is permitted to issue such refunding Bonds only (i) upon compliance with the additional Bonds test established by the 1991 Master Resolution, or (ii) if the Commission provides the Trustee with a certificate of an Airport Consultant or financial consultant that (A) aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding after the issuance of such refunding Bonds will be less than aggregate Annual Debt Service in each such Fiscal Year in which Bonds are outstanding prior to the issuance of such refunding Bonds, and (B) Maximum Annual Debt Service with respect to all Bonds to be outstanding after issuance of such refunding Bonds will not exceed Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance.

Repayment Obligations

If so provided in the applicable Supplemental Resolution and in the written agreement between the Commission and the Credit Provider or Liquidity Provider, as applicable, a Repayment Obligation may be accorded the status of a Bond solely for purposes of the 1991 Master Resolution, provided, however, that the Credit Facility or Liquidity Provider, as applicable, with respect thereto shall not constitute a bond for any other purpose, including without limitation for purposes of the Charter. The Credit Provider or Liquidity Provider, as applicable, shall be deemed to be the Holder of such Bond, and such Bond shall be deemed to have been issued as of the original date of the Bond or Bonds for which such Credit Facility or Liquidity Provider, as applicable, was provided.

Notwithstanding the stated terms of the Repayment Obligation, the Bond deemed to be held by the Credit Provider or Liquidity Provider, as applicable, shall be deemed to be amortized on a level debt service basis at the Index Rate over a period equal to the lesser of (a) 20 years, or (b) the period ending on the later of (i) the final maturity date of the Bonds payable from or secured by such Credit Facility or Liquidity Provider, as applicable, or (ii) the date the Repayment Obligation is due under the terms of the written agreement with respect thereto, with principal payable annually commencing on the next Principal Payment Date with respect to such Bonds and interest payable semiannually commencing on the next Interest Payment Date with respect to such Bonds. Such Bond shall be deemed to bear interest at the rate provided in the written agreement with respect to the Repayment Obligation. Any amount which becomes due and payable on the Repayment Obligation under the written agreement with respect thereto (but not earlier than 15 years from the date such Repayment Obligation is incurred) and which is in excess of the amount deemed to be principal of and interest on a Bond shall be junior and subordinate to the Bonds. The rights of a Credit Provider or Liquidity Provider, as applicable, under the 1991 Master Resolution shall be in addition to any rights of subrogation which the Credit Provider or Liquidity Provider, as applicable, may otherwise have or be granted under law or pursuant to any Supplemental Resolution. Notwithstanding anything in the 1991 Master Resolution to the contrary, a Bond and an unreimbursed Repayment Obligation arising with respect to such Bond shall not be deemed to be Outstanding at the same time.

Subordinate Bonds

The Commission may issue, at any time while any of the Bonds are outstanding, Subordinate Bonds with a pledge of, lien on, and security interest in Net Revenues which are junior and subordinate to those of the Bonds. The principal and purchase price of and interest, redemption premium and reserve fund requirements on such Subordinate Bonds will be payable from time to time out of Net Revenues only if all amounts then required to have been paid or deposited from Net Revenues with respect to principal, purchase price, redemption premium, interest and reserve fund requirements on the Bonds then outstanding or thereafter to be outstanding shall have been paid or deposited as required in the 1991 Master Resolution and any Supplemental Resolution.

Special Facility Bonds

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

No Special Facility Bonds shall be issued by the Commission unless an Airport Consultant has certified (i) that the estimated Special Facility Revenues with respect to the proposed Special Facility will be at least sufficient to pay the principal, or purchase price, interest, and all sinking fund, reserve fund and other payments required with respect to Special Facility Bonds when due, and to pay all costs of operating and maintaining the Special Facility not paid by a party other than the Commission; (ii) that estimated Net Revenues calculated without including the Special Facility Revenues and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses will be sufficient so that the Commission will be in compliance with the rate covenant (see “Certain Covenants–*Rate Covenant*”) during each of the five Fiscal Years immediately following the issuance of the Special Facility Bonds; and (iii) no Event of Default exists.

