SUPPLEMENT DATED JANUARY 18, 2018 to the OFFICIAL STATEMENT DATED OCTOBER 11, 2017 relating to

\$115,355,000
AIRPORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE REFUNDING BONDS
SERIES 2018A
(AMT)

THIS SUPPLEMENT (THIS "SUPPLEMENT") SETS FORTH INFORMATION REPLACING CERTAIN INFORMATION CONTAINED IN THE ABOVE REFERENCED OFFICIAL STATEMENT (THE "OFFICIAL STATEMENT") AND SHOULD BE READ TOGETHER WITH THE OFFICIAL STATEMENT, WHICH OFFICIAL STATEMENT IS ATTACHED HERETO AND MADE A PART HEREOF. EXCEPT AS EXPRESSLY SET FORTH HEREIN, THIS SUPPLEMENT DOES NOT UPDATE, MODIFY OR REPLACE THE INFORMATION CONTAINED IN THE OFFICIAL STATEMENT, WHICH CONTAINS INFORMATION ONLY AS OF ITS DATE. TO THE EXTENT THE INFORMATION IN THIS SUPPLEMENT CONFLICTS WITH THE INFORMATION IN THE OFFICIAL STATEMENT, THIS SUPPLEMENT SHALL GOVERN. UNLESS OTHERWISE DEFINED IN THIS SUPPLEMENT, ALL TERMS USED HEREIN SHALL HAVE THE SAME MEANINGS AS THOSE TERMS HAVE IN THE OFFICIAL STATEMENT.

1. Federal Tax Law Changes

Since the date of the Official Statement, certain changes have been made to the federal tax laws as a result of the passage of the Tax Cuts and Jobs Act, Pub. L. No. 115-97, signed into law on December 22, 2017. One of these changes includes the repeal of the federal corporate alternative minimum tax for taxable years beginning on and after January 1, 2018. The description of certain tax matters with respect to the Series 2017A-D Bonds and the Series 2018A Bonds set forth on the cover of the Official Statement is hereby amended and restated in its entirety to read as follows:

On October 31, 2017, Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission ("Co-Bond Counsel"), delivered their opinions in connection with the issuance of the Series 2017A-D Bonds, that under then-existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017D Bonds was excluded from gross income for federal income tax purposes, except for interest on any Series 2017A Bond or Series 2017D Bond (collectively, the "Series 2017 AMT Bonds") for any period during which any such Series 2017 AMT Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2017 AMT Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Co-Bond Counsel was further of the opinion that (a) interest on the Series 2017 AMT Bonds was a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code, and (b) interest on the Series 2017B Bonds was not a specific item of tax preference for purposes of the federal alternative minimum tax, except that interest on the Series 2017B Bonds would be included in a corporate taxpayer's adjusted current earnings for purposes of computing its federal alternative minimum tax. Co-Bond Counsel notes that, effective January 1, 2018, no federal alternative minimum tax applies to corporations for taxable years beginning on and after January 1, 2018. Interest on the Series 2017C Bonds is included in gross income for federal income tax purposes. Co-Bond Counsel was further of the opinion that interest on the Series 2017A-D Bonds was exempt from then-present State of California personal income taxes. See "TAX MATTERS" herein.

On February 1, 2018, Co-Bond Counsel will deliver their opinions in connection with the issuance of the Series 2018A Bonds that 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 2018A Bonds is

excluded from gross income for federal income tax purposes, except for interest on any Series 2018A Bond for any period during which such Series 2018A Bond is held by a "substantial user" of the facilities refinanced by the Series 2018A Bonds, or a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel are further of the opinion that interest on the Series 2018A Bonds constitutes a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and, for taxable years beginning before January 1, 2018, on corporations, by the Code. Co-Bond Counsel notes that no federal alternative minimum tax applies to corporations for taxable years beginning on and after January 1, 2018. Co-Bond Counsel are further of the opinion that interest on the Series 2018A Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.

2. Officers of the City and County of San Francisco

On the page following the cover of the Official Statement that contains the names of the officers of the City and County of San Francisco, the name of the mayor, Edwin M. Lee is deleted and replaced with the following:

"London Breed, Acting Mayor*"

The following language is added as a footnote on the page following the cover of the Official Statement that contains the names of the officers of the City and County of San Francisco.

"* Edwin M. Lee served as Mayor of the City from January 11, 2011 until December 12, 2017, when he unexpectedly passed away. London Breed, the President of the Board of Supervisors, serves as Acting Mayor by virtue of her office as Board of Supervisors President."

3. Plan of Finance and Refunding

The following section is hereby added at the end of the "PLAN OF FINANCE AND REFUNDING" in the Official Statement:

"Issuance of Series 2017A-D Bonds

The Commission issued the Series 2017A-D Bonds as planned on October 31, 2017 and deposited or applied the proceeds of the Series 2017A-D Bonds as described under "ESTIMATED SOURCES AND USES OF FUNDS – Series 2017A-D Bonds Estimated Sources and Uses."

As of January 9, 2018, the balance in the Contingency Account available for transfer was approximately \$123.2 million (including accrued but unpaid interest on investments), which was equal to approximately 26% of Maximum Annual Debt Service on the Bonds as of that date.

As of January 2, 2018, there was \$19,061,618.39 in the 2017 Reserve Account (which does not include accrued but unpaid interest on investments)."

4. Tax Matters

Since the date of the Official Statement, certain changes have been made to the federal tax laws as a result of the passage of the Tax Cuts and Jobs Act, Pub. L. No. 115-97, signed into law on December 22, 2017. One of these changes includes the repeal of the federal corporate alternative minimum tax for taxable years beginning on and after January 1, 2018.

Series 2017A-D Bonds

On October 31, 2017, Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission ("Co-Bond Counsel"), delivered their respective opinions with respect to the Series 2017A-D Bonds in substantially the form set forth in Appendix G-1 to the Official Statement. Co-Bond Counsel notes that, effective

January 1, 2018, no federal alternative minimum tax applies to corporations for taxable years beginning on and after January 1, 2018.

Series 2018A Bonds

It is a condition to the issuance of the Series 2018A Bonds that on the delivery date of the Series 2018A Bonds Co-Bond Counsel delivers their approving opinions in substantially the form attached to this Supplement as Exhibit A (see "6. Appendix G-2 Proposed Form of Opinion of Co-Bond Counsel with respect to Series 2018A Bonds") below.

The section entitled "TAX MATTERS—Series 2018A Bonds (Tax-Exempt)—General" in the Official Statement is hereby amended and restated in its entirety to read as follows:

General. In the opinion of Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2018A Bond for any period during which any such Series 2018A Bond is held by a "substantial user" of the facilities refinanced by the Series 2018A Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel are further of the opinion that interest on the Series 2018A Bonds is a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and, for taxable years beginning before January 1, 2018, on corporations. Co-Bond Counsel notes that no federal alternative minimum tax applies to corporations for taxable years beginning on and after January 1, 2018. The opinions described above assume the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Code, that must be met subsequent to the issuance of the Series 2018A Bonds. Failure to comply with such requirements could cause interest on the Series 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2018A Bonds. The Commission will covenant to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the Series 2018A Bonds.

Co-Bond Counsel are further of the opinion that interest on the Series 2018A Bonds is exempt from present State of California personal income taxes.

5. Continuing Disclosure

The fifth paragraph under the caption "CONTINUING DISCLOSURE" in the Official Statement is hereby amended by adding the following two sentences to the end of the paragraph:

"On October 12, 2017, Moody's raised its long-term jointly supported rating on the Commission's Second Series Variable Rate Revenue Refunding Bonds Issue 37C (Non-AMT/Private Activity). The Commission did not make the filing with respect to the rating change until January 4, 2018."

6. Appendix G-2 Proposed Form of Opinion of Co-Bond Counsel with respect to Series 2018A Bonds

The form of the opinion of Co-Bond Counsel with respect to the Series 2018A Bonds, as provided in Appendix G-2 of the Official Statement, is hereby amended and restated in its entirety to read as set forth in **Exhibit A** hereto.

7. Annual Report

The Continuing Disclosure Annual Report for Fiscal Year 2016-17 (including the audited financial statements attached thereto) filed with EMMA on January 18, 2018, is incorporated by reference herein.

Dated: January 18, 2018.

AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

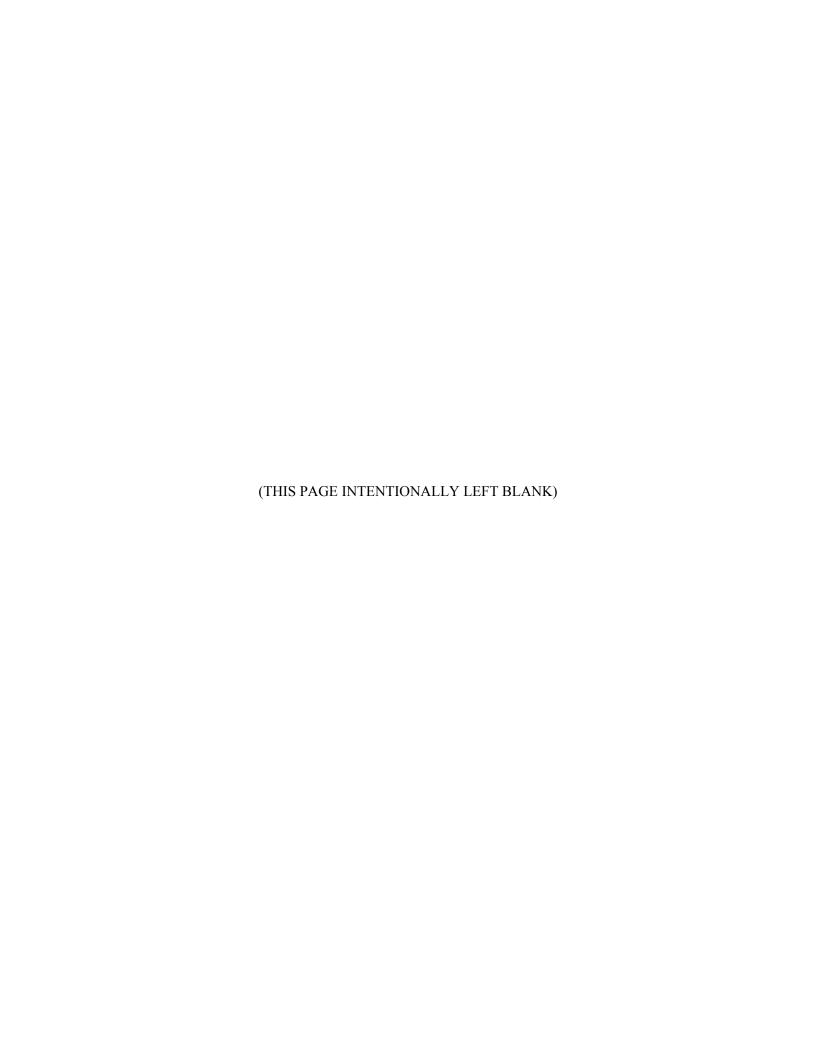


EXHIBIT A

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL WITH RESPECT TO SERIES 2018A BONDS

[Settlement Date]

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

\$115,355,000
Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Refunding Bonds
Series 2018A
(AMT)

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 2018A (AMT) in the aggregate principal amount of \$115,355,000 (the "Series 2018A Bonds"). The Series 2018A 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 2018A Bonds, dated October 31, 2017 (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 2018A 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 October 31, 2017, as amended, relating to the Series 2018A Bonds and other matters (the "Tax Certificate"); (c) an executed copy of the Bond Escrow Agreement, dated as of February 1, 2018, 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 October 31, 2017, as amended, 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 2018A 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 2018A Bonds or the 1991 Master Resolution. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated October 11, 2017, the Supplement dated January 18, 2018 to the Official Statement dated October 11, 2017, or any other offering material relating to the Series 2018A 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:

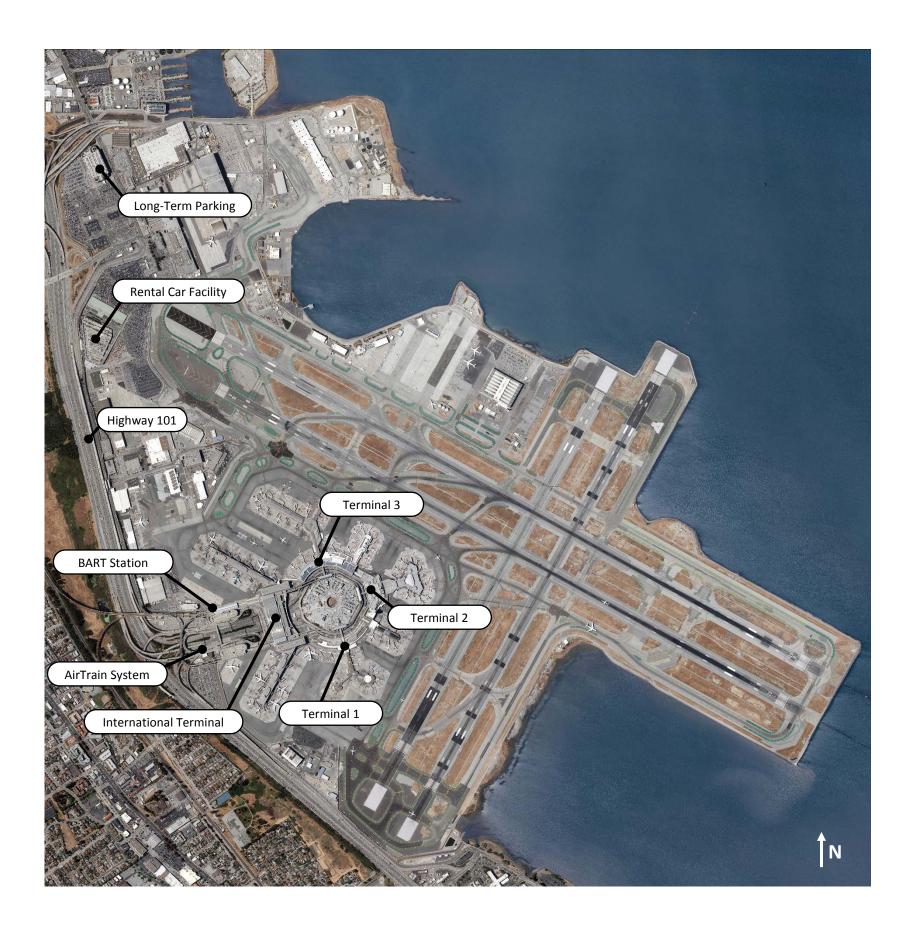
- 1. The Series 2018A Bonds constitute the valid and binding special, limited obligations of the Commission secured by a pledge of and lien upon and are a charge upon and are payable from the Net Revenues and certain funds and accounts provided for in the 1991 Master Resolution.
- 2. The 1991 Master 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 2018A 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 2018A 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 2018A Bonds, and the Commission is not obligated to pay the principal of and interest on the Series 2018A Bonds except from Net Revenues. An owner of the Series 2018A 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 2018A Bonds. The Commission has no taxing power.
- 4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2018A Bond for any period during which such Series 2018A Bond is held by a person who is a "substantial user" of the facilities refinanced by the Series 2018A Bonds or a "related person" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2018A Bonds constitutes a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and, for taxable years beginning before January 1, 2018, on corporations, by the Code. No federal alternative minimum tax applies to corporations for taxable years beginning on and after January 1, 2018.
- 5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018A 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 2018A Bonds to be included in gross income retroactive to the date of issue of the Series 2018A Bonds. Although we are of the opinion that interest on the Series 2018A Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2018A 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 2018A Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly yours,





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 2017A Bonds, the Series 2017B Bonds, the Series 2017D Bonds and the Series 2018A Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2017A Bond, Series 2017D Bond or Series 2018A Bond (collectively, the "Series 2017/18 AMT Bonds") for any period during which any such Series 2017/18 AMT Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2017/18 AMT Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Co-Bond Counsel are further of the opinion that (a) interest on the Series 2017/18 AMT Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax, and (b) interest on the Series 2017B Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax. Interest on the Series 2017C Bonds is included in gross income for federal income tax purposes. Co-Bond Counsel are further of the opinion that interest on the Series 2017/18 Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.

\$876,895,000 AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO SAN FRANCISCO INTERNATIONAL AIRPORT

\$339,585,000 Second Series Revenue Bonds Series 2017A (AMT) \$231,985,000
Second Series Revenue Bonds
Series 2017B
(Non-AMT/ Governmental Purpose)

\$45,140,000 Second Series Revenue Bonds Series 2017C (Federally Taxable)

\$144,830,000 Second Series Revenue Refunding Bonds Series 2017D (AMT) \$115,355,000 Second Series Revenue Refunding Bonds Series 2018A (AMT)

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 (i) \$339,585,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2017A (the "Series 2017A Bonds"), (ii) \$231,985,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2017B (the "Series 2017B Bonds"), (iii) \$45,140,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2017C (the "Series 2017C Bonds"), (iv) \$144,830,000 principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2017D (the "Series 2017D Bonds," and together with the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds, the "Series 2017A-D Bonds") and (v) \$115,355,000 principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds," and together with the Series 2017A-D Bonds, the "Series 2017A 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 2017/18 Bonds.

The Commission will use the proceeds of the Series 2017/18 Bonds to finance a portion of the costs of the Capital Improvement Plan; to repay certain Commercial Paper Notes issued to finance capital projects; to fund deposits to reserve accounts; to fund a deposit to the Contingency Account; to refund certain outstanding Bonds of the Commission and to make payments in connection with the termination of certain swaps associated with certain of the Bonds to be refunded; to pay capitalized interest on a portion of the Series 2017A Bonds and a portion of the Series 2017B Bonds; and to pay costs of issuance of the Series 2017/18 Bonds.

The Series 2017/18 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 2017/18 Bonds will be payable each May 1 and November 1, commencing May 1, 2018.

The Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds are subject to redemption prior to their stated maturity dates, as described herein.

The Series 2017/18 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 2017/18 Bonds, payment of the principal of and interest on the Series 2017/18 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 2017/18 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 2017/18 Bonds. No holder of a Series 2017/18 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 2017/18 Bonds. The Commission has no taxing power whatsoever.

Purchasers of the Series 2017/18 Bonds will be deemed to have consented to certain amendments to the 1991 Master Resolution. See "Proposed Amendments to the 1991 Master Resolution." and Appendix H—"Summary Of Proposed Amendments To The 1991 Master Resolution."

The Series 2017/18 Bonds are offered when, as and if issued by the Commission and received by the Underwriters, subject to approval of validity 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 2017A-D Bonds through the facilities of DTC on or about October 31, 2017, against payment therefor. It is anticipated that the Series 2018A Bonds will be available for delivery through the facilities of DTC on or about February 1, 2018, subject to the satisfaction of certain conditions. Potential investors in the Series 2018A Bonds should carefully review the information under the caption "DELAYED DELIVERY OF THE SERIES 2018A BONDS" and in APPENDIX I—"FORM OF INVESTOR DELAYED DELIVERY CONTRACT."

Jefferies BofA Merrill Lynch Goldman Sachs & Co. LLC Morgan Stanley Citigroup Raymond James

\$876,895,000 AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO SAN FRANCISCO INTERNATIONAL AIRPORT

\$339,585,000

\$231,985,000

\$45,140,000

Second Series Revenue Bonds Series 2017A (AMT)

Second Series Revenue Bonds Series 2017B

Second Series Revenue Bonds Series 2017C

(Non-AMT/ Governmental Purpose)

(Federally Taxable)

\$144,830,000

\$115,355,000

Second Series Revenue Refunding Bonds Series 2017D (AMT)

Second Series Revenue Refunding Bonds Series 2018A (AMT)

MATURITY SCHEDULE

\$339,585,000 Series 2017A Bonds

\$100,000,000 5.000% Series 2017A Term Bonds maturing May 1, 2042 Yield 3.200% Price 114.645 (CUSIP No. 79766DKG3)

\$60,120,000 5.250% Series 2017A Term Bonds maturing May 1, 2042 Yield 3.100% Price 117.575 (CUSIP No. 79766DKH1)

\$179,465,000 5.000% Series 2017A Term Bonds maturing May 1, 2047 Yield 3.260% Price 114.117 (CUSIP No. 79766DKJ7)

\$231,985,000 Series 2017B Bonds

Maturity Date (May 1)	Principal	Interest Rate	Yield	Price	CUSIP [†] No.
2047	\$231,985,000	5.000%	3.050% ^C	115.977 ^C	79766DKK4

\$45,140,000 Series 2017C Bonds

Maturity Date (May 1)	Principal	Interest Rate	Price	CUSIP [†] No.
2019	\$24,210,000	1.721%	100.000	79766DKL2
2020	20,930,000	1.944	100.000	79766DKM0

^C Priced to par call on May 1, 2027.

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\$144,830,000 Series 2017D Bonds

Maturity Date (May 1)	Principal	Interest Rate	Yield	Price	CUSIP [†] No.
2020	\$ 3,800,000	5.000%	1.200%	109.331	79766DKN8
2021	21,850,000	5.000	1.350	112.436	79766DKP3
2022	22,990,000	5.000	1.560	114.893	79766DKQ1
2023	24,175,000	5.000	1.730	117.085	79766DKR9
2024	25,440,000	5.000	1.850	119.208	79766DKS7
2025	26,785,000	5.000	2.020	120.642	79766DKT5
2026	13,630,000	5.000	2.160	121.945	79766DKU2
2027	6,160,000	5.000	2.290	123.019	79766DKV0

\$115,355,000 Series 2018A Bonds

Principal	Interest Rate	Yield	Price	CUSIP [†] No.
\$22,110,000	5.000%	1.250%	104.634	79766DKW8
22,870,000	5.000	1.380	107.990	79766DKX6
15,880,000	5.000	1.510	111.025	79766DKY4
26,435,000	5.000	1.710	113.428	79766DKZ1
28,060,000	5.000	1.880	115.525	79766DLA5
	\$22,110,000 22,870,000 15,880,000 26,435,000	\$22,110,000 5.000% 22,870,000 5.000 15,880,000 5.000 26,435,000 5.000	\$22,110,000 5.000% 1.250% 22,870,000 5.000 1.380 15,880,000 5.000 1.510 26,435,000 5.000 1.710	\$22,110,000 5.000% 1.250% 104.634 22,870,000 5.000 1.380 107.990 15,880,000 5.000 1.510 111.025 26,435,000 5.000 1.710 113.428

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CITY AND COUNTY OF SAN FRANCISCO

Edwin M. Lee, *Mayor*Dennis J. Herrera, *City Attorney*Benjamin Rosenfield, *Controller*José Cisneros, *Treasurer*

AIRPORT COMMISSION

Larry Mazzola, *President* Linda S. Crayton, *Vice President*

Richard J. Guggenhime Eleanor Johns Peter A. Stern

Ivar C. Satero, Airport Director

BOARD OF SUPERVISORS OF THE CITY AND COUNTY OF SAN FRANCISCO

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Katy Tang, District 4

Jane Kim, District 6

Norman Yee, District 7

Jeff Sheehy, District 8

Hillary Ronen, District 9

Malia Cohen, District 10

Ahsha Safaí, District 11

CONSULTANTS AND ADVISORS

CO-FINANCIAL ADVISORS

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

AIRPORT CONSULTANT

LeighFisher Burlingame, California

TRUSTEE

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Kutak Rock LLP Denver, Colorado

Amira Jackmon, Attorney at Law Berkeley, California

DISCLOSURE COUNSEL

Nixon Peabody LLP San Francisco, California

AUDITOR

KPMG 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.

Limitations 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 2017/18 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 2017/18 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 2017/18 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 2017/18 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., S&P Global Ratings and Fitch Ratings, Inc. for the Credit 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. The Commission and the City each maintain a website and 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 2017/18 Bonds.

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OFFICIAL STATEMENT

\$876,895,000 AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO SAN FRANCISCO INTERNATIONAL AIRPORT

\$339,585,000 Second Series Revenue Bonds Series 2017A (AMT) \$231,985,000 Second Series Revenue Bonds Series 2017B (Non-AMT/ Governmental Purpose) \$45,140,000 Second Series Revenue Bonds Series 2017C (Federally Taxable)

\$144,830,000 Second Series Revenue Refunding Bonds Series 2017D

(AMT)

Second Series Revenue Refunding Bonds Series 2018A (AMT)

\$115,355,000

INTRODUCTION

The Airport Commission (the "Commission") of the City and County of San Francisco (the "City") will issue (i) \$339,585,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2017A (the "Series 2017A Bonds"), (ii) \$231,985,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2017B Bonds"), (iii) \$45,140,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2017C (the "Series 2017C Bonds"), (iv) \$144,830,000 principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2017D (the "Series 2017D Bonds," and together with the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds, the "Series 2017A-D Bonds") and (v) \$115,355,000 principal amount of its San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds," and together with the Series 2017A-D Bonds, the "Series 2017/18 Bonds"), pursuant to the terms of the 1991 Master Resolution.

The Commission authorized the Series 2017/18 Bonds under Resolution No. 91-0210, which the Commission adopted on December 3, 1991, as supplemented and amended (the "1991 Master Resolution"). The Series 2017/18 Bonds, together with all bonds that the Commission has issued and will issue in the future 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 2017/18 Bonds. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions."

The Commission will use the proceeds of the Series 2017/18 Bonds to finance a portion of the costs of the Capital Improvement Plan (described herein); to repay certain Commercial Paper Notes issued to finance capital projects; to fund deposits to the reserve accounts (described herein); to fund a deposit to the Contingency Account; to refund certain outstanding Bonds of the Commission and to make payments in connection with the termination of swaps associated with certain of the Bonds to be refunded; to pay capitalized interest on a portion of the Series 2017A Bonds and a portion of the Series 2017B Bonds; and to pay costs of issuance of the Series 2017/18 Bonds. See "PLAN OF FINANCE AND REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Series 2017/18 Bonds will mature on the dates, in the amounts and bear interest at the rates shown on the inside cover of this Official Statement. The Commission expects to deliver the Series 2017A-D Bonds, in bookentry form to The Depository Trust Company ("DTC"), on or about October 31, 2017 for the account of the Underwriters. The Commission expects to deliver the Series 2018A Bonds, in book-entry form to DTC, on or about February 1, 2018 (the "2018 Settlement Date") for the account of the Underwriters. See "DELAYED DELIVERY OF THE SERIES 2018A BONDS" and APPENDIX I—"FORM OF INVESTOR DELAYED DELIVERY CONTRACT."

The Commission will secure the Series 2017/18 Bonds with a pledge of, lien on and security interest in Net Revenues of the San Francisco International Airport (the "Airport") on parity with the Commission's other Outstanding Bonds, which, as of August 31, 2017, were outstanding in the amount of approximately \$4.8 billion, and any additional Bonds. See "SECURITY FOR THE SERIES 2017/18 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 Improvement Plan. See "SECURITY FOR THE SERIES 2017/18 BONDS—Additional Bonds" and "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan." The Series 2017A Bonds and the Series 2017B Bonds will also be secured by the Original Reserve Account. The Series 2017C Bonds, the Series 2017D Bonds and the Series 2018A Bonds will be secured by the 2017 Reserve Account. See "SECURITY FOR THE SERIES 2017/18 BONDS—Reserve Fund; Reserve Accounts; Credit Facilities—Original Reserve Account" and "-2017 Reserve Account."

This Official Statement contains brief descriptions or summaries of, among other things, the Series 2017/18 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.

On October 3, 2017, the Commission adopted a resolution (the "Twenty-First Supplemental Resolution"), which sets forth a number of amendments to the 1991 Master Resolution (the "Proposed Amendments"). The Proposed Amendments will become effective in the manner and on the dates as described under "Proposed Amendments to the 1991 Master Resolution" and in Appendix H- "Summary of Proposed Amendments to the 1991 Master Resolution." By their purchase of the Series 2017/18 Bonds, the purchasers of the Series 2017/18 Bonds consent to the Proposed Amendments and authorize the Trustee to take all actions necessary to evidence or effect such consent.

PROPOSED AMENDMENTS TO THE 1991 MASTER RESOLUTION

The Proposed Amendments include, among other amendments, changes to how Revenues, Annual Debt Service and Maximum Annual Debt Service are calculated, the required ratings on certain Permitted Investments, what investments are included in Permitted Investments, the required ratings of any Credit Facility that may be deposited to the Original Reserve Account in the future, and how amendments to the 1991 Master Resolution become effective. See Appendix H- "Summary of Proposed Amendments to the 1991 Master Resolution" for a more detailed description of the Proposed Amendments.

The Proposed Amendments will become effective only upon the satisfaction of certain conditions, including (i) receipt by the Commission of the consent of the Holders of a majority in aggregate principal amount of all Outstanding Bonds, and/or in certain cases, Holders of a majority in aggregate principal amount of all Outstanding Bonds secured by the Original Reserve Account, and (ii) delivery of a certificate from the Airport Director (A) declaring that all other consents required for such amendments have been obtained (i.e., the applicable consents of the applicable Credit Providers), and (B) electing that such amendments shall be effective. On the date of issuance of the Series 2017A-D Bonds, it is expected that approximately 14.22% of the Holders of the then-Outstanding Bonds will have consented to the General Proposed Amendments (as defined in Appendix H), and approximately 11.76% of the Holders of the then-Outstanding Bonds secured by the Original Reserve Account will have consented to the Original Reserve Proposed Amendments (as defined in Appendix H). On the date of issuance of the Series 2018A Bonds, it is expected that approximately 16.45% of the Holders of the then-Outstanding Bonds will have consented to the General Proposed Amendments, and approximately 12.11% of the Holders of the then-Outstanding Bonds secured by the Original Reserve Account will have consented to the Original Reserve Proposed Amendments. The Proposed Amendments may become effective on different dates and not all amendments may become effective. By their purchase of the Series 2017/18 Bonds, the purchasers of the Series 2017/18 Bonds consent to the Proposed Amendments and authorize the Trustee to take all actions necessary to evidence or effect such consent.

PLAN OF FINANCE AND REFUNDING

The Commission will use the proceeds of the Series 2017A Bonds and the Series 2017B Bonds to finance and refinance (through the repayment of Commercial Paper Notes) a portion of the costs of the Capital Improvement

Plan; to fund a deposit to the Original Reserve Account; to pay capitalized interest on a portion of the Series 2017A Bonds and on a portion of the Series 2017B Bonds; and to pay costs of issuance of the Series 2017A Bonds and Series 2017B Bonds.

The Commission will use the proceeds of the Series 2017C Bonds to fund a deposit to the Contingency Account; to make payments in connection with the termination of the swaps associated with the 2017 Refunded Bonds (defined below under "–Refunding Plan for 2017 Refunded Bonds; Termination of Swaps"); to make a deposit to the 2017 Reserve Account; and to pay costs of issuance of the Series 2017C Bonds and the Series 2017D Bonds.

The Commission will use the proceeds of the Series 2017D Bonds, together with certain other available moneys, to refund the 2017 Refunded Bonds and to make a deposit to the 2017 Reserve Account.

The Commission will use the proceeds of the Series 2018A Bonds, together with certain other available moneys, to refund the 2018 Refunded Bonds (defined below under "–Refunding Plan for 2018 Refunded Bonds"); to make a deposit to the 2017 Reserve Account; and to pay costs of issuance of the Series 2018A Bonds.

Financing of Capital Projects

A portion of the proceeds of the Series 2017A Bonds and the Series 2017B Bonds will be used to finance and refinance a portion of the costs of the following projects, among others: redevelopment of Terminal 1, including 24 new gates (18 renovated and 6 new); redevelopment of Terminal 3 West; renovation of the International Terminal; construction of a new long-term parking garage and extension of AirTrain service to that garage; improvements to the Airport's security infrastructure; certain airfield improvements; and the construction of a new administration campus to consolidate some Commission administrative departments. For further description of these projects, see "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan" below and "AIRPORT CAPITAL IMPROVEMENT PLAN AND FUNDING—Summary of the Capital Improvement Plan—Projects in the Capital Improvement Plan" in Appendix A.

A portion of the proceeds of the Series 2017A Bonds and the Series 2017B Bonds will be used to repay approximately \$300.5 million in principal amount of the Commission's Commercial Paper Notes within 90 days of the date of delivery of the Series 2017A-D Bonds. The proceeds of these Commercial Paper Notes were used to finance costs of projects in the Capital Improvement Plan and for other purposes.

A portion of the proceeds of the Series 2017A Bonds and the Series 2017B Bonds will be used to pay interest on a portion of such bonds through approximately May 1, 2020.

Deposit to Contingency Account

A portion of the proceeds of the Series 2017C Bonds will be used to make a deposit in the amount of \$28 million into the Contingency Account. See "SECURITY FOR THE SERIES 2017/18 BONDS—Contingency Account").

Refunding Plan for 2017 Refunded Bonds; Termination of Swaps

A portion of the proceeds of the Series 2017D Bonds, along with certain other available moneys, will be used to current refund the Outstanding Bonds listed and identified as the 2017 Refunded Bonds on APPENDIX J-"LIST OF REFUNDED BONDS" (collectively, the "2017 Refunded Bonds"). The 2017 Refunded Bonds will be redeemed on November 1, 2017.

A portion of the proceeds of the Series 2017C Bonds will be used to make payments in connection with the termination of swaps associated with the 2017 Refunded Bonds.

Refunding Plan for 2018 Refunded Bonds

A portion of the proceeds of the Series 2018A Bonds, together with certain other available moneys, will be used to current refund the Outstanding Bonds listed and identified as the 2018 Refunded Bonds on APPENDIX J-"LIST OF REFUNDED BONDS" (collectively, the "2018 Refunded Bonds"). The 2018 Refunded Bonds will be redeemed on May 1, 2018 (the "2018 Refunded Bonds Redemption Date").

Proceeds of the Series 2018A Bonds, together with certain other available moneys, including certain amounts held pursuant to the 1991 Master Resolution, 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 (the "2018 Escrow Agreement"), to be executed and delivered by the Commission and the Escrow Agent. The amount deposited with the Escrow Agent under the 2018 Escrow Agreement will be sufficient, together with investment earnings thereon, to pay the redemption price of the 2018 Refunded Bonds (as set forth in Appendix J) and accrued interest on the 2018 Refunded Bonds on the 2018 Refunded Bonds Redemption Date. 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 2017A-D Bonds.

Series 2017A-D Bonds Estimated Sources and Uses

	Series 2017A	Series 2017B	Series 2017C	Series 2017D	Total
SOURCES OF FUNDS:					
Principal Amount	\$339,585,000.00	\$231,985,000.00	\$45,140,000.00	\$144,830,000.00	\$761,540,000.00
Plus: Original Issue Premium	50,546,164.05	37,064,243.45	_	25,450,592.25	113,060,999.75
Other Funds of the Airport ⁽¹⁾	_	_	_	10,517,324.61	10,517,324.61
TOTAL	\$390,131,164.05	\$269,049,243.45	\$45,140,000.00	\$180,797,916.86	\$885,118,324.36
USES OF FUNDS:					
Deposit to Construction Funds	\$172,815,000.00	\$120,455,000.00	\$ -	\$ -	\$293,270,000.00
Commercial Paper Repayment	167,904,511.00	132,618,489.00	_	_	300,523,000.00
Capitalized Interest	37,298,521.20	7,628,816.74	_	_	44,927,337.94
Deposit to Original Reserve Account	10,832,260.39	7,470,337.50	_	_	18,302,597.89
Deposit to Contingency Account	_	_	28,000,000.00	_	28,000,000.00
Deposit to Issue 36A/B/C Redemption					
Accounts	_	_	_	165,781,616.06	165,781,616.06
Swap Termination Payments	_	_	12,589,000.00	_	12,589,000.00
Deposit to 2017 Reserve Account	_	_	3,980,699.20	15,016,300.80	18,997,000.00
Underwriters' Discount	744,930.13	509,320.68	273,773.57	_	1,528,024.38
Costs of Issuance ⁽²⁾	535,941.33	367,279.53	296,527.23		1,199,748.09
TOTAL	\$390,131,164.05	\$269,049,243.45	\$45,140,000.00	\$180,797,916.86	\$885,118,324.36

⁽¹⁾ Includes funds from various funds and accounts related to the 2017 Refunded Bonds under the 1991 Master Resolution.

⁽²⁾ Includes fees and expenses of Co-Bond Counsel, Disclosure Counsel, the Co-Financial Advisors, the Verification Agent and the Trustee, printing costs, rating agency fees, and other miscellaneous costs associated with the issuance of the Series 2017A-D Bonds.

The following table sets forth the estimated sources and uses of funds for the Series 2018A Bonds.

Series 2018A Bonds Estimated Sources and Uses

SOURCES OF FUNDS:

Principal Amount	\$115,355,000.00
Plus: Original Issue Premium	12,508,667.20
Release from Original Reserve Account	26,275,365.40
Other Funds of the Airport ⁽¹⁾	2,013,793.75
Total	\$156,152,826.35
USES OF FUNDS:	
Deposit to Issue 34E Escrow Fund	\$144,117,587.50
Deposit to 2017 Reserve Account	11,535,500.00
Underwriters' Discount	176,586.55
Costs of Issuance ⁽²⁾	323,152.30
Total	\$156,152,826.35

⁽¹⁾ Includes funds from various funds and accounts related to the 2018 Refunded Bonds under the 1991 Master Resolution.

DELAYED DELIVERY OF THE SERIES 2018A BONDS

The Commission and the Underwriters have entered into a Forward Delivery Bond Purchase Contract (the "Forward Delivery Contract") with respect to the Series 2018A Bonds. Subject to the terms of the Forward Delivery Contract, the Commission expects to deliver the Series 2018A Bonds, in book-entry form to DTC, on or about February 1, 2018 (such date, or such later date as is agreed to by the Commission and Jefferies LLC (the "Representative") for delivery of the Series 2018A Bonds, is referred to herein as the "2018 Settlement Date"), for the account of the Underwriters identified in the Forward Delivery Contract.

The obligation of the Underwriters to purchase the Series 2018A Bonds from the Commission is subject to the satisfaction of certain conditions, as outlined in the Forward Delivery Contract, on October 31, 2017, or such later date as is agreed to by the Commission and the Representative (the "Closing Date") and on the 2018 Settlement Date.

Delayed Delivery

Under the Forward Delivery Contract, the Underwriters may terminate their obligations under the Forward Delivery Contract, by notifying the Commission, if any of the following shall have occurred and be continuing as of the date of termination:

- (i) There shall have been a Change of Law (defined below);
- (ii) As a result of any legislation, regulation, ruling, order, release, court decision or judgment or action by the U.S. Department of the Treasury, the Internal Revenue Service, or any agency of the State either enacted, issued, effective, adopted or proposed (but only with respect to any such proposed legislation, regulation, ruling, order, release, court decision or judgment or action which continues to be proposed as of the 2018 Settlement Date), or for any other reason Co-Bond Counsel cannot issue an opinion substantially in the form attached hereto as APPENDIX G-2 as to the effect that (a) the interest on the Series 2018A Bonds is not subject to federal income tax under Section 103 of the Code (or comparable provisions of any successor federal tax laws), and (b) the interest on the Series 2018A Bonds is exempt from the State of California income taxation:

⁽²⁾ Includes fees and expenses of Co-Bond Counsel, Disclosure Counsel, the Co-Financial Advisors, the Verification Agent and the Trustee, printing costs, rating agency fees, and other miscellaneous costs associated with the issuance of the Series 2018A Bonds.

- (iii) The Official Statement as of the Closing Date or the Official Statement updated through a date not more than twenty-five and not less than ten days prior to the 2018 Settlement Date (the "Updated Official Statement") as of the 2018 Settlement Date contained or contains an untrue statement or misstatement of material fact or omitted or omits to state a material fact necessary in order to make the statements and information contained therein in light of the circumstances under which they were made, not misleading;
- (iv) Legislation shall be enacted, or a decision of a court of competent jurisdiction shall be rendered or any action shall be taken or rule or regulation promulgated by any governmental agency having jurisdiction over the subject matter which has the effect of either (A) requiring the Series 2018A Bonds to be registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the 1991 Master Resolution to be qualified under the Trust Indenture Act of 1939, as amended; or (B) making the contemplated underwriting and sale of the Series 2018A Bonds pursuant to the Purchase Contract a violation of federal or state law;
- (v) A material event of default has occurred and is continuing under the 1991 Master Resolution;
- (vi) The withdrawal or suspension of any rating of the Series 2018A Bonds by a national rating agency then rating the Series 2018A Bonds either at the request of the Commission or for credit related reasons;
- (vii) On the 2018 Settlement Date, there shall be in effect a general suspension of trading or other material restrictions on the New York Stock Exchange or other national securities exchange not in effect as of the date hereof that, in the reasonable judgment of the Representative, materially and adversely affects the market price or marketability of the Series 2018A Bonds or the ability of the Underwriters to enforce contracts for the sale of the Series 2018A Bonds; or
- (viii) There shall have occurred the declaration of a general banking moratorium by any authority of the United States, the State of New York or the State of California and it is in effect as of the 2018 Settlement Date.

"Change of Law" is defined in the Forward Bond Purchase Agreement as (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies; (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date which is on or before the 2018 Settlement Date), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule or regulation has an effective date which is on or before the 2018 Settlement Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in each such case would, (A) as to the Underwriters, prohibit the Underwriters from completing the underwriting of the Series 2018A Bonds or selling the Series 2018A Bonds or beneficial ownership interests therein to the public, or (B) as to the Commission, make the completion of the issuance, sale or delivery of the Series 2018A Bonds illegal.

The Underwriters have advised the Commission that the Series 2018A Bonds will be sold only to investors who execute a delayed delivery contract with the Underwriters substantially in the form of APPENDIX I attached hereto. The Commission is not a party to the delayed delivery contracts with investors and is not in any way responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations of the Commission and the Underwriters under the Forward Delivery Contract are not conditioned or dependent upon the performance of any delayed delivery contract.

Additional Risks Related to the Delayed Delivery Period

During the period between the Closing Date and the 2018 Settlement Date, information contained in this Official Statement could change in a material respect. Changes in such information will not permit the Underwriters to terminate the Forward Delivery Contract unless the change reflects an event described above in items (i) through (viii) under "Delayed Delivery," or release the purchasers of their obligation to purchase the Series 2018A Bonds except as expressly described in the delayed delivery contract.

The market value of the Series 2018A Bonds as of the 2018 Settlement Date may be affected by a variety of factors including, without limitation, general market conditions, the ratings then assigned to the Series 2018A Bonds, the financial condition and business operations of the Commission, and federal, state and local income tax and other laws. The market value of the Series 2018A Bonds as of the 2018 Settlement Date could therefore be higher or lower than the price to be paid by the initial purchasers of the Series 2018A Bonds, and the difference could be substantial. Neither the Commission nor the Underwriters make any representations as to the expected market price of the Series 2018A Bonds as of the 2018 Settlement Date.

DESCRIPTION OF THE SERIES 2017/18 BONDS

General

The Series 2017/18 Bonds will be dated their respective dates of issuance. The Series 2017/18 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 2017/18 Bonds will be payable on May 1 and November 1 of each year, commencing May 1, 2018 (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 2017/18 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 DTC. Beneficial ownership interests in the Series 2017/18 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 2017/18 Bonds ("Beneficial Owners") will not receive certificates representing their interests in the Series 2017/18 Bonds purchased. While held in book-entry only form, all payments of principal of and interest on the Series 2017/18 Bonds will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series 2017/18 Bonds. Payments to Beneficial Owners are the sole responsibility of DTC and its Participants. See APPENDIX C—"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption of the Series 2017A Bonds and 2017B Bonds (Par Call)

The Series 2017A Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Commission, from any source of available funds, as a whole or in part, in Authorized Denominations, on any Business Day on or after May 1, 2027, at a redemption price equal to 100% of the principal amount of the Series 2017A Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

The Series 2017B Bonds are subject to redemption prior to their stated maturity date, at the option of the Commission, from any source of available funds, as a whole or in part, in Authorized Denominations, on any Business Day on or after May 1, 2027, at a redemption price equal to 100% of the principal amount of the Series 2017B Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Optional Redemption of the Series 2017C Bonds (Make-Whole Redemption)

The Series 2017C Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Commission, from any source of available funds, as a whole or in part, in Authorized Denominations, on any Business Day at a redemption price equal to 100% of the principal amount of the Series 2017C Bonds called for redemption, plus the Make-Whole Premium (as defined below), if any, together with accrued interest to the date fixed for redemption.

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

"Make-Whole Premium" means, with respect to any Series 2017C Bond to be redeemed, an amount calculated by an Independent Banking Institution (as defined below) equal to the positive difference, if any, between:

- (1) The sum of the present values, calculated as of the date fixed for redemption of:
- (a) Each interest payment that, but for the redemption, would have been payable on the Series 2017C Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such Series 2017C Bond (excluding any accrued interest for the period prior to the date fixed for redemption); plus
- (b) The principal amount that, but for such redemption, would have been payable on the maturity date of the Series 2017C Bond or portion thereof being redeemed; minus
- (2) The principal amount of the Series 2017C Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (1) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve (12) 30-day months) at a discount rate equal to (i) for the Series 2017C Bonds maturing on May 1, 2019, the Comparable Treasury Yield (as defined below) and (ii) for the Series 2017C Bonds maturing on May 1, 2020, the Comparable Treasury Yield plus five basis points.

"Comparable Treasury Yield" means the yield which represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2017C Bonds being redeemed. The Comparable Treasury Yield will be determined as of the 10th Business Day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2017C Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (a) closest to and greater than the remaining term to maturity of the Series 2017C Bonds being redeemed; and (b) closest to and less than the remaining term to maturity of the Series 2017C Bonds being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the $\rm H.15(519)$ statistical release or any successor publication, then the Comparable

Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by the Independent Banking Institution as having a maturity comparable to the remaining term to maturity of the Series 2017C Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2017C Bonds being redeemed.

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

"Comparable Treasury Price" means, with respect to any date on which a Series 2017C Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on the 10th Business Day preceding the date fixed for redemption.

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

Mandatory Sinking Fund Redemption

The Series 2017A Bonds maturing on May 1, 2042 and bearing interest at a rate of 5.000% 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	Mandatory Sinking Fund
(May 1)	Payment
2038	\$18,480,000
2039	19,425,000
2040	20,410,000
2041	21,450,000
2042^{\dagger}	20,235,000
† Maturity.	

The Series 2017A Bonds maturing on May 1, 2042 and bearing interest at a rate of 5.250% 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	Mandatory Sinking Fund
(May 1)	Payment
2038	\$10,445,000
2039	10,975,000
2040	11,535,000
2041	12,120,000
2042^\dagger	15,045,000
† Maturity.	

The Series 2017A Bonds maturing on May 1, 2047 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	Mandatory Sinking Fund
(May 1)	Payment
2043	\$37,080,000
2044	38,935,000
2045	40,885,000
2046	42,920,000
2047^{\dagger}	19,645,000
† Maturity.	

No Redemption of Series 2017D Bonds or Series 2018A Bonds

Neither the Series 2017D Bond nor the Series 2018A Bonds are subject to redemption prior to maturity.

Selection of Series 2017/18 Bonds for Redemption

<u>Series 2017A Bonds and Series 2017B Bonds</u>. The Commission shall select the maturities of the Series 2017A Bonds and the Series 2017B Bonds to be optionally redeemed.

Except as otherwise described in APPENDIX C—"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM," if less than all of a maturity of the Series 2017A Bonds or the Series 2017B Bonds is to be optionally redeemed, the Series 2017A Bonds or the Series 2017B Bonds, as applicable, to be optionally redeemed shall be selected by lot in such manner as the Trustee shall determine. If the Series 2017A Bonds to be optionally 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 2017A Bonds of the maturity optionally redeemed shall be credited.

<u>Series 2017C Bonds</u>. The Commission shall select the maturities of the Series 2017C Bonds to be optionally redeemed.

If less than all of the Series 2017C Bonds of a maturity are redeemed prior to their stated maturity date, the particular Series 2017C Bonds to be redeemed will be selected on a pro-rata pass-through distribution of principal basis in accordance with the rules and procedures of DTC. It is the Commission's intent that redemption allocations

made by DTC, the DTC participants or such other intermediaries that may exist between the Commission and the beneficial owners of the Series 2017C Bonds shall be made on a pro-rata pass-through distribution of principal basis. However, so long as the Series 2017C Bonds are in book-entry only form, the selection for redemption of such Series 2017C Bonds shall be made in accordance with the operational arrangements of DTC then in effect. Neither the Commission nor the Trustee shall provide any assurance or shall have any responsibility or obligation to ensure that DTC, the DTC participants or any other intermediaries allocate redemptions of the Series 2017C Bonds among beneficial owners on a pro-rata pass-through distribution of principal basis. If the DTC operational arrangements do not allow for the redemption of the Series 2017C Bonds on a pro-rata pass-through distribution of principal basis, the Series 2017C Bonds shall be selected for redemption, in accordance with DTC procedures, by lot.

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 Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds to be redeemed, all organizations registered with the Securities and Exchange Commission (the "SEC") as securities depositories and the information services of national recognition which disseminate redemption information with respect to municipal securities.

So long as the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C 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 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds, and not directly to the Beneficial Owners.

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

Transfer and Exchange

The Series 2017/18 Bonds will be issued only as fully registered securities, with the privilege of transfer or exchange in Authorized Denominations for Series 2017/18 Bonds of an equal aggregate principal amount, of the same series, 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 2017/18 Bonds are in book-entry only form, beneficial ownership interests in the Series 2017/18 Bonds may only be transferred through Direct Participants and Indirect Participants as described in APPENDIX C—"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 Obligations, Government Certificates or pre-funded municipal obligations which, together with the earnings thereon, are sufficient to pay the principal amount or redemption price of any particular Series 2017/18 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 2017/18 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 2017/18 Bonds, the Owner or Owners of such Series 2017/18 Bonds (or portions thereof) will be restricted exclusively to the money or securities so deposited, together with any earnings thereon, for payment of such Series 2017/18 Bonds. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Defeasance."

SECURITY FOR THE SERIES 2017/18 BONDS

Authority for Issuance

The Series 2017/18 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 2017/18 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 2017/18 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 in the future 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. The Proposed Amendments would modify the definition of "Revenues." See "PROPOSED AMENDMENTS TO THE 1991 MASTER RESOLUTION."

"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 of the City (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 2017/18 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"

<u>PFCs as Revenues</u>. 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. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Passenger Facility Charge."

The amounts of PFCs designated as "Revenues" under the 1991 Master Resolution and applied to pay debt service on the Bonds since Fiscal Year 2006-07 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 PFCs or such designation, 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 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.

<u>Unearned Aviation Revenues.</u> 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) increased from \$57.6 million in Fiscal Year 2011-12 to \$67.6 million in Fiscal Year 2015-16. 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 2017/18 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 2017/18 Bonds. No holder of a Series 2017/18 Bond shall

have the right to compel the exercise of the taxing power of the City to pay the principal of the Series 2017/18 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 D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Covenants—*Rate Covenant*."

The Proposed Amendments would modify the definitions of Revenues and Annual Debt Service. See "Proposed Amendments to the 1991 Master Resolution" and in Appendix H–"Summary of Proposed Amendments to the 1991 Master Resolution."

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 maintain a particular balance in the Contingency Account or to replenish the Contingency Account in the event any amounts are withdrawn.

As of June 30, 2017, the balance in the Contingency Account available for transfer, as described below, was approximately \$95.2 million (including accrued but unpaid interest on investments), which was equal to approximately 21.6% of Maximum Annual Debt Service on the Bonds as of that date. If the Commission were to maintain the Contingency Account at approximately \$95 million, such balance would be 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 expects to fund a deposit into the Contingency Account from the proceeds of the Series 2017C Bonds. See "Plan of Finance and Refunding" and "Estimated Sources and Uses of Funds." The Commission expects to increase the balance in the Contingency Account in the future but is not obligated to do so. The Report of the Airport Consultant attached as Appendix A (the "Report of the Airport Consultant" or "Report") assumes that the Commission will increase the balance as is described in such report. Except for transfers to the Revenues Account described in the following paragraph, the Commission has maintained no less than approximately \$92 million in the Contingency Account for more than ten years. The Commission has never drawn on the Contingency Account to stabilize its finances, but it has used the balance in the Contingency Account to show compliance with the Rate Covenant described above.

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" above. 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 (including the Series 2017/18 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) or (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);

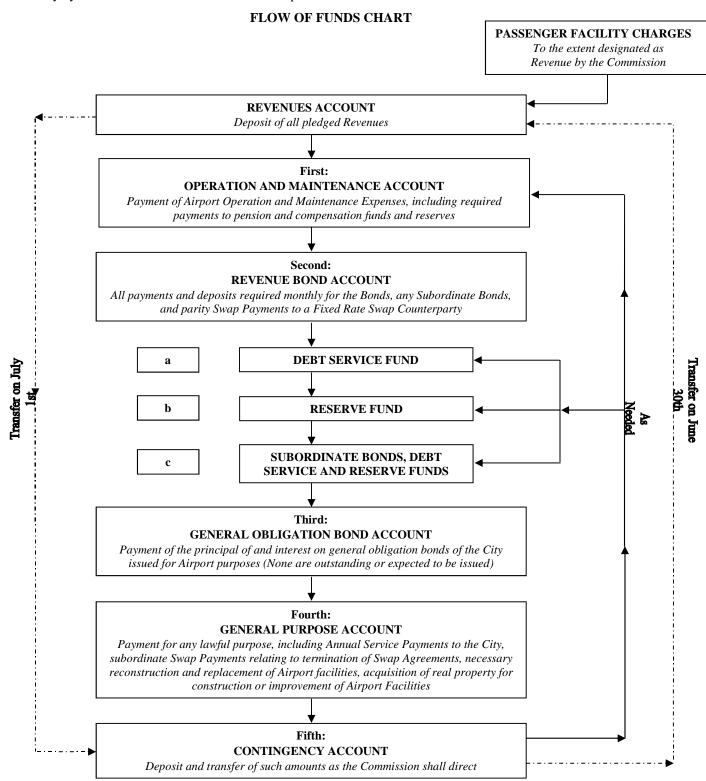
Fourth: to the General Purpose Account, the amount estimated to be needed to pay for any lawful purpose, including any subordinate Swap Payments payable in connection with the termination of the Swap Agreements (see "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Interest Rate Swaps"); and

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 as provided in both the Charter and the 1991 Master Resolution. 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."



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

Additional Bonds

General Requirements

Additional Bonds that have a parity lien on Net Revenues with the Series 2017/18 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 from the Contingency Account, 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 from the Contingency Account, 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 D-"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Issuance of Additional Series of Bonds." The Commission anticipates that the certificate described in (a) above will be delivered by the Airport Consultant in connection with the issuance of the Series 2017/18 Bonds.

Proceeds of additional Bonds are expected to be a significant source of funding for the Commission's Capital Improvement Plan. See "CERTAIN RISK FACTORS-Additional Long-Term Debt" and "CAPITAL PROJECTS AND PLANNING-The Capital Improvement 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 delivery to the Trustee of evidence that aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding after 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 after 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 D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Refunding Bonds."

The Proposed Amendments include modifications that affect the tests for issuance of additional Bonds, including refunding Bonds. See "Proposed Amendments to the 1991 Master Resolution" and in Appendix H—"Summary of Proposed Amendments to the 1991 Master Resolution."

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—Credit Facilities." See APPENDIX D—"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. All 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 2017A Bonds and the Series 2017B Bonds will each 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 Bonds and the Series 2010D Bonds are secured by the 2009 Reserve Account.

The 1991 Master Resolution will also establish the pooled "2017 Reserve Account" (the "2017 Reserve Account") in the Reserve Fund as security for each series of Bonds (the "2017 Reserve Series Bonds") that is designated as being secured by the 2017 Reserve Account. The Series 2017C Bonds, the Series 2017D Bonds and the Series 2018A Bonds will be designated as 2017 Reserve Series Bonds and will be secured by the 2017 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 2017 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 2017/18 Bonds.

Original Reserve Account

The Series 2017A Bonds and the Series 2017B Bonds will each be designated as an Original Reserve Series and will be secured by the Original Reserve Account. The Series 2017C Bonds, the Series 2017D Bonds and the Series 2018A Bonds will NOT 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 Bonds whenever any moneys then credited to the debt service accounts with respect to such Original Reserve Series 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 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 each 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 at the time it is deposited. 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 D-"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Debt Service and Reserve Funds—Application and Valuation of the Reserve Accounts." As of August 31, 2017, Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings ("S&P") rated the claimspaying ability and financial strength of National "A3" (negative outlook) and "A" (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 August 31, 2017, the Original Reserve Requirement was \$386.57 million and the balance in the Original Reserve Account was \$449.0 million, including \$392.1 million of cash and Permitted Investments (approximately 101.4% of the Original Reserve Requirement), as well as the reserve policies with a face value of \$56.9 million.

Original Reserve Account Balance As of August 31, 2017

Cash and Permitted Investments	\$392.1 million
Reserve Policies	
National (FGIC) Reserve Policies	15.1 million
National (MBIA) Reserve Policies	41.8 million
SUBTOTAL RESERVE POLICIES	\$ 56.9 million
TOTAL	\$449.0 million

Following the issuance of the Series 2017A Bonds and the Series 2017B Bonds, the Original Reserve Requirement will be \$410.91 million. The Commission expects to deposit \$18.30 million from the proceeds of the

Series 2017A Bonds and the Series 2017B Bonds into the Original Reserve Account at the time of issuance of the Series 2017A Bonds and the Series 2017B Bonds, which together with the total cash and Permitted Investments in the Original Reserve Account of \$392.61 million (balance as of October 5, 2017), shall equal \$410.91 million, or 100% 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 D-"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Debt Service and Reserve Funds—Application and Valuation of the Reserve Accounts." Any amounts on deposit in the Original Reserve Account in excess of the Original Reserve Requirement may be withdrawn by the Commission.

The Proposed Amendments would modify the provisions relating to Credit Facilities in the Original Reserve Account and the definition of Permitted Investments. See "Proposed Amendments to the 1991 Master Resolution" and in Appendix H—"Summary of Proposed Amendments to the 1991 Master Resolution."

2009 Reserve Account

The Series 2017/18 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 accounts 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 Series of 2009 Reserve Series Bonds 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. The reserve requirement for all of the 2009 Reserve Series Bonds is the sum 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, provided that no more than 40% of the 2009 Reserve Requirement may be satisfied with 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 at the time it is deposited. The 1991 Master Resolution, however, does not require that those ratings be maintained after the date of deposit. See APPENDIX D-"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"). As of August 31 2017, Moody's and S&P rated the claims-paying ability and financial strength of AGM "A2" (stable) and "AA" (stable), respectively.

As of August 31, 2017, the 2009 Reserve Requirement was \$9.65 million and the balance in the 2009 Reserve Account was \$23.1 million. The full amount of the 2009 Reserve Requirement is satisfied by the \$19.7 million of cash and Permitted Investments held in the account (approximately 204.14% of the 2009 Reserve Requirement), as well as reserve policies with a face value of \$3.4 million.

2009 Reserve Account Balance As of August 31, 2017

Cash and Permitted Investments	\$19.7 million
AGM Reserve Policy	3.4 million [†]
TOTAL	\$23.1 million

[†] 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.

2017 Reserve Account

The Series 2017C Bonds, the Series 2017D Bonds and the Series 2018A Bonds will each be designated as 2017 Reserve Series Bonds and will be secured by the 2017 Reserve Account. The Series 2017A Bonds and the Series 2017B Bonds are NOT secured by the 2017 Reserve Account.

Amounts on deposit in the 2017 Reserve Account may be used solely for the purposes of (i) paying interest, principal or mandatory sinking fund payments on any 2017 Reserve Series Bonds whenever any moneys then credited to the debt service accounts with respect to such 2017 Reserve Series Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any reserve policies or other credit facilities credited to the 2017 Reserve Account for any payments thereunder.

The reserve requirement for the 2017 Reserve Account (the "2017 Reserve Requirement") is equal to the lesser of: (i) 2017 Reserve Account Maximum Annual Debt Service (the maximum amount of aggregate Annual Debt Service for all 2017 Reserve Series Bonds in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the 2017 Reserve Series Bonds), (b) 10% of the outstanding aggregate principal amount of all 2017 Reserve Series Bonds (provided that the issue price of a Series of 2017 Reserve Series Bonds will be used in this calculation if such Series was sold with an original issue discount that exceeded 2% of the principal of such Series on its original date of sale), and (c) 125% of the average aggregate Annual Debt Service for all 2017 Reserve Series Bonds. The 2017 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 reserve policies, in place of funding the 2017 Reserve Account with cash and permitted investments. The 1991 Master Resolution requires that a reserve policy deposited in the 2017 Reserve Account must be from a credit provider rated in the highest rating category by at least two rating agencies at the time it is deposited. The 1991 Master Resolution, however, does not require that those ratings be maintained after the date of deposit. See APPENDIX D-"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Debt Service and Reserve Funds–Application and Valuation of the Reserve Accounts."

Following the issuance of the Series 2017C Bonds and the Series 2017D Bonds, the 2017 Reserve Requirement will be \$18,997,000. The Commission expects to deposit a portion of the proceeds of the Series 2017C Bonds and the Series 2017D Bonds totaling \$18,997,000 into the 2017 Reserve Account at the time of issuance of the Series 2017C Bonds and Series 2017D Bonds.

Following the issuance of the Series 2018A Bonds, the 2017 Reserve Requirement will be \$30,532,500. The Commission expects to deposit \$11,535,500 from the proceeds of the Series 2018A Bonds, or from other available moneys, into the 2017 Reserve Account at the time of issuance of the Series 2018A Bonds, increasing the total amount of cash and Permitted Investments in the 2017 Reserve Account to an amount that meets or exceeds the 2017 Reserve Requirement as of the date of issuance of the Series 2018A Bonds.

In the event that the balance in the 2017 Reserve Account is diminished below the 2017 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 2017 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 D-"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 2017 Reserve Account in excess of the 2017 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 "-Other Indebtedness-Subordinate Bonds" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION— Credit Facilities" for information about the Commission's existing letters of credit. 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 D—"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 2017/18 Bonds and the 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 "–Special Facility Bonds" and APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Subordinate Bonds."

Subordinate Bonds

The Commission has authorized, and the Board of Supervisors has approved, the issuance of up to \$500,000,000 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" and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Subordinate Bonds."

The Commission has obtained four irrevocable direct-pay letters of credit totaling \$500 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-2 Notes, Series B-2 Notes, Series C-2 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	\$100,000,000	\$200,000,000	\$100,000,000
Expiration Date	May 2, 2019	June 21, 2022	May 1, 2020	May 31, 2019
Credit Provider	State Street ⁽¹⁾	Sumitomo Mitsui Banking ⁽²⁾	Royal Bank of Canada ⁽³⁾	Wells Fargo ⁽⁴⁾
Credit Provider Ratings ⁽⁵⁾				
Short-Term	P-1/A-1+/F1+	P-1/A-1/F-1	P-1/A-1+/F1+	P-1/A-1+/F1+
Long-Term	Aa1/AA-/AA	A1/A/A	Aa3/AA-/AA	Aa1/AA-/AA-

⁽¹⁾ State Street Bank and Trust Company.

⁽²⁾ Sumitomo Mitsui Banking Corporation, acting through its New York Branch.

Source: Commission.

As of August 31, 2017, there was approximately \$330 million of Commercial Paper Notes outstanding. The Commission expects to repay \$300.5 million of Commercial Paper Notes with the proceeds of the Series 2017A Bonds and Series 2017B Bonds and to continue issuing Commercial Paper Notes from time to time in the future.

⁽³⁾ Royal Bank of Canada, acting through a branch located at 200 Vesey Street, New York, New York.

⁽⁴⁾ Wells Fargo Bank, National Association.

⁽⁵⁾ 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. As of October 3, 2017. 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.

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 \$57.4 million was outstanding as of August 31, 2017; and its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A (AMT), of which \$10.8 million was outstanding as of August 31, 2017 (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. SFO Fuel was formed by certain airlines operating at the Airport. The lease payments, and therefore the SFO Fuel Bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by Net Revenues. The Commission may issue additional new money and/or refunding Special Facility Bonds for SFO Fuel in Fiscal Year 2017-18. For further discussion, see "SAN FRANCISCO INTERNATIONAL AIRPORT—Current Airport Facilities—Jet Fuel Distribution System."

Airport Hotel Bonds

The Commission anticipates issuing up to \$260 million of San Francisco International Airport Hotel Special Facility Revenue Bonds (the "Hotel Special Facility Bonds") in Fiscal Year 2018-19 to finance the development and construction of a new Commission-owned four-star hotel. The hotel will be managed as a Grand Hyatt in accordance with a long-term management agreement between the Commission and a hotel operator. The Commission expects to use the proceeds of additional Bonds to purchase these special facility revenue bonds. See "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan."

Rights of Bond Insurers

The Commission purchased municipal bond insurance policies with respect to approximately 5.58% of its outstanding 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 Insured 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 D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions." Some of the Bond Insurers may be Insolvent, and thus may not currently have the rights otherwise provided by the 1991 Master Resolution. The Commission makes no representation as to the respective rights of the Owners or the Bond Insurer of a Series of Insured Bonds in the event the Bond Insurer is now, or is 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 2017/18 Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2017/18 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 2017/18 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 adversely affect the financial condition of the Airport or its ability to make scheduled payments on the Series 2017/18 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

Demand for Air Travel

The Airport's Revenues depend significantly on the level of aviation activity and passenger traffic at the Airport. The principal determinants of passenger demand at the Airport include the population and economy of the Airport service region; national and international economic conditions; political conditions, including wars, other hostilities and acts of terrorism; airfares and competition from surrounding airports; airline service and route networks; the capacity of the national air transportation system and the Airport; accidents involving commercial passenger aircraft; visa requirements and other limitations on the ability of foreign citizens to enter the United States; currency exchange rates; and the occurrence of pandemics and other natural and man-made disasters. Airfares and airline service are, in turn, affected by the financial condition of the airlines and regulatory requirements imposed on airlines, among other factors. See "-Bankruptcy of Airlines Operating at the Airport" and "-Competition" and "San Francisco International Airport-Airline Agreements-Potential Effects of an Airline Bankruptcy."

In addition to revenues received from the airlines, the Commission derives a substantial portion of its revenues from parking and from concessionaires including 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, parking revenues and the commercial operations of many of such concessionaires. Severe financial difficulties affecting a concessionaire could lead to a reduction in, or failure to pay, rent due under its agreement with the Airport or could lead to the cessation of operations of such concessionaire.

Financial Condition of the Airlines

The airline industry is cyclical and subject to 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 or affecting key shipping lanes could dramatically impact the price and availability of aviation fuel. Economic expansion in emerging markets also contributes to higher aviation fuel prices. Natural disasters affecting refineries may also result in higher aviation fuel prices. See "KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC—Availability and Price of Aviation Fuel" in Appendix A. While fuel prices have declined significantly in the past few years, 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 and reducing airline profitability.

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, although not currently the case, 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," "–Airline Concentration; Effect of Airline Consolidation" and "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Potential Effects of an Airline Bankruptcy*." Furthermore, even absent an airline bankruptcy filing, the Commission may encounter significant expenses, delays and potentially nonpayment of amounts owed should it be required to pursue legal action to enforce agreements with airlines, concessionaires and others.

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. For example, Air Berlin filed for insolvency proceedings under German law on August 15, 2017. On August 18, 2017, Air Berlin commenced a proceeding under chapter 15 of title 11 of the United States Code seeking recognition of the foreign main proceeding under section 1517 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On September 18, 2017, the Bankruptcy Court entered its Order granting Air Berlin's petition for recognition. Air Berlin has announced that it will discontinue its operations at the Airport on October 16, 2017.

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 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 the Commission holding a claim for rents and other items that would have accrued in the future, 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, together with United Express, was responsible for 44.2% of the Airport's total enplanements and 42.6% of the Airport's total revenue landed weight in Fiscal Year 2016-17. 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.

Alaska Air Group, Inc., the parent company of Alaska Airlines, and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate. Virgin America handled 9.3% of total enplaned passengers and Alaska Airlines handled 2.9% of total enplaned passengers in Fiscal Year 2016-17. In addition, since 2010, United Airlines and Continental Airlines; Southwest Airlines and AirTran Holdings, Inc.; and American Airlines and US Airways all have merged. Further airline consolidation remains possible.

While prior mergers have had, and the Commission expects that the Alaska AirGroup/Virgin America merger will have, little impact on the combined airlines' market share at the Airport, future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Revenues, reduced PFC collections, and increased costs for the other airlines serving the Airport.

Availability of PFCs

The Commission has designated \$44.9 million and \$31.7 million of PFC collections to be included in "Revenues" in Fiscal Year 2016-17 and Fiscal Year 2017-18, respectively, and plans to continue designating PFCs in the future. 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 as described under "Security for the Series 2017A/B Bonds—Rate Covenant" and the additional bonds test described under "Security for the Series 2017A/B Bonds—Additional Bonds" are satisfied. The Report of the Airport Consultant assumes that PFCs are designated as Revenues during the period covered by the Report. See "AIRPORT CAPITAL IMPROVEMENT PLAN AND FUNDING—SUMMARY OF CAPITAL IMPROVEMENT PLAN FUNDING—Passenger Facility Charges" and "FINANCIAL ANALYSIS—REVENUES—PFCs Designated as Revenues" in Appendix A.

The Commission's receipt of PFC revenues is subject to several risks. First, the Commission's current PFC authorization is estimated to expire on February 1, 2030, and the Commission expects that the authorized PFCs will be fully collected sooner (Fiscal Year 2024-25, assuming the Commission is successful in its efforts to modify its current PFC authorizations so it can continue collecting PFCs at the full \$4.50 rate, as described under "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 and the level of PFC collection approved by FAA. If enplanements decline so will the Commission's annual 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 FAA requirements regarding use of these revenues. The Office of Inspector General of the DOT (the "OIG") is currently auditing the FAA's management of the Passenger Facility Charge program at the Airport and another airport, as well as several airlines. The OIG has stated it plans to review FAA's oversight of (1) air carrier compliance with collection and remittance of PFC funds, and (2) airport operator compliance with the use of PFC funds. The audit is ongoing, and the Airport is unable to predict the outcome of the audit. Furthermore, the Commission could determine not to designate PFCs as projected.

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, or a determination by the Commission not to designate PFCs to pay debt service on the Bonds in the amounts projected in the Report of Airport Consultant, 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 Federal Grants

The Commission uses grants from federal agencies to offset a portion of the costs of various capital projects at the Airport. The Capital Improvement Plan assumes \$126 million in grant funding, consisting of an estimated \$66 million in FAA Airport Improvement Program ("AIP") and State grants (\$27 million of which is expected to be FAA discretionary grants) and \$60 million in TSA funding in Fiscal Years 2017-18 through 2021-22.

When determining the distribution of discretionary grants, the FAA may consider, as a militating factor, whether the Airport uses its revenues for purposes other than capital or operating costs, when those revenues exceed the amount used by the Airport for such costs in the base year ending June 30, 1995 as adjusted for inflation. The Airport's Annual Service Payment to the City's General Fund for indirect services, management and facilities provided by the City to the Airport is considered to be a non-capital, non-operating cost for this purpose. For the past ten fiscal years, the Annual Service Payment has exceeded the base year payment when adjusted for inflation. 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."

The Commission received \$12.4 million in FAA discretionary grants in the federal fiscal year ending September 30, 2016, which is \$15.4 million less than the Commission requested, as a result of the amount of the Annual Service Payments. The Commission did not receive any FAA discretionary grants in the federal fiscal year ending September 30, 2017. The FAA may 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 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. Further, AIP grants to airports are subject to passage of annual congressional appropriation bills and funding may be reduced or eliminated in any year.

Furthermore, the Commission is continuing to assess the potential material adverse changes in current and anticipated federal funding under the new presidential administration and Congress. These changes include, for example, potential withholding of federal grants or other funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects, which could potentially affect federal funding provided to the Airport. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. The City has challenged in federal court the Presidential Executive Order that would cut funding from "sanctuary jurisdictions," and the federal court has entered a preliminary injunction enjoining the executive order. The administration has appealed entry of the preliminary injunction. Litigation is proceeding. The Commission cannot at this time determine the financial impacts of any proposed federal policy changes.

Additional Long-Term Debt

The Commission's current Capital Improvement Plan was approved by the Commission on September 5, 2017. The Capital Improvement Plan includes an aggregate of \$5.8 billion of spending on projects in Fiscal Years 2017-18 through 2021-22 and an additional \$442 million of spending on projects in Fiscal Years 2022-23 through 2026-27, for a 10-year total of \$6.2 billion. The Report of the Airport Consultant attached as APPENDIX A hereto reflects the projected issuance of approximately \$5.9 billion of additional Bonds (in addition to the Series 2017/18 Bonds) between Fiscal Year 2017-18 and Fiscal Year 2021-22 to finance projects in the Capital Improvement Plan,

including \$549 million in Fiscal Year 2017-18 and \$2.5 billion in Fiscal Year 2018-19. In addition, the Commission expects to issue approximately \$278 million of additional Bonds in Fiscal Year 2018-19 to purchase Hotel Special Facility Bonds, to finance construction of an AirTrain station adjacent to the hotel, and for related purposes as described under "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan—Major Ascent Program—Phase I Capital Projects - Groundside." The Commission expects that it will experience an aggregate increase in debt service costs when it issues additional Bonds, which will likely increase landing fees and terminal rents at the Airport, thereby increasing the costs of the airlines serving the Airport, possibly making the Airport less competitive. 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 risk, passenger demand, asset condition, and the Commission's financial position. For further discussion of planned capital projects, see "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan." The timing and amounts of additional Bonds may change depending on passenger and cargo demand, the availability of other funding sources, the timing of capital expenditures and market conditions. The Commission also may undertake additional capital projects during the period covered by the Capital Improvement Plan that are not presently included in the Capital Improvement Plan.

As stated in the Report of Airport Consultant attached as APPENDIX A, the financial analysis in the Report does not reflect the issuance of additional Bonds authorized in the aggregate principal amount of \$278 million to finance the on-Airport hotel project and the AirTrain station adjacent to the hotel (the "Hotel Bonds"). Further, the revenues, expenses, and debt service associated with the hotel project are not included in the financial forecasts described in the Report. See "FRAMEWORK FOR FINANCIAL OPERATION—Special Facility Obligations-Future Special Facility Obligations" in Appendix A and "SECURITY FOR THE SERIES 2017/18 BONDS—Other Indebtedness—Airport Hotel Bonds" herein. The Commission is still in the process of finalizing the financing plan related to the hotel. Although the Commission intends to structure the hotel project to provide the Commission with a stream of hotel-related Revenues at least adequate to cover debt service payments on the Hotel Bonds and other hotel-related requirements, it is possible that such hotel-related Revenues will not be realized in every year, or in any year, of hotel operations. If the hotel-related Revenues are less than debt service on the Hotel Bonds together with the Annual Service Payment attributable to the hotel-related Revenues, then the difference would be included in the airline rate base and paid by the airlines in accordance with the residual airline ratemaking methodology. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Airline Agreements—Lease and Use Agreements" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City—Annual Service Payment."

Capital Projects

Although the Commission uses a variety of strategies to mitigate risk associated with the implementation of its capital projects as described under "CAPITAL PROJECTS AND PLANNING-The Capital Improvement Plan-Implementation of Capital Projects," project development could be delayed, and the cost of completing projects included in the Capital Improvement Plan could be higher than expected due to various factors, including but not limited to economic conditions; events such as the September 11, 2001 terrorist attacks; new or ongoing military hostilities; the inability to obtain, or delays in obtaining, regulatory approvals; the inability to comply with the conditions of regulatory approvals; inability to obtain, or delays in obtaining, federal approvals or federal funding; labor, bidding and contracting requirements; delays caused by the airline review process (see "SAN FRANCISCO INTERNATIONAL AIRPORT-Airline Agreements-Airline Review of Capital Improvements"); weather; litigation; cost overruns; casualty; strikes; unanticipated engineering, environmental or geological problems; shortages of materials or labor; and financial difficulties of contractors. If costs are higher than projected, the Commission may have to delay or cancel projects and/or incur additional debt. Further, the Report of the Airport Consultant assumes that the projects in the Capital Improvement Plan will be completed as scheduled and for the amounts projected. Some of the projects in the Capital Improvement Plan may need to be completed as planned in order for the Airport to achieve the results projected in the Report of the Airport Consultant. The failure to complete certain projects could adversely affect the financial condition of the Airport.

Similarly, if funds are not available to finance the projects in the Capital Improvement Plan, projects may be delayed or cancelled. A bankruptcy filing by an airline or a rental car company that collects PFC revenues or transportation and facility fees, respectively, may also result in a reduction in the total amount collected by the Commission for the projects in the Capital Improvement Plan or a delay in collecting such amount. Furthermore, PFC revenues will not be available in the amounts and at the times currently forecasted if additional FAA approvals

are not obtained or if there are fewer enplaned passengers than projected. See "-Availability of PFCs." The availability of Commercial Paper Note proceeds could also be reduced or eliminated if the letters of credit supporting such Commercial Paper Notes are terminated or expire and are not replaced. In addition, certain projects in the Capital Improvement Plan are assumed to be funded in part with federal and state grants, but the Commission cannot guarantee that such funds will be available or will be received in a timely manner. In most cases, grants are received only after the Commission has paid the costs of a project, and are subject to audit. Market conditions could adversely affect the ability of the Commission to issue additional Bonds or to obtain funding from other sources, including Commercial Paper Notes. The availability of cash in the Contingency Account could also be lower than assumed in the projections in the Report of the Airport Consultant in the event the Commission's market access is affected or if such funds are needed for other purposes.