Upon the payment in full or other discharge of the Special Facility Bonds, Special Facility Revenues with respect to the Special Facility shall be included as Revenues.

Certain Covenants

Punctual Payment

The Commission will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the 1991 Master Resolution and any applicable Supplemental Resolution, and it will faithfully observe and perform all of the conditions, covenants and requirements of the 1991 Master Resolution and all Supplemental Resolutions and of the Bonds.

Negative Pledge

The Commission will not create any pledge, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Revenues or Net Revenues except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest granted by the 1991 Master Resolution for the benefit of the Bonds.

Rate Covenant

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

- (a) Net Revenues in each Fiscal Year will be at least sufficient (i) to make all required payments and deposits into the Revenue Bond Account and the General Obligation Bond Account pursuant to the 1991 Master Resolution, and (ii) to make the Annual Service Payment to the City; and
- (b) Net Revenues, together with any Transfer, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year.

The Commission covenants in the 1991 Master Resolution that if Net Revenues, together with any Transfer, in any Fiscal Year are less than the amount specified in clause (b) above, the Commission will retain and direct an Airport Consultant to make recommendations as to the revision of the Commission's business operations and its schedule of rentals, rates, fees and charges for the use of the Airport and for services rendered by the Commission in connection with the Airport, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Commission 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 SERIES 2016A BONDS" in the front portion of this Official Statement for a summary of the provisions related to the Series 2016A Bonds.

Funds and Accounts

The 1991 Master Resolution establishes the following funds and accounts:

Within the Costs of Issuance Fund:

Series 2016A Costs of Issuance Account

Within the Debt Service Fund:
Series 2016A Interest Account

Series 2016A Principal Account

Series 2016A Redemption Account

Within the Rebate Fund:
Series 2016A 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 Series 2016A Bonds have been designated as a Participating Series of Bonds with respect to the Issue 1 Reserve Account.

Application of Series 2016A Bonds Costs of Issuance Accounts

The 1991 Master Resolution requires the Trustee to apply moneys in the Series 2016A Costs of Issuance Account to the payment of costs of issuance of the Series 2016A Bonds. Amounts in the Series 2016A Costs of Issuance Accounts may be invested in any Permitted Investment.

Application of Series 2016A Debt Service Accounts

The Series 2016A Interest Account, the Series 2016A Principal Account and the Series 2016A Redemption Account are sometimes referred to herein as the Series 2016A Debt Service Accounts. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2016A Interest Account to the payment of interest on the Series 2016A Bonds when due, including accrued interest on any Series 2016A Bonds purchased or redeemed prior to maturity. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2016A Principal Account to the payment of the Principal Amount of the Series 2016A Bonds when due.

The Commission may, from time to time, purchase any Series 2016A Bonds out of available moneys of the Commission at such prices as the Commission may determine plus accrued interest thereon. All Series 2016A Bonds purchased or redeemed under the provisions of the 1991 Master Resolution will be delivered to, and canceled and destroyed by, the Trustee and shall not be reissued.

The Trustee is required to apply moneys in the Series 2016A Redemption Account, to the payment of the redemption price of the Series 2016A Bonds called for redemption. Accrued interest on the Series 2016A Bonds redeemed pursuant to the 1991 Master Resolution will be paid from the Series 2016A Interest Account.

In the event that the amount on deposit in any Series 2016A Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the Series 2016A Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2016A Interest Account, the Series 2016A Principal Account or the Series 2016A Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

Rebate; Series 2016A Rebate Account

The Commission will pay or cause to be paid to the United States Government the amounts required by Section 148(f) of the Code and any Regulations promulgated thereunder at the times required thereby. The 1991 Master Resolution requires the Trustee to hold any payments received from the Commission for deposit into the Series 2016A Rebate Account for purposes of ultimate rebate to the United States. Pending payment to the United States, moneys held in the Series 2016A 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 Series 2016A Bonds and neither the Commission, the Bondholders nor any other person shall have any rights in or claim to such moneys. The 1991 Master Resolution requires the Trustee to invest all amounts held in the Series 2016A Rebate Account in

Nonpurpose Investments (as defined in the Tax Certificate for the Series 2016A Bonds), as directed by the Commission in the Tax Certificate for the Series 2016A Bonds.