The Airport is a capital intensive facility and it is possible that the Commission will undertake capital projects that are not included in the Capital Improvement Plan during and after the period covered by the Report of the Airport Consultant. The Commission updates its capital improvement plan periodically. If additional capital projects are undertaken, the Commission may issue additional Bonds or additional Commercial Paper Notes to finance such projects. Depending on the timing of such projects, it may also be necessary to add appropriate personnel or other resources to manage such projects, resulting in increased expenses for the Commission.

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 and Seattle-Tacoma International Airport, for international passengers. Competition from these airports may affect passenger and cargo demand at the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Competition."

The California High-Speed Rail Authority (the "High-Speed Rail Authority") is in the process of planning and constructing a high speed train service linking Southern California, the Sacramento San Joaquin Valley and the San Francisco Bay Area. Construction commenced in the San Joaquin Valley in 2014. The High-Speed Rail Authority's 2016 business plan indicates that it expects to begin service between the San Joaquin Valley and San Jose beginning in 2025 and to provide service between the San Francisco Bay Area and Southern California beginning in 2029. 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 in 2010 forecasting that by 2035, the San Jose Airport could lose 12% of its projected passengers, Oakland Airport could lose 9% and the Airport could lose 4% to a high-speed rail system. The Commission is unable to predict when or whether a high-speed rail system will be completed, what areas of the State it will serve, or the effect that any such high-speed rail system would have on passenger traffic at and revenues of the Airport.

Uncertainties of Projections, Forecasts and Assumptions

In its Report, the Airport Consultant, based on the assumptions contained in the Report, forecasts that the projected Revenues of the Commission will be sufficient to allow the Commission to comply with the rate covenant in the 1991 Master Resolution through June 30, 2023. See APPENDIX A—"REPORT OF THE AIRPORT CONSULTANT." One of the principal assumptions on which the Airport Consultant relies in making its forecast is that passenger traffic will remain generally stable during the forecast period with modest expected increases. Other assumptions, such as forecasted revenues and expenses, generally follow from assumed passenger traffic. Whether the forecasted passenger traffic materializes depends on a number of factors outside of the Commission's control, such as economic growth of the United States and the Bay Area, airline financial condition, general costs of air travel, capacity of the national air traffic control system and other similar assumptions. In addition, the Airport Consultant makes assumptions about contract terms, passenger spending habits, growth of expenses including labor costs, interest rates and other matters as described in their Report. The Airport Consultant assumes the Commission will receive the necessary approvals to issue additional Bonds to increase the Contingency Fund balance and issues such Bonds at the times and in the amounts assumed in the Report. The Airport Consultant also assumes that the Commission will be successful in modifying its PFC authorizations so that it will be able to continue collecting PFCs at the \$4.50 rate and that the Commission will designate PFCs as Revenues under the 1991 Master Resolution

in the amounts and years set forth in the Report. In addition, the Airport Consultant assumes that the airlines and the Commission will enter into an agreement that has substantially the same terms as the current Lease and Use Agreement after its expiration in 2021. The Report of the Airport Consultant also assumes that the projects in the Capital Improvement Plan will be completed as scheduled and at the costs projected. Some of these projects in the Capital Improvement Plan may be necessary in order for the Airport to achieve the results projected in the Report of the Airport Consultant. The Report does not reflect the issuance of additional Bonds to finance the construction of the hotel or any revenues from or expenses of the hotel. See "-Additional Long-Term Debt" and "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan—Major Ascent Program — Phase I Capital Projects - Groundside." The Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions. As noted in the Report of the Airport Consultant, any financial forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. The actual financial results achieved will vary from those forecasts, and the variations may be material. Also see "REPORT OF THE AIRPORT CONSULTANT" and APPENDIX A.

Growth of TNCs

Transportation network companies ("TNCs"), such as Uber Technologies Inc., Lyft, Inc, and Tickengo, Inc. d/b/a/ Wingz, connect paying passengers with drivers who provide transportation using their own commercial and non-commercial vehicles. The popularity of this type of ride-sourcing has increased because of the convenience of requesting a ride through a mobile application, the ability to pay for this service without providing cash or other payment to the hired driver and competitive pricing. In Fiscal Year 2016-17, TNCs recorded nearly 7.0 million Airport pick-ups/drop-offs resulting in \$26.5 million in trip fee revenue for the Commission. The Airport also earns revenues from parking, other ground transportation services and rental cars. See "AIRPORT FINANCIAL AND RELATED INFORMATION—Concessions." The Commission cannot predict the impact of TNCs on revenues from parking, other ground transportation services or rental cars.

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, damage to the Airport, reductions in Airport passenger traffic and/or reductions in Airport Revenues, remain possible. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Airport Security." The Airport maintains liability insurance coverage for war perils including but not limited to terrorism and hijacking, though at a lower level than before the September 11, 2001 terrorist attacks. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Risk Management and Insurance." Such coverage might not be sufficient in the event of an incident. Further, even if coverage is sufficient, the Commission cannot guarantee that insurers will pay in a timely manner. From time to time, the Commission may change the types of and deductibles and limits on the insurance it carries.

Worldwide Health Concerns

Travel restrictions, as well as other public health measures, may be imposed to limit the spread of communicable diseases which may arise. 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." 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. The U.S. Centers for Disease Control and Prevention issued travel alerts in 2016 warning pregnant women to avoid travel to areas where outbreaks of the Zika virus, which has been linked to birth defects, were occurring.

Future outbreaks or 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 has plans and procedures in place that are intended to mitigate the potential impacts on the Airport of any such future pandemic. The Commission is unable to predict how serious the impact of or future pandemic may become, what effect it may have on air travel to and from the Airport, and whether any such effects will be material.

Seismic and Other 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 Commission has made and continues to make upgrades to the seismic stability of some of its facilities. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Current Airport Facilities—Seismic Design of Airport Facilities." Nevertheless, the Airport could sustain extensive damage to its facilities 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 PG&E lines under Airport property), and collapse of dikes at the Airport with consequential flooding. In addition, a major earthquake could adversely affect the economy of the Bay Area, which could have a negative impact on passenger traffic and on Revenues.

Further, the Airport could sustain damage as a result of other events, such as terrorist attacks, extreme weather events and other natural occurrences, fires and explosions, spills of hazardous substances, strikes and lockouts, sabotage, wars, blockades and riots. Also see "-Airport Security" and "-Risk of Sea-Level Changes and Flooding."

While the Commission has attempted to address the risk of loss through the purchase of insurance, certain of these events may not be covered. In particular, the Commission does not maintain insurance or self-insure against any risks due to land movement or seismic activity, and in some instances other events may not be covered. See "-Airport Security" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION-Risk Management and Insurance." Further, even for events that are covered by insurance, the Commission cannot guarantee that coverage will be sufficient or that insurers will pay claims in a timely manner. From time to time, the Commission may change the types of and limits and deductibles on the insurance coverage that it carries.

Cyber-Security

Computer networks and data transmission and collection are vital to the safe and efficient operations of the Airport, the airlines that serve the Airport and other tenants to the Airport. Despite security measures, information technology and infrastructure of the Airport, any of the airlines serving the Airport or any other tenants at the Airport may be vulnerable to attacks by outside or internal hackers, or breached by employee error, negligence or malfeasance. Any such breach or attack could compromise systems and the information stored thereon. Any such disruption or other loss of information could result in a disruption in the efficiency of the operation of the Airport and/or the airlines serving the Airport and the services provided at the Airport, thereby adversely affecting the ability of the Airport to generate revenue.

Climate Change Issues and Possible Regulation

Climate change concerns are shaping laws and regulations at the international, federal, State and local levels that could have a material adverse effect on airlines operating at the Airport, on other Airport tenants, and on-Airport operations.

In the past, the U.S. Environmental Protection Agency (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. In 1998, the Kyoto Protocol to the United Nations Framework Convention on Climate Change directed certain countries, including the United States, to work through the ICAO to reduce greenhouse gas ("GHG") emissions from international aviation. In March 2017, the ICAO adopted GHG carbon neutral growth targets via a suite of measures applicable to (i) new aircraft type designs as of 2020 and (ii) new deliveries of current in-production aircraft models from 2023, based on a certification requirement for fuel efficiency and emissions. The global standard includes a cutoff date of 2028 for production of non-compliant aircraft. The ICAO also passed in October 2016 a market-based mechanism to curb emissions, the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"). CORSIA is designed to achieve carbon-neutral growth for international (but not domestic) civil aviation from 2020 onwards, via (a) a pilot from 2021-2023, (b) volunteers from 2024-2026, and (c) a mandatory phase from 2027-2035 for certain countries, including the United States. In 2016, the United States agreed to participate in the pilot, however, the Trump administration may withdraw.

To date, the EPA regulates GHG emissions from motor vehicles, but not aircraft. In September 2014, the EPA initiated a U.S. Aircraft Greenhouse Gas Rulemaking Process with the FAA. In June 2015, the EPA released a proposed endangerment finding that GHG emissions from commercial aircraft also cause or contribute to air pollution and an Advanced Notice of Proposed Rulemaking seeking input related to international and domestic regulation of carbon dioxide emissions for aircraft. The endangerment finding was finalized on July 25, 2016, extending to "U.S. covered aircraft." Aircraft GHG emission standards are not yet proposed, however, Clean Air Act Section 231 requires EPA to regulate once the endangerment finding is made. While such proposed regulations were originally expected in 2017, President Trump's Administration announced plans to dismantle the federal efforts related to climate change. Nonetheless, regulations may be implemented in the future.

On a state 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. The California Air Resources Board ("CARB") implemented the "California Cap-and-Trade Program" (the "Program") in January 2012 for certain entities emitting 25,000 million metric tons of carbon dioxide equivalent per year or more in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities may voluntarily participate. The Program may result in rising electricity and fuel costs, which may adversely affect the airlines serving the Airport and Airport operations. Additional State and local regulations related to climate change (i.e. CARB's Low Carbon Fuel Standard, California's State Implementation Plan, the Sustainable Freight Action Plan, etc.) also may have a material effect on the airlines operating at the Airport, other Airport tenants, and on-Airport operations by contributing to rising compliance, operations, electricity and fuel costs. Additional regulations on a State and local level are foreseeable (including emissions mitigation measures aimed at commercial airports), particularly as California attempts to counteract the federal government's scaling back on climate change regulation.

In 2008, the San Francisco Board of Supervisors adopted and the Mayor signed Ordinance No. 81-08 entitled "Climate Change Goals and Action Plan" that mandates the following GHG emission targets for each City department, as codified in 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 established multiple initiatives at the Airport in response, as outlined in the Departmental Climate Action Plan. In Fiscal Year 2016, the Airport reduced certain GHG emissions from Airport-controlled operations to 33% below the 1990 emission level, ahead of the 2017 mandate, by installing energy and fuel efficiency measures, using alternate fuels for fleet vehicles, reducing landfilled solid waste, planting trees, installing preconditioned air units at jet bridges, initiating a Green Car Rental Incentive Program, and partial funding for the extension of BART service to the Airport. Current planned GHG emission reduction/offset/mitigation measures include natural gas use reduction, more energy efficiency measures, additional reductions in fuel consumption,

implementation of the Airport's Zero Waste Plan, and installations of preconditioned air units, 400 Hz power access, and battery charging equipment for electric-powered ground support equipment. The Commission also introduced the "SFO Green Business Program", an eco-concierge service reducing on-Airport energy and water use and waste generation and associated costs, and is exploring sustainable aviation fuel options. The Commission established the goals of zero carbon emissions, zero solid waste generation, and zero net energy consumption by 2021 and is progressing with measures to achieve these goals.

The Commission is unable to predict what additional laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on airlines operating at the Airport, on other Airport tenants, 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. Currently, more than five of the eight miles of shoreline are protected by engineered berms, concrete seawalls and vinyl sheet piles. However, there are gaps of various lengths along the shoreline that may allow water to enter the airfield and 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, including 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 would be vulnerable to flooding in the event of 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*, which identified the Airport as vulnerable to sea level rise and provided direction for considering sea level rise vulnerability, risk and adaptation planning within capital plan projects.

In March 2016, the City released the *San Francisco Sea Level Rise Action Plan*, prepared by a task force of twelve City departments. The Action Plan states that the Airport's assets are currently vulnerable to flooding from extreme storm events and that sea level rise is expected to increase the frequency of these events and intensify the severity of potential flooding at the Airport. The Action Plan also describes the Airport's near-term and long-term efforts to address flood vulnerability in light of sea level rise.

In April 2017, the California Ocean Science Trust released *Rising Seas in California: An Update on Sea-Level Rise Science*. This report indicates that ice sheet loss on Antarctica is accelerating as a result of global warming and summarizes various estimates of future sea level rise. For example, sea level rise estimates for the year 2100 from the State of California's Fourth Climate Change Assessment released in 2017 range from 14 inches to 94 inches (36 cm to 239 cm) with an additional very low probability worst-case estimate that exceeds 9 feet (274 m).

As part of 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 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"). The City participates in the NFIP. On November 12, 2015, FEMA issued a Preliminary FIRM for the City (the "Preliminary FIRM") for the first time. The Airport is included in the Preliminary FIRM. The majority of the Airport is identified as a SFHA, with zone designations generally of either AE (areas subject to inundation by the 1% annual chance flood event) or VE (at the Airport, limited areas along San Francisco Bay 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 Preliminary FIRM is available through FEMA's website at

https://hazards.fema.gov/femaportal/prelimdownload/. FEMA maps coastal flood hazards based on existing shoreline characteristics, and wave and storm climatology at the time of the flood study. In accordance with current federal regulations, FEMA does not map flood hazards based on anticipated future sea levels or climate change.

Close to half of the Airport's existing perimeter shoreline meets FEMA's 100-year flood standards. However, a study conducted by the Airport 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 Wastewater Treatment Plant, and along the reach owned by the federal government and operating as a U.S. Coast Guard facility.

The Commission included a \$58 million shoreline protection project ("Shoreline Protection Project") in its Capital Improvement Plan to address the deficiencies. 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 Commission making decisions regarding project implementation, is expected to commence in early 2018. The Shoreline Protection Project is currently estimated to be completed by Fiscal Year 2024-25.

The Airport, through the San Francisco City Administrator, submitted an application to FEMA in 2015 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. However, following FEMA's review of the A99 designation application and request for additional information, the Airport determined not to proceed with the A99 application. The Airport anticipates that the final San Francisco FIRM will include the AE and VE designations for the Airport as shown on the Preliminary FIRM. In this case, new buildings or substantial improvements to existing buildings located in the AE or VE zone will be required to be elevated above the floodplain or floodproofed, with additional building requirements triggered for development in the AE zone.

The Airport anticipates that FEMA will issue a Letter of Final Determination regarding the final San Francisco FIRM in late 2017, with adoption by the City of the final FIRM and conforming amendments to the City's Floodplain Management Ordinance required within six months thereafter. In light of the SFHAs identified on the Preliminary FIRM, the Airport has determined that compliance with applicable flood protection building standards that will be required under the zone designations in the final FIRM is appropriate and, effective September 1, 2017, will review building permits for compliance with these standards. Compliance with the final FIRM could result in increases of the cost of some of the projects in the Airport's Capital Improvement Plan or other capital projects.

A report to the Commission by the Airport's Director of Engineering and Construction Services in June 2014 estimated that to remain compliant with FEMA requirements over time and to address sea level rise in the longer term, necessary shoreline protection improvements would take 10 to 15 years with a cost of about \$200-\$300 million. Based on information available at the time, with that investment, the 2014 report predicted protection for the Airport until approximately 2060. The Commission is in discussion with the U.S. Army Corps of Engineers ("Corps") to initiate a feasibility study to recommend improvements to address long-term sea level rise at the Airport. The costs of the construction of such improvements could, to the extent approved and funded by the Corps, be shared by the Airport and Corps. The Commission is unable to predict whether or how the cost of the feasibility study or the improvements will be shared. Except to the extent already included in the Shoreline Protection Project described above, costs for these improvements are not included in the Commission's Capital Improvement Plan.

Despite the multiple studies, initiatives and construction described above, it remains possible that sea-level rise or other impacts of climate change or flooding from a major storm will affect the Airport. The Commission is unable to predict with certainty 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 "—Credit Facilities," "SECURITY FOR THE SERIES 2017/18 BONDS—Reserve Fund; Reserve Accounts; Credit Facilities" and "—Rights of Bond Insurers."

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 an 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 an 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 including its covenant 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 of and interest on 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." Further, the rate covenant included in the 1991 Master Resolution provides that if the requirement that Net Revenues together with any Transfer equal at least 125% of aggregate Annual Debt Service with respect to the Bonds is not met, so long as the Commission is taking specified steps to meet the rate covenant, an event of default will not be triggered until after the following Fiscal Year. See "SECURITY FOR THE SERIES 2017/18 BONDS-Rate Covenant." The ability of the Commission to increase its rates, fees and charges and to reduce its expenses will be limited by, among other things, existing contracts and federal law.

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 or limitation or modification of rights. The various legal opinions to be delivered with respect to the Series 2017/18 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 there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2017/18 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 2017/18 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 Net Revenues appear to be "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 2017/18 Bonds.

If the Net Revenues are "special revenues," the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system from which the special revenues are derived, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, in a bankruptcy case, the Net Revenues could be used to pay necessary operating expenses of the Airport, before the remaining Net Revenues are turned over to the Trustee to pay amounts owed to the holders of the Series 2017-18 Bonds. It is not clear precisely which expenses would constitute necessary operating expenses of the Airport.

Regardless of any specific determinations by a 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 2017/18 Bonds.

Also see "-Limitation of Remedies" above.

Future Legislation and Regulation

The Airport is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The Airport is highly regulated by federal agencies including the FAA, the Transportation Security Administration ("TSA"), Customs and Border Protection and the Department of Health. In the past, actions by these agencies (in particular the FAA and the TSA) have required the Airport to undertake additional capital expenditures and have affected passenger traffic. The Commission is unable to predict the adoption or amendment of additional 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, including to generate revenues sufficient to pay the principal of and interest on the Series 2017/18 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 2017/18 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 2017/18 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 2017/18 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 2017/18 Bonds. Prospective purchasers of the Series 2017/18 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 2017A Bonds, the Series 2017B Bonds, the Series 2017B 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 2017A Bonds, the Series 2017B Bonds or the Series 2018A Bonds. The IRS has undertaken limited examinations of three prior issues of the Bonds. All three of those examinations were 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."

Income Taxation Risk Upon Defeasance of the Series 2017C Bonds

In the event the Commission were to defease all or a portion of the Series 2017C Bonds, for federal income tax purposes, the Series 2017C Bonds that are the subject of such a defeasance may be deemed to be retired and "reissued" as a result of the defeasance. In such an event, a bondholder who owns such a Series 2017C Bond may recognize a gain or loss on the Series 2017C Bond at the time of defeasance. Holders who own Series 2017C Bonds should consult their own tax advisors regarding the tax consequences of a defeasance of the Series 2017C Bonds. See "TAX MATTERS –Series 2017C Bonds (Federally Taxable) - Defeasance."

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 2016 from Airports Council International ("ACI"), the Airport ranked 7th in the United States in terms of passengers and 15th in the United States in terms of air cargo tonnage. According to Fiscal Year 2015-16 U.S. Department of Transportation ("U.S. DOT") statistics, the Airport is also a major origin and destination point (7th for domestic origin and destination traffic and 4th 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 36.7 million in Fiscal Year 2007-08 to approximately 54.0 million in Fiscal Year 2016-17.

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 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, President	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, Vice President	Retired Regional Senior Director, Government Affairs, Comcast Cable Communications	2020	
Richard J. Guggenhime	Attorney (Of Counsel), Perkins Coie LLP	2021	
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.

Under the City Administrative Code, 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. Certain actions of the Board of Supervisors are also subject to approval by the Mayor.

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 City Attorney serves as the legal advisor to the Commission.

The Airport Director has the authority to administer the affairs of the Commission as the chief executive officer thereof. The Airport has a Chief Operating Officer, a Chief Business and Finance Officer, a Chief Administration and Policy Officer, a Chief Development Officer and a Chief External Affairs Officer, all of whom report directly to the Airport Director. Divisions of Airport Services, Safety and Security Services, Guest Services, Airport Facilities, Information Technology and Telecommunications, and Museum report to the Chief Operating Officer. The Division of Planning & Environmental Affairs reports to the Chief Development Officer. The Division of People, Performance and Development reports to the Chief Administration and Policy Officer.

Because the Commission believes that the financial and operational performance of the Airport depends in part on the strategies and principles that have been followed by senior management in recent years, it has adopted several policies with the objective of maintaining continuity and continuing to follow such strategies and principles. These policies include, among others, policies on shared use of systems, infrastructure, and services by multiple airline tenants, concessionaries and others; maintenance of ownership by the Airport of its data and digital assets; maintaining a level playing field for all air carriers; controlling, developing and financing the Airport's assets without use of public-private partnerships; and integrating collaborative, structured partnering into the Airport's development projects.

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

Ivar C. Satero was appointed as Director effective July 21, 2016. Prior to this, he served as Chief Operating Officer from April 2014 until his appointment as Director. Prior to that, 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 (subsequently renamed Chief Business and Finance Officer) in July 2003. From October 2002 until July 2003, he served as Acting Deputy Airport Director of 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 Chief Operating Officer in July 2016. Prior to this, he served as the Deputy Airport Director-Operations and Security from 2011 until taking on his new role, and as Deputy Airport Manager from 2008 to 2011. 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.

Geoffrey W. Neumayr was appointed Chief Development Officer in July 2016. In that capacity he oversees both the Design and Construction and Planning divisions. Prior to this, he served as Deputy Director of Design and Construction beginning in 2014. Mr. Neumayr joined the Airport staff as Associate Deputy Airport Director of Design and Construction in August 2011. Prior to that, he 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.

Jon Ballesteros was appointed Chief External Affairs Officer May 1, 2017. As Chief External Affairs Officer, Mr. Ballesteros oversees Government Affairs, Communications, Marketing, International Aviation Development, Reprographics, Protocol and International Trade and Commerce. In this capacity, Mr. Ballesteros focuses on ensuring governmental actions benefit the airport, leads the team that concentrates on ensuring internal and external stakeholders are well informed and helps drive the promotion of SFO as a premier gateway to California and the United States. Prior to joining Airport staff, Mr. Ballesteros's professional experience includes positions with San Francisco Travel Association, Port of Oakland, Wells Fargo & Company, the City and County of San Francisco and the Bay Area Air Quality Management District.

Sheryl L. Bregman was appointed Airport General Counsel in April 2011. Ms. Bregman manages the onsite Airport Legal Division for the San Francisco City Attorney. The division provides a full range of in-house legal services to the Commission (leases and permits, environmental/land use regulations, construction, operations (security/safety), contracts, labor, municipal finance, litigation, and general government). Ms. Bregman joined the Office of the San Francisco City Attorney in 1995 as a Deputy City Attorney and advised San Francisco public agencies on public work design and construction projects and transactions, drafted legislation, prosecuted administrative enforcement actions, and litigated government contract cases. Prior to joining the Office of the San Francisco City Attorney, Ms. Bregman was in private practice.

Current Airport Facilities

Airfield

The Airport's 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 runways 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"), which was completed in 2000, is a 2.5 million square foot facility located directly above an entry roadway network and houses ticketing, Federal Inspection Service (customs and border patrol) ("FIS") facilities, baggage facilities, concessions, and airline offices. The approximately 1.7 million square foot terminal connects to Boarding Areas A and G, which have a combined space of approximately 850,000 square feet and 24 gates. The ITC includes a 250,000 square foot FIS facility capable of processing 5,000 passengers per hour. The Airport owns and the Airlines maintain 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 (LEEDTM) 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.

<u>AirTrain System</u>. 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, 17 in Terminal 1, 16 in Terminal 2 and 34 in Terminal 3. One gate in Terminal 2 is a remote bus gate, where passengers are bussed to and from the terminal gate to an aircraft parking position located on the airfield. Operation of the Terminal 2 remote bus gate commenced in August 2017. The Commission expects that two additional remote bus gates will be added, with one in Terminal 1 and one in the ITC.

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 A380) ("NLAs") have a wingspan of approximately 262 feet. The Airport currently operates five gates in the ITC with sufficient clearance to accept NLAs.

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 eleven 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 Commission expects to maintain at least 90 operational gates going forward.

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 E—"SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS."

Air Traffic Control Tower

Construction of a new 221-foot Air Traffic Control Tower was completed in August 2015. The FAA activated and commissioned the replacement Air Traffic Control Tower in October 2016. The Air Traffic Control Tower project also includes an integrated building in the base of the previous tower, providing Airport facilities including public space for concessionaires, public restrooms, and a secure connector linking Terminal 1 Boarding Area C with Terminal 2.

Jet Fuel Distribution System

Pursuant to a Fuel System Lease, dated as of July 1, 1997, the Airport leases its on-Airport jet fuel receiving, 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. Airlines are responsible for the procurement and delivery of jet fuel to the Fuel System. Operation and management of the Fuel System is performed by Aircraft Service International, Inc. ("ASII"), 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, all 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 2.2 days of operations based upon 2016 consumption); above-ground storage tanks owned by SFO Fuel, operated by ASII and located on land leased from the Airport with total storage capacity of approximately 134,000 usable barrels (representing approximately 1.9 days of operations based upon 2016 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 2.7 days of operations based on 2016 consumption) immediately adjacent to the Airport. In addition, SFO Fuel has an arrangement with Kinder Morgan for an additional approximately 150,000 total usable barrels (representing approximately 2.1 days of operations based on 2016 consumption) of off-Airport jet fuel storage capacity.

In the summer of 2016, a confluence of a major tank repair, high air travel activity, and current pipeline capacity resulted in decreased fuel stores. In the summer of 2017, high air travel activity and temporary pipeline capacity constraints had a similar result. To recover, SFO Fuel trucked fuel in, and implemented a tankering initiative, in which airlines serving the Airport were asked by SFO Fuel to reduce their fuel uptake at the Airport. The Commission expects that SFO Fuel could employ the same strategy if the fuel supply to the Airport were to drop again. SFO Fuel, and not the Commission, is responsible for fueling operations at the Airport, and the airlines are responsible for supplying fuel. 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 completion of environmental review and SFO Fuel's ability to obtain bond financing. Any new tanks would require environmental review prior to construction. The Commission may issue special facility bonds during Fiscal Year 2017-18 or Fiscal Year 2018-19 to finance this project.

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

BART has provided direct 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 2016-17, a weekday average of 6,448 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 \$918,768 for Fiscal Year 2017-18) for custodial and electrical support services.

Public Parking and Rental Car Facilities

<u>Public Parking.</u> 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 2,032 spaces for short-term parking. Approximately 3,109 indoor covered spaces and 2,926 uncovered spaces are available for public long-term parking approximately 1.5 miles from the Terminal Complex. These figures reflect the temporary loss of spaces (net of spaces created by restriping) as a result of construction as described below.

During the planned construction of a new long-term parking garage, on-Airport hotel and AirTrain extension described under "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan—Major Ascent Program — Phase I Capital Projects - Groundside" the Commission expects to temporarily lose up to approximately 1,900 parking spaces. To mitigate parking constraints during the construction period, the Commission has been restriping parking lots to create approximately 550 additional parking spaces and encouraging Airport employees to take alternate modes of transportation to the Airport. In addition, the Commission raised parking rates in June 2016 to moderate demand.

<u>Rental Car Facility</u>. 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. 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. American Airlines also operates a major maintenance facility at the airport, and certain other airlines and aviation support companies lease and operate significant cargo, maintenance and other facilities at the Airport.

Seismic Design of Airport Facilities

The Airport's facilities are assigned to Seismic Design Category (SDC) E or F under current building codes. An SDC is a classification assigned to a structure based on its occupancy and on the level of expected ground motion in the event of an earthquake. The SDCs range from Category A (corresponds to buildings that present a low hazard to human life located in areas with very small seismic vulnerability) to Category F (corresponds to essential facilities located near major active faults).

The ITC was designed as an "essential facility" (i.e., a facility that is immediately occupiable following a maximum credible seismic event), exceeding the minimum applicable design requirements for a building of its type. 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. In the late 2000s, the Airport also completed a seismic retrofit of the Airport's upper level viaduct, bringing it up to current seismic design standards.

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 meet current seismic standards once the former FAA Air Traffic Control Tower and the upper floors of Terminal 2 containing office space are demolished. The current Capital Improvement Plan provides for the demolition of the former Air Traffic Control Tower and vacant floors of Terminal 2. The demolition is underway. The new Air Traffic Control Tower, which is located between Terminals 1 and 2, was activated in October 2016, and was designed as an essential facility.

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 completed 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 upgrading the entire Terminal 3 facility, including Boarding Area F, to current seismic standards. See "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan."

Terminal 1 improvements are currently in various stages of the design and initial stages of construction. An interim boarding area has been constructed to provide adequate facilities during the demolition and construction of central Terminal 1 and Boarding Area B. Planned improvements include a complete replacement of Boarding Area B and a major renovation of Terminal 1. The new Boarding Area B facility and the central section of Terminal 1 are expected to be completed in 2021 and 2022, respectively. The proposed improvements included in the Terminal 1 improvement program are expected to upgrade the entire facility 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 69% of domestic arrivals at the Airport were on time in the twelve-month period from July 2016 through June 2017, according to the U.S. DOT statistics. During the same time period, approximately 79% of domestic arrivals at Oakland Airport were on time, and approximately 81% of domestic arrivals at San Jose Airport were on time. Arrival on-time performance is historically lower at the Airport than that of the two other Bay Area airports primarily due 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 2013.

A runway "slot" is an authorization to either take-off or land at a particular airport on a particular day during a specified time period. "Slot control" involves imposing limits on planned aircraft operations, to limit scheduled air traffic at certain capacity constrained airports. It is a tool used in the United States and around the world to manage air traffic at airports which have been designated as Level 3.

Under the International Air Transport Association Worldwide Slot Guidelines, airports are designated at levels indicating their degree of congestion. Level 1 airports have sufficient capacity to meet demand. Level 2 airports have potential for congestion during some periods of the day, which can be managed through mutual cooperation of the carriers with a schedule facilitator. Level 3 airports have significant potential for delays and are under mandatory slot control, meaning that airlines must obtain advance approval to operate during slot controlled hours. In 2012, the FAA changed the Airport's designation to a Level 2 airport. If the FAA designates the Airport to be a Level 3 airport in the future, airlines at the Airport would be subject to FAA-administered slot control, which could affect airline operations at the Airport.

Airport Security

In the immediate aftermath of the events 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 (with an exception for the Screening Partnership Program described in the following paragraph), United States citizens and satisfy other specified requirements. All of these requirements have been implemented at the Airport.

The TSA operates security checkpoints at the Airport. The Airport is one of approximately 20 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.

Airline Service

General

For Fiscal Year 2016-17, the Airport was served by 52 passenger airlines and 6 cargo-only airlines. Domestic passenger air carriers provided non-stop service to 84 destinations and scheduled one-stop service to an additional 16 destinations in the United States. Passenger airlines provided non-stop scheduled passenger service to 49 international destinations and one-stop service to an additional 15 international destinations.

For Fiscal Year 2015-16, the Airport was served by 53 passenger airlines and eight cargo-only airlines. Domestic passenger air carriers provided non-stop service to 78 destinations and scheduled one-stop service to an additional 22 destinations in the United States. Passenger airlines provided non-stop scheduled passenger service to 44 international destinations and one-stop service to an additional 14 international destinations.

During Fiscal Year 2016-17, United Airlines (including SkyWest Airlines/United Express) handled 44.2% of the total enplaned passengers at the Airport (an increase in market share of 0.4 percentage points compared to Fiscal Year 2015-16); American Airlines (including Compass Airlines) handled 8.2% of total enplaned passengers; and Virgin America Airlines handled 9.3% of total enplaned passengers.

Although United Airlines (including SkyWest Airlines/United Express) handled 43.8% of the Airport's total enplanements during Fiscal Year 2015-16, audited results for Fiscal Year 2015-16 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

During Fiscal Year 2016-17, approximately 26.6% of total domestic enplanements at the Airport were provided by low-cost carriers, up from 25.8% in Fiscal Year 2015-16. 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, fewer in-flight services, use of 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.

Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate. The Commission does not anticipate that Alaska Airlines will become a low-cost carrier as a result of the merger. Virgin America handled 9.3% of total enplaned passengers and Alaska Airlines handled 2.9% of total enplaned passengers in Fiscal Year 2016-17.

In Fiscal Year 2016-17, the following low-cost carriers served the Airport

- Domestic
 - o Frontier Airlines
 - o jetBlue Airways
 - Southwest Airlines
 - Sun Country Airlines
 - o Virgin America Airlines
- International
 - o Air Berlin
 - Thomas Cook Airlines
 - o WestJet
 - o WOW air
 - o Volaris
 - o XL Airways

Air Berlin filed for bankruptcy protection in August 2017 and has announced that it will cease all operations at the Airport in October 2017.

Domestic enplanements by low-cost carriers were approximately 85.3% of the domestic enplanements at Oakland Airport and 54.2% of the domestic enplanements at San Jose Airport in Fiscal Year 2016-17.

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The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during Fiscal Year 2016-17.

AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT (Fiscal Year 2016-17)

Domestic Passenger Air Carriers

Alaska Airlines(1)(2)* American Airlines* Delta Air Lines* Frontier Airlines* Hawaiian Airlines* ietBlue Airways*

Sun Country Airlines/MN Airlines*

United Airlines⁽¹⁾*

Southwest Airlines*

Virgin America Airlines⁽¹⁾⁽²⁾*

Foreign Flag Carriers

Aer Lingus* Aeromexico Air Berlin⁽³⁾* Air Canada*

Air China (CAAC)*

Air France* Air India*

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⁽⁴⁾ Fiji Airways* **FINNAIR**

Foreign Flag Carriers (continued)

Japan Airlines*

KLM Royal Dutch Airlines*

Korean Air*

Lufthansa German Airlines*

Philippine Airlines* Oantas Airways* Scandinavian Airlines* Singapore Airlines* Swiss International*

TACA International Airlines*

Thomas Cook Group Turkish Airlines*

Virgin Atlantic Airlines*

Volaris Airlines WestJet Airlines* WOW air

XL Airways France

Cargo-Only Carriers

ABX Air* Atlas Air Federal Express* Kalitta Air*

Nippon Cargo Airlines* Redding Aero Enterprises*

Regional Affiliates⁽⁵⁾

Compass Airlines (American Airlines and Delta Air Lines) Horizon Air (Alaska Airlines)

Jazz Aviation (Air Canada)

SkyWest Airlines (AlaskaSkyWest, Delta Connection and

United Express)

Source: Commission.

Indicates a Signatory Airline to a Lease and Use Agreement. Air India and Fiji Airways became signatories after the end of Fiscal Year 2016-

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

⁽²⁾ Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate.

⁽³⁾ Air Berlin filed for bankruptcy protection in August 2017 and has announced that it will cease all operations at the Airport in October 2017.

Etihad has announced that it will cease operations at the Airport in October 2017.

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.

Passenger Traffic

During Fiscal Year 2016-17, according to traffic reports submitted by the airlines, the Airport served approximately 54 million passengers (enplanements and deplanements, excluding passengers who fly into and out of the Airport on the same aircraft), and handled 449,035 total flight operations, including 434,582 scheduled passenger airline operations. Scheduled passenger aircraft arrivals and departures during Fiscal Year 2016-17 increased by 2.5%, domestic passenger traffic (enplanements and deplanements) increased by 3.4%, international passenger traffic increased by 10.3%, and total passenger traffic increased by 5.0% compared to Fiscal Year 2015-16. Passenger enplanements and deplanements have increased at a faster rate than scheduled passenger aircraft arrivals and departures because passenger airlines have increased the average size of aircraft serving the Airport, including by reducing the use of regional jets and eliminating the use of turboprops.

The Airport was ranked the 4th most active airport in the United States in terms of overall origin and destination passengers and the 7th most active airport in the United States in terms of domestic origin and destination passengers, according to Fiscal Year 2015-16 U.S. DOT statistics. For calendar year 2016, 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 69.1% of the total air passenger traffic at the three San Francisco Bay Area airports during Fiscal Year 2016-17.

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

PASSENGER TRAFFIC

Scheduled Passenger Aircraft Arrivals and Departures

Passenger Enplanements and Deplanements

Fiscal Year	Total	% Change	Domestic	% Change	International	% Change	Total	Total % Change
2016-17	434,582	2.5%	41,046,640	3.4%	12,922,418	10.3%	53,969,058	5.0%
2015-16	423,813	2.7	39,697,866	5.6	11,711,366	10.2	51,409,232	6.6
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	27,558,930	9.5	9,148,707	5.2	36,707,637	8.4

Source: Commission.

Passenger traffic has grown at a compound annual growth rate of 4.4% over the last ten full Fiscal Years, with a 5.0% increase in Fiscal Year 2016-17. While the Commission 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 2016-17 an estimated 80% 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

<u>Total Enplanements</u>. Total enplanements at the Airport increased 4.9% during Fiscal Year 2016-17 to approximately 26,871,549 as compared to Fiscal Year 2015-16. The increase in total enplanements during Fiscal Year 2016-17 represents an increase of 1,250,039 passengers, 668,900 of which were domestic and the remaining 581,139 of which were international.

Total enplanements for the Airport's 10 most active airlines for Fiscal Years 2012-13 through 2016-17 are shown in the table below, ranked in the order of the results from Fiscal Year 2016-17. Enplanements for airlines include enplanements by affiliates.

TOTAL ENPLANEMENTS BY AIRLINE (Fiscal Years)

Airline	2012-13	2013-14	2014-15	2015-16	2016-17	% of 2016-17 ⁽¹⁾
United Airlines	10,280,401	10,655,513	10,867,589	11,216,891	11,875,239	44.2%
Virgin America ⁽²⁾	1,934,777	1,965,310	1,997,367	2,279,332	2,502,709	9.3
American Airlines ⁽³⁾	1,507,407	1,464,378	1,476,862	2,119,968	2,204,111	8.2
Delta Air Lines ⁽⁴⁾	1,742,918	1,843,363	2,023,216	2,105,573	2,080,821	7.7
Southwest Airlines ⁽⁵⁾	1,554,598	1,567,768	1,682,298	1,722,390	1,794,989	6.7
Alaska Airlines ⁽²⁾	596,236	663,557	725,137	742,284	792,496	2.9
jetBlue Airways	533,375	542,761	602,206	755,398	785,328	2.9
Air Canada	284,664	337,424	388,401	432,354	484,287	1.8
Frontier Airlines ⁽⁶⁾	_	_	_	343,736	341,903	1.3
Lufthansa Airlines ⁽⁷⁾	251,864	241,483	262,802	_	245,550	0.9
US Airways ⁽³⁾	806,183	827,146	878,176	293,408	_	_
SUBTOTAL	19,492,423	20,108,703	20,904,054	22,011,334	23,107,433	86.0
All others	2,780,999	2,886,971	3,119,545	3,610,176	3,764,116	14.0
Total	22,273,422	22,995,674	24,023,599	25,621,510	26,871,549	100.0%
Percentage Change	4.0%	3.2%	4.5%	6.7%	4.9%	

⁽¹⁾ Figures do not total due to rounding.

Total enplanements have grown at a compound annual growth rate of 4.6% over the last five full Fiscal Years, with a 4.9% increase in Fiscal Year 2016-17. While the Commission expects enplanements to continue to grow, such growth is likely to be at a more moderate pace than over the last few years.

Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate.

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.

⁽⁴⁾ Delta Air Lines ceased its international service at the Airport in March 2014.

⁽⁵⁾ In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran 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⁾ Frontier Airlines served the Airport in Fiscal Years 2012-13, 2013-14 and 2014-15, but was not among the top 10 most active airlines in terms of total enplanements for those years.

⁽⁷⁾ Lufthansa served the Airport in Fiscal Year 2015-16, but was not among the top 10 most active airlines in terms of total enplanements. Source: Commission.

<u>Domestic Enplanements</u>. During Fiscal Year 2016-17, total domestic passenger enplanements were 20,513,891, an increase of 3.4% compared to Fiscal Year 2015-16. Domestic enplanements for the 10 most active airlines for Fiscal Years 2012-13 through 2016-17, ranked in the order of the results from Fiscal Year 2016-17, are shown in the table below. Enplanements for airlines include enplanements by affiliates.

DOMESTIC ENPLANEMENTS BY AIRLINE (Fiscal Years)

Airline	2012-13	2013-14	2014-15	2015-16	2016-17	% of 2016-17 ⁽¹⁾
United Airlines	8,544,790	8,849,198	9,016,438	9,353,580	9,884,799	48.2%
Virgin America ⁽²⁾	1,877,622	1,918,610	1,954,493	2,224,959	2,449,044	11.9
American Airlines ⁽³⁾	1,507,407	1,464,378	1,476,862	2,119,968	2,204,111	10.7
Delta Air Lines	1,686,655	1,804,080	2,023,216	2,105,573	2,080,821	10.1
Southwest Airlines ⁽⁴⁾	1,554,598	1,567,768	1,682,298	1,722,390	1,794,989	8.8
jetBlue Airways	533,375	542,761	602,206	755,398	785,328	3.8
Alaska Airlines ⁽²⁾	524,535	583,892	658,480	670,884	701,785	3.4
Frontier Airlines	199,018	195,353	229,093	343,736	341,903	1.7
Hawaiian Airlines ⁽⁵⁾	_	97,966	134,713	172,448	188,550	0.9
Sun Country Airlines	_	_	_	_	82,257	0.4
US Airways ⁽³⁾	806,183	827,146	878,176	293,408	_	_
AirTran Airways ⁽⁴⁾	133,278	_	_	_	_	_
SUBTOTAL	17,367,461	17,851,152	18,655,975	19,762,344	20,513,587	99.9
All others	148,517	135,941	93,822	82,647	304	0.1
TOTAL	17,515,978	17,987,093	18,749,797	19,844,991	20,513,891	100.0%
Percentage Change	4.2%	2.7%	4.2%	5.8%	3.4%	

⁽¹⁾ Figures do not total due to rounding.

Source: Commission.

<u>International Enplanements</u>. International enplanements during Fiscal Year 2016-17 totaled 6,357,658, an increase of 10.1% compared to Fiscal Year 2015-16.

International enplanements for the 10 most active airlines for Fiscal Years 2012-13 through 2016-17, ranked in the order of the results from Fiscal Year 2016-17, are shown in the table on the following page. Enplanements for airlines include enplanements by affiliates.

⁽²⁾ Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate.

⁽³⁾ 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.

⁽⁴⁾ In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran 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. AirTran Airways was not one of the top ten airlines serving the Airport in terms of domestic enplanements in Fiscal Years 2013-14 or 2014-15.

⁽⁵⁾ Hawaiian Airlines served the Airport in Fiscal Year 2012-13, but was not among the top 10 most active airlines in terms of domestic enplanements for that year.

INTERNATIONAL ENPLANEMENTS BY AIRLINE (Fiscal Years)

Airline	2012-13	2013-14	2014-15	2015-16	2016-17	% of 2016-17 ⁽¹⁾
United Airlines	1,735,611	1,806,315	1,851,151	1,863,311	1,990,440	31.3%
Air Canada	284,664	337,424	388,401	432,354	484,287	7.6
Lufthansa Airlines	251,864	241,483	262,802	252,879	245,550	3.9
Cathay Pacific Airlines	211,684	210,445	205,483	227,845	241,381	3.8
British Airways	209,358	210,648	217,643	236,205	223,556	3.5
EVA Airways	151,684	168,930	192,962	198,194	201,606	3.2
Air France	163,755	159,965	159,143	178,248	178,767	2.8
Singapore Airlines	191,310	176,721	166,875	169,083	166,569	2.6
Aeromexico ⁽²⁾	_	_	132,009	_	150,137	2.4
Virgin Atlantic Airways	126,170	119,471	_	148,712	142,123	2.2
Emirates ⁽³⁾	_	_	135,387	145,157	_	_
China Airlines ⁽⁴⁾	116,306	119,365	_	_	_	_
SUBTOTAL	3,442,406	3,550,767	3,711,856	3,851,988	4,024,416	63.3
All others	1,315,038	1,457,814	1,561,946	1,924,531	2,333,242	36.7
TOTAL	4,757,444	5,008,581	5,273,802	5,776,519	6,357,658	100.0%
Percentage Change	3.2%	5.3%	5.3%	9.5%	10.1%	

⁽¹⁾ Column does not total due to rounding.

Source: Commission.

In Fiscal Year 2016-17, enplanements to Asia and the Middle East increased by 8.6%; enplanements to Europe increased by 6.9%; enplanements to Canada increased by 2.2%; enplanements to Latin America increased by 24.2%; and enplanements to Australia and Oceania increased by 36.2%, all as compared to Fiscal Year 2015-16.

International enplanements by destination for Fiscal Years 2012-13 through 2016-17 are shown in the table below.

INTERNATIONAL ENPLANEMENTS BY DESTINATION (Fiscal Years)

						% of 2016-17 ⁽¹⁾	
Destination	2012-13	2013-14	2014-15	2015-16	2016-17	International Enplanements	Total Enplanements
Asia/Middle East	2,129,047	2,162,721	2,315,144	2,497,726	2,712,712	42.7%	10.1%
Europe	1,286,374	1,389,903	1,473,694	1,637,439	1,750,817	27.5	6.5
Canada	629,379	678,770	736,844	777,915	794,695	12.5	3.0
Latin America	511,149	563,870	555,266	636,359	790,072	12.4	2.9
Australia/Oceania	201,495	213,317	192,854	227,080	309,362	4.9	1.2
Total	4,757,444	5,008,581	5,273,802	5,776,519	6,357,658	100.0%	23.7%
Percentage Change	3.2%	5.3%	5.3%	9.5%	10.1%		

⁽¹⁾ Columns do not total due to rounding.

Source: Commission.

⁽²⁾ Aeromexico served the Airport in Fiscal Years 2012-13, 2013-14, and 2015-16, but was not among the top 10 most active airlines in terms of international enplanements for those years.

⁽³⁾ Emirates served the Airport in Fiscal Years 2012-13, 2013-14 and 2016-17, but was not among the top 10 most active airlines in terms of international enplanements for those years.

⁽⁴⁾ China Airlines served the Airport in Fiscal Years 2014-15 through 2016-17, but was not among the top 10 most active airlines in terms of international enplanements for those years.

Cargo Traffic and Landed Weight

Cargo Traffic

In Fiscal Year 2016-17, according to traffic reports submitted by the airlines, Airport air cargo volume was approximately 535,581 metric tons, including U.S. mail, freight and express shipments, an increase of 84,080 metric tons (18.6%) compared to reported cargo volume for Fiscal Year 2015-16. A total of approximately 326,539 metric tons of international cargo, mail, freight and express shipments were handled at the Airport during Fiscal Year 2016-17, compared to approximately 209,042 metric tons of domestic cargo, mail, freight and express shipments. The Airport was ranked 15th in the United States in terms of air cargo volume in calendar year 2016, according to 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 2015-16, domestic cargo and mail traffic tonnage increased 20,458 metric tons (10.8%) and international cargo and mail traffic tonnage increased 63,621 metric tons (24.2%) during Fiscal Year 2016-17.

The following table provides combined domestic and international cargo traffic information for the Airport for the last five Fiscal Years.

AIR CARGO ON AND OFF (in metric tons)

Fiscal Year	Freight and Express	U.S. and Foreign Mail	Total Cargo*	Percent Change
2016-17	466,923	68,659	535,581	18.6%
2015-16	383,305	68,196	451,501	2.2
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)

Source: Commission.

Landed Weight

For Fiscal Year 2016-17, total revenue landed weight at the Airport increased 2,584,143 thousand pounds (7.4%) when compared with Fiscal Year 2015-16.

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 2012-13 through 2016-17, ranked in the order of the results from Fiscal Year 2016-17, are shown in the table on the following page. Landed weights for airlines include landed weight of affiliates.

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^{*} Totals may not add due to rounding.

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

Airline	2012-13	2013-14	2014-15	2015-16	2016-17	% of 2016-17 ⁽¹⁾
United Airlines	13,161,654	13,607,516	13,587,731	13,953,205	15,453,760	41.1%
Virgin America ⁽²⁾	2,465,082	2,494,821	2,424,728	2,757,501	2,996,660	8.0
American Airlines ⁽³⁾	1,888,888	1,865,682	1,802,575	2,462,970	2,654,816	7.1
Delta Air Lines ⁽⁴⁾	2,091,497	2,230,034	2,350,648	2,567,319	2,525,718	6.7
Southwest Airlines ⁽⁵⁾	1,877,368	1,832,578	1,872,090	1,895,646	2,038,119	5.4
jetBlue Airways	571,217	596,813	672,117	875,867	939,439	2.5
Alaska Airlines ⁽²⁾	678,452	734,442	827,323	874,199	930,717	2.5
Air Canada ⁽⁶⁾	_	_	492,160	546,720	640,396	1.7
Korean Air Lines ⁽⁷⁾	_	_	_	_	542,308	1.4
Lufthansa Airlines	481,557	459,455	503,285	501,143	510,879	1.4
British Airways ⁽⁸⁾	_	457,210	_	506,376	_	_
US Airways ⁽³⁾	826,201	859,552	921,285	_	_	_
Cathay Pacific ⁽⁹⁾	466,191					
SUBTOTAL	24,508,107	25,138,103	25,453,942	26,940,946	29,232,812	77.8
All others	6,164,463	6,490,469	7,156,110	8,072,361	8,363,816	22.2
TOTAL	30,672,570	31,628,572	32,610,052	35,012,485	37,596,628	100.0%
Percentage Change	0.7%	3.1%	3.1%	7.4%	7.4%	

⁽¹⁾ Figures do not total due to rounding.

Source: Commission.

Competition

General

The Airport is the principal airport in the San Francisco Bay Area and one of three international gateways on the U.S. West Coast. The San Francisco Bay Area is also served by Metropolitan Oakland International Airport (OAK) and Norman Y. Mineta San Jose International Airport (SJC). The passenger traffic data with respect to LAX, OAK, and SJC discussed below was obtained from websites maintained by LAX, OAK, and SJC, respectively.

⁽²⁾ Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate.

⁽³⁾ 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. US Airways served the Airport in Fiscal Year 2015-16, but was not among the top 10 most active airlines in terms of revenue landed weight.

⁽⁴⁾ Delta ceased its international service at the Airport in March 2014.

⁽⁵⁾ In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran 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⁾ Air Canada served the Airport in Fiscal Years 2012-13 and Fiscal Year 2013-14, but was not among the top 10 most active airlines in terms of revenue landed weight for those years.

⁽⁷⁾ Korean Air Lines served the Airport in Fiscal Years 2012-13 through 2015-16, but was not among the top 10 most active airlines in terms of revenue landed weight for those years.

⁽⁸⁾ British Airways served the Airport in Fiscal Year 2012-13, 2014-15 and 2016-17, but was not among the top 10 most active airlines in terms of revenue landed weight for those years.

⁽⁹⁾ Cathay Pacific served the Airport in Fiscal Years 2013-14 through Fiscal Year 2016-17, but was not among the top 10 most active airlines in terms of revenue landed weight for those years.

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 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 2016-17, international passenger traffic (enplanements and deplanements) at the Airport totaled approximately 12.9 million (an increase of 10.3% over the prior Fiscal Year) compared to approximately 24.0 million at LAX (an increase of 10.9%). 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. By 2016, Delta Air Lines' Chief Executive Officer indicated that facility constraints at the Seattle-Tacoma International Airport (SEA) would limit growth until new facilities come online, notably a planned new international arrivals facility that is expected to be completed by 2019. According to statistics published by SEA in Fiscal Year 2016-17, its international enplanements and deplanements totaled 5.1 million compared to 12.9 million at the Airport. Delta Air Lines ceased its international service at the Airport in March 2014.

Passenger Traffic

According to traffic reports released by the three Bay Area airports for Fiscal Year 2016-17, the Airport accounted for approximately 64.3% of total domestic passenger traffic and approximately 90.7% of total international passenger traffic. The combined total passenger traffic increase at the three Bay Area airports during Fiscal Year 2016-17 was 4.8 million enplanements and deplanements (approximately 6.6%) higher than in Fiscal Year 2015-16. While the Airport's enplanements and deplanements increased by 5.0%, Oakland Airport increased by 8.4% and San Jose Airport increased by 12.7%, resulting in a slight decrease in market share for the Airport, from 70.2% in Fiscal Year 2015-16 to 69.1% in Fiscal Year 2016-17.

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)

					2010	5-17
Airport	2012-13	2013-14	2014-15	2015-16	Number	% Change
San Francisco	44,608,177	46,057,988	48,212,794	51,409,232	53,969,058	5.0%
Oakland	9,950,856	9,890,271	10,754,556	11,614,845	12,593,371	8.4
San Jose	8,488,459	9,063,012	9,554,866	10,213,261	11,514,425	12.7
TOTAL BAY AREA	63,047,492	65,011,272	68,522,216	73,237,338	78,076,854	6.6%
Percentage Change	3.8%	3.1%	5.4%	6.9%	6.6%	

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

Air Cargo

During Fiscal Year 2016-17, the Airport accounted for approximately 47.4% of total air cargo at the three San Francisco Bay Area airports, compared with 43.2% in Fiscal Year 2015-16. Oakland Airport accounted for approximately 47.7% and San Jose accounted for approximately 4.9% of the total air cargo in the Bay Area during Fiscal Year 2016-17. The Airport handled approximately 27.3% of domestic loaded and unloaded cargo and approximately 90.1% of the Bay Area's international loaded and unloaded air cargo. Oakland Airport had the largest share of the domestic air cargo market (approximately 65.5% compared to approximately 68.3% during

Fiscal Year 2015-16). 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 11,663 tons (1.5%) compared to Fiscal Year 2015-16, and a decrease in domestic cargo (including mail) of 16,959 tons (2.7%) over the same period, resulting in an overall decrease of 5,296 tons (1.0%). During Fiscal Year 2016-17, Oakland Airport experienced a decrease in total cargo of 5,296 tons (1.0%) and San Jose Airport experienced an increase in total cargo of 2,456 tons (4.7%) each compared to Fiscal Year 2015-16. As a result, the Airport experienced a 4.3 percentage point increase in cargo tonnage market share, while Oakland Airport had a decrease in cargo tonnage market share of 4.2 percentage points and San Jose Airport had a decrease in cargo tonnage market share of 0.1 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)

					2010	5-17
Airport	2012-13	2013-14	2014-15	2015-16	Number	% Change
San Francisco	370,195	370,525	441,797	451,501	535,581	18.6
Oakland	493,127	520,486	539,030	543,880	538,584	(1.0)
San Jose	39,177	46,961	47,177	52,822	55,288	4.7
TOTAL BAY AREA*	902,498	937,972	1,028,005	1,048,203	1,129,453	7.8%
Percentage Change	(2.3%)	3.9%	9.6%	2.0%	7.8%	

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

Airline Agreements

As of June 30, 2017, the City and 44 of the airlines that served the Airport in Fiscal Year 2016-17 were party to 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 E—"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

<u>Signatories</u>. The Lease and Use Agreements took effect on July 1, 2011 and expire on June 30, 2021. Thirteen of the airlines that reported traffic on scheduled passenger flights in Fiscal Year 2016-17 were non-signatory as of June 30, 2017. Four are affiliates that report traffic under their respective signatories. Two passenger airlines became signatory in Fiscal Year 2016-17. The remaining nine airlines' passengers comprised less than 2% of the Airport's total passengers in the month of June 2017. Airlines in addition to the current Signatory Airlines 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 specified 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

^{*} Totals may not add due to rounding.

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, debt service costs and the Annual Service Payment described under "PAYMENTS TO THE CITY—Annual Service Payment" ("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 actual revenues and expenditures and amounts estimated in the calculation of airline fees and charges for any Fiscal Year result in adjustments of terminal rentals and landing fees in subsequent Fiscal 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.

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. 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.

<u>Funding of Capital Improvements</u>. 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 (\$4,720,799 in Fiscal Year 2017-18 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, and include Special Facility Bonds. While some smaller projects in the current Capital Improvement Plan will require airline review prior to expenditure of proceeds from the subject Bonds, the Commission has received airline review of outstanding qualifying projects well in excess of the proposed Series 2017A Bonds and 2017B Bonds.

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 actual seats in the preceding month of August. 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 (including the baggage system at domestic Terminal 2) 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.

<u>Security Deposit</u>. 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.

<u>Cross-Default Provisions</u>. 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.

Expiration of the Lease and Use Agreements. Upon the expiration of the Lease and Use Agreements on June 30, 2021, the Commission will have various options, including (a) extending the long-term agreements, (b) negotiating new long-term agreements, (c) entering into month-to-month agreements under the holdover provisions of the existing Lease and Use Agreements, or (d) not entering into new agreements and setting rates and charges by resolution. See "Holding Over" in APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS." In any event, the Commission intends to continue to establish rates and charges that will comply with the requirements of the rate covenant under the 1991 Master Resolution and that will allow the continued safe and efficient operation of the Airport and additional capital investment. If the Commission and the airlines do not finalize new agreements by the time the existing Lease and Use Agreements expire, the Commission intends to set rates and charges by resolution that are consistent with any applicable parameters established by the FAA and the U.S. DOT or their successors. However, the Commission cannot predict what form any new agreements may take, whether the existing residual rate-setting system will be continued or whether the balance of risks and benefits between the Commission and the airlines will be the same as in the current Lease and Use Agreement. The Airport and the airlines have not commenced any discussions on this topic.

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 under 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.

Amounts under a nonresidential lease arising from or after the bankruptcy petition must be paid when due unless the bankruptcy court extends the time for performance, but the court cannot extend such time more than 60 days from the date the petition is filed. Amounts accruing during the case generally have administrative expense priority, but such priority does not ensure that such amounts will be paid.

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 coming due under the lease in the future 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. A rejection damages claim is 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 and use 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. Such avoidance may be subject to defenses however, including payment in the ordinary course and subsequent new value.

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 expense 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. See "PAYMENTS TO THE CITY—Annual Service Payment" for further description of the Annual Service Payment. The U.S. Congress could reserve the "grandfathering" of the Annual Service Payment.

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, and the OIG has authority to audit the FAA's oversight of the payments. The FAA may also suspend or terminate pending FAA grants to the Airport and/or any then-existing PFC 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). OIG is conducting an audit to assess FAA's oversight of "grandfathered" airports' compliance with federal law related to airport revenue payments. The Airport is one of the airports included in this OIG audit. See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION—Payments to the City" and "CERTAIN RISK FACTORS—Reduction in Federal 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. 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.

Federal Accessibility Law

The Office of Civil Rights of the FAA ("OCR") periodically reviews airports' compliance with federal civil rights laws and accessibility laws. OCR initiated a review of the Airport's compliance with the Americans with Disabilities Act and Section 504 of the Rehabilitation Act in June 2017 and found certain areas of non-compliance. The Commission is in the process of responding to the FAA's preliminary recommendations and has already implemented several of the recommendations. The Commission cannot predict the final outcome of the OCR audit but does not expect its implementation of the final recommendations to have a material financial or operational impact.

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 XIIIC and XIIID 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 XIIIC 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 XIIIC and it is unclear whether the definitions of such terms contained in Article XIIID (which are generally property-related as described below) are so limited under Article XIIIC.

Article XIIID 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 XIIID 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 XIIIC to the California Constitution principally to define what constitutes a "tax" under the limitations and requirements of that provision. Article XIIIC 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 XIIIC did not define the term "tax" and the purpose of Proposition 26 is to broadly define what constitutes a tax under Article XIIIC 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 XIIIC, the Airport may no longer be able to impose or adjust those fees and charges without voter approval.

Employee Relations

The Commission budgeted 1,738 full-time equivalent positions for Fiscal Year 2016-17 and budgeted 1,809 full-time equivalent positions for Fiscal Year 2017-18, as compared to 1,688 full-time equivalent positions in 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 17 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; however, in 2017, most unions entered into rollover agreements with the City that will now expire June 30, 2019. Disagreements between the employees and the City in collective bargaining are resolved by an arbitrator whose decision is final. There have been no strikes by City employees (including Airport employees) since at least 1976, when 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 Improvement 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 successfully disputes an invoice, 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.

CAPITAL PROJECTS AND PLANNING

The Capital Improvement Plan Process

The Airport's Capital Improvement Plan ("CIP") 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 management, 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 maintaining and expanding the Airport's facilities to accommodate projected Airport traffic, addressing aging infrastructure, and promoting airline competition. The CPRC reviews the CIP Working Group's selection of projects for funding in a CIP. In reviewing the CIP, the CPRC considers available funding and the projected impact of capital projects on terminal rental rates and landing fees that the airlines at the Airport pay. The CPRC sends its recommendations to the Director who approves the final draft which is then sent to the Commission for approval. Generally, capital projects require the approval of the Commission and the Board of Supervisors, certain actions of which are subject to approval by the Mayor. In most cases, an airline review is also required (see "SAN FRANCISCO INTERNATIONAL AIRPORT—Airline Agreements"). The Airport's CIP is updated on an as-needed basis.

The Capital Improvement Plan

Overview

The CIP consists of 56 projects totaling \$7.4 billion, which includes \$1.2 billion in prior years spending and \$6.2 billion in expected spending over the next 10-year period (Fiscal Year 2017-18 to Fiscal Year 2026-27) and consisting of: (1) The Ascent Program – Phase I and (2) The Fiscal Year 2017-18 Infrastructure Projects Plan (the "Infrastructure Projects Plan"). The Ascent Program – Phase I consists of projects from the Fiscal Year 2016-17 capital plan, plus the addition of a new Ascent Program Reserve to be used to address unanticipated Ascent Program project needs, should they arise (see "—The Ascent Program Overview" below). The Infrastructure Projects Plan includes projects that address newly identified capital needs. The CIP was approved by the Commission on September 5, 2017.

The CIP is designed to address several key objectives. The Commission's highest priority objective is addressing passenger traffic growth and meeting demand-driven terminal gate needs. The Airport presently experiences gate constraints during peak periods. Passenger traffic has grown 46.3% over the last 10 full Fiscal Years and was 4.9% higher during Fiscal Year 2016-17 as compared to Fiscal Year 2015-16. The Commission expects traffic to continue to grow, though such growth is likely to be at a more moderate pace. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Passenger Traffic." Other key CIP objectives include improving groundside access for passengers, enhancing safety and security, promoting sustainability, providing the information technology infrastructure necessary to meet passenger and tenant operational needs, improving the ambiance and customer experience at the Airport, and maintaining the Airport's competitive position compared to other international gateways with respect to capacity and cost.

Anticipated Costs and Financing Sources

The CIP includes an estimated \$5.8 billion in project spending over the next five-year period (Fiscal Year 2017-18 to Fiscal Year 2021-22), of which \$5.6 billion is expected to be funded with the proceeds of the Series 2017A Bonds, the Series 2017B Bonds and additional Bonds expected to be issued in the future (including Bonds the proceeds of which would be used to purchase Hotel Special Facility Bonds and to construct an AirTrain station

adjacent to the hotel, as described below under "—*Major Ascent Program Capital Projects–Groundside*"). In addition, \$126 million of the CIP is expected to be reimbursed with AIP funds and other grants, \$52 million is expected to be funded by SFO Fuel or by Special Facility Bonds payable by SFO Fuel, and \$25 million is expected to be funded with Airport operating funds. The Commission expects to issue Bonds in addition to the Series 2017/18 Bonds to generate approximately \$455 million for capital projects (exclusive of costs of issuance and reserve fund deposits) later in Fiscal Year 2017-18 and to generate another \$2.0 billion for capital projects in Fiscal Year 2018-19. The CIP 10-year period (Fiscal Year 2017-18 to Fiscal Year 2026-27) includes an aggregate of \$6.2 billion in project spending. The total project cost of the CIP is \$7.4 billion, including \$1.2 billion that was previously funded. The timing and amounts of additional Bonds may change depending on the timing of capital expenditures and market conditions. The Commission bases its bond issuance needs on capital project cash flows, which are updated regularly. The additional Bonds expected to be issued with respect to the new hotel and adjacent AirTrain station are not included in the forecast prepared by the Airport Consultant and included in Appendix A. *See* "FORECAST OF DEBT SERVICE COVERAGE" table and "REPORT OF THE AIRPORT CONSULTANT–Forecast of Debt Service Coverage."

Capital Projects

The estimated capital project costs associated with the CIP are summarized in the table below.

Capital Improvement Plan (\$ in millions)

				Total	
	Funding	Fiscal Years	Fiscal Years	Fiscal Years	
	through	2017-18	2022-23	2017-18	
	Fiscal Year	through	through	through	
(\$ in millions)	2016-17	2021-22	2026- 2027	2026-27	Total
Ascent Program - Phase I					
Project Costs	\$1,164	\$4,925	\$442	\$5,366	\$6,531
Program Reserve ⁽¹⁾	_	739	_	739	739
Subtotal – Ascent ⁽²⁾	\$1,164	\$5,664	\$442	\$6,105	\$7,269
Infrastructure	_	122	_	122	122
Total Capital Improvement	\$1,164	\$5,786	\$442	\$6,227	\$7,392

⁽¹⁾ Ascent Program Reserve is expected to be used only after considering other cost mitigation efforts.

The Ascent Program – Phase I Overview

The Ascent Program – Phase I consists of projects that were included in the Fiscal Year 2016-17 capital plan, representing \$5.7 billion and \$6.1 billion of the five- and 10-year periods of the current CIP, respectively. Highlights of the Ascent Program – Phase I's capital projects are provided in the following sections. Project budgets in these sections reflect total project budgets, which may include prior year funding.

The program includes a \$739 million Ascent Program Reserve, which consists of \$600 million in newly budgeted project reserves and \$139 million in previously existing project reserves. The Ascent Program Reserve will be used to address unanticipated needs of projects within the Ascent Program, should they arise. Only projects in the Ascent Program are eligible to receive program reserves. The Commission expects that it would only use the Ascent Program Reserve after consideration of other cost mitigation efforts. The Ascent Reserve may be increased to the extent that there are cost savings from Ascent projects.

There is no specific plan for a subsequent phase to the Ascent Program. However, the Commission recently embarked on the preparation of a recommended Airport Development Plan ("Recommended ADP"), which has been completed and is undergoing environmental review. See "-Airport Development Plan." The

⁽²⁾Totals may not add due to rounding.

Recommended ADP, as modified during environmental review, will result in the identification of a range of potential additional capital projects, one or more of which may be designated as the "Ascent Program – Phase II" (or similar title) and added to future versions of the Commission's CIP, if and when the Commission deems that they are warranted to address traffic growth and other factors. The recommended ADP is not included in the Ascent Program – Phase I or the CIP, nor is it reflected in the financial forecasts included in the Report of the Airport Consultant.

Major Ascent Program - Phase I Capital Projects - Terminals

The largest terminal project spending in the CIP is for the renovation of Terminal 1 (\$2.3 billion) and the renovation and reconfiguration of the eastern and western sides of Terminal 3 (\$1.0 billion). The planned Terminal 1 renovations include the addition of 6 gates to Boarding Area B, seismic and building systems improvements, construction of a new baggage handling system, renovation of the central and southern portions of the departures hall, construction of a consolidated security checkpoint, and construction of a post-security passenger connector from Terminal 1 to the International Terminal with enhanced passenger amenities. The reconfiguration and renovation of the western side of Terminal 3 is intended to increase gate flexibility, improve seismic stability, upgrade building and baggage handling systems, improve passenger flow, and enhance passenger amenities.

Other major terminal spending in the CIP includes the International Terminal Refresh project to improve the operational efficiency within the terminal (\$272 million); the Courtyard 3 Connector project which will construct a post-security passenger connector between Terminal 2 and Terminal 3 in conjunction with a multi-story office block for Commission and tenant use (\$210 million); the Gate Enhancement project to meet increased gate demands (\$97 million); the Revenue Enhancement and Customer Hospitality Program designed to improve the customer experience and increase concession revenue opportunities (\$104 million); and improvements to the International Terminal baggage handling system (\$88 million).

Major Ascent Program – Phase I Capital Projects - Groundside

The planned new Airport-owned hotel and hotel AirTrain station together comprise the largest groundside project in the CIP. In September 2015, the Commission awarded a Hotel Management Agreement to Hyatt Corporation and authorized the issuance of \$243 million of Hotel Bonds and \$225 million of Hotel Special Facility 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 Hotel Bonds, which are Bonds under the 1991 Master Resolution, that will be sold to investors.

In March 2017, the Commission authorized the issuance of another \$35 million of additional Hotel Bonds and another \$35 million of additional Hotel Special Facility Bonds to support the development and construction of the new Airport-owned hotel. The budget increase enabled the Airport to: 1) address significant construction cost escalation since 2015, particularly in the areas of electrical, mechanical, glazing and interior finishes; and 2) increase the amount of space allocated for revenue-generating facilities (e.g., meeting facilities and food and beverage outlets). This addition increased the total amount of Hotel Bonds and Hotel Special Facility Bonds to \$278 million and \$260 million, respectively. In July 2017, the Hotel Special Facility Bonds bond resolution and supplemental appropriation ordinance were approved by the City's Board of Supervisors. The total net proceeds of the two bond issuances are expected to be approximately \$278 million, which will be applied to hotel-related costs including the \$237 million construction costs of the hotel, \$15 million costs of an AirTrain station adjacent to the hotel, capitalized interest on the Hotel Special Facility Bonds, and costs of issuance. The Hotel Special Facility Bonds and the Hotel Bonds will likely be issued in Fiscal Year 2018-19. The hotel is anticipated to open during summer 2019. The additional Bonds expected to be issued in connection with the hotel are not included in the projections in APPENDIX A. See "CERTAIN RISK FACTORS—Additional Long-Term Debt."

Three major projects comprise the majority of the balance of the groundside improvement projects: the extension of the AirTrain system serving the existing and new long-term parking garages (\$202 million); a new long-term parking garage (\$161 million); and South McDonnell Road Realignment (\$31 million).

Major Ascent Program – Phase I Capital Projects - Airport Support

Major airport support projects include: security infrastructure improvements (\$188 million); technology improvements (\$79 million); renovation of the Superbay Hangar (\$105 million); construction of the first phase of the Consolidated Administrative Campus (\$78 million); and the Airport Shoreline Protection program (\$61 million).

Major Ascent Program Phase I Capital Projects - Utilities

Major utilities-related CIP projects include: "net zero" energy use-related improvements to the terminals and other major Airport facilities and systems (\$176 million); waste water system improvements (\$122 million); water system improvements (\$24 million); and power and lighting improvements (\$20 million).

Major Ascent Program Phase I Capital Projects - Airfield

Major airfield-related CIP projects include taxiway improvement projects (\$76 million); runway improvements (\$73 million); and South McDonnell Road Realignment (\$18 million).

Ascent Program – Phase I – Major Capital Project Deferrals

A number of projects that were included in the prior capital plan have been deferred and are not included in the CIP. Notable deferrals include the consolidated rental car facility project and the related rental car center conversion to public parking (\$540 million). Airport staff and senior management determined the consolidated rental car facility project not to be a critical capital need at this time. Other notable deferrals include the Building 944 conversion to flight kitchen (\$26 million), and the renovation of Cargo Buildings 606 and 730 (\$25 million), which also were determined not to be critical capital needs at this time. These projects were deferred in order to accommodate increases in other Ascent Program budgets, resulting from decisions to add scope elements to meet demand and/or to address the impact of construction cost escalation on project budgets, without increasing the total cost of the Ascent Program – Phase I.

Infrastructure Projects Plan - Major Capital Projects

The Infrastructure Projects Plan consists of seven new infrastructure projects added to the CIP after Fiscal Year 2016-17. The Infrastructure Projects Plan has a total projected cost of \$122 million. These projects are critical for meeting current safety and operational needs of the Airport. Major projects include the installation of new on-Airport jet fuel storage tanks (\$52 million), which is expected to be funded by SFO Fuel Company or by special facility bonds issued by the Airport on behalf of SFO Fuel Company; aircraft parking power and preconditioned air improvements at Plot 40/41 (\$25 million), which are expected to be partially grant funded; Federal Aviation Administration (FAA) Part 139 required airfield improvements (\$20 million), and the installation of a new computer based landing system to enhance landing efficiency and mitigate noise (\$10 million).

Implementation of Capital Projects

The Commission uses a variety of strategies to mitigate risk associated with the implementation of the projects in its CIP. The Commission has a Project Labor Agreement to minimize labor-related disruptions to project implementation. The Project Labor Agreement applies to most major Airport capital projects including Terminal 1 Center, Boarding Area B, and Boarding Area C; the post-security passenger connectors; the air traffic control tower replacement (including demolition of old tower); International Terminal and Boarding Area F checked baggage system modernization program; improvements to the International Terminal baggage handling system; the industrial waste treatment plant; the Airport hotel; the first phase of the Consolidated Administrative Campus; the airport security infrastructure program; the new long-term parking garage; the first phase of the Airport-wide amenities

program; the AirTrain extension; Terminal 3 West renovations; Boarding Area A gate enhancements; Plot 2 and South McDonnell Road realignment, and the International Terminal refresh project.

The Commission has also developed a number of approaches to anticipate and mitigate construction cost escalation. At each design phase, if engineers' estimates exceed budget, staff may utilize value engineering to identify opportunities to reduce costs. Airport project cost models include a variety of contingencies, including construction-escalation of 5% per year, to the mid-point of construction, applied to unawarded base bid scope (i.e., the estimated cost of trade bid packages, not including contingencies, that have not yet been awarded to a contractor). Other contingencies include a 0%-15% design contingency applied to base bid unawarded scope and a 15%-5% bid contingency applied to unawarded base bid scope in a declining amount through final design. The Commission also adds a budgeted Airport contingency equal to 7.5% of the awarded prime construction contract. Further, the Airport identifies 10% of deferrable scope in each project, as well as future projects that may be deferred, if and as necessary, based on cost and demand considerations. Lastly, the Airport may use portions of the Ascent Program Reserve after other cost management techniques have been utilized.

Nevertheless, project development could be delayed, or the cost of completing projects included in the CIP could be higher than expected, due to various factors. See "CERTAIN RISK FACTORS—Capital Projects."

Airport Development Plan

The Airport completed the Recommended ADP in September 2016. The Recommended ADP defines a series of recommended projects that would accommodate potential growth up to approximately 71.1 million annual passengers, serve as a roadmap to guide long-term Airport development, and support the Airport's overarching strategic objectives. The Recommended ADP identifies potential projects that would be required to meet future projected demand for gates, as well as ground-side and infrastructure capacity. These potential Recommended ADP projects include a new terminal concourse, replacement of the Central Garage, and improvements to the International Terminal Complex. The Recommended ADP is undergoing required environmental review under the California Environmental Quality Act (CEQA), a 24-month process that started in May 2017. Once completed, the Commission then could consider approval of the Recommended ADP, and individual projects would still be subject to Board of Supervisors review, federal environmental review under the National Environmental Policy Act, or both, where applicable, and further Commission review before they proceed. Projects included in the Recommended ADP will not necessarily be undertaken. Projects would be added to future capital improvement 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 Federal Grants."

Federal grants receivable of \$5.1 million (preliminary) and \$10 million as of June 30, 2017 and 2016, respectively, were based on actual costs incurred, subject to federal reimbursement limits. The Commission expects that \$125 million of the costs of the CIP will be reimbursed with AIP funds and other federal grants.

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.

Grants received by the Airport are audited from time to time. For example, the OIG of the DOT has audited grants awarded under the American Recovery and Reinvestment Act of 2009 ("ARRA") grants for a number of airports nationwide, including two grants totaling \$14.5 million received by the Airport from the FAA for runway improvements. The initial DOT audit concluded that several Airport expenditures 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 repaid to the FAA in December 2015. The Airport has been and continues to be audited by OIG and others 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 or take other remedial measures, the Commission does not believe any required repayments will have any material adverse impact on the business operations or financial condition of the Airport.

In addition, OIG is conducting audits to assess the FAA's oversight of compliance by "grandfathered" airports (including the Airport) with federal law related to airport revenue payments and the FAA's management of the Passenger Facility Charge program at the Airport and another airport, as well as several airlines. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Certain Federal and State Laws and Regulations—Federal Law Prohibiting Revenue Diversion." Also see "CERTAIN RISK FACTORS—Availability of PFCs."