Permitted Investments

Amounts in the Series Debt Service Accounts for each Series of 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 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 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 Series 2016A Bonds amounts from Net Revenues, as follows:

- (a) In each Series Interest Account, in approximately equal monthly installments, an amount equal to at least one-sixth ($1/6$) of the aggregate amount of interest becoming due and payable on the Series 2016A Bonds on the next succeeding semiannual interest payment date; provided, however, that no moneys need be deposited in the Series Interest Account except to the extent that such moneys are required for the payment of interest to become due on the Series 2016A Bonds on the next succeeding semiannual interest payment date, after the application of the moneys then on deposit in the applicable Series Interest Account; and provided, further, that subject to the preceding proviso, during the period preceding the first interest payment date on the Series 2016A 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 Series 2016A Bonds minus one, and the aggregate amount of interest becoming due and payable on the Series 2016A Bonds on said interest payment date.
- (b) In each Series Principal Account in approximately equal monthly installments, commencing on the second Business Day of the month determined pursuant to a Series Sale Resolution or Bond Purchase Contract, an amount equal to at least one twelfth ($1/12$) of the aggregate Principal Amount becoming due and payable on any Outstanding serial Bonds of the Series 2016A 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 Series 2016 Bonds maturing by their terms on the next Principal Payment Date.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE 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 “Lease and Use Agreement”) with a majority of the airlines (“Signatory Airlines”) operating at the Airport. The following summary of the 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 Lease and Use Agreements took effect on July 1, 2011 and expire on June 30, 2021.

Any airline that holds over with the Commission’s consent beyond the expiration date of its 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 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 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 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 ITC, 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 pro rata 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 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 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 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 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 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 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 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 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 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 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 commercially reasonable efforts to reduce expenses, and upon 60 days notice to, and in consultation with, the Signatory Airlines, increase the Terminal Area rentals. The Lease and Use Agreements require the Signatory Airlines to pay such increased rentals or such lesser amount which equals the projected deficiency for the remaining months of the then-current fiscal year. Landing fees may similarly be increased in the event the actual expenses (including debt service) of the Airfield Area and Airport Support Area are projected to exceed by ten percent or more the actual revenues in such areas.

Airline Review of Capital Improvements

Under the Lease and Use Agreements, the Commission is limited in any Fiscal Year to appropriating from current revenues up to \$4,200,000 in Fiscal Year 2008-09 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 Fiscal Year 2008-09 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 Fiscal Year 2008-09 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 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 mailing of the notice. The Commission may not proceed with any such pledge or issuance that is not so approved by a Majority-in-Interest.

Public Liability and Property Damage Insurance

A Signatory Airline, at its own cost and expense, must obtain and maintain certain public liability and property damage insurance during the term of its Lease and Use Agreement, including (i) an aircraft liability policy with coverage of at least \$500 million combined single limit for bodily injury and property damage, (ii) at least \$100 million War and Named Perils coverage for bodily injury and property damage, (iii) a workers' compensation and employers' liability policy, (iv) a commercial business auto policy with a minimum limit of not less than \$2 million combined single limit for bodily injury and property damage, and (v) property insurance in an amount equal to the value of airline improvements and betterments during the course of any construction and after completion of construction. The Commission has the right at any time to review the coverage, form and amount of insurance and may require a Signatory Airline to obtain additional insurance, provided it is commercially reasonable.

Security Deposit

A Signatory Airline's faithful performance of its 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 Lease and Use Agreement Provisions

Each of the following events constitutes an Event of Default under the 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 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 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 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 Lease and Use Agreement.