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, trip fees 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 2017/18 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 2015-16 is shown in the table on the next page. See APPENDIX B—"FINANCIAL STATEMENTS WITH SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES JUNE 30, 2016 AND 2015 (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 (Restated) ⁽⁶⁾⁽⁷⁾	2014-15 (Restated) ⁽⁶⁾⁽⁷⁾	2015-16
Assets:				
Unrestricted current assets ⁽²⁾⁽³⁾⁽⁴⁾	\$ 399,014	\$ 425,951	\$ 450,598	\$ 467,577
Restricted current assets	197,112	278,346	245,719	282,371
Restricted non-current assets	389,162	579,933	643,686	640,970
Capital assets, net	3,720,791	3,869,718	3,936,426	4,045,636
Total assets	4,706,079	5,153,948	5,276,429	5,436,554
Deferred outflows of resources:				
Unamortized loss on refunding of debt	108,581	92,147	78,388	68,100
Deferred outflows on derivative instruments	64,743	63,971	65,408	83,614
Deferred outflows on pensions	_	_	37,517	43,982
Total deferred outflows of resources	173,324	155,938	181,313	195,696
Liabilities:				
Current liabilities (4)	500,511	268,723	285,929	309,888
Current liabilities payable from restricted assets	295,698	410,087	154,611	494,128
Noncurrent liabilities ⁽⁵⁾	3,729,562	4,285,257	4,608,523	4,372,604
Net pension liability	_	_	111,932	144,271
Derivative instruments	81,338	79,062	79,321	96,132
Total liabilities	4,607,109	5,043,129	5,240,316	5,417,023
Deferred inflows of resources:				
Deferred inflows related to pensions	_	_	100,290	48,154
Total deferred inflows of resources		_	100,290	48,154
Net position:				
Net investment in capital assets	(52,581)	(149,894)	(103,109)	(117,377)
Restricted for debt service	19,757	25,390	37,427	35,462
Restricted for capital projects	139,981	200,219	165,224	212,931
Unrestricted	165,137	191,042	17,594	36,057
Total net position	\$ 272,294	\$ 266,757	\$ 117,136	\$ 167,073

⁽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.

Source: Commission.

Unrestricted cash and Contingency Fund balances (in millions) (including accrued but unpaid interest on investments held in the Contingency Fund) totaled \$365.0 in Fiscal Year 2012-13, \$380.1 in Fiscal Year 2013-14,

⁽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): 2016: \$1,214; 2015: \$633; 2014: \$547; 2013: \$384.

⁽⁴⁾ Includes unearned aviation revenue (formerly referred to as deferred aviation revenue) of (in thousands): 2016: \$67,556; 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 and use 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."

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.

⁽⁷⁾ The Airport has adopted GASB Statement No. 72, Fair Value Measurement and Application, which changes how fair value is measured and provides guidance for applying fair value. As a result, the Airport restated its beginning deferred outflows on derivative instruments and derivative instruments liabilities for Fiscal Year 2013-14 and Fiscal Year 2014-15 in the amount of \$1.2 million and \$1.4 million, respectively.

\$403.4 in Fiscal Year 2014-15 and \$412.1 in Fiscal Year 2015-16. Based on unaudited, preliminary results, the unrestricted cash and Contingency Fund cash balance as of the end of Fiscal Year 2016-17 totaled \$375.9 million. The decrease in Fiscal Year 2016-17 reflects a one-time, early transfer to the Trustee of a \$33.0 million debt service deposit that would ordinarily have occurred in early July of Fiscal Year 2017-18.

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 2011-12 through 2015-16 is shown in the table below. See APPENDIX B—"FINANCIAL STATEMENTS WITH SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES JUNE 30, 2016 AND 2015 (WITH INDEPENDENT AUDITORS' REPORT THEREON)."

SUMMARY OF AIRPORT'S STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(\$ in thousands) (Fiscal Years)

	2011-12	2012-13			
	(Restated) ⁽¹⁾	(Restated) ⁽¹⁾	2013-14	2014-15	2015-16
Aviation Revenues	\$374,767	\$413,918	\$441,259	\$464,610	\$495,439
Concession Revenues ⁽²⁾	226,620	243,096	253,290	269,868	283,615
Net Sales and Services	67,285	69,344	76,142	80,886	87,937
Total Operating Revenues	668,672	726,358	770,691	815,364	866,991
Total Operating Expenses ⁽³⁾	(538,375)	(559,050)	(625,660)	(609,029)	(640,473)
Operating Income	130,297	167,308	145,031	206,335	226,518
Nonoperating Revenue (Expense) ⁽⁴⁾	(106,512)	(190,587)	(203,598)	(141,826)	(144,463)
Income (Loss) Before Capital Contribution			(58,567)	<u> </u>	
and Transfers	23,785	(23,279)		64,509	82,055
Capital Contributions ⁽⁵⁾	14,538	65,958	91,024	32,119	10,424
Transfer to the City	(33,993)	(36,464)	(37,994)	(40,480)	(42,542)
Changes in Net Position	\$ 4,330	\$ 6,215	\$ (5,537)	\$ 56,148	\$ 49,937

⁽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 and retroactively restated Fiscal Year 2011-12.

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 2017-18, annual terminal rental rates range from \$296.57 per square foot for Category I space (ticket counters and hold rooms) to \$29.66 per square foot for Category V space (unenclosed or covered areas at ramp level), with an average rate per square foot of \$169.03. For Fiscal Year 2016-17, annual terminal rental

⁽²⁾ Also includes parking and transportation revenues.

⁽³⁾ Includes depreciation expense in the amounts of \$167.3 million for Fiscal Year 2011-12, \$176.5 million for Fiscal Year 2012-13, \$222.8 million for Fiscal Year 2013-14, \$216.1 for Fiscal Year 2014-15 and \$228.4 for Fiscal Year 2015-16.

⁽⁴⁾ Includes interest expense in the amount of \$203.5 million for Fiscal Year 2011-12, \$195.5 million for Fiscal Year 2012-13, \$202.0 million for Fiscal Year 2013-14, \$210.6 million for Fiscal Year 2014-15 and \$208.6 million for Fiscal Year 2015-16.

⁽⁵⁾ Represents federal and state grant funds.

rates range from \$282.96 per square foot for Category I space to \$28.30 per square foot for Category V space, with an average rate per square foot of \$161.16.

The landing fee rate for Fiscal Year 2017-18 is \$5.24 per thousand pounds of landed weight compared to \$4.99 per thousand pounds of landed weight for Fiscal Year 2016-17. Operators without a lease or operating permit pay a landing fee charge of \$6.55 per thousand pounds of landed weight. For Fiscal Year 2017-18, the minimum landing fee for fixed wing aircraft is \$350 compared to \$285 for Fiscal Year 2016-17.

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 an 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 ENPLANED PASSENGER

Fiscal Year	Amount
2015-16	\$16.75
2014-15	16.23
2013-14	15.85
2012-13	15.35
2011-12	14.41

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 2013-14 through 2017-18 is set forth below.

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

	2013-14	2014-15	2015-16	2016-17	2017-18
Landing Fees (per 1,000 pounds)	\$4.29	\$4.57	\$4.87	\$4.99	\$5.24
Minimum Landing Fee (fixed wing)	208	220	245	285	350
Minimum Landing Fee (rotary)	104	110	123	143	175
Average Terminal Rental Rate (per square foot)	140.85	149.98	157.18	161.16	169.03

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. As of July 31, 2017, the Incentive Program has resulted in thirteen new destinations offered by a combination of United Airlines and nine new carriers. These include: Aer Lingus service to Dublin (April 2014), United Airlines service to Chengdu (June 2014), Etihad Airways service to Abu Dhabi (November 2014), China Southern service to Wuhan (December 2014) and Guangzhou (June 2015), Turkish Airlines service to Istanbul (April 2015), COPA Airlines service to Panama City (September 2015), Air India service to New Delhi (December 2015), United Airlines service to Tel Aviv (March 2016), United Airlines service to Singapore (June

2016), WOW air service to Reykjavik (June 2016), China Eastern service to Qingdao (September 2016) and Air Berlin service to Berlin (May 2017). Etihad Airways and Air Berlin have announced that they will discontinue its service at SFO in October 2017.

SFO Transportation and Facility Fees

The rental car companies collect a per rental contract fee (\$18.00 in Fiscal Year 2017-18) 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 2016-17, Terminal 2 passengers spent 31.4% 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. Five retail leases and one food and beverage lease are currently the subject of a request for proposals process. The new operations are expected to open during the third and fourth quarters of 2018.

Terminals 1 and 3 currently feature 35 food and beverage locations and 25 retail locations. Three of the food and beverage locations in these terminals are located in pre-security areas accessible to the general public. 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. The leases for the majority of the food and beverage and retail locations in Terminal 3 will expire during calendar years 2017 through 2019. Sixteen restaurant locations and seventeen retail locations are expected to be the subject of a request for proposals process and re-constructed over the next four years.

A newly constructed Boarding Area B in Terminal 1 is expected to open in phases during calendar years 2019 through 2022. Lease extensions were granted to food and beverage and retail tenants operating six locations to provide service between lease expirations and the opening of Phase I of Boarding Area B. Concessions space in Terminal 1, Boarding Area B, is expected to grow from approximately 11,000 square feet to 55,000 square feet in concert with an increase in the number of gates (see "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan—Major Ascent Program Capital Projects-Terminals"). The redevelopment is expected to align Boarding Area B with the ambiance and customer service experience of Terminal 2 and the recently renovated portions of Terminal 3.

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. A comprehensive renovation of the ITC concessions program is underway. All food and beverage locations have been let pursuant to A request for proposals process, and 13 new food and beverage concepts have opened and 7 more are expected to open between October 2017 and May 2018. Five new retail stores are expected to open by mid-2018 and the duty free concession space is expected to grow from approximately 33,000 square feet to approximately 44,000 square feet by the end of 2019.

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 ("MAG"), 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. The Airport's concession agreements with tenants generally provide that the MAG is temporarily suspended, and the tenant is required to pay only the percentage rent, if monthly enplanements in the relevant boarding area of the Airport are less than 80% of the enplanements of the same month in the calendar year immediately prior to the year in which the concession is awarded (the "reference month"), and this shortfall continues for three consecutive months. The MAG is reinstated once monthly enplanements equal or exceed 80% of the enplanements of the reference month for two consecutive months.

In Fiscal Year 2016-17, food and beverage domestic terminal sales increased over the prior year by 6.5% and ITC sales increased over the prior year by 6.2%. In Fiscal Year 2016-17, food and beverage domestic terminal revenues to the Airport increased by 8.1% over Fiscal Year 2015-16 and ITC revenues increased over the prior year by 16.7%. The increase in both sales and revenues is attributable to an increase in enplanements and deplanements at the Airport and for ITC, the renovation of the ITC concessions program, which commenced during Fiscal Year 2016-17 with 17 new restaurant openings and renovations to the ITC food court facilities. 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 1.0% in Fiscal Year 2016-17 over the prior Fiscal Year to \$13.75 from \$13.61 and the ITC spend rate declined 2.4% from \$13.85 to \$13.52. The overall passenger spend rate at the Airport in Fiscal Year 2016-17 was \$13.68, unchanged from Fiscal Year 2015-16.

In Fiscal Year 2016-17, retail sales, excluding duty free, increased 2.1% compared to the prior year, with a per passenger spend rate decrease of 2.7% to \$4.72 from \$4.85. In Fiscal Year 2016-17, rent from retail concessions increased 0.2% due to minimum annual guarantee CPI adjustments partly offset with lower per passenger spending.

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 \$26.9 million (as adjusted pursuant to the lease) per year or a tiered percentage rent structure. The Commission currently has a solicitation process underway to engage a new duty free operator for the Airport, with the winning proposer expected to be announced by the end of calendar year 2017. The minimum annual guarantee for the new lease is expected to be set at no less than \$42 million once all duty free locations are in operation beginning in the summer of 2019. The new lease is expected to commence around the third quarter of calendar year 2018, and the current DFS Group lease will be in holdover status between January 1, 2018 and the commencement date of the new lease. During the holdover period, the rental structure of DFS Group's current agreement is similar to but slightly higher than the current rental structure. In addition, certain duty free concession spaces will be out of service for renovations during the first year of the new duty free lease.

Advertising Program

Clear Channel Airports has held the advertising concession lease with the Commission since 2001. The Commission entered into a lease with Clear Channel commencing January 1, 2015 and ending December 31, 2022, 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. The fixed rent for calendar year 2017 is \$10,990,952.

Rental Cars

In January 2009, the Airport entered into new rental car agreements 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 agreements through a final maturity date of December 2018.

The on-Airport rental car companies generated aggregate concession revenue to the Airport of approximately \$50.4 million in Fiscal Year 2015-16 and \$49.0 million in Fiscal Year 2016-17.

The aggregate rent (the total concession fees and building space rental) received from the on-Airport rental car companies for Fiscal Year 2015-16 was \$68.9 million and for Fiscal Year 2016-17 was \$68.1 million.

Parking

New South Parking-California provides public and employee parking and management services under a five year contract that expired on June 30, 2017, however this contract has been extended for one additional year with a new expiration date of June 30, 2018. The guaranteed maximum fixed price payable from the Airport to New South Parking for the extension of the contract is \$20.9 million. During the extended period, the Commission intends to initiate a competitive selection process for a parking management contractor.

In Fiscal Year 2016-17, parking revenues increased by 3.4%, or \$3.5 million, to \$106.8 million, as compared to \$103.3 million in Fiscal Year 2015-16. Parking volume decreased 7.9% in Fiscal Year 2016-17 as compared to the prior fiscal year while the average price per exit increased 12.2% from \$29.11 in Fiscal Year 2015-16 to \$32.66 in Fiscal Year 2016-17. Effective June 10, 2016, most public parking rates were increased to moderate parking demand. See "SAN FRANCISCO INTERNATIONAL AIRPORT—Current Airport Facilities—Public Parking and Rental Car Facilities" for discussion of the anticipated reduction of available parking spaces during construction of a new long term parking garage, on-Airport hotel and AirTrain extension. The Commission continues to periodically review and adjust parking rates.

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 \$43.5 million in Fiscal Year 2016-17, an increase of \$10.2 million or 30.7%, mainly due to commercial vehicle trip fee rate increases of up to 18.0%, and the increased demand for transportation network company operations at the Airport which include Uber Technologies Inc., Lyft, Inc., and Tickengo, Inc. d/b/a/ Wingz. In Fiscal Year 2016-17, TNCs recorded nearly 7.0 million Airport pick-ups/drop-offs resulting in \$26.5 million in trip fee revenue as compared to 4.4 million Airport pick-ups/drop-offs and \$16.9 million in trip fee revenue in Fiscal Year 2015-16. Other commercial modes of transportation also experienced increases in trips in Fiscal Year 2016-17, including door-to-door pre-arranged vans (14.2%), hotel shuttles (5.0%), off-airport parking vans (4.6%), scheduled buses (2.2%) and charter buses (0.7%). However, taxis (18.1%), limousines (14.5%) and shared-ride vans (7.4%) recorded declines during the fiscal year.

Top Ten Sources of Concession Revenues

In Fiscal Year 2016-17, concession revenues, including revenues for parking and other ground transportation, were approximately \$300.2 million, a 5.9% increase compared to the previous Fiscal Year's revenues of approximately \$283.6 million.

The table below summarizes concession revenues for Fiscal Years 2014-15 and 2015-16 and preliminary, unaudited concession revenues for Fiscal Year 2016-17 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, 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.

TOP TEN SOURCES OF AIRPORT CONCESSION REVENUES

					Preliminary FY 2016-17
			FY 2014-15	FY 2015-16	Concession
			Concession	Concession	Revenue
	Concession Revenue	Lease/Agreement	Revenue	Revenue	(\$ in
Concessionaire/Manager	Sources	Expiration Date	(\$ in thousands)*	(\$ in thousands)*	thousands)
DFS Group, L.P.	Duty Free and		·		
	General Merchandise	12/31/17 ⁽¹⁾	\$31,036	\$29,436	\$29,671
EAN, LLC	Rental Car	12/31/18 ^(2,3)	15,996	16,820	17,522
Avis Budget Rental Car, LLC	Rental Car	12/31/18 ^(2,4)	13,281	13,028	12,969
The Hertz Corporation	Rental Car	12/31/18 ^(2,5)	14,990	13,987	12,248
Clear Channel Airports	Advertising	12/31/22 ⁽⁶⁾	10,000	10,307	10,802
Travelex America, Inc.	Currency Exchange	$1/31/20^{(7)}$	4,908	5,396	5,610
DTG Operations Rental Car	Rental Car	12/31/18 ^(2,8)	4,995	4,420	4,316
Tastes on the Fly San Francisco LLC	Food and Beverage	Various ⁽⁹⁾	N/A	2,911	4,107
WDFG North America, LLC					
(Formerly Host International Inc.)	General Merchandise	Various ⁽¹⁰⁾	3,657	3,509	3,376
Gotham Enterprises, LLC	Food and Beverage	Various ⁽¹¹⁾	N/A	N/A	2,776
D-Lew Enterprises	Food and Beverage	Various ⁽¹²⁾	2,368	2,566	N/A
Pacific Gateway Concessions LLC	General Merchandise	Various ⁽¹³⁾	2,094	N/A	N/A
Sub Total			\$103,326	\$102,380	\$103,397
Other Revenue ⁽¹⁴⁾			166,542	181,235	196,849
Total Concession Revenue			\$269,868	\$283,615	\$300,246

^{*} See also "-Concession-Retail Program."

Source: Commission.

⁽¹⁾ The minimum annual guaranteed rent for DFS Group, L.P. in Fiscal Year 2016-17 was \$26.9 million.

⁽²⁾ For each rental car company there are two leases: a concession lease and a facility lease. Revenue reflects only the concession lease.

⁽³⁾ Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental. The minimum annual guaranteed rent for Fiscal Year 2016-17 was \$14.4 million.

⁽⁴⁾ Doing business as Avis Rent-A-Car and Budget Rent-A-Car. The minimum annual guaranteed rent for Fiscal Year 2016-17 was \$11.1 million.

⁽⁵⁾ The minimum annual guaranteed rent for Hertz Corporation in Fiscal Year 2016-17 was \$11.7 million.

⁽⁶⁾ The minimum annual guaranteed rent for Clear Channel in Fiscal Year 2016-17 was \$10.8 million.

⁽⁷⁾ The minimum annual guaranteed rent for Travelex American Inc. in Fiscal Year 2016-17 was \$5.6 million.

⁽⁸⁾ Doing business as Dollar Rent-A-Car and Thrifty Car Rental. The minimum annual guaranteed rent for Fiscal Year 2016-17 was \$3.9 million

⁽⁹⁾ Tastes on the Fly operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2016-17 was \$0.7 million. Tastes on the Fly was not one of the top ten sources of concession revenues in Fiscal Year 2014-15. In January 2014, two leases under D-Lew Enterprises were reassigned to Tastes on the Fly. In October 2015, a lease under J. Avery Enterprises was reassigned to Tastes on the Fly.

⁽¹⁰⁾ WDFG North America, LLC (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 2016-17 was \$2.2 million. In January 2014, WDFG of North America, LLC purchased the Retail unit of Host International Inc. and continues to operate its locations under the existing lease terms.
(11) Gotham Enterprises, LLC operates various locations within the Airport, each with a different expiration date. The total minimum annual

⁽¹¹⁾ Gotham Enterprises, LLC operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2016-17 was \$0.3 million. Gotham Enterprises, LLC was not one of the top ten sources of concession revenues in Fiscal Year 2014-15 and Fiscal Year 2015-16.

⁽¹²⁾ D-Lew Enterprises operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2016-17 was \$0.3 million. D-Lew Enterprises, LLC was not one of the top ten sources of concession revenues in Fiscal Year 2016-17.

Pacific Gateway Concessions LLC operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2016-17 was \$1.3 million. Pacific Gateway Concessions LLC was not one of the top ten sources of concession revenues in Fiscal Year 2015-16 and Fiscal Year 2016-17.

⁽¹⁴⁾ Represents the aggregate concession revenue received from approximately 95 additional concessionaires operating 145 concessions, public parking and ground transportation operators at the Airport, including public parking revenues of approximately \$102.4 million in Fiscal Year 2014-15, approximately \$103.3 million in Fiscal Year 2015-16 and approximately \$106.8 million in Fiscal Year 2016-17, and TNC revenues of approximately \$6.8 million in FY 2014-15, approximately \$16.9 million in Fiscal Year 2015-16 and approximately \$26.5 million in Fiscal Year 2016-17.

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 Airport revenue in Fiscal Year 2015-16. Based on unaudited preliminary results, no single tenant accounted for more than 24% of total operating revenue in Fiscal Year 2016-17. 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.

TOP TEN SOURCES OF REVENUE

		FY 2015-16 ⁽¹⁾	FY 2016 - 17 ⁽²⁾		
Company/Source	Category	Revenues (\$ in thousands)	Revenues (\$ in thousands)	Percent of Operating Revenue ⁽³⁾	
United Airlines	Airline	\$206,153	\$ 218,231	23.87%	
On Airport Parking ⁽⁴⁾	Public Parking	103,282	106,791	11.68	
American Airlines ⁽⁵⁾	Airline	33,622	36,515	3.99	
EAN, LLC	Rental Car	35,196	35,644	3.90	
Virgin America ⁽⁶⁾	Airline	29,512	31,409	3.44	
DFS Group, L.P.	Duty Free and General Merchandise	30,116	30,385	3.32	
Delta Air Lines	Airline	28,355	28,902	3.16	
The Hertz Corporation	Rental Car	30,243	27,065	2.96	
Avis Budget Car Rental, LLC	Rental Car	27,500	26,783	2.93	
Raiser CA LLC/Uber 032512 ⁽⁷⁾	Ground Transportation	N/A	20,057	2.19	
Southwest Airlines ⁽⁸⁾	Airline	18,289	N/A	N/A	
Subtotal Ten Highest		\$542,267	\$ 561,781	61.46%	
Other Operating Revenue		324,724	352,317	38.54	
Total Operating Revenue		\$866,991	\$ 914,098	100.0%	
Other Revenue ⁽⁹⁾		16,554	·		
PFC Collections		99,131			
Total Airport Revenue		\$982,676			

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

Source: Commission.

⁽²⁾ Preliminary. Unaudited. Does not include adjustments.

⁽³⁾ Column does not total due to rounding.

⁽⁴⁾ 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.

⁽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.

⁽⁶⁾ Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. In March 2017, Alaska Airlines and Virgin America announced plans to adopt Alaska Airlines' name and logo and retire the Virgin America brand in 2019. The airlines will continue to operate separately until they receive a single FAA operating certificate.

Raiser CA LLC/Uber was not one of the top ten sources of revenues in Fiscal Year 2015-16.

⁽⁸⁾ Southwest Airlines was not one of the top ten sources of revenues in Fiscal Year 2016-17.

⁽⁹⁾ Includes interest and other non-operating revenue.

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.

PFC Applications

The following is a summary of the Airport's approved PFC applications through June 30, 2017.

SUMMARY OF AIRPORT PFC APPLICATIONS As of June 30, 2017

Application #	Date of Application	Date of FAA Approval	Original Amount (millions)	Revised Amount (millions)	Expiration Date ^(a)	Collected ^(b) (millions)	Remaining (millions)
1 ^(c)	March 2001	July 2001	\$113	\$ 0	June 2003	\$ 0	\$ 0
2	November 2001	March 2002	224	224	November 2005	224	0
3 ^(d)	July 2003	November 2003	539	609	January 2017	609	0
5 ^(e)	October 2010	October 2013	610	742	October 2024	362	380
6	July 2013	June 2015	141	141	March 2026	$0^{(g)}$	141
7 ^(f)	October 2016	May 2017	320 ^(g)	320 ^(g)	February 2030	0 ^(g)	320 ^(g)
	TOTAL ^(h) :			\$2,036 ^(g)		\$1,195 ^(g)	\$841 ^(g)

⁽a) The Commission expects to complete collection of its current authorization in Fiscal Year 2024-25.

Source: Commission.

In May 2017, the FAA approved PFC #7 for the AirTrain Extension project at the \$3.00 per enplaning passenger PFC collection level for a total of \$320 million and extending the authorized PFC collection period through February 1, 2030. The Commission intends to submit further PFC applications and application amendment requests to the FAA that would permit it to continue collecting PFCs at the full \$4.50 rate and provide for increased PFC collection and use authority in the future, including requests for authorization to use PFC revenues to pay debt service associated with the Terminal 1 and Terminal 3 redevelopment projects and to obtain approval to spend PFCs on the AirTrain extension project. If this effort is successful as to the \$320 million approved under PFC #7, the Commission expects that its current PFC authorization will be fully collected in Fiscal Year 2024-25.

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 but not the obligation under the 1991 Master Resolution to designate some portion or all of such collections as "Revenues" for a given Fiscal Year. These amounts so designated thus

⁽b) Includes interest earnings on collections.

⁽c) 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.

⁽d) 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.

⁽e) 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.

⁽f) PFC Application #7 is approved as an impose only project (meaning that the PFCs can be collected but cannot be spent until FAA and environmental approvals are obtained) and at a \$3.00 per enplaning passenger level.

⁽g) Preliminary. Accruals basis.

⁽h) Totals may not add due to rounding.

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. As of June 30, 2017, there is \$273.6 million in such account, which may be used to pay debt service on related Bonds or for other purposes. Set forth in the table below is a summary of Airport PFC collections and amounts applied to pay debt service for the ten most recent Fiscal Years.

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

		PFC Designated	Amount Applied to
Applicable	PFC Collections	as Revenues	Pay Debt Service
Fiscal Year	(millions) ⁽¹⁾	(millions) ⁽²⁾	(millions) ⁽³⁾
2017-18	_(4)	\$31.7	_ (4)
2016-17	\$105.9	44.9	\$23.4
2015-16	100.2	58.1	43.1
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

⁽¹⁾ Includes PFC collections and related interest earned for the year. Based on Audited Financial Statements for Fiscal Years 2006-07 through 2015-16. Based on unaudited results for Fiscal Year 2016-17

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 or a decision by the Commission not to designate PFCs as 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.

⁽²⁾ Amount designated as Revenues to be applied to pay debt service. Accumulated PFCs from prior years can be designated in future years.

⁽³⁾ Amount actually applied to pay debt service. Accumulated PFCs from prior years can be applied to pay debt service in future years.

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

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 from the air carrier the PFCs that the airline collected prior to the bankruptcy filing.

Operating Expenses

Fiscal Year 2015-16 operating expenses increased \$31.4 million (5.2%) to \$640.4 million from \$609.0 million in Fiscal Year 2014-15. Personnel expenses were \$14.4 million (6.3%) higher primarily due to additional positions and cost of living adjustments included in collective bargaining agreements for Airport employees. Contractual service increased by \$0.6 million (0.8%), due primarily to higher costs for curbside management services related to a significant increase in commercial ground transportation activity, particularly from TNCs. Light, heat and power expenses increased \$0.6 million (2.8%), primarily due to an increase in electricity rates and higher consumption. Repairs and maintenance increased \$2.6 million (7.7%), primarily due to higher costs in information technology & telecommunications support and maintenance of additional networking hardware installed as part of various Airport improvement projects. General and administrative expenses decreased \$1.7 million (34.4%), primarily due to lower legal expense. Environmental remediation costs decreased \$0.8 million (15.7%) primarily due to the fact that fewer remediation costs were incurred. Depreciation increased \$12.2 million (\$5.7%), primarily due to the addition of completed capital improvement projects such as Terminal 3 east improvements, the air traffic control tower, and power and water distribution system. Services provided by other City departments increased by \$2.0 million (11.1%), primarily due to costs associated with the City's new Financial System Project. Materials and supplies expenses increased \$1.8 million (12.5%), due to increases in custodial, mechanical, and electrical supplies for the building maintenance. Amortization of prepaid bond issue costs decreased \$0.2 million (37.7%), primarily due to the decrease of unamortized prepaid bond insurance costs.

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. Depreciation decreased \$6.7 million (\$3.0%), primarily due to a prior year depreciation adjustment in Fiscal Year 2013-14. Services provided by other City departments increased by \$1.0 million (6.1%), primarily due to higher costs for city attorney legal services and the City's new Financial System Project. Materials and supplies expenditures increased \$0.1 million (0.4%), due to higher spending on building maintenance supplies and computer equipment. Amortization of bond issue costs decreased \$0.1 million (22%), primarily due to the decrease of unamortized prepaid bond insurance costs.

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 and Use 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 2017/18 BONDS—Flow of Funds." The amount of Annual Service Payment for each of Fiscal Years 2011-12 through 2015-16 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 Federal Grants" and APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS-Event of Default; Termination or Suspension of Lease and Use Agreement Provisions-Commission's Right to Suspend Part of Lease and Use Agreement."

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 2011-12 through 2015-16. 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)

	Annual		Reimbursement for Direct Services					
	Service				Utility			
Fiscal Year	Payment	Police	Fire	Other ⁽¹⁾	Costs	Subtotal	Total	
2016-17	\$45.0	\$52.2	\$22.4	\$23.7	\$49.1 ⁽²⁾	\$147.4	\$192.4	
2015-16	42.5	49.6	20.9	22.4	$47.8^{(3)}$	140.7	183.2	
2014-15	40.5	47.4	20.7	21.1	$46.6^{(4)}$	135.8	176.3	
2013-14	38.0	45.7	20.6	20.8	$44.2^{(5)}$	131.3	169.3	
2012-13	36.5	44.8	18.9	16.7	$37.9^{(6)}$	118.3	154.8	
2011-12	34.0	44.4	18.9	14.0	$38.1^{(7)}$	115.4	149.4	

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

Source: Commission.

⁽²⁾ Approximately \$22.3 million in utility costs were recovered from Airport tenants.

⁽³⁾ Approximately \$21.7 million in utility costs were recovered from Airport tenants.

⁽⁴⁾ Approximately \$21.7 million in utility costs were recovered from Airport tenants.

⁽⁵⁾ Approximately \$20.6 million in utility costs were recovered from Airport tenants.

⁽⁶⁾ Approximately \$16.1 million in utility costs were recovered from Airport tenants.

⁽⁷⁾ Approximately \$16.2 million in utility costs were recovered from Airport tenants.

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 2011-12 through 2015-16. "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 2011-12 through 2015-16. The Fund's last actuarial valuation was as of July 1, 2016 and was issued in February 2017.

CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM Fiscal Years 2011-12 through 2015-16 (\$ in thousands)

					Employee	
	Market	Actuarial			and	Employer
Fiscal	Value	Value	Actuarial	Percent	Employer	Contribution
Year	of Assets	of Assets	Liability	Funded	Contribution	$Rates^{\dagger}$
2015-16	\$20,154,503	\$20,654,703	\$24,403,882	84.6%	\$849,569	22.80%
2014-15	20,428,069	19,653,338	22,970,892	85.6	894,325	26.76
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

[†] 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, 2012, July 1, 2013, July 1, 2014, July 1, 2015 and July 1, 2016.

The Airport is required to contribute at the actuarially recommended rate of contribution. The Airport's required contributions for Fiscal Years 2011-12 through 2017-18 are set forth below.

AIRPORT CONTRIBUTIONS TO THE RETIREMENT SYSTEM

Fiscal Year	Contribution Rate	Airport Contribution
2017-18	23.46%	\$36.8 million†
2016-17	21.40	33.0 million†
2015-16	22.80	33.0 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

[†] Budgeted.

Sources: Retirement System Actuarial Valuation Reports and Commission.

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 San Francisco Unified School District, San Francisco Community College District 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 2011-12 through 2015-16 and budgeted for Fiscal Year 2016-17 and Fiscal Year 2017-18 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
2017-18	\$31.1 ⁽²⁾	\$11.9 ⁽²⁾	\$42.9 ⁽²⁾
2016-17	$29.2^{(2)}$	$11.1^{(2)}$	$40.4^{(2)}$
2015-16	26.3	10.3	36.7
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

⁽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.

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.

<u>Post-Employment Health Care Benefits under GASB 45</u>. 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.

⁽²⁾ Budgeted.

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 2011-12 through 2015-16, the amount contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

	2012	2013	2014	2015	2016
Annual Required Contribution (ARC)	\$24,488	\$24,956	\$21,071	\$21,409	\$18,797
Interest on net OPEB Obligation	2,875	3,501	4,410	4,872	5,969
Adjustment to ARC	(2,383)	(2,902)	(3,677)	(4,062)	(4,853)
Annual OPEB Cost (expense)	24,980	25,555	21,804	22,219	19,913
Contribution Made	(9,693)	(10,666)	(8,734)	(10,705)	(10,858)
Increase in Net OPEB Obligation	15,287	14,889	13,070	11,514	9,055
Net OPEB Obligation - beginning of year	60,537	75,824	90,713	103,783	115,297
Net OPEB Obligation - end of year	\$75,824	\$90,713	\$103,783	\$115,297	\$124,352

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, 2014, the most recent actuarial valuation date, the City's funded status of the retiree health care benefits was 1.1%. The City's actuarial accrued liability for benefits was approximately \$4.3 billion, and the City's actuarial value of assets in the Retiree Health Care Trust Fund was approximately \$49.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of the City of approximately \$4.2 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 2015-16, then the Airport's portion of the UAAL would be equal to approximately 5.3%.

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, 2016, \$107.1 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 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 2016-17 is \$1.01 billion. Budgeted total revenues in the amount of \$1.01 billion include aviation revenues (\$527.5 million), parking and concessions (\$290.4 million), other non-aviation revenues (\$103.4 million) and non-operating revenues (\$90.0 million). Budgeted total expenditures for Fiscal Year 2016-17 total \$1.01 billion, including personnel costs (\$224.2 million), non-personnel services, materials and supplies, equipment, and contribution to surety bond fund (\$150.3 million), small capital outlay (\$4.7 million), debt service (\$420.9 million), utilities (\$45.8 million), services of other departments, including Fire and Police Departments (\$107.4 million), the Annual Service Payment (\$43.6 million), and facilities maintenance (\$14.6 million).

The approved operating budget for the Airport for Fiscal Year 2017-18 is \$1.05 billion. Budgeted total revenues in the amount of \$1.05 billion include aviation revenues (\$565.6 million), parking and concessions (\$304.2 million), other non-aviation revenues (\$102.8 million) and non-operating revenues (\$79.8 million). Budgeted total expenditures for Fiscal Year 2017-18 is \$1.05 billion, including personnel costs (\$238.1 million), non-personnel services, materials and supplies, equipment, and contribution to surety bond fund (\$153.3 million), small capital outlay (\$4.7 million), debt service (\$433.0 million), utilities (\$48.8 million), services of other departments, including Fire and Police Departments (\$112.0 million), the Annual Service Payment (\$45.6 million), and facilities maintenance (\$15.0 million).

Risk Management and Insurance

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

The Airport carries general liability insurance coverage of \$1 billion subject to a deductible of \$10,000 per single occurrence. The Airport also carries commercial property insurance coverage of \$1 billion subject to a deductible of \$500,000 per single occurrence. This policy includes flood coverage up to a \$10 million sub-limit. The Airport also carries active assailant coverage of \$10 million subject to a deductible of \$25,000 per single occurrence for property damage, business interruption and extra expenses for a malicious physical attack with a weapon at any of the facilities owned by the Commission affecting three or more persons present during the attack. 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 for law enforcement personnel, 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. Effective July 1, 2016, the Airport through its Aviation Liability program carries \$250 million in War Perils liability coverage, subject to a deductible of \$10,000.

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 D—"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION—Certain Definitions." The Proposed Amendments would modify the definition of Permitted Investments. See "PROPOSED AMENDMENTS TO THE 1991 MASTER RESOLUTION" and in Appendix H—"SUMMARY OF PROPOSED AMENDMENTS TO THE 1991 MASTER RESOLUTION."

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 Treasurer's investment policy is updated periodically. The objectives of the Treasurer's current investment policy, in order of priority, are preservation of capital, maintenance of liquidity and yield. The Treasurer calculated the current weighted average maturity of these investments as of June 30, 2017 to be 471 days.

Set forth in the table below are the approximate book values, as of June 30, 2017, 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 June 30, 2017, the book value of the City Pool was approximately \$8.6 billion and the book value of the amounts allocable to the Airport's various funds and accounts in the City Pool was approximately \$964.9 million.

CITY POOLED INVESTMENT FUND

(As of June 30, 2017)

Book Value of Airport F	unds in City Pool*	Investment Distribution (as Percentage	of Book Value)**
Construction Funds	\$333.4 million	U.S. Treasuries	10.19%
Operating Fund	262.2 million	Federal Agencies	55.02
Contingency Account	95.1 million	Money Market Funds	3.53
PFC Funds	273.2 million	State and Local Obligations	3.91
Special Revenue Fund	1.0 million	Supranationals	4.19
TOTAL	<u>\$964.9 million</u>	Public Time Deposits	0.01
		Negotiable Certificates of Deposit	12.31
		Commercial Paper	9.78
		Medium Term Notes	1.05
		TOTAL	100.00%

^{*} Source: Commission.

^{**} Source: Office of the Treasurer & Tax Collector of the City and County of San Francisco.

Currently Outstanding Bonds

The Commission had Outstanding \$4,757,530,000 in aggregate principal amount of Second Series Revenue Bonds as of August 31, 2017.

			C	Outstanding Principal	
		Original Principal	(as	of August 31,	
Series	Dated Date	Amount Issued		2017)	Purpose
Issue 32F (Non-AMT)†	November 16, 2006	\$ 260,115,000	\$	103,475,000	Refunding
Issue 34D (Non-AMT)†	March 27, 2008	81,170,000		12,090,000	Refunding
Issue 34E (AMT)† ⁽¹⁾	March 27, 2008	299,365,000		145,710,000	Refunding
Issue 36A (Non-AMT/Private Activity)*(2)	May 8, 2008	100,000,000		93,130,000	Refunding
Issue 36B (Non-AMT/Private Activity)*(2)	May 8, 2008	40,620,000		37,820,000	Refunding
Issue 36C (Non-AMT/Private Activity)*(2)	May 20, 2008	36,145,000		33,655,000	Refunding
Issue 37C (Non-AMT/Private Activity)†*	May 15, 2008	89,895,000		86,930,000	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		40,925,000	Refunding
2009D (Non-AMT/Private Activity)†	November 4, 2009	88,190,000		81,870,000	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		209,240,000	Refunding
2010C (Non-AMT/Governmental Purpose)†	April 7, 2010	345,735,000		171,545,000	Refunding
2010D (Non-AMT/Private Activity)‡	April 7, 2010	89,860,000		55,550,000	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		23,915,000	Refunding
2011B (Non-AMT/Governmental Purpose)†	February 22, 2011	66,535,000		24,100,000	Refunding
2011C (AMT)†	July 21, 2011	163,720,000		163,720,000	Refunding
2011D (Non-AMT/Governmental Purpose)†	July 21, 2011	124,110,000		84,865,000	Refunding
2011E (Taxable)†	July 21, 2011	62,585,000		12,760,000	Refunding
2011F (AMT)†	September 20, 2011	123,325,000		123,325,000	Refunding
2011G (Non-AMT/Governmental Purpose)†	September 20, 2011	106,195,000		29,660,000	Refunding
2011H (Taxable)†	September 20, 2011	125,055,000		66,195,000	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		9,350,000	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
2016A (Non-AMT/Governmental Purpose)†	February 25, 2016	232,075,000		232,075,000	Refunding
2016B (AMT)†	September 29, 2016	574,970,000		574,970,000	New Money
2016C (Non-AMT/Governmental Purpose)†	September 29, 2016	165,155,000		165,155,000	New Money
2016D (Non-AMT/Governmental Purpose)†	September 29, 2016	147,795,000		147,695,000	Refunding
TOTAL		\$5,800,760,000	\$	4,757,530,000	

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

Additional Bonds are expected to be a significant source of funding for the Commission's Capital Improvement Plan. See "CERTAIN RISK FACTORS-Additional Long-Term Debt" and "CAPITAL PROJECTS AND PLANNING-The Capital Improvement Plan."

[†] Secured by Original Reserve Account. See "SECURITY FOR THE SERIES 2017/18 BONDS-Reserve Fund; Reserve Accounts; Credit Facilities-Original Reserve Account."

[†] Secured by 2009 Reserve Account. See "SECURITY FOR THE SERIES 2017/18 BONDS-Reserve Fund; Reserve Accounts; Credit Facilities-2009 Reserve Account"

Reserve Account."

(1) The Commission plans to refund the portion of these Bonds maturing on and after May 1, 2019 with the proceeds of the Series 2018A Bonds. See "PLAN OF FINANCE AND REFUNDING."

⁽²⁾ The Commission plans to refund all of these Bonds with the proceeds of the Series 2017D Bonds. See "PLAN OF FINANCE AND REFUNDING." Source: Commission.

Credit Facilities

As of August 31, 2017, the Commission had outstanding approximately \$460,775,000 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 2017/18 Bonds—Additional Bonds—Repayment Obligations."

CREDIT FACILITIES FOR BONDS

	Issue 36A ⁽¹⁾	Issue 36B ⁽¹⁾	Issue 36C ⁽¹⁾	Issue 37C	Series 2010A
Outstanding Principal Amount	\$93,130,000	\$37,820,000	\$33,655,000	\$86,930,000	\$209,240,000
Type	$LOC^{(2)}$	$LOC^{(2)}$	$LOC^{(2)}$	LOC ⁽²⁾	LOC ⁽²⁾
Expiration Date	June 29, 2018	April 25, 2018	April 25, 2018	January 28, 2019	June 29, 2020
Credit Provider	Wells Fargo ⁽³⁾	Bank of Tokyo ⁽⁴⁾	Bank of Tokyo ⁽⁴⁾	Union Bank ⁽⁵⁾	BofA ⁽⁶⁾
Credit Provider Ratings ⁽⁷⁾					
Short-Term	P-1/A-1+/F1+	P-1/A-1/F1	P-1/A-1/F1	P-1/A-1/F1	P-1/A-1/F1+
Long-Term	Aa1/AA-/AA-	A1/A+/A	A1/A+/A	A1/A+/A	A1/A + /A +

⁽¹⁾ The Commission plans to refund these Bonds with the proceeds of the Series 2017D Bonds.

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 2017/18 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

⁽²⁾ Letter of credit.

⁽³⁾ Wells Fargo Bank, National Association.

⁽⁴⁾ The Bank of Tokyo-Mitsubishi UFJ, Ltd. acting through its New York Branch.

⁽⁵⁾ MUFG Union Bank, N.A.

⁽⁶⁾ Bank of America, N.A.

⁽⁷⁾ 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. As of October 3, 2017. 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.

the defaulting party. The termination payment would be approximately equal to the economic value realized by the 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 August 31, 2017.

SUMMARY OF INTEREST RATE SWAP AGREEMENTS

Associated Bonds	Effective Date	Outstanding 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 ⁽⁷⁾ Subtotal Issue 36	02/10/2005 02/10/2005 6A/B	\$65,135,000 65,170,000 130,305,000	JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A.	Aa3/A+/AA- Aa3/A+/AA-	FGIC/National FGIC/National	3.444% 3.445	(\$5,774,647.97) (\$5,778,576.79) (\$11,553,224.76)	May 1, 2026 May 1, 2026
Issue 36C ⁽⁷⁾	02/10/2005	27,930,000	JPMorgan Chase Bank, N.A. (2)	Aa3/A+/AA-	AGM	3.444	(\$2,474,849.13)	May 1, 2026
Series 37B ⁽³⁾	05/15/2008	77,061,000	Merrill Lynch Capital Services ⁽⁴⁾	Baa1/NR/NR	AGM	3.773	(\$12,818,377.60)	May 1, 2029
Issue 37C	05/15/2008	86,899,000	JPMorgan Chase Bank, N.A. (2)	Aa3/A+/AA-	AGM	3.898	(\$15,239,334.98)	May 1, 2029
Series 2010A	02/01/2010	140,230,000	Goldman Sachs Bank USA ⁽⁵⁾	A1/A+/A+		3.925	(\$27,179,611.81)	May 1, 2030
	TOTAL	\$462,425,000					(\$69,265,398.28)	·

⁽¹⁾ As of August 31, 2017. 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.

Source: Commission.

⁽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 August 31, 2017.

⁽⁵⁾ Guaranteed by The Goldman Sachs Group, which is rated A3/BBB+/A as of August 31, 2017.

⁽⁶⁾ The market values of the swaps were calculated as of August 30, 2017 by an independent third-party consultant to the Commission who does not have an interest in the Swap Agreements.

⁽⁷⁾ The Commission plans to terminate the interest rate swaps associated with Issue 36A/B and Issue 36C on the date of delivery of the Series 2017A-D Bonds.

Debt Service Requirements

The following tables present the annual debt service requirements for the Series 2017/18 Bonds and the Outstanding Bonds, based upon monthly deposits.

DEBT SERVICE SCHEDULE⁽¹⁾

Fiscal	C-	eries 2017A Bon	J_	C-	ries 2017B Bon	J_	C	ries 2017C Bo		C	ries 2017D Bo		
Year		eries 2017A Bon			ries 2017B Bon		Ser	ries 2017C Bo		Sei	ries 2017D Bol		Total Series
Ending June 30,	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	2017A-D Debt Service
2018	\$ -	\$ 499,542	\$ 499,542	\$ -	\$ 3,622,808	\$ 3,622,808	\$ 4,035,000	\$ 551,310	\$ 4,586,310	\$ -	\$ 4,847,782	4,847,782	\$ 13,556,441
2019	_	1,832,869	1,832,869	_	8,584,528	8,584,528	23,663,333	754,091	24,417,424	633,333	7,241,500	7,874,833	42,709,654
2020	_	6,095,450	6,095,450	_	11,127,402	11,127,402	17,441,667	339,066	17,780,733	6,808,333	7,209,833	14,018,167	49,021,751
2021	_	17,129,550	17,129,550	_	11,599,250	11,599,250	-	_	-	22,040,000	6,869,417	28,909,417	57,638,217
2022	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	23,187,500	5,767,417	28,954,917	57,683,717
2023	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	24,385,833	4,608,042	28,993,875	57,722,675
2024	_	17,129,550	17,129,550	_	11,599,250	11,599,250	-	_	-	25,664,167	3,388,750	29,052,917	57,781,717
2025	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	24,592,500	2,105,542	26,698,042	55,426,842
2026	_	17,129,550	17,129,550	_	11,599,250	11,599,250	-	_	-	12,385,000	875,917	13,260,917	41,989,717
2027	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	5,133,333	256,667	5,390,000	34,118,800
2028	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2029	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2030	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2031	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2032	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2033	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2034	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2035	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2036	_	17,129,550	17,129,550	_	11,599,250	11,599,250	_	_	_	_	_	_	28,728,800
2037	4,820,833	17,129,550	21,950,383	_	11,599,250	11,599,250	_	_	_	_	_	_	33,549,633
2038	29,170,833	16,884,156	46,054,990	_	11,599,250	11,599,250	_	_	_	_	_	_	57,654,240
2039	30,657,500	15,399,281	46,056,781	_	11,599,250	11,599,250	_	_	_	_	_	_	57,656,031
2040	32,215,833	13,838,735	46,054,569	_	11,599,250	11,599,250	_	_	_	_	_	_	57,653,819
2041	33,855,000	12,198,863	46,053,863	_	11,599,250	11,599,250	_	_	_	_	_	_	57,653,113
2042	35,580,000	10,474,594	46,054,594	_	11,599,250	11,599,250	_	_	_	_	_	_	57,653,844
2043	37,389,167	8,664,250	46,053,417	_	11,599,250	11,599,250	_	_	_	_	_	_	57,652,667
2044	39,260,000	6,794,792	46,054,792	_	11,599,250	11,599,250	_	_	_	_	_	_	57,654,042
2045	41,224,167	4,831,792	46,055,958	_	11,599,250	11,599,250	_	_	_	_	_	_	57,655,208
2046	39,040,833	2,770,583	41,811,417	38,664,167	11,599,250	50,263,417	_	_	_	_	_	_	92,074,833
2047	16,370,833	818,542	17,189,375	193,320,833	9,666,042	202,986,875							220,176,250
Total ⁽²⁾	\$339,585,000	\$392,305,798	\$731,890,798	\$231,985,000	\$334,581,278	\$566,566,278	\$45,140,000	\$1,644,467	\$46,784,467	\$144,830,000	\$43,170,865	\$188,000,865	\$1,533,242,409

⁽¹⁾ Net debt service. Does not include interest amounts expected to be paid from Bond proceeds. (2) Various totals may not add due to rounding.

DEBT SERVICE SCHEDULE⁽¹⁾

Fiscal Year	Debt Service on	Se	ries 2017A-D B	ond	s	Sei	ries 2018A Bo	Series 2017-18 Bonds	Aggregate	
Ending	Outstanding			7	Total Debt				Total Debt Total Debt	
June 30,	Bonds ⁽²⁾	Principal	Interest		Service	Principal	Interest	Service	Service	Service
2018	\$ 397,689,934	\$ 4,035,000	\$ 9,521,441	\$	13,556,441	\$ 3,685,000	\$ 2,403,229	\$ 6,088,229	\$ 19,644,670	\$ 417,334,604
2019	366,604,330	24,296,667	18,412,987		42,709,654	22,236,667	5,583,500	27,820,167	70,529,820	437,134,151
2020	381,891,907	24,250,000	24,771,751		49,021,751	21,705,000	4,471,667	26,176,667	75,198,418	457,090,325
2021	389,366,385	22,040,000	35,598,217		57,638,217	17,639,167	3,386,417	21,025,583	78,663,800	468,030,185
2022	378,266,858	23,187,500	34,496,217		57,683,717	26,705,833	2,504,458	29,210,292	86,894,008	465,160,866
2023	378,550,483	24,385,833	33,336,842		57,722,675	23,383,333	1,169,167	24,552,500	82,275,175	460,825,658
2024	376,426,836	25,664,167	32,117,550		57,781,717	_	_	_	57,781,717	434,208,553
2025	383,908,365	24,592,500	30,834,342		55,426,842	_	_	_	55,426,842	439,335,207
2026	376,596,638	12,385,000	29,604,717		41,989,717	_	_	_	41,989,717	418,586,355
2027	369,628,117	5,133,333	28,985,467		34,118,800	_	_	_	34,118,800	403,746,917
2028	372,012,612	_	28,728,800		28,728,800	_	_	_	28,728,800	400,741,412
2029	255,260,621	_	28,728,800		28,728,800	_	_	_	28,728,800	283,989,421
2030	205,136,104	_	28,728,800		28,728,800	_	_	_	28,728,800	233,864,904
2031	157,093,702	_	28,728,800		28,728,800	_	_	_	28,728,800	185,822,502
2032	166,597,775	_	28,728,800		28,728,800	_	_	_	28,728,800	195,326,575
2033	272,768,971	_	28,728,800		28,728,800	_	_	_	28,728,800	301,497,771
2034	121,219,367	_	28,728,800		28,728,800	_	_	_	28,728,800	149,948,167
2035	121,221,850	_	28,728,800		28,728,800	_	_	_	28,728,800	149,950,650
2036	121,218,292	_	28,728,800		28,728,800	_	_	_	28,728,800	149,947,092
2037	135,445,142	4,820,833	28,728,800		33,549,633	_	_	_	33,549,633	168,994,775
2038	206,561,550	29,170,833	28,483,406		57,654,240	_	_	_	57,654,240	264,215,790
2039	206,559,375	30,657,500	26,998,531		57,656,031	_	_	_	57,656,031	264,215,406
2040	206,562,250	32,215,833	25,437,985		57,653,819	_	_	_	57,653,819	264,216,069
2041	206,561,917	33,855,000	23,798,113		57,653,113	_	_	_	57,653,113	264,215,029
2042	206,560,708	35,580,000	22,073,844		57,653,844	_	_	_	57,653,844	264,214,552
2043	206,562,667	37,389,167	20,263,500		57,652,667	_	_	_	57,652,667	264,215,333
2044	206,560,708	39,260,000	18,394,042		57,654,042	_	_	_	57,654,042	264,214,750
2045	206,560,458	41,224,167	16,431,042		57,655,208	_	_	_	57,655,208	264,215,667
2046	172,138,750	77,705,000	14,369,833		92,074,833	_	_	_	92,074,833	264,213,583
2047	_	209,691,667	10,484,583		220,176,250	_	_	_	220,176,250	220,176,250
Total ⁽³⁾	\$7,551,532,671	\$761,540,000	\$771,702,409	\$1	,533,242,409	\$115,355,000	\$19,518,438	\$134,873,438	\$1,668,115,846	\$9,219,648,517

Net debt service. Does not include interest amounts expected to be paid from Bond proceeds.

Excludes debt service on the 2017 Refunded Bonds and associated swap payments after October 31, 2017 and excludes debt service on the 2018 Refunded Bonds after February 1, 2018. 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.

Various totals may 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 2011-12 through 2015-16.

HISTORICAL DEBT SERVICE COVERAGE (Fiscal Year) (\$ in thousands)

	2011-12	2012-13	2013-14	2014-15	2015-16
Net Revenues ⁽¹⁾	\$310,514	\$348,294	\$367,336	\$391,831	\$430,333
PFCs Treated as Revenues	73,000	45,000	35,700	47,550	43,110
Transfer from the Contingency Account ⁽²⁾	93,427	92,559	93,327	93,883	94,426
TOTAL AVAILABLE FOR DEBT SERVICE	\$476,941	\$485,854	\$496,363	\$533,264	\$567,869
Total Annual Debt Service ⁽³⁾	\$325,456	\$337,355	\$365,314	\$393,449	\$394,157
Historical Debt Service Coverage per the 1991 Master Resolution ⁽⁴⁾	146.5%	144.0%	135.9%	135.5%	144.1%
Historical Debt Service Coverage Excluding Transfer	117.8%	116.6%	110.3%	111.7%	120.1%

⁽¹⁾ Using the definition of Net Revenues contained in the 1991 Master Resolution, but excluding PFCs treated as "Revenues" pursuant to the

Source: Commission.

SFOTEC

The San Francisco Terminal Equipment Company, LLC ("SFOTEC") is a consortium of airlines that 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.

REPORT OF THE AIRPORT CONSULTANT

General

The Commission has retained LeighFisher, as recognized experts in their field, to prepare a report on traffic, revenues, expenses, the Capital Improvement Plan and financial analyses in connection with the issuance of the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds. The Airport Consultant has consented to the Report of the Airport Consultant, dated October 4, 2017, being included as APPENDIX A. This Report should be read in its entirety for an explanation of the assumptions and methodology used therein.

¹⁹⁹¹ Master Resolution. See "-Passenger Facility Charge."
Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year. See "SECURITY FOR THE SERIES 2017/18 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 2017/18 BONDS-Rate Covenant."

The Report of the Airport Consultant is divided into five sections (1 through 5). Section 1 provides general background information with respect to the Commission and the Airport; Section 2 describes the economic base for air traffic, airline service at the Airport and the air traffic forecasts; Section 3 describes the financial framework of the Airport, including the 1991 Master Resolution, the Annual Service Payment, the Lease and Use Agreements and various other agreements with Airport users; Section 4 provides a summary of the Capital Improvement Plan and funding sources; and Section 5 provides the Airport Consultant's forecasts of Net Revenues demonstrating compliance by the Commission with the rate covenant provisions contained in the 1991 Master Resolution in connection with the Series 2017/18 Bonds and future Bond issuances planned during the projection period.

In the preparation of the forecasts in its Report, the Airport Consultant has made certain assumptions with respect to conditions that may occur and the course of action that management expects to take in the future. The Airport Consultant has relied upon Commission staff for representations about its plans and expectations and for disclosure of significant information that might affect the realization of forecast results. Commission staff has reviewed these assumptions and concur that they provide a reasonable basis for the forecast. While the Commission and the Airport Consultant believe these assumptions to be reasonable for the purpose of the forecasts, they are dependent upon future events, and actual conditions may differ from those assumed in the analysis. To the extent actual future factors differ from those assumed by the Airport Consultant or provided to the Airport Consultant by others, the actual results could vary materially from those forecast. The Airport Consultant has no responsibility to update its Report for events and circumstances occurring after the date of its Report. The forecast is based on assumptions that may not be realized and actual results may differ materially from the forecast. See "CERTAIN RISK FACTORS—Uncertainties of Projections, Forecasts and Assumptions."

Forecast of Debt Service Coverage

The following table reflects the forecast of Net Revenues and the calculation of debt service coverage on the Bonds (including the Series 2017/18 Bonds) based on such Net Revenues for Fiscal Year 2016-17 through Fiscal Year 2022-23 as set forth in Section 5 of the Report of the Airport Consultant attached hereto as APPENDIX A. Such forecast reflects the impact on revenues and expenses associated with the Series 2017A Bonds, Series 2017 B Bonds and Series 2017C Bonds, as well as other Bond issues expected to be undertaken during the forecast period. The forecast does not reflect the impact of the issuance of the Series 2017D Bonds or the Series 2018A Bonds or the refunding of the 2017 Refunded Bonds or the 2018 Refunded Bonds. The forecast does not reflect the impact on Commission finances of the hotel project described under "CAPITAL PROJECTS AND PLANNING—The Capital Improvement Plan—Major Ascent Program — Phase I Capital Projects - Groundside" or the issuance of additional Bonds to finance that project or an associated AirTrain station. The forecast does not reflect the impact on Commission finances of capital projects that are in the conceptual planning stage or any other projects that may be undertaken in the future, including projects in the recommended ADP described under "CAPITAL PROJECTS AND PLANNING—Airport Development Plan" (as described in the Report of the Airport Consultant). Any additional future capital projects may be financed by future Bond issues.

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FORECAST OF DEBT SERVICE COVERAGE (Fiscal Year) (\$ in thousands)

Net Revenues ⁽¹⁾	2016-17 \$479,186	2017-18 \$488,274	2018-19 \$526,880	2019-20 \$579,075	2020-21 \$721,571	2021-22 \$889,433	2022-23 \$964,359
Transfer from the Contingency Account ^{t*} TOTAL AVAILABLE FOR DEBT SERVICE	95,221 \$574,407	103,796 \$592,070	114,653 \$641,533	123,808 \$702,883	154,549 \$876,119	199,079 \$1,088,513	221,865 \$1,186,224
Debt Service Requirement ⁽²⁾	\$419,388	\$415,183	\$458,612	\$495,233	\$618,195	\$796,317	\$887,459
Forecast Debt Service Coverage per the Resolution	137%	143%	140%	142%	142%	137%	134%
Forecast Debt Service Coverage Excluding Transfer	114%	118%	115%	117%	117%	112%	109%

⁽¹⁾ Includes certain PFC revenues forecast to be designated as Revenues by the Commission, as described in the Report of the Airport Consultant.

The Report of the Airport Consultant and the forecast of Net Revenues and debt service coverage included therein incorporated assumptions of the debt service on the Series 2017/18 Bonds during each of the forecasted years based upon projections provided by Public Financial Management, Inc., co-financial advisor in September 2017.

In addition, the forecast is based on other assumptions that may not be realized and actual results may differ materially from the forecast. The Report should be read in its entirety for an explanation of the assumptions and methodology used in developing the forecast. Also see "CERTAIN RISK FACTORS—Uncertainties of Projections, Forecasts and Assumptions."

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 Depository 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. 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.

⁽²⁾ Cash basis. Includes projected debt service on outstanding Bonds, Series 2017/18 Bonds and future Bonds as described in the Report of the Airport Consultant. The forecast does not reflect the issuance of Bonds to finance an on-Airport hotel. See "Certain Risk Factors – Additional Long-Term Debt."

^{*} Transfer reflects lesser of Contingency Account balance or 25% of Debt Service. Source LeighFisher, Report of the Airport Consultant.

LITIGATION MATTERS

There is no litigation pending concerning the validity of the 1991 Master Resolution or the Series 2017/18 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 2017/18 Bonds to their respective offices, or the pledge of Net Revenues to the payment of the Series 2017/18 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 has assigned a rating of "A1" (stable outlook), S&P has assigned a rating of "A+" (stable outlook) and Fitch Ratings, Inc. ("Fitch") has assigned a rating of "A+" (stable outlook) to the Series 2017/18 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 2017/18 Bonds. An explanation of the significance of each rating may be obtained from the rating agencies at their respective addresses, as follows: Moody's, 7 World Trade Center, at 250 Greenwich Street, New York, New York 10007; S&P, 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 a material adverse effect on the marketability or market price of the Series 2017/18 Bonds.

UNDERWRITING

Purchase of Series 2017/18 Bonds

Jefferies LLC ("Jefferies") on its own behalf and as representative of the other underwriters identified on the cover hereof (together with Jefferies, the "Underwriters") has entered into purchase contracts that will commit the Underwriters to purchase the Series 2017/18 Bonds. The purchase contracts provide that the Underwriters will purchase all of the Series 2017/18 Bonds if any are purchased. Under the terms of the purchase contracts, the obligation of the Underwriters to make the purchase is subject to certain terms and conditions set forth in the purchase contract.

The Series 2017A-D Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$873,072,975.37 (representing the principal amount of the Series 2017A-D Bonds, plus original issue premium equal to \$113,060,999.75 and less an underwriters' discount equal to \$1,528,024.38) pursuant to a Bond Purchase Contract between the Commission and the Underwriters (the "Series 2017A-D Bond Purchase Contract"). The Series 2017A-D Bond Purchase Contract provides that the Underwriters will purchase all of the Series 2017A-D Bonds, if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2017A-D Bonds to the public. The obligations of the Underwriters to accept delivery of the Series 2017A-D Bonds are subject to various conditions of the Series 2017A-D Bond Purchase Contract.

The Series 2018A Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to \$127,687,080.65 (representing the principal amount of the Series 2018A Bonds, plus original issue premium equal to \$12,508,667.20 and less an underwriters' discount equal to \$176,586.55) pursuant to a Forward Delivery Bond Purchase Contract between the Commission and the Underwriters (the "Series 2018A Bond Purchase Contract"). The Series 2018A Bond Purchase Contract provides that the Underwriters will purchase all of the Series 2018A Bonds, if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2018A Bonds to the public. The obligations of the Underwriters to accept delivery of the Series

2018A Bonds are subject to various conditions of the Series 2018A Bond Purchase Contract. See "DELAYED DELIVERY OF THE SERIES 2018A BONDS."

The Underwriters may offer and sell the Series 2017/18 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover. The initial public offering prices may be changed from time to time by the related Underwriters. 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.

Jefferies has entered into an agreement (the "E*TRADE Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the E*TRADE Agreement, Jefferies will sell Series 2017/18 Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

Morgan Stanley & Co. LLC, an underwriter of the Series 2017/18 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017/18 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.

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–Credit Facilities" and "– Interest Rate Swaps."

TAX MATTERS

Series 2017A Bonds, Series 2017B Bonds, and Series 2017D Bonds (Tax-Exempt)

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 2017A Bonds, the Series 2017B Bonds and the Series 2017D Bonds (collectively, the "Tax-Exempt Series 2017 Bonds") is excluded from gross income for federal income tax purposes, except for interest on any Series 2017A Bond or Series 2017D Bond (collectively, the "Series 2017 AMT Bonds") for any period during which any such Series 2017 AMT Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2017 AMT Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel are further of the opinion that (a) interest on the Series 2017 AMT Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2017B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assume 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 Tax-Exempt Series 2017 Bonds. Failure to comply with such requirements could cause interest on the Tax-Exempt Series 2017 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Series 2017 Bonds. The Commission will covenant to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Series 2017 Bonds.

Notwithstanding Co-Bond Counsel's opinion that interest on the Series 2017B 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 Tax-Exempt Series 2017 Bonds is exempt from present State of California personal income taxes.

Special Considerations With Respect to the Tax-Exempt Series 2017 Bonds. The accrual or receipt of interest on the Tax-Exempt Series 2017 Bonds may otherwise affect the federal income tax liability of the owners of the Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Tax Treatment of Original Issue Premium. The Tax-Exempt Series 2017 Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Tax-Exempt Series 2017 Bond over its stated redemption price at maturity constitutes premium on such Tax-Exempt Series 2017 Bond. An initial purchaser of a

Tax-Exempt Series 2017 Bond must amortize any premium over such Tax-Exempt Series 2017 Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Tax-Exempt Series 2017 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 Tax-Exempt Series 2017 Bond.

Series 2017C Bonds (Federally Taxable)

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Series 2017C Bonds under the Code and the Regulations, and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws.

Potential purchasers of the Series 2017C Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2017C Bonds.

General Matters. Interest on the Series 2017C Bonds is included in gross income for federal income tax purposes. Co-Bond Counsel have expressed no opinion regarding any federal tax consequences arising with respect to the purchase, holding, accrual or receipt of interest on or disposition of the Series 2017C Bonds.

In general, interest paid on the Series 2017C Bonds, original issue discount, if any, and market discount, if any, will be treated as ordinary income to the owners of the Series 2017C Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount or accrued market discount) will be treated as a return of capital.

Bond Premium. An investor that acquires a Series 2017C Bond for a cost greater than its remaining stated redemption price at maturity and holds such bond as a capital asset will be considered to have purchased such bond at a premium and, subject to prior election permitted by Section 171(c) of the Code, may generally amortize such premium under the constant yield method. Except as may be provided by regulation, amortized premium will be allocated among, and treated as an offset to, interest payments. The basis reduction requirements of Section 1016(a)(5) of the Code apply to amortizable bond premium that reduces interest payments under Section 171 of the Code. Bond premium is generally amortized over the bond's term using constant yield principles, based on the purchaser's yield to maturity. Investors of any Series 2017C Bond purchased with a bond premium should consult their own tax advisors as to the effect of such bond premium with respect to their own tax situation and as to the treatment of bond premium for state tax purposes.

Market Discount. An investor that acquires a Series 2017C Bond for a price less than the adjusted issue price of such bond (or an investor who purchases a Series 2017C Bond in the initial offering at a price less than the issue price) may be subject to the market discount rules of Sections 1276 through 1278 of the Code. Under these sections and the principles applied by the Regulations, "market discount" means (a) in the case of a Series 2017C Bond originally issued at a discount, the amount by which the issue price of such bond, increased by all accrued original issue discount (as if held since the issue date), exceeds the initial tax basis of the owner therein, less any prior payments that did not constitute payments of qualified stated interest, and (b) in the case of a Series 2017C Bond not originally issued at a discount, the amount by which the stated redemption price of such bond at maturity exceeds the initial tax basis of the owner therein. Under Section 1276 of the Code, the owner of such a Series 2017C Bond will generally be required (i) to allocate each principal payment to accrued market discount not previously included in income and, upon sale or other disposition of the bond, to recognize the gain on such sale or

disposition as ordinary income to the extent of such cumulative amount of accrued market discount as of the date of sale or other disposition of such a bond or (ii) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest or, in the case of a Series 2017C Bond with original issue discount, in proportion to the accrual of original issue discount.

An owner of a Series 2017C Bond that acquired such bond at a market discount also may be required to defer, until the maturity date of such bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry such bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2017C Bond for the days during the taxable year on which the owner held such bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2017C Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the owner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such owner in that taxable year or thereafter.

Attention is called to the fact that Treasury regulations implementing the market discount rules have not yet been issued. Therefore, investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

Sales or Other Dispositions. If an owner of a Series 2017C Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner's basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss.

If the terms of a Series 2017C Bond were materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Series 2017C Bond should consult its own tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any, of such reissuance.

Defeasance. The legal defeasance of the Series 2017C Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Series 2017C Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

Unearned Income Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Series 2017C Bonds should consult with their tax advisor concerning this additional tax as it may apply to interest earned on the Series 2017C Bonds as well as gain on the sale of a Series 2017C Bond.

Backup Withholding. An owner of a Series 2017C Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Series 2017C Bonds, if such

owner, upon issuance of the Series 2017C Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Foreign Investors. An owner of a Series 2017C Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Series 2017C Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Series 2017C Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States of America is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing on Series 2017C Bonds owned by foreign investors. In those instances in which payments of interest on the Series 2017C Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Series 2017C Bonds having original issue discount and held by foreign investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Series 2017C Bond.

Tax-Exempt Investors. In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose that forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any owner of a Series 2017C Bond incurs acquisition indebtedness with respect to such bond, interest paid or accrued with respect to such owner may be excluded by such tax-exempt owner from the calculation of unrelated business taxable income. Each potential tax-exempt holder of a Series 2017C Bond is urged to consult its own tax advisor regarding the application of these provisions.

Exemption Under California State Law. Co-Bond Counsel are of the opinion that interest on the Series 2017C Bonds is exempt from present State of California personal income taxes.

Series 2018A Bonds (Tax-Exempt)

It is a condition to the issuance of the Series 2018A Bonds that on the delivery date of the Series 2018A Bonds (February 1, 2018) (the "Series 2018A Settlement Date") Co-Bond Counsel delivers their approving opinions in substantially the form attached hereto as Appendix G-2. The ability of Co-Bond Counsel to deliver such opinions is subject to the future activity of the Commission, the receipt of certain certifications and Co-Bond Counsel's review and analysis at the time of delivery of the Series 2018A Bonds and the related transactions in light of pertinent provisions of the laws, regulations, rulings and court decisions and interpretations thereof, then in effect or proposed to be in effect.

The following discussion is provided to the prospective purchasers of the Series 2018A Bonds for the purposes of alerting them to the tax consequences that would be applicable if the Series 2018A Bonds were issued and delivered as of the date of this Official Statement. HOWEVER, THERE IS NO ASSURANCE THAT THE FEDERAL AND STATE TAX LAW WILL REMAIN UNCHANGED BETWEEN THE DATE OF THIS OFFICIAL STATEMENT AND THE SERIES 2018A SETTLEMENT DATE. THE ACTUAL TAX CONSEQUENCES WILL BE ASSESSED BY CO-BOND COUNSEL AT THE TIME OF THE ISSUANCE OF THE SERIES 2018A BONDS.

General. In the opinion of Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2018A Bond for any period during which any such Series 2018A Bond is held by a "substantial user" of the facilities refinanced by the Series 2018A Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel are further of the opinion that interest on the Series 2018A Bonds is a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Code, that must be met subsequent to the issuance of the Series 2018A Bonds. Failure to comply with such requirements could cause interest on the Series 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2018A Bonds. The Commission will covenant to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the Series 2018A Bonds.

Co-Bond Counsel are further of the opinion that interest on the Series 2018A Bonds is exempt from present State of California personal income taxes.

Special Considerations With Respect to the Series 2018A Bonds. The accrual or receipt of interest on the Series 2018A Bonds may otherwise affect the federal income tax liability of the owners of the Series 2018A 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 2018A 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 2018A 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 2018A 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 2018A Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Tax Treatment of Original Issue Premium. The Series 2018A Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Series 2018A Bond over its stated redemption price at maturity constitutes premium on such Series 2018A Bond. An initial purchaser of a Series 2018A Bond must amortize any premium over such Series 2018A Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Series 2018A 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 2018A 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 2018A 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 2018A 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 2018A Bond.

Delayed Settlement; Delivery of Opinions of Co-Bond Counsel. The Series 2018A Bonds will be sold pursuant to the terms of the Series 2018A Bond Purchase Contract pursuant to which the Commission will agree to execute and deliver to the Underwriters, and the Underwriters will agree to accept and purchase from the Commission, the Series 2018A Bonds on the Series 2018A Settlement Date, subject to the satisfaction of certain conditions provided in the Series 2018A Bond Purchase Contract. Co-Bond Counsel expect to be able to deliver on

the Series 2018A Settlement Date opinions with respect to the exclusion of interest on the Series 2018A Bonds from gross income for federal income tax purposes and from State personal income taxes and, assuming no material adverse changes in fact or in federal or State law and based upon certain representations, certifications and covenants of the Commission, they will render opinions substantially in the form and to the effect set forth in Appendix G-2. The issuance and delivery of the Series 2018A Bonds on the Series 2018A Settlement Date will be subject to, among other things, receipt of such opinions of Co-Bond Counsel.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading "TAX MATTERS" or adversely affect the market value of the Series 2017/18 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 2017/18 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 2017/18 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2017/18 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 2017/18 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.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the Series 2017C Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and the Code generally prohibit certain transactions between an ERISA Plan or a qualified employee benefit plan under the Code and persons who, with respect to that plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of the Series 2017C Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the Commission or any dealer of the Series 2017C Bonds might be considered or might become a "party in interest" within the meaning of ERISA or a "disqualified person" within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Sections 4975 or 503 of the Code. Prohibited transactions within the meaning of ERISA and the Code may arise if the Series 2017C Bonds are acquired by such plans or arrangements with respect to which the Commission or any dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above sections of the Code, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Series 2017C Bonds. The sale of the Series 2017C Bonds to a plan is in no respect a representation by the Commission or the Underwriters that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the Series 2017C

Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2017D Bonds and upon delivery of the Series 2018A 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.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the Series 2017/18 Bonds are subject to the approval of Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission. 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 2017A-D Bonds each substantially in the form set forth in APPENDIX G-1—"PROPOSED FORM OF OPINION OF CO-BOND COUNSEL (SERIES 2018A Bonds each substantially in the form set forth in APPENDIX G-2—"PROPOSED FORM OF OPINION OF CO-BOND COUNSEL (SERIES 2018A BONDS)." However, see "DELAYED DELIVERY OF THE SERIES 2018A BONDS" and "TAX MATTERS – Series 2018A Bonds (Tax-Exempt)."

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 2017/18 Bonds.

The Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel and Underwriters' Counsel will receive compensation with respect to the Series 2017/18 Bonds which is contingent upon the sale and delivery of the Series 2017/18 Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the Commission for Fiscal Years 2015-16 and 2014-15 prepared in accordance with GASB guidelines, are included as APPENDIX B 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 B. KPMG LLP, the Commission's independent auditor, 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 has been reappointed as independent auditor for a four year term (subject to a three year extension at the option of the Commission) beginning with the Fiscal Year 2015-16 audit pursuant to a regular

request for proposals process conducted by the City. The audited financial statements prepared by the Commission each Fiscal Year are required to be provided to the Trustee within 120 days after the end of each such year in accordance with the 1991 Master Resolution.

The Commission expects that its Fiscal Year 2016-17 audit will be released in late October and will, upon release, be posted on EMMA (defined below).

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 2017/18 Bonds to provide certain financial information and operating data relating to the Commission (the "Annual Disclosure Report") by not later than 210 days following the end of each Fiscal Year, and to provide notices of certain enumerated events. The Annual Disclosure Report and notices of these enumerated events will be filed by the Commission with the means of the Electronic Municipal Market Access site ("EMMA") maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Disclosure Report or the notices of enumerated events is summarized in APPENDIX F—"SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters of the Series 2017/18 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, in 2011, an upgraded rating on the Bonds was disclosed in an offering document made available on EMMA but the upgrade itself was not disclosed in separate filings linked to all applicable CUSIP numbers. The upgrade was subsequently disclosed in the Annual Disclosure Report for the Fiscal Year ended June 30, 2011. 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 has enhanced its continuing disclosure filing procedures to help ensure that information that is filed on EMMA in the future contains all required information and is linked to the appropriate CUSIP numbers.

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MISCELLANEOUS

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

The summaries and descriptions of provisions of the 1991 Master Resolution, the Swap Agreements, the Continuing Disclosure Certificate, the Lease and Use Agreements, the purchase contracts pursuant to which the Underwriters are purchasing the Series 2017/18 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.

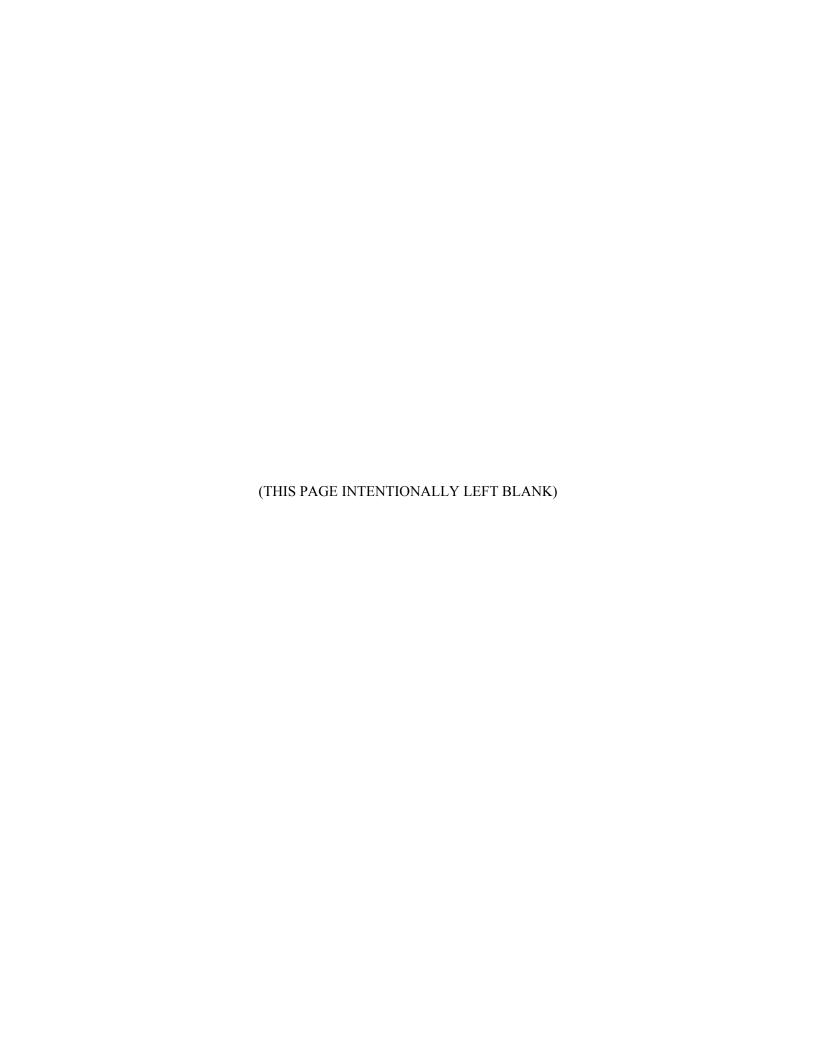
So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

AIRPORT COMMISSION OF THE CITY AN	1D
COUNTY OF SAN FRANCISCO	

By:	/s/ Ivar C. Satero	
•	Ivar C. Satero	
	Airport Director	

APPENDIX A

REPORT OF THE AIRPORT CONSULTANT



Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE BONDS Series 2017A, Series 2017B, and Series 2017C

Prepared for

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

Prepared by

LeighFisher Burlingame, California

October 4, 2017





October 4, 2017

Mr. Larry Mazzola, President Airport Commission City and County of San Francisco San Francisco International Airport P.O. Box 8097 San Francisco, California 94128

Re: Report of the Airport Consultant
Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds, Series 2017A, Series 2017B, and Series 2017C

Dear Mr. Mazzola:

We are pleased to submit this Report of the Airport Consultant (the Report) on certain aspects of the proposed issuance of new money Second Series Revenue Bonds, Series 2017A, Series 2017B, and Series 2017C (collectively, the 2017 Bonds) by the Airport Commission (the Airport Commission, or the Commission) of the City and County of San Francisco (the City) with an aggregate principal amount of approximately \$632.4 million* This letter and the accompanying attachment and exhibits constitute the Report.