If a Signatory Airline fails to perform a duty under its 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 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 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 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 Lease and Use Agreement. See "*Commission's Right to Suspend Part of 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 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 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 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 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 Lease and Use Agreement, and maintaining the relationships between rental rates for each category of space described in the 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 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 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 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 Lease and Use Agreements will impose any pecuniary liability upon the City, other than from Revenues, or be payable from or constitute a charge upon the general credit or against the taxing power of the City.

West of Bayshore Lands

The 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 Lease and Use Agreement Covenants

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

In the 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 master Continuing Disclosure Certificate entered into by the Commission, the terms of which will apply to of the Series 2016A Bonds (the “Disclosure Certificate”). This summary is not to be considered as a full statement of the Disclosure Certificate and reference is made thereto for the full details of the terms thereof.

Purpose

The Disclosure Certificate is being executed and delivered by the Commission for the benefit of the Holders and Beneficial Owners of the Series 2016A Bonds and in order to assist the Participating Underwriter in complying with SEC Rule 15c2-12(b)(5).

Definitions

In addition to the definitions set forth in the 1991 Master Resolution, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined below, the following capitalized terms have the following meanings for purposes of the Disclosure Certificate:

“Annual Disclosure Report” shall mean any Annual Disclosure Report provided by the Commission pursuant to, and as described in, the Disclosure Certificate.

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2016A Bonds, including persons holding Series 2016A 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.

“Holder” shall mean the person in whose name any Series 2016A Bond shall be registered.

“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 Underwriters of the Series 2016A Bonds required to comply with the Rule in connection with the issuance of the Series 2016A 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 2015-16, 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).

11. Passenger Facility Charge Collections Designated as Revenues by the Commission for Payment of Debt Service on Outstanding Bonds (designation date, amount designated, and applicable fiscal year).
12. Summary of Payments Made by the Airport to the City and County of San Francisco (annual service payment and reimbursement for direct services, including police, fire, other and utility costs).
13. Liquidity Facilities and Credit Facilities Supporting Outstanding Bonds and Commercial Paper (principal amount, type, expiration date, insurer and insurer rating, credit or liquidity provider, short term and long term rating).
14. Summary of Interest Rate Swap Agreements (effective date and expiration date, initial notional amount, counterparty or guarantor and ratings, insurer, fixed rate payable by Commission, market value to Commission).

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 Series 2016A 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" (within the meaning of the Rule).

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 Series 2016A 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 Series 2016A Bonds or other material events affecting the tax status of the Series 2016A Bonds;
2. Modifications to rights of the Series 2016A Bond holders;
3. Optional, unscheduled or contingent the Series 2016A Bond calls;
4. Release, substitution, or sale of property securing repayment of the Series 2016A 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 Series 2016A Bonds pursuant to the 1991 Master Resolution.

Termination of Reporting Obligation

The Commission's obligations under the Disclosure Certificate shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Series 2016A Bonds or (b) if, in the opinion of nationally recognized bond counsel, the Commission ceases to be an obligated person 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 Series 2016A Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2016A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2016A Bonds in the same manner as provided in the 1991 Master Resolution for amendments to the 1991 Master Resolution with the consent of the Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2016A Bonds.

In the event of any amendment or waiver of any provision of the Disclosure Certificate, the Commission shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change in accounting principles, on the presentation) of financial information or operating data being presented by the Commission. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information

Nothing in the Disclosure Certificate shall be deemed to prevent the Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the Commission chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the Commission shall have no obligation under the Disclosure Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

Default

In the event of a failure of the Commission to comply with any provision of the Disclosure Certificate, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Series 2016A Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Series 2016A 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 Series 2016A 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

[Closing Date]

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

\$ _____
Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Refunding Bonds
Series 2016A
(Non-AMT/Governmental Purpose)

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Airport Commission of the City and County of San Francisco (the "Commission") in connection with the issuance by the Commission of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2016A in the aggregate principal amount of \$ _____ (the "Series 2016A Bonds"). The Series 2016A Bonds are being 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 Series 2016A Bonds, dated the date hereof (collectively, the "1991 Master Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the 1991 Master Resolution.