The City owns San Francisco International Airport (the Airport, or SFO) and operates the Airport through its Airport Commission as a financially self-sufficient enterprise. Located approximately 14 miles south of downtown San Francisco, the Airport is the largest airport serving the San Francisco Bay Area. The region's expanding population base, strong economy, advanced levels of educational attainment, and relatively high per capita income contribute to strong demand for air travel. In the five years from Fiscal Year (FY)** 2012 to FY 2017, enplaned passengers at the Airport increased from 21.4 million to 26.9 million, a compound annual growth rate of 4.6%.

AIRPORT CAPITAL IMPROVEMENT PLAN

Airport Commission staff periodically develops and updates a plan for the redevelopment, improvement, and expansion of Airport facilities, which is reviewed by the signatory airlines and approved by the Airport Commission. The plan is submitted to the Airport Commission periodically and approved based on anticipated facility needs, current and expected future airline traffic, available funding sources, airline feedback, and project priority. The Commission-approved plan is included in the City's two-fiscal-year capital budget, which is approved by the City's Board of Supervisors.

^{*}Preliminary, subject to change.

^{**}The City's Fiscal Year ends June 30.



On September 5, 2017, the Airport Commission adopted a resolution approving a \$7.4 billion capital improvement plan (the Capital Improvement Plan), which calls for \$6.2 billion in capital spending over the 10-year period from FY 2018 to FY 2027 in addition to \$1.2 billion funded through FY 2017. For the 5-year period from FY 2018 to FY 2022 the Capital Improvement Plan calls for \$5.8 billion in spending, with a further \$0.4 billion in spending during the succeeding 5-year period from FY 2023 to FY 2027.

The Capital Improvement Plan reflects completion costs of certain currently ongoing projects and estimated total costs for projects yet to be initiated. A total of \$1.2 billion has been funded for those currently ongoing projects through the end of FY 2017, which is also included in the Capital Improvement Plan spending total of \$7.4 billion noted above.

The approved Capital Improvement Plan reflects the combination of two distinct categories of projects:

- The "Ascent Program Phase 1", which represents \$6.1 billion of capital spending during the 10-year period FY 2018 to FY 2027 and \$7.3 billion in total (including program reserves). This program encompasses 49 projects that collectively address the passenger and airline growth-related needs of the Airport. These projects were previously identified as part of the Commission's FY 2017 to FY 2026 capital plan which was approved by the Commission in June 2016. For purposes of the new Capital Improvement Plan, these same projects have been identified as the Ascent Program Phase 1. Approximately \$1.2 billion has already been funded through the end of FY 2017 for projects in the Ascent Program Phase 1.
- "Infrastructure Projects Plan", which represents an additional \$122 million of spending during the FY 2018 to FY 2022 period. Projects in this category were identified subsequent to the adoption of the previous capital plan in June 2016.

The table below summarizes the overall Capital Improvement Plan, as adopted by the Airport Commission on September 5, 2017.

	Fι	ınding		Funding	g dur	ing	_ 10	0-year			
	th	rough	rough FY 2018 to			2023 to		total	Program		
(\$ in millions)	F۱	Y 2017	F	FY 2022		FY 2027		2018-27)	total		
		[A]		[B]		[C]	[D	= B + C]	[E	= A + D]	
Ascent Program - Phase 1											
Project costs	\$	1,164	\$	4,925	\$	442	\$	5,366	\$	6,531	
Program reserves		-		739		-		739		739	
Subtotal - Ascent	\$	1,164	\$	5,664	\$	442	\$	6,105	\$	7,269	
Infrastructure Projects Plan		-		122		_		122		122	
Capital Improvement Plan total	\$	1,164	\$	5,786	\$	442	\$	6,227	\$	7,392	



The Ascent Program – Phase 1 is described in more detail in Section 4, and includes the following projects among others:

- Terminal 1 projects: Redevelopment of Terminal 1, including a new architectural building envelope (encompassing the Terminal 1 Center and Terminal 1 North segments of the building), construction of a new 24-gate Boarding Area B (18 replacement gates and 6 new gates), a new consolidated baggage handling system and checked baggage screening system, a secure connector to Boarding Area C, a sterile corridor to the International Terminal, and the relocation of certain taxilanes adjacent to the building.
- **Terminal 3 redevelopment projects:** Comprehensive renovation of a portion of Terminal 3 known as Terminal 3 West, including seismic stability improvements and building system upgrades, and Boarding Area F gate capacity enhancements.
- International Terminal refresh projects: Upgrades and improvements to parts of the International Terminal to increase operational efficiency.
- **On-Airport hotel:** Construction of a new 351-room four-star hotel on Airport property adjacent to the International Terminal.
- New long-term public parking garage: Development of a second long-term parking facility
 with 3,600 spaces, comprised of a new garage with 3,000 spaces and an existing parking area
 with 600 surface spaces (Lot DD), to accommodate expected growth in Airport parking
 demand.
- **AirTrain extension**: Construction of an extension to the AirTrain System from the existing Airport Rental Car Center to the long-term parking facilities, including construction of a new AirTrain station at the existing Lot DD; and construction of a new AirTrain station adjacent to the hotel.
- Courtyard 3 connector: The construction of a secure passenger connector between Terminal 2 and Terminal 3, and development of a new office block for use by Commission staff and third-party tenants.
- **Security improvements:** Strengthening of Airport-wide security with various improvements, including implementation of an enhanced perimeter intrusion detection system, CCTV systems, and other security system upgrades.
- Energy improvement program (Net Zero): Implementation of energy efficiency improvements and on-site renewable energy systems related to various projects in the Capital Improvement Plan.

In addition, the Ascent Program – Phase 1 includes other projects related to various aspects of the Airport including the terminal, airfield, and landside functions, as well as a reserve (the Ascent Program Reserve) of \$739 million, which consists of \$600 million in newly budgeted project reserves and \$139 million in previously identified project reserves. The Ascent Program Reserve will be used to address unanticipated needs of projects within the Ascent Program, should they arise. It is the



intent of the Airport Commission to only utilize Ascent Program Reserves after all other cost mitigation methods have been considered. Work on several of the projects in the Ascent Program – Phase 1, including the Terminal 1 and Terminal 3 redevelopment projects, has already commenced.

The Infrastructure Projects Plan component of the Capital Improvement Plan includes \$122 million of total spending, primarily related to support systems, miscellaneous airfield improvements, energy and efficiency improvements, and equipment.

The scope, phasing, and timing of implementation of projects in the Capital Improvement Plan are subject to further refinements depending on aviation activity trends and other Airport operational factors.

THE 2017 BONDS AND FUTURE BONDS

The City (acting through the Airport Commission) intends to issue new money 2017 Bonds to:

- Finance a portion of the projects in the Capital Improvement Plan
- Refund certain outstanding commercial paper previously issued to finance a portion of the projects in the Capital Improvement Plan
- Pay issuance and financing costs
- Make a deposit to the debt service reserve fund
- Fund capitalized interest associated with the 2017 Bonds, and
- Make a \$28 million deposit to the Commission's Contingency Account, as described later in the Report

In addition, a portion of the Series 2017C Bonds is planned to be used to make a swap termination payment associated with the refunding of certain variable rate bonds, and the associated debt service on the Series 2017C Bonds is reflected in the Report.

Project financing proceeds of the 2017 Bonds will be spent on (1) construction costs of projects that either do not require environmental review or have already undergone all necessary environmental review and received Commission approval to proceed, and (2) planning and development costs necessary to prepare other projects for environmental review and the necessary approvals. Specifically, proceeds of the 2017 Bonds will be used to finance and refinance a portion of the costs of the following projects, among others: redevelopment of Terminal 1, including 24 gates (18 renovated and 6 new gates); redevelopment of Terminal 3 West; renovation of the International Terminal; construction of a new long-term parking garage and extension of AirTrain service to that garage; improvements to the Airport's security infrastructure; certain airfield improvements; and the construction of a new administration campus to consolidate some Commission administrative departments.

Subsequent to the issuance of the 2017 Bonds, this Report assumes the issuance of approximately \$5.9 billion in principal amount of additional Bonds, to fund approximately \$4.9 billion of capital



costs from FY 2018 to FY 2022 (as well as to fund a further \$101 million of deposits to the Commission's Contingency Account). Those additional Bonds anticipated to be issued through FY 2022 (excluding the issuance of the 2017 Bonds) are collectively referred to as the Future Bonds*.

Our study was undertaken to evaluate the ability of the Airport Commission to generate sufficient Net Revenues to meet the requirements of the Bond Resolution (further discussed below), taking into account Annual Debt Service on the current Outstanding Bonds, the 2017 Bonds, and the Future Bonds. The forecast period extends to FY 2023, which reflects the full impact on revenues and expenses of projects completed during the first 5 years of the Capital Improvement Plan, and three full years after the expiration of the capitalized interest period for the 2017 Bonds.

Any additional Bonds to be issued during FY 2023 or thereafter are not reflected in the financial forecasts described in this Report because there would be no debt service payable on those Bonds during the forecast period. Additionally, the Airport Commission may issue Second Series Revenue Refunding Bonds as part of the 2017 Bond issuance (including Refunding Bonds to refund certain outstanding variable rate bonds, and a forward refunding for certain other currently outstanding bonds), or at other times during the forecast period. The impact of any associated debt service changes related to the issuance of refunding bonds is not reflected in the financial analysis discussed in this Report.

THE BOND RESOLUTION**

The 2017 Bonds are being issued under the terms and conditions of Resolution No. 91-0210 adopted by the Airport Commission on December 3, 1991, as amended and supplemented (collectively, the Bond Resolution), authorizing the issuance of San Francisco International Airport Second Series Revenue Bonds (the Bonds). The Bonds are secured by an irrevocable pledge of the Net Revenues of the Airport Commission. The Airport Commission has covenanted in the Bond Resolution not to issue any debt with a pledge of or lien on Net Revenues senior to that of the Bonds.

As defined in the Bond Resolution, Net Revenues are Revenues less Operation and Maintenance Expenses. Revenues include substantially all rentals, fees, and charges associated with possession, management, supervision, operation, and control of the Airport as determined in accordance with generally accepted accounting principles (GAAP), but do not include, among other revenues, revenues derived from passenger facility charges (PFCs) unless designated as such by the Airport Commission. Since 2002, when the Airport Commission was first authorized to apply PFC revenues to the payment of debt service, the Airport Commission has designated a portion of its PFC revenues as Revenues each year for the purpose of paying part of its Annual Debt Service. The Airport Commission expects to continue to designate certain PFC revenues as Revenues on an annual basis during and beyond the forecast period considered in this Report.

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^{*}As described in Section 3 and Section 4, the Commission also expects to issue Second Series Revenue Bonds to finance the On-Airport Hotel project. Those Bonds are in addition to the \$5.9 billion of Future Bonds noted here.

^{**}References in this Report to the Bond Resolution, the Lease and Use Agreements, and various leases and agreements entered into by the City and the Airport Commission are not intended to be comprehensive or definitive. Capitalized terms have the same meaning as defined in the Bond Resolution, except as otherwise noted herein.



Operation and Maintenance Expenses are defined to include substantially all expenses incurred for the operation and maintenance of the Airport, as determined in accordance with GAAP. Operation and Maintenance Expenses do not include, among other costs, depreciation, amortization, or expenses for which the Commission is paid or reimbursed from sources other than the Revenues of the Airport Commission.

Rate Covenant

The Airport Commission has covenanted in Section 6.04(a) of the Bond Resolution (the Rate Covenant) that, so long as any of the Bonds are outstanding, 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 Airport Commission such that:

- 1. Net Revenues in each Fiscal Year will be at least sufficient (a) to make all required payments and deposits in such Fiscal Year into the Revenue Bond Accountand (b) to make the Annual Service Payment to the City; and
- 2. 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.

A Transfer is defined as (a) the amount deposited on the last Business Day of any Fiscal Year from the Contingency Account into the Revenues Account, plus (b) any amounts withdrawn from the Contingency Account during such Fiscal Year for certain specified purposes, less (c) any amounts deposited in the Contingency Account from Revenues during such Fiscal Year. The balance in the Contingency Account was \$95.2 million as of June 30, 2017, and for purposes of this Report it was assumed that it would increase gradually during the forecast period through a combination of interest earnings retained in the account and 2017 Bond and Future Bond proceeds used to fund deposits to the Account. The minimum of the Contingency Account balance or 25% of Annual Debt Service is used as the amount of the Transfer for the purpose of forecasting compliance with the Rate Covenant in this Report.

Additional Bonds

To issue additional Bonds that are not refunding Bonds, the Airport Commission must meet the requirements of Section 2.11 of the Bond Resolution, which states that the Trustee must be provided with a certificate of either an Airport Consultant or an Independent Auditor, with specific requirements for each. The certificate of the Airport Consultant must state, among other things, that the Airport Commission is expected to be able to produce Net Revenues, together with any Transfer, at least sufficient to meet the requirements of the Rate Covenant in each Fiscal Year during the required forecast period. For purposes of the certificate, the Transfer amount used for any given Fiscal Year of the forecast period may not exceed 25% of Maximum Annual Debt Service. The Airport Commission will meet this requirement of the Bond Resolution prior to issuing the 2017 Bonds.

In addition to the 2017 Bonds, this Report assumes the issuance of several series of Future Bonds during the forecast period (between FY 2018 and 2022) with a total principal amount of approxi-



mately \$5.9 billion to fund elements of its Capital Improvement Plan*, as described more fully later in the Report. The financial analysis section of this Report includes the forecast effects of the new money 2017 Bonds and the Future Bonds on Revenues, Operation and Maintenance Expenses, Debt Service, and Net Revenues of the Airport Commission. Additionally, as noted above, the Airport Commission may undertake Bond refundings during the forecast period; however the Report does not take into account the effects that any such refunding Bonds may have on the forecasts (including any refunding Bonds that may be issued at the time the 2017 Bonds are issued).

The amount and timing of these Future Bond issues reflect the Airport Commission's adopted Capital Improvement Plan and timetable for project implementation. Such Future Bond issue amounts and timing are subject to change as aviation activity levels, facility needs, and the Airport operating environment evolve over time.

THE AIRLINE LEASE AND USE AGREEMENTS

The City (acting through the Airport Commission) has entered into 10-year agreements with certain airlines serving the Airport that account for substantially all of the airline traffic at the Airport. Under these agreements, which are scheduled to expire on June 30, 2021, the airlines have agreed to pay terminal rentals and landing fees calculated under a residual airline rate-making methodology. Under a residual rate-making methodology, the airlines agree to pay the amounts necessary to enable the Airport Commission to fully recover its Airport-related costs as defined in the agreements.

For purposes of this Report, it was assumed that the residual airline ratemaking methodology currently in effect would remain in effect beyond FY 2021, under the terms of successor agreements with the airlines.

PASSENGER FACILITY CHARGE PROGRAM

The Airport Commission is currently authorized to impose a \$4.50 PFC at the Airport pursuant to approvals from the Federal Aviation Administration (FAA).

In FY 2017, the Airport Commission collected \$99.4 million of PFC revenues on a cash basis, including restricted interest income. The Airport Commission's current PFC collection authorization totals \$2.0 billion (and PFC spending authorization totals \$1.7 billion), and extends until the date on which the total authorized amount has been collected, but not later than February 2030, as approved by the FAA in its Final Agency Decision associated with the Airport Commission's most recently approved PFC application. Of the \$2.04 billion in PFC collection authority, \$319.7 million was approved by the FAA for PFC collection at the \$3.00 per eligible enplaned passenger level (but not for spending on project costs, pending the receipt of FAA and environmental approvals) in the Commission's most recent PFC application related to the AirTrain extension project.

The Airport Commission intends to submit further PFC applications and application amendment requests to the FAA for increased PFC collection and use authority in the future, including requests for authorization to collect and use PFC revenues to pay debt service associated with the Terminal 1 and Terminal 3 redevelopment projects and to obtain approval to spend PFCs on the AirTrain

*As described in Section 3 and Section 4, the Commission also expects to issue Second Series Revenue Bonds to finance the On-Airport Hotel project. Those Bonds are in addition to the \$5.9 billion of Future Bonds noted here.



extension project. As of June 30, 2017, a total of \$1,177.7 million in PFC revenues (including restricted interest income) had been collected, including \$273.6 million of PFC revenues collected but not yet expended.

For purposes of this Report it was assumed that the \$4.50 PFC collection rate would remain unchanged during the forecast period, and that the current PFC collection authorization would extend to beyond the end of the forecast period. The Commission intends to structure its overall PFC program and seek the necessary approvals so that it can continue to collect PFCs throughout the forecast period at the \$4.50 per eligible enplaned passenger level.

SCOPE OF STUDY

As noted earlier, our study was undertaken to evaluate the ability of the Airport enterprise to generate sufficient Net Revenues to meet the requirements of the Rate Covenant, taking into account Annual Debt Service on the Outstanding Bonds, the 2017 Bonds, and the Future Bonds.

In conducting the study, we reviewed and analyzed:

- Historical airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the San Francisco Bay Area, historical trends in airline traffic, and other key factors that may affect future airline traffic, as the basis for preparing the aviation activity forecasts
- Debt service requirements on the current Outstanding Bonds, and estimated debt service requirements on the 2017 Bonds and the Future Bonds that are expected to be issued during the forecast period
- Historical relationships among Revenues, Operation and Maintenance Expenses, PFC revenues, and airline traffic at the Airport and other factors that may affect future Revenues and expenses
- Audited financial statements of the Airport Commission for FY 2015 and FY 2016
- The Airport Commission's FY 2018 annual budget and internal airline rates and charges model, and FY 2017 Revenues and Operation and Maintenance Expenses for the Airport estimated based on 12 months of preliminary unaudited results, as well as other considerations related to the business operations of the Airport
- The Airport Commission's approved Capital Improvement Plan for the Airport, and its most recent estimates of project costs and implementation schedules
- The Airport Commission's policies and contractual arrangements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges; the operation of concession privileges; and the leasing of buildings and grounds
- The Airport Commission's approved PFC program, PFC-eligible enplaned passengers, and historical PFC revenues (including restricted interest income)



We also identified key factors upon which the future financial results of the Airport may depend and, with Airport Commission management, formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the exhibits provided at the end of this Report:

Exhibit	
A-1	Airport Capital Improvement Plan Costs
A-2	Airport Capital Improvement Plan Sources of Funding
В	PFC Revenue Forecast and Application of PFC Revenues
С	Sources and Uses of Bond Funds
D	Annual Debt Service Requirements
Е	Operation and Maintenance Expenses
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F-1	Landing Fees
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G	Application of Revenues
Н	Rate Covenant Compliance Forecast
1	Summary of Financial Forecasts – Base Case
J	Summary of Financial Projections – Sensitivity Scenario

SUMMARY OF FORECAST RESULTS

As indicated in Exhibit H and further discussed in the Report, it is forecast that the Airport Commission would meet the requirements of the Rate Covenant in each Fiscal Year of the forecast period.

		Histo	oric	al	F	stimated					Fore	cas	t			
	_	FY 2015		FY 2016		FY 2017	_	FY 2018		FY 2019	FY 2020		FY 2021	FY 2022	_,	Y 2023
Enplaned passengers		24,024		25,622		26,871		27,591		28,131	28,622		29,073	29,532		29,998
Percentage change				6.7%		4.9%		2.7%		2.0%	1.7%		1.6%	1.6%		1.6%
Net Revenues (a)	\$	439,381	\$	473,443	\$	479,186	\$	488,274	\$	526,880	\$ 579,075	\$	721,571	\$ 889,433	\$	964,359
Transfer		93,883		94,426		95,221		103,796		114,653	123,808		154,549	 199,079		221,865
Total amount available	\$	533,264	\$	567,869	\$	574,407	\$	592,070	\$	641,533	\$ 702,883	\$	876,119	\$ 1,088,513	\$1	,186,224
Debt Service on Bonds - cash basis (b) Debt Service Coverage		393,449 136%		394,157 144%		419,388 137%		415,183 143%		458,612 140%	495,233 142%		618,195 142%	796,317 137%		887,459 134%
Passenger airline payments Enplaned passengers	\$	384,332 24,024	\$	423,215 25,622	·	442,314 26,871	\$	27,591	Ċ	28,131	\$ 28,622		626,831	\$ 29,532	\$	792,641 29,998
Airline cost per enplaned passenger	\$	16.00	\$	16.52	\$	16.46	\$	17.28	\$	17.95	\$ 18.92	\$	21.56	\$ 24.05	\$	26.42

Note: The Fiscal Year of the City ends June 30. Amounts in thousands, except the airline cost per enplaned passenger, percentages and ratios. Totals may not add due to rounding.

Source for forecasts: LeighFisher.

⁽a) Net Revenues reflect the designation and application of a portion of the Commission's PFC cash balances and PFC revenues as Revenues.

⁽b) Debt service is expressed on a "cash basis" (reflecting the timing of the actual cash payments to the bondholders).



The table above summarizes historical and forecast enplaned passengers, Net Revenues, Transfers, debt service on Bonds issued under the terms of the Bond Resolution (including the 2017 Bonds and the anticipated Future Bonds), debt service coverage (including Transfers), and airline cost per enplaned passenger.

ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS

The financial forecasts are based on information and assumptions that were provided by, or reviewed with and agreed to by, Airport management. Accordingly, the forecasts reflect the Airport Commission's expected course of action during the forecast period and, in Airport management's judgment, present fairly the expected financial results of the Airport enterprise.

The key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. Neither LeighFisher nor any person acting on our behalf makes any warranty, expressed or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in the Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

* * * * *

We appreciate the opportunity to serve as the Airport Consultant for the Airport Commission of the City and County of San Francisco on this proposed financing.

Respectfully submitted,

eighfisher

LEIGHEISHE

BACKGROUND, ASSUMPTIONS, AND RATIONALE FOR THE FINANCIAL FORECASTS

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO SECOND SERIES REVENUE BONDS Series 2017A, Series 2017B, and Series 2017C [THIS PAGE INTENTIONALLY LEFT BLANK]

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1. INTRODUCTION

This section provides an overview of the Airport Commission and San Francisco International Airport (the Airport, or SFO), including airfield facilities, terminal facilities, parking, Airport access, the AirTrain system, the consolidated rental car facility, and other facilities.

THE AIRPORT COMMISSION

The City and County of San Francisco (the City), through its Airport Commission (the Airport Commission), owns and operates the Airport as a financially self-sufficient enterprise.

The Airport Commission was created in 1970 pursuant to an amendment to the City Charter. Under the City Charter, the Airport Commission has control over 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 City Charter further provides that "subject to the approval, amendment or rejection of the Board of Supervisors [of the City and County of San Francisco] of each issue, the Commission shall have exclusive authority to plan and issue revenue bonds for airport-related purposes." Bonds issued by the Commission are not general indebtedness of the City, but are limited, special indebtedness of the Commission payable solely from revenues received by the Commission from the operation of the Airport. The Commission has no taxing power.

The Airport Commission consists of five members who are appointed for four-year terms by the Mayor of San Francisco. The City Charter provides that the Board of Supervisors may reject any appointment to the Commission by a two-thirds vote. Under the City Charter, the Airport Director is appointed by the Mayor from a list of candidates submitted by the Commission. The Airport Director is empowered to appoint or remove senior management staff. The City Attorney serves as the legal advisor to the Commission.

THE AIRPORT

The Airport is located 14 miles south of downtown San Francisco, in San Mateo County, adjacent to the San Francisco Bay. The Airport occupies approximately 2,383 acres on a 5,171-acre site; the remaining 2,788 acres are undeveloped tidelands. Figure 1 shows the layout of the Airport from an aerial view, and Table 1 provides a summary of key Airport facilities.

Figure 1
AERIAL VIEW
San Francisco International Airport



Table 1 AIRPORT FACILITIES PROFILE San Francisco International Airport

Townshal arts wastings	Contact	Duiman, airlinea
Terminal gate positions Domestic terminals (2.7 million sq. ft.) (b)	Gates (a)	Primary airlines
Terminal 1		
Boarding Area B	7	Frontier, Southwest
Boarding Area C	10	Delta, American
boarding Area C	17	Derta, American
Terminal 2	17	
Boarding Area D	16	American, Virgin America
Terminal 3		,e.rearry v.r.B, merrea
Boarding Area E	10	United (domestic)
Boarding Area F	24	United (domestic)
	34	
International Terminal (2.5 mill. sq. ft.) (c)		
Boarding Area A	12	Foreign flag, others (d)
Boarding Area G	12	Foreign flag, United (international)
	24	
Total gates	91	
Widebody capability (all terminals)	42	
	Length	
Airfield (approx. 1,700 acres)	(feet)	ILS category
Runway 10L-28R	11,870	III
Runway 10R-28L	11,381	I (e)
Runway 1R-19L	8,650	1
Runway 1L-19R	7,650	No ILS approach
Automobile parking	Spaces	
Public parking	13,840	
Employee parking	6,706	
Total parking spaces	20,546	
Cargo facilities		
Number of cargo buildings		

ILS = Instrument landing system

- (a) Reflects gates that are currently in use on a common use basis or are preferentially allocated. Includes one gate in Terminal 2 that has apron-level boarding, accessed by bus.
- (b) Terminals 1, 2 and 3 also handle flights to and from Canada and Mexico.
- (c) All international flights requiring customs and immigration clearance arrive at the International Terminal.
- (d) Including Alaska (domestic and international), Hawaiian, JetBlue, Sun Country, and Virgin America (international arrivals).
- (e) Runway 28L has available standard ILS Category I approaches and Special Authorization Category II approaches that require special aircrew and aircraft certification requirements.

Source: San Francisco Airport Commission, August 2017.

Airfield Facilities

The runway and taxiway system at the Airport occupies approximately 1,700 acres and provides four intersecting runways, three of which are equipped with an instrument landing system (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. Each of the four runways is 200 feet wide. The current runway system can accommodate the arrivals and departures at the maximum loads of all commercial aircraft currently in service, including large aircraft such as the Airbus A380. The Airport runways are built on Bay tidelands that were filled during and after World War II and, as a result, the runways continue to settle at various rates, requiring periodic repair and maintenance.

Terminal Facilities

The Airport currently has 91 operational contact gates (including one remote aircraft loading position accessible by bus), 42 of which can accommodate widebody aircraft. The Airport expects to open and close gates from time to time due to renovations to the terminals and to keep at least 90 gates operational at any time.

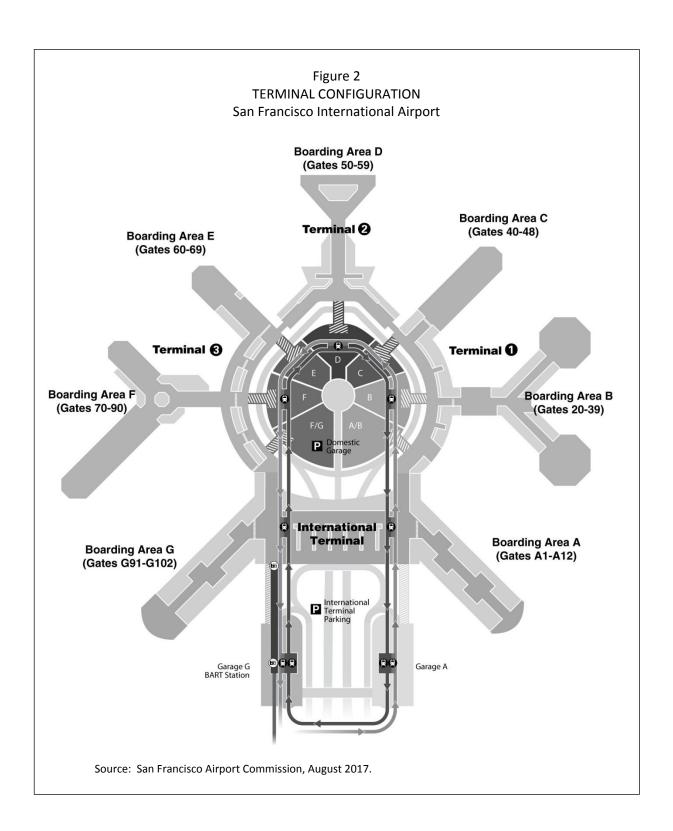
The domestic passenger terminal complex at the Airport consists of approximately 2.7 million square feet of total space divided among three terminals in a five-pier configuration. The domestic terminals (which also accommodate flights to Mexico and Canada) are located around two-thirds of the outer perimeter of the roadway that encircles the central parking garage, as follows:

- Terminal 1 comprises Boarding Areas B and C (Gates 20 through 39 and Gates 40 through 48, respectively)
- Terminal 2 comprises Boarding Area D (Gates 50 through 59)
- Terminal 3 comprises Boarding Areas E and F (Gates 60 through 69 and Gates 70 through 90, respectively)

The International Terminal Complex (ITC) straddles the main Airport entrance roadway and consists of 2.5 million square feet configured as a main hall and two piers (Boarding Areas A and G, which include Gates A-1 through A-12, and Gates G-91 through G-102, respectively). In addition to serving as the point of departure and arrival for flights requiring Federal Inspection Services (FIS) clearance, the ITC is also used for certain domestic flights.

The three domestic terminals have more 88 food and beverage and retail outlets. The ITC has 52 such outlets.

The terminal configuration at the Airport is shown on Figure 2.



Parking

The Airport Commission owns the short- and long-term public parking facilities at the Airport. Table 2 provides details of the number of spaces currently available in these parking facilities. The Domestic Parking Garage, which is adjacent to the domestic terminal complex, provides approximately 5,773 short-term public parking spaces. Two parking garages, located adjacent to the ITC, provide a further 2,032 short-term parking spaces. A long-term parking garage and adjacent surface lot located approximately 1.5 miles from the terminal complex provides an additional 6,035 spaces. A total of 6,706 employee parking spaces are also provided. The number of available spaces may vary from time to time due to the impact of construction projects at the Airport, but such variations are not expected to materially impact parking revenues.

Table 2
PARKING FACILITIES
San Francisco International Airport

Automobile Parking	Spaces
Public parking	
Domestic Parking Garage	5,773
Garage A and Garage G	2,032
Long-Term Garage	3,109
Long-Term surface lot	2,926
Total public parking spaces	13,840
Employee parking	6,706
Total parking spaces	20,546
Note: in addition, off-Airport parking op	erators provide
more than 8,000 public parking spaces fo	r Airport patrons.
Source: San Francisco Airport Commission	on, August 2017.

Additionally, several independent companies offer parking facilities off Airport property and provide Airport access to their patrons via shuttle buses. The capacity of these off-Airport parking facilities is estimated to be more than 8,000 spaces.

Airport Access

Access to the Airport is provided by a roadway system and by the San Francisco Bay Area Rapid Transit (BART) District rail system.

The Airport is located on the east side of the Bayshore Freeway (U.S. Highway 101) between Millbrae Avenue to the south and Interstate 380 (I-380) to the north. The Bayshore Freeway is a major north-south artery that serves the San Francisco Peninsula, providing direct access to the Airport via four exits—Millbrae Avenue, Terminal Access Road, San Bruno Avenue, and North Access Road.

I-380, north of the Airport, connects with the North Access Road and the Terminal Access Road. I-380 is an east-west freeway that serves as a connector between the Bayshore Freeway and Interstate 280 (I-280), the other major north-south freeway serving the Peninsula.

BART is an automated rapid transit system serving Alameda, Contra Costa, and San Francisco counties, as well as northern San Mateo County. A total of 45 BART stations are located along five lines. BART operation was extended directly to the Airport in 2003.

AirTrain System

The AirTrain system provides transportation for travelers and others around and among key Airport facilities. The nine-station AirTrain system operates 24 hours per day on two lines (Red and Blue). Both lines connect to all Airport terminals, garages, and the Airport BART station, while the Blue line also connects to the consolidated rental car facility and certain support facilities. Three AirTrain stations are located adjacent to the domestic terminal complex atop the Domestic Parking Garage. These stations are accessed from their terminals via pedestrian "skybridges" over the loop road. AirTrain stations are also located in the ITC and in the adjacent parking facilities. One AirTrain station connects directly with the Airport BART station.

Consolidated Rental Car Facility

A consolidated rental car facility opened at the Airport in 1998. The facility is a five-level structure containing approximately 1.5 million square feet, approximately 5,000 parking spaces, a quick turnaround area, rental car operator staging area, rental car fueling and cleaning facilities, ticket counter space, and administrative offices. Five rental car companies, representing nine rental car brands, currently operate from the consolidated rental car facility.

Aircraft Maintenance and Cargo Facilities

Several airlines operate maintenance and cargo facilities at the Airport. United Airlines' Maintenance Operations Center at the Airport encompasses 3 million square feet and is one of the country's largest private aircraft maintenance facilities. Additionally, American Airlines operates a major maintenance facility at the Airport, and several other airlines operate line maintenance facilities.

There are 11 cargo facilities at the Airport, providing approximately 1 million square feet of warehouse and office space. Services offered by cargo tenants include refrigeration/cooler facilities, dangerous goods handling, valuable goods handling, and bonded storage.

2. AIRLINE TRAFFIC AND ECONOMIC ANALYSIS

AIRPORT SERVICE REGION

As shown on Figure 3, the region served by the Airport consists of the 12-county San Jose-San Francisco-Oakland Combined Statistical Area (the San Francisco CSA or the Bay Area). According to the U.S. Department of Commerce, Bureau of the Census, the population of the San Francisco CSA was 8.8 million in 2016, accounting for about 22% of California's total population of 39.3 million. The San Francisco-Oakland-Hayward Metropolitan Statistical Area (MSA) includes the City of San Francisco (equivalent to San Francisco County) which accounted for 10.0% of the population of the San Francisco CSA, as shown in Table 3. Because economic growth and activity within this area stimulate a significant portion of passenger demand at the Airport, statistics for the San Francisco CSA were used to evaluate airline traffic trends at the Airport.*

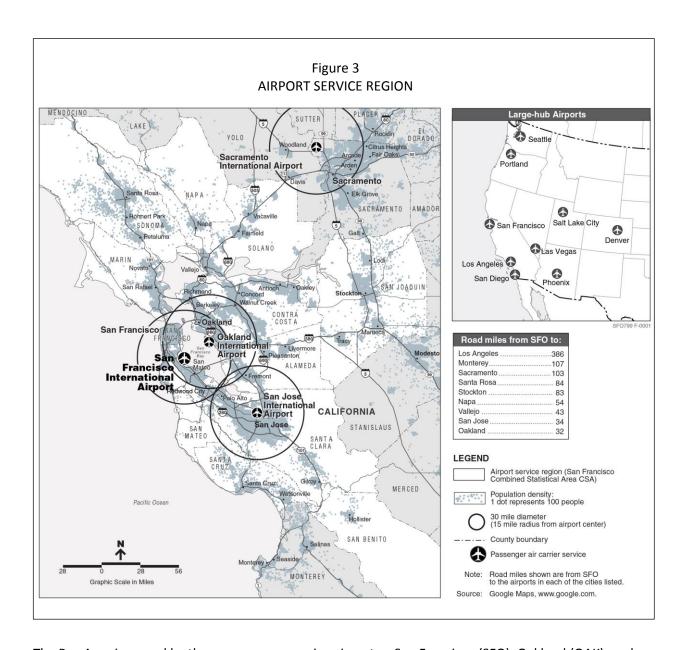
Table 3
SAN FRANCISCO CSA POPULATION IN 2016

MSA/County	Population	Percent of total
San Francisco-Oakland-Hayward MSA		
Alameda	1,647,704	18.8%
Contra Costa	1,135,127	13.0
San Francisco	870,887	10.0
San Mateo	764,797	8.7
Marin	260,651	3.0
Subtotal—San Francisco MSA	4,679,166	53.5%
San Jose-Sunnyvale-Santa Clara MSA		
Santa Clara	1,919,402	21.9%
San Benito	59,414	0.7
Subtotal—San Jose MSA	1,978,816	22.6%
Stockton-Lodi MSA		
San Joaquin	733,709	8.4
Santa Rosa MSA		
Sonoma	503,070	5.7
Vallejo-Fairfield MSA		
Solano	440,207	5.0
Santa Cruz-Watsonville MSA		
Santa Cruz	274,673	3.1
Napa MSA		
Napa	142,166	1.6%
Total Airport Service Region	8,751,807	100.0%

CSA = Combined Statistical Area; MSA = Metropolitan Statistical Area

Source U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed July 2017.

^{*}Data are presented for the most recent period available and, for internet sources, dated when accessed.