In connection with the issuance of the Series 2016A Bonds, we have examined: (a) copies of the 1991 Master Resolution, the Charter and the Law; (b) an executed copy of the Tax Certificate, dated the date hereof, relating to the Series 2016A Bonds and other matters (the "Tax Certificate"); (c) an executed copy of the Bond Escrow Agreement, dated as of February 1, 2016, by and between the Commission and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"); (d) a copy of the Cash Flow and Yield Verification Report, dated the date hereof, by Grant Thornton LLP; (e) certifications of the Commission, the Co-Financial Advisors, the Trustee, the Escrow Agent, the Underwriters and others; (f) opinions of counsel to the Commission, the Trustee, the Escrow Agent and the Underwriters; and (g) such other documents, opinions and matters as we deemed relevant and necessary rendering the opinions set forth herein. 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 the validity against, any parties, other than the Commission, thereto. 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 this paragraph.

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 whether any other matters come to our attention after the date hereof. We call attention to the fact that the obligations of the Commission, the security provided therefor, as contained in the Series 2016A Bonds and the 1991 Master Resolution, may be subject

to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the limitations on legal remedies against 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 Series 2016A Bonds or the 1991 Master Resolution. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated _____, 2016, or any other offering material relating to the Series 2016A Bonds and express no opinion relating 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 Series 2016A Bonds constitute the valid and binding special, limited obligations of the Commission secured by a pledge of and lien upon and are a charge upon and are payable from the Net Revenues and certain funds and accounts provided for in the 1991 Master Resolution.

2. The 1991 Master Resolution has been duly adopted by the Commission and constitutes the valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms. The 1991 Master Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Series 2016A Bonds, of the Net Revenues and certain amounts on deposit in certain funds and accounts provided for in the 1991 Master Resolution, 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 Series 2016A 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 the Net Revenues and the funds and accounts specifically pledged to the payment thereof. Neither the faith and credit nor the taxing power of the City and County of San Francisco, the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2016A Bonds, and the Commission is not obligated to pay the principal of and interest on the Series 2016A Bonds except from Net Revenues. An owner of the Series 2016A Bonds may not compel the exercise of the taxing power of the City and County of San Francisco or the forfeiture of any of its property to pay the principal of or interest on the Series 2016A Bonds. The Commission has no taxing power.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Bonds is exempt from present State of California personal income tax.

The opinions set forth in numbered paragraph 4 above regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Commission with covenants regarding federal tax law contained in the 1991 Master Resolution and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2016A Bonds to be included in gross income retroactive to the date of issue of the Series 2016A Bonds. Although we are of the opinion that interest on the Series 2016A Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2016A Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

Our engagement with respect to the Series 2016A Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly 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. The Refunded Bonds will be determined based on market conditions at the time of pricing.

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

**Issue 32F Bonds (Non-AMT)
Dated Date: November 16, 2006**

Maturity Date (May 1)	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP†
2021	\$32,355,000	5.00%	May 2, 2016	100%	79765AG83
2022	34,155,000	5.00	May 2, 2016	100	79765AG91

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

**Issue 32G Bonds (Non-AMT)
Dated Date: November 16, 2006**

Maturity Date (May 1)	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP†
2023	\$36,020,000	5.00%	May 2, 2016	100%	79765AH33
2024	24,100,000	5.00	May 2, 2016	100	79765AH41
2025	12,865,000	5.00	May 2, 2016	100	79765AH58
2026	13,565,000	5.00	May 2, 2016	100	79765AH66
2027	11,370,000	5.00	May 2, 2016	100	79766DFH7
2028	15,085,000	4.50	May 2, 2016	100	79765AH82
2032	42,260,000	4.50	May 2, 2016	100	79765AH90

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

**Issue 34D Bonds (Non-AMT)
Dated Date: March 27, 2008**

Maturity Date (May 1)	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP†
2025	\$13,180,000	5.25%	May 1, 2018	100%	79765AR81
2026	49,925,000	5.25	May 1, 2018	100	79765AR99

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. 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.

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