The Bay Area is served by three passenger-service airports – San Francisco (SFO), Oakland (OAK), and Mineta San Jose (SJC) international airports. SFO is a large-hub airport* and the Bay Area's international gateway and dominates long-haul domestic service.** In July 2017, SFO accounted for the largest shares of long-haul domestic and international departing seats at Bay Area airports, with 81% and 88%, respectively. OAK and SJC are medium-hub airports and provide primarily short- and medium-haul domestic service. In July 2017, short- and medium-haul domestic markets accounted for 74% and 75%, respectively, of scheduled departing seats at OAK and SJC. In recent years, limited long-haul and international service has been added at OAK and SJC, as discussed in the section

^{*}A large-hub airport is defined by the Federal Aviation Administration (FAA) as one that enplanes 1% or more of annual nationwide passenger boardings; a medium-hub airport enplanes between 0.5% and 1% of nationwide passenger boardings; and a small-hub airport enplanes between 0.25% and 0.5% of nationwide passenger boardings.

^{**}For the purposes of this report, short-haul flights are 500 miles or less, medium-haul flights are 501 to 1,500 miles, and long haul flights are more than 1,500 miles.

"International Gateway". Historically, each airport has drawn passengers primarily from its closest surrounding geographical area for short- and medium-haul service, while SFO has captured most of the demand for longer domestic trips and international service from the entire Bay Area.

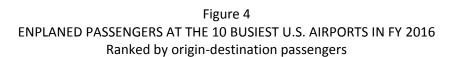
AIRPORT ROLE

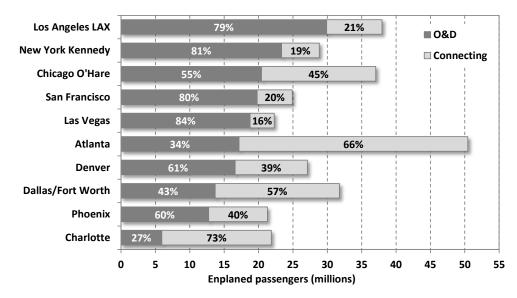
The Airport plays an important role in the national, State, and local air transportation systems. SFO is the only airport in the San Francisco CSA and Northern California with substantial levels of international service and connecting traffic.

Large-Hub Origin-Destination Airport

SFO is the seventh busiest airport in the United States in terms of enplaned passengers, with nearly 26 million in FY 2016 according to the U.S. Department of Transportation (DOT).* The Airport ranks fourth among U.S. airports in terms of domestic and international origin-destination (O&D) passengers, with nearly 19.8 million or 80% of total enplaned passengers in FY 2016, as shown on Figure 4. In addition, SFO ranked seventh among U.S. airports in terms of domestic O&D passengers in FY 2016. SFO's large O&D passenger base reflects, in part, the San Francisco CSA's population of 8.8 million in 2016, which is the fifth most populous CSA in the nation (following the New York, Los Angeles, Chicago, and Washington DC/Baltimore CSAs).

^{*}Data reported to the U.S. DOT excludes nonrevenue passengers and may differ from data reported by the airlines to the Airport.





Notes: For Fiscal Years ended June 30

O&D = Origin-Destination passengers

Due to reporting anomalies, O&D passengers include passengers making a connection from one

international flight to another international flight on foreign-flag airlines.

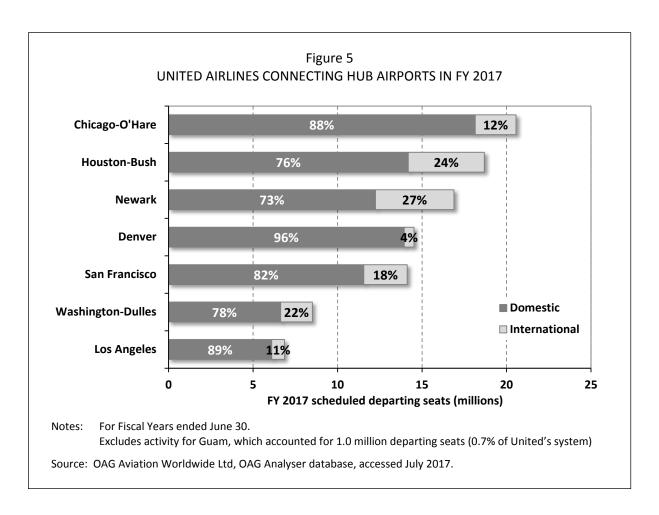
Sources: U.S. Department of Transportation, Air Passenger Origin-Destination Survey, reconciled to Schedule

T100, and Schedule T100, accessed July 2017.

Role as a Connecting Hub

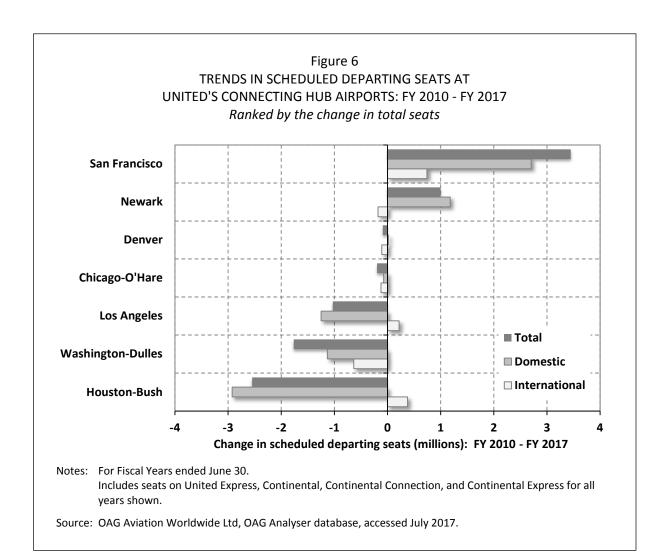
In addition to its role as a large O&D airport, the Airport serves as a major connecting hub for United. As described in United's 2016 annual filing with the U.S. Securities and Exchange Commission, United and its regional affiliates operate an average of more than 5,000 flights per day to 339 airports in five continents from its hubs in Newark, Chicago (O'Hare), Denver, Houston (Bush), Los Angeles (LAX), San Francisco, Washington (Dulles), and Guam.* As shown on Figure 5, the Airport was the fifth busiest airport in United's system in FY 2017, with 9% of total scheduled departing seats (following the hubs at Chicago O-Hare, Houston-Bush, Newark, and Denver). In FY 2017, SFO ranked fifth in terms of domestic scheduled seats and third in terms of international seat capacity in United's system. In FY 2016, United accounted for approximately 44% of all enplaned passengers at the Airport and approximately 83% of all passengers connecting at the Airport (the latter based on the most recent available information from the U.S. DOT).

^{*}United Continental Holdings, Inc. and Subsidiary Companies, Annual Report on Form 10-K, For the Year Ended December 31, 2016, www.united.com.



United has increased its capacity at the Airport in recent years, in contrast to capacity reductions at most of its other hub airports, as shown on Figure 6. Of United's hub airports, SFO accounted for the largest increase in total capacity between FY 2010 and FY 2017, with a total gain of 3.4 million scheduled departing seats. United's Newark hub accounted for the second largest increase in capacity with a gain of 1.0 million scheduled departing seats between FY 2010 and FY 2017.* Total capacity decreased at United's five other connecting hubs during this period. United's SFO hub experienced the largest gain in international capacity between FY 2010 and FY 2017 (an increase of 743,000 seats), followed by Houston (an increase of 377,000 seats), and LAX (an increase of 219,000 seats).

^{*}United Airlines ceased operations at John F. Kennedy International Airport on October 25, 2015 and transferred its transcontinental flights from JFK to Newark Liberty International Airport. United Airlines Press Releases, "United Airlines Strengthens New York/New Jersey Hub with Move of p.s. [premium service] Transcontinental Service to Newark," June 16, 2015, www.united.com.



International Gateway

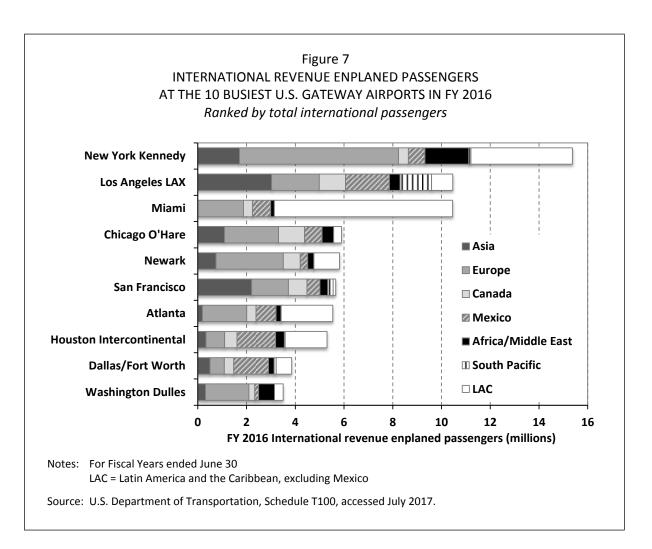
SFO is the sixth busiest U.S. gateway airport in the United States, in terms of international revenue enplaned passengers, with 5.7 million international revenue enplaned passengers in FY 2016, as shown on Figure 7. The Airport's role as one of the primary international gateways in the United States is related to the strength of the San Francisco CSA economy, the location of global companies and strong international communities of interest in the San Francisco CSA and Northern California, its relative proximity to expanding markets in Asia and the South Pacific and its wide reach to markets in Canada, Europe, Mexico, and the Middle East. In FY 2016, SFO accounted for the second largest number of international passengers to Asia and the South Pacific among U.S. gateway airports (behind Los Angeles).

SFO is one of three primary international gateways on the West Coast, in addition to Los Angeles (LAX) and Seattle (SEA) international airports. In July 2017, SFO provided an average of 105 daily international departures, compared with an average of 190 daily international departures at LAX and 61 at SEA. Limited international service is also provided at the West Coast airports in Oakland, Portland, Sacramento, San Diego, San Jose, and Santa Ana, including U.S. mainline, foreign-flag, and low cost carrier service to airports in Asia, Canada, Europe, and Mexico. Airline service at these six

West Coast airports is focused primarily on point-to-point O&D travel and typically generates lower than average airline yields. In July 2017:

- Portland provided daily service to 6 international destinations and weekly service to 3, for an
 average of 13 daily international departures. U.S. mainline and foreign-flag airlines
 accounted for 96% of scheduled international departing seats and LCCs for the remaining 4%.
- San Diego provided daily service to 6 international destinations and weekly service to 6, for an average of 11 daily international departures. U.S. mainline and foreign-flag airlines accounted for 75% of scheduled international departing seats and LCCs for the remaining 25%.
- San Jose provided daily service to 7 international destinations and weekly service to 3, for an average of 11 daily international departures. U.S. mainline and foreign-flag airlines accounted for 90% of scheduled international departing seats and LCCs for the remaining 10%.
- Oakland provided daily service to 3 international destinations and weekly service to 11, for an average of 8 daily international departures. Foreign-flag airlines accounted for 19% of scheduled international departing seats and LCCs for the remaining 81%.
- Santa Ana provided daily service to two international destinations and weekly service to one, for an average of 3 daily international departures. U.S. mainline airlines accounted for 37% of scheduled international departing seats and LCCs for the remaining 63%.
- Sacramento provided daily service to one international destination and weekly service to
 one, for an average of 2 daily international departures. U.S. mainline and foreign-flag airlines
 accounted for 54% of scheduled international departing seats and LCCs for the remaining
 46%.

SFO's international airline service is diverse. In addition to United's international service, 39 foreign-flag airlines served SFO in July 2017, including airlines from Asia (13), Europe (14), the South Pacific (3), Latin America and the Caribbean (2), the Middle East (2), Mexico (2), and Canada (3). International passenger service was also provided by Alaska Airlines and Virgin America.

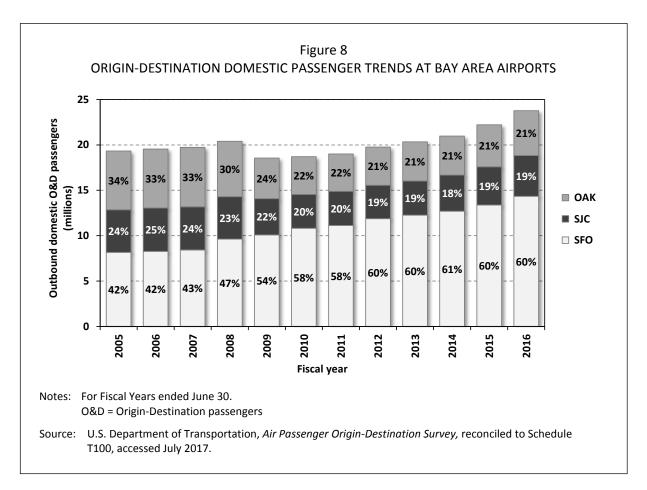


Primary Bay Area Airport

SFO is the busiest airport in the Bay Area and Northern California and accounted for 60% of all Bay Area outbound domestic O&D passengers in FY 2016, as shown on Figure 8. Between FY 2005 and FY 2009, the number of outbound domestic O&D passengers at SFO increased an average of 5.5% per year, reflecting, in part, the development of low cost carrier (LCC)* service by jetBlue, Southwest, and Virgin America. In comparison, outbound domestic O&D passengers at OAK and SJC decreased between FY 2005 and FY 2009—an average decrease of 8.8% and 4.0% per year, respectively, as a result of the 2008-2009 national economic recession and the increase in competitive LCC service at SFO. Following the recession, domestic O&D passengers at the three Bay Area airports increased an average of 3.6% per year between FY 2009 and FY 2016, driven by continued strong growth at SFO (an average increase of 5.1% per year) and moderate growth at OAK and SJC (an average increase of 1.5% and 1.7% per year, respectively).

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^{*}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.



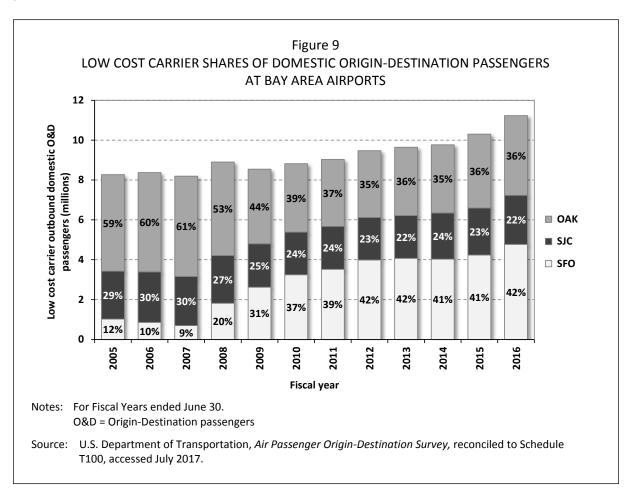
Low Cost Carrier Airport

Between FY 2005 and FY 2016, the number of LCC domestic O&D passengers at SFO increased an average of 15.0% per year, compared with an average increase of 0.2% per year at SJC, an average decrease of 1.7% per year at OAK, and an average increase of 2.8% per year for all three Bay Area airports. Strong growth in LCC domestic O&D passengers at SFO reflects the introduction and development of LCC service by jetBlue, Southwest, and Virgin America during this period. Since FY 2012, LCCs have accounted for 41% to 42% of domestic O&D passengers at SFO, as shown on Figure 9. As of July 2017, five airlines at the Airport offered low-cost carrier domestic service:

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

Virgin America began operations as a new entrant LCC in 2007 and based its primary operations at SFO. Virgin America, Inc. and Alaska Air Group, Inc., the parent company of Alaska Airlines, announced plans to merge in April 2016, which were approved by Virgin America, Inc. shareholders

in July 2016 and by the U.S. Department of Justice in December 2016.* In March 2017, Alaska and Virgin America announced plans to adopt Alaska's name and logo and retire the Virgin America brand in 2019.** Alaska Airlines and Virgin America accounted for 2.9% and 9.3%, respectively, of total enplaned passengers at the Airport in FY 2017, with very limited overlap in the markets served from SFO. Since closing the merger in December 2016, Alaska has increased service at the primary West Coast airports in the combined airline network, including a 10% increase in scheduled departing seats at SFO between 2016 and 2017. Although Alaska is not considered a LCC, an expansion in the combined airline's service at SFO increases the level of competition which, in turn, puts downward pressure on airfares.



^{*&}quot;Virgin America Shareholders Vote to Approve Merger Agreement with Alaska Air Group, Inc.," July 26, 2016, www.virginamerica.com. "Justice Department Clears Alaska Air Group's Acquisition of Virgin America," December 6, 2016, www.alaskaair.com.

^{**&}quot;Alaska Airlines and Virgin America share vision for the future," March 22, 2017, www.alaskaair.com.

In addition to LCC domestic service, in July 2017, LCC international service was provided by six foreign-flag airlines at SFO, including Air Berlin,* Thomas Cook, Volaris, WestJet, WOW Air, and XL Airways.**

ECONOMIC BASIS FOR AIRLINE TRAFFIC

The economy of the San Francisco CSA is an important determinant of long-term passenger demand at the Airport. The development of the economic base of an airport service region is important to passenger traffic growth. This is particularly true where the industries in the region rely on the airport for passenger and cargo service. The San Francisco CSA, the fifth most populous in the US, is a national and international travel destination as well as a center of business and trade in California and the nation.

The following sections present a discussion of the economic basis for airline traffic at the Airport—historical and projected population, employment, and per capita personal income of the San Francisco CSA, industry clusters, and the visitor industry—and a summary of the economic outlook for the United States, California, and the San Francisco CSA.

POPULATION, NONAGRICULTURAL EMPLOYMENT, AND PER CAPITA PERSONAL INCOME

Table 4 presents comparative historical and projected trends in population, nonagricultural employment, and per capita personal income in the San Francisco CSA, the State of California (the State), and the United States in 2000, 2005, and from 2010 through 2016. Also presented are projected growth rates for 2017 through 2023.

Population. As shown in Table 4, from 2000 through 2016, the population of the San Francisco CSA increased an average of 0.8% per year, similar to growth rates for the State and the nation. The California Department of Transportation (Caltrans) projects population in the San Francisco CSA and the State to increase an average of 0.9% per year between 2016 and 2023, similar to the rate for the nation by the U.S. Census Bureau.***

**International Civil Aviation Organization (ICAO), List of Low-Cost-Carriers (LCCs), June 13, 2017. ICAO defines an LCC as "an air carrier that has a relatively low-cost structure in comparison with other comparable carriers and offers low fares and rates. Such an airline may be independent, the division or subsidiary of a major network airline or, in some instances, the ex-charter arm of an airline group."

^{*}Air Berlin commenced bankruptcy proceedings under German and U.S. law in August 2017. In FY 2017, Air Berlin accounted for 0.1% of passenger traffic at SFO, reflecting daily service to Dusseldorf and four times weekly service to Berlin which started in May 2017. Air Berlin has announced that it will discontinue its operations at SFO on October 16, 2017.

^{***}Caltrans manages six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration and the Equipment Service Center. Caltrans' Transportation Economics Branch (formerly the Economic Analysis Branch) initiated the California Economic Forecasts project in 2000 to assist local and regional agencies in their planning and travel forecasting efforts and to provide a consistent set of long-term socio-economic forecasts for each county.

Table 4
HISTORICAL AND PROJECTED SOCIOECONOMIC TRENDS
San Francisco CSA, State of California, and United States

	Pop	ulation (thousand	s)	Nonagricult	ural employment	(thousands)	Per capita per	sonal income (20	16 dollars)
	San Francisco	State of	United	San Francisco	State of	United	San Francisco	State of	United
	CSA	California	States	CSA	California	States	CSA	California	States
Historical									
2000	7,656	33,872	281,425	3,835	14,585	132,024	63,895	45,960	42,121
2005	7,781	35,828	295,517	3,568	15,045	134,051	60,617	47,386	43,573
2010	8,154	37,254	308,746	3,428	14,283	130,361	60,941	46,099	43,779
2011	8,269	37,677	311,663	3,485	14,438	131,932	63,054	48,920	45,305
2012	8,371	38,011	313,998	3,607	14,764	134,175	66,309	50,563	46,290
2013	8,477	38,335	316,205	3,738	15,154	136,381	65,870	50,040	45,839
2014	8,588	38,681	318,563	3,871	15,578	138,958	68,803	51,841	47,106
2015	8,686	38,994	320,897	4,017	16,056	141,843	73,092	54,630	48,798
2016	8,752	39,250	323,128	4,150	16,477	144,306	n.a.	55,987	49,571
Projected									
2023	9,326	41,670	341,350	4,485	17,658	150,812	87,190	65,259	56,112
				Percen	t increase (decrea	se)			
2010-2011	1.4%	1.1%	0.9%	1.7%	1.1%	1.2%	3.5%	2.6%	2.2%
2011-2012	1.2	0.9	0.7	3.5	2.3	1.7	5.2	3.4	2.2
2012-2013	1.3	0.9	0.7	3.6	2.6	1.6	(0.7)	(1.0)	(1.0)
2013-2014	1.3	0.9	0.7	3.6	2.8	1.9	4.5	3.6	2.8
2014-2015	1.1	0.8	0.7	3.8	3.1	2.1	6.2	5.4	3.6
2015-2016	0.8	0.7	0.7	3.3	2.6	1.7	n.a.	2.5	1.6
				Compound annu	al percent increas	e (decrease)			
2000-2005	0.3%	1.1%	1.0%	(1.4%)	0.6%	0.3%	(0.6%)	1.0%	0.7%
2005-2010	0.9	0.8	0.9	(0.8)	(1.0)	(0.6)	(0.5)	(0.4)	0.1
2010-2016	1.2	0.9	0.8	3.2	2.4	1.7	3.7 <i>(a)</i>	2.7	1.9
2000-2016	0.8	0.9	0.9	0.5	8.0	0.6	0.9 <i>(a)</i>	1.2	0.9
2016-2023	0.9	0.9	0.8	1.1	1.0	0.6	2.2 <i>(a)</i>	2.2	1.8

n.a. = Not available; CSA = Combined Statistical Area, consisting of 12 counties as shown in Table 3.

Sources: Historical: U.S. Department of Commerce, Bureau of the Census, www.census.gov, U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed July 2017. Adjusted to constant 2016 dollars using the U.S. Department of Labor, Consumer Price Index for Urban Consumers (1982-84 = 100), www.bls.gov.

Projected growth rates for San Francisco CSA and California: California Department of Transportation, *California County-Level Economic Forecast 2016-2040, The California Economic Forecast*, October 2016.

Projected growth rates for the United States: U.S. Department of Commerce, Bureau of the Census, *Projections of the Population and Components of Change for the United States: 2015 to 2060*, December 2014, www.census.gov, U.S. Department of Labor, Bureau of Labor Statistics, Employment Projections Program, www.bls.gov, accessed July 2016, IHS Global Insight as reported by Federal Aviation Administration, FAA Aerospace Forecasts, Fiscal Years 2017–2037, www.faa.gov, March 2017.

⁽a) Represents average annual percent increase from 2015.

Nonagricultural Employment. Nonagricultural employment in the San Francisco CSA increased an average of 0.5% per year between 2000 and 2016, with faster growth between 2010 and 2016 (an average increase of 3.2% per year), as shown in Table 4. Between 2000 and 2010, nonagricultural employment growth in the San Francisco CSA decreased, reflecting the effects of the national economic recessions in 2001 and in 2008 and 2009. Caltrans projects nonagricultural employment in the San Francisco CSA and the State to increase an average of 1.1% and 1.0% per year, respectively, between 2016 and 2023, nearly two times the growth rate for the nation forecast by the U.S. Department of Labor.

Per Capita Personal Income. Similar to the trends in nonagricultural employment, per capita personal income (in constant 2016 dollars) in the San Francisco CSA increased an average of 0.9% per year between 2000 and 2015 (the most recent year available), with significantly faster growth between 2010 and 2015 (an average increase of 3.7% per year) due to the post-recession recovery. Caltrans projects per capita personal income (in constant dollars) in the San Francisco CSA and the State to increase an average of 2.2% per year between 2016 and 2023, faster than for the nation (1.8%).

Educational Attainment. In 2015 (the most recent year available), per capita income in the San Francisco CSA averaged \$73,092, 34% higher than the State and 50% higher than the nation. The San Francisco CSA's higher than average per capita income levels reflect the higher than average levels of education attained by Bay Area residents. In 2015 (the most recent year available), approximately 54% of San Francisco County residents over the age of 25 had earned a Bachelor's degree or higher, compared with 42% of the San Francisco CSA, 31% of California residents and 30% of U.S. residents overall, according to the U.S. Department of Commerce, Bureau of the Census.

Comparative Socioeconomic Trends. Table 5 presents comparative socioeconomic trends for the 10 most populous U.S. metropolitan areas in 2010 and 2016. As shown in Table 5, the San Francisco CSA ranked first among the 10 CSAs in terms of:

- Nonagricultural employment growth—an average increase of 3.2% per year between 2010 and 2016. The Dallas/Fort Worth CSA experienced a similar rate of growth but ranked sixth in terms of total nonagricultural employment (approximately 600,000 fewer employees).
- Total per capita income—an average of \$73,092 in 2015 (the most recent year available).
 The New York CSA ranked second in terms of per capita income with an average of \$65,617 in 2015, 10% lower than the San Francisco CSA.
- Per capita income growth—an average increase of 3.7% per year between 2010 and 2015 (the most recent year available). The Dallas/Fort Worth CSA ranked second in terms of per capita income growth (an average increase of 3.0% per year), with an average per capita income 30% lower than the San Francisco CSA in 2015.

Table 5 COMPARATIVE SOCIOECONOMIC TRENDS FOR THE 10 MOST POPULOUS U.S. METROPOLITAN AREAS Ranked by 2016 population

	Рорг	ulation (thous	ands)	Nonag	ricultural emp (thousands)	,	Per ca	apita personal (2016 dollars	
Combined			CAGR			CAGR			CAGR
Statistical Area	2010	2016	2010-2016	2010	2016	2010-2016	2010	2015	2010-2015
New York	23,077	23,689	0.4%	9,933	10,963	1.7%	\$59,834	\$65,617	1.9%
Los Angeles	17,877	18,688	0.7	6,721	7,672	2.2	45,380	50,570	2.2
Chicago	9,841	9,883	0.1	4,328	4,737	1.5	47,760	53,976	2.5
Washington, D.C.	9,052	9,666	1.1	3,952	4,305	1.4	59,172	61,268	0.7
San Francisco	8,154	8,752	1.2	3,428	4,150	3.2	60,941	73,092	3.7
Boston	7,893	8,176	0.6	2,615	2,899	1.7	57,518	62,256	1.6
Dallas-Fort Worth	6,851	7,673	1.9	2,972	3,555	3.0	44,039	50,993	3.0
Philadelphia	7,068	7,179	0.3	3,166	3,346	0.9	51,227	55,674	1.7
Houston	6,115	6,972	2.2	2,566	3,001	2.6	48,470	54,516	2.4
Miami	6,167	6,723	1.5	2,361	2,778	2.8	47,230	50,598	1.4

CSA = Combined Statistical Area.

Note: Nonagricultural employment data for metropolitan statistical areas are not reported.

Sources: U.S. Department of Commerce, Bureau of the Census, www.census.gov, U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed July 2017. Adjusted to constant 2016 dollars using the U.S. Department of Labor, Consumer Price Index for Urban Consumers (1982-84 = 100), www.bls.gov.

Nonagricultural Employment by Industry Sector. Figure 10 shows a comparative distribution of nonagricultural employment by industry sector for the San Francisco CSA in 2005 and 2016 as well as for the State and the nation in 2016. Between 2005 and 2016, the business and financial services and leisure and hospitality sectors in the San Francisco CSA experienced the strongest growth, increasing an average of 2.2% and 2.6% per year, respectively, nearly twice overall growth rate for all sectors (1.4%). The San Francisco CSA's business and financial services sector (inclusive of technology) accounted for the largest share of employment in 2016 with 27.7%, more than the share for the State (23.5%) and the nation (21.6%). The top four sectors—business and financial services, trade, education and health services, and government—accounted for 72.0% of the San Francisco CSA's nonagricultural employment in 2016.

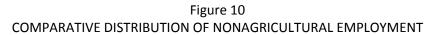
Caltrans projects San Francisco CSA employment to increase in all sectors, as shown on Figure 11. The business and financial services sector will be the fastest growing sector, with the largest share of employment and considerably higher than average salaries according to the U.S. Bureau of Labor Statistics.* Education and health services will be the second fastest growing sector, with forecast growth of 1.6% per year, followed by the trade sector with forecast growth of 0.8% per year.

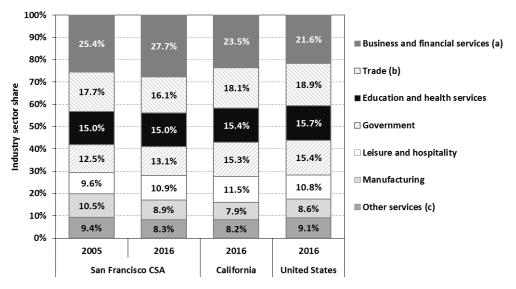
Unemployment Rates. In addition to the employment trends cited above, the unemployment rate is also indicative of the general economic climate. From 2000 through 2012, unemployment rates (not seasonally adjusted) in the San Francisco CSA generally followed overall unemployment trends but remained higher than in the nation and lower than in the State. A number of factors contributed to higher than average unemployment rates in the San Francisco CSA during this period, including (1) the dot-com bust in 2000 following the boom in the late 1990s of technology-related startups and employment in the Bay Area, (2) the national economic recession in 2001, and (3) the 2008-2009 global economic recession and financial credit crisis. Since 2013, unemployment rates in the San Francisco CSA have remained lower than rates for the State and the nation. In 2016, the unemployment rate in the San Francisco CSA averaged 4.3%, lower than the State (5.4%) and the nation (4.9%).

Figure 12 shows comparative monthly unemployment rates in the San Francisco CSA, the State, and the nation as a whole from January 2015 through June 2017. During this period, unemployment rates in the San Francisco CSA have been consistently lower than those of the State and the nation, reflective of the economic health of the region. In June 2017, the San Francisco CSA unemployment rate was 4.0%, lower than the rates for the State (4.9%) and the nation (4.5%).

A-40

^{*}U.S. Department of Labor, Bureau of Labor Statistics, Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates, San Francisco-Oakland-Hayward, CA and San Jose-Sunnyvale-Santa Clara, CA, May 2016, www.bls.gov, accessed August 2017.



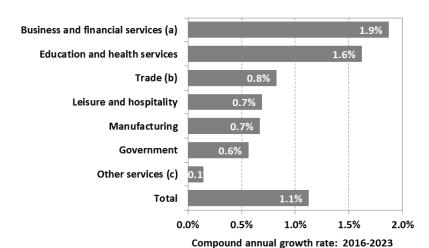


- (a) Includes professional, technical, and business services, financial activity, and information.
- (b) Includes transportation and public utilities.
- (c) Includes mining, construction, and other services.

Note: Percentages may not sum to 100.0% due to rounding.

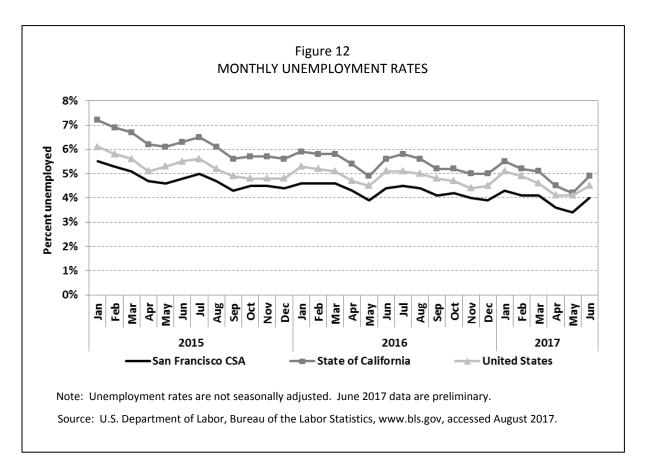
Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed August 2017.

Figure 11
FORECASTS OF NONAGRICULTURAL EMPLOYMENT BY SECTOR
San Francisco CSA



- (a) Includes professional, technical, and business services, financial activity, and information.
- (b) Includes transportation and public utilities.
- (c) Includes mining, construction, and other services.

Source: California Department of Transportation, California County-Level Economic Forecast 2016-2050, The California Economic Forecast, October 2016, www.dot.ca.gov.



Bay Area Major Employers. Table 6 lists the top 20 private-sector employers in the San Francisco Bay Area (based on the number of Bay Area employees). The table indicates a diversity of economic activity, as well as a strong presence of health care and high-technology employers. Many of the companies listed are involved in national and international operations that rely on airline travel. Of these 20 employers, 12 are listed on the Fortune 500 list of largest U.S. companies, ranked based on 2016 revenues.

While not shown in Table 6, the Bay Area contains a substantial amount of public sector employment, including the City and County of San Francisco (28,800 employees), the University of California San Francisco and Berkeley campuses (24,300 and 23,000 employees, respectively), and the State of California (15,500 employees).

Table 6
MAJOR PRIVATE SECTOR EMPLOYERS IN THE SAN FRANCISCO BAY AREA

Company	Type of business	Employment
Kaiser Permanente	Health care	40,132
Alphabet (Google) (a)	Information technology	20,000
Apple Inc. (a)	Consumer electronics	19,000
Intel Corp. (a)	Information technology	18,801
Safeway	Retail grocer	16,778
Cisco Systems Inc. (a)	Information technology	16,271
Wells Fargo & Co. (a)	Financial services	14,986
Stanford University	Higher education	13,634
United Airlines (a)	Airline	10,500
PG&E Corp. (a)	Utility	10,411
Stanford Healthcare	Health care	10,034
Genentech Inc.	Biotechnology	10,000
SolarCity Corporation	Solar panel manufacturing	10,000
UPS (a)	Air Freight & Logistics	8,000
Oracle Corp. (a)	Information technology	6,750
Gap Inc. (a)	Specialty retailer	6,591
Tesla Motors Inc.	Auto manufacturing, energy storage	6,529
Chevron (a)	Energy	6,276
John Muir Health	Health care	6,181
Facebook (a)	Social media	6,068

Note: Includes employers in Alameda, Contra Costa, Marin, Monterey, San Benito, San Francisco, San Mateo, Santa Clara, and Santa Cruz counties, and the city of Palo Alto.

Source: San Francisco Business Times, 2017 Bay Area Book of Lists; and Silicon Valley Business Journal, 2016-2017 Book of Lists. Fortune Magazine, Fortune 500 Companies, 2017, www.fortune.com.

Industry Clusters

The economy of the Bay Area is driven, in part, by companies that export goods and services nationally and globally, thereby generating new investment and job creation that will, in turn, help to spur air travel demand. The Bay Area is home to several "industry clusters," which are a coalescence of companies in the same industry operating in the same region. Industry clusters draw competitive advantage from their proximity to customers, suppliers, competitors, and a skilled workforce, and from a shared base of sophisticated knowledge about a given industry.

The industries in the San Francisco Bay Area are diverse. In addition to the high technology businesses in Silicon Valley, the Bay Area economy is supported by businesses in the energy,

⁽a) Ranked in 2017 Fortune 500 list of largest U.S. companies (based on 2016 revenue).

financial, healthcare, professional, and transportation sectors. The San Francisco Center for Economic Development describes six key industry clusters in the Bay Area, each of which is a substantial user of air travel:

- Information Technology and Software. The Bay Area is home to more than 6,700 information technology (IT) and computer software companies (e.g., Cisco, Apple, Salesforce, and Oracle), together supporting a workforce of nearly 273,000.
- Social and Digital Media. Closely related to IT and software, the field of online social and digital media supports more than 300 companies with substantial employment in the Bay Area (e.g., Google, Facebook, LinkedIn, Twitter, and Pixar). San Francisco State University is considered an educational leader in the area of digital media, as well.
- Life Sciences and Biotechnology. The Bay Area is a global leader in life sciences and biotech—home to nearly 1,400 companies (e.g., Applied Biosystems, Chiron Corporation, Genentech, and Gilead Sciences) employing a workforce of more than 90,000—supported by industry-leading programs at Stanford University and University of California campuses at Berkeley, Santa Cruz, and San Francisco, as well as numerous private research centers.
- Environmental and "Clean" Technology. The Bay Area is home to more than 635 clean technology companies (e.g., Amyris Biotechnologies, Clean Edge, and Tesla Motors)—one of the nation's largest concentrations of environmental and clean technology companies. Moreover, the region is a leading adopter of clean and sustainable energy practices.
- Professional Services. The Bay Area is home to a myriad of companies falling under the
 umbrella of professional services: financial advisory, management consulting, legal
 services, and other specialized and high value-added businesses.
- International Business. Home to more than 80 consulates and foreign trade offices, large exporting and financial companies, and numerous foreign banking institutions (e.g., Barclays Bank of the United Kingdom, Hong Kong and Shanghai Banking Corporation (now HSBC), Sumitomo Bank of California, and Industrial and Commercial Bank of China), the Bay Area has substantial infrastructure supporting international business and trade.

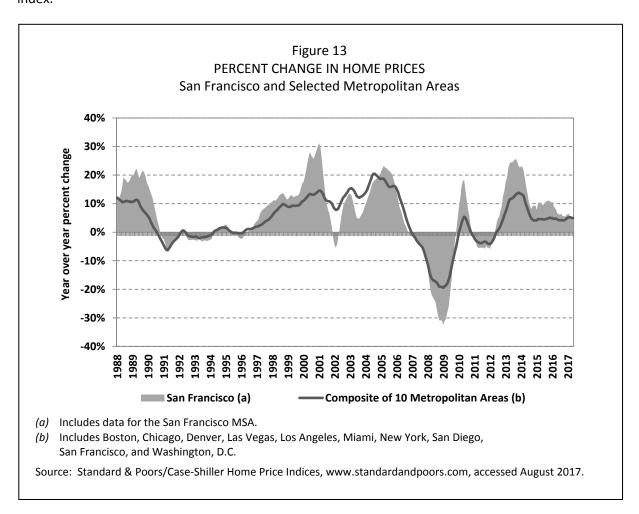
The development of certain of these industry clusters in the San Francisco CSA is related, in part, to the availability of venture capital funds. According to CB Insights, "since the start of 2009, venture capital firms have deployed \$31.5 billion across 3,308 deals into Silicon Valley-based tech startups. In fact, Silicon Valley has consistently taken over 40% of venture capital deals and over 50% of funding to tech startups across seven major U.S. venture hubs including New York and Massachusetts." * During the second quarter of 2017, the Bay Area accounted for the largest share of venture capital funding in the United States (42% or more than \$7.5 billion) and 30% of U.S. deals (342 out of a total of 1,152). The New York Metro area ranked second with \$2.8 billion, followed by the New England region with \$1.4 billion and Los Angeles/Orange County with \$1.1 billion during the

^{*}CB Insights, Silicon Valley Tech Venture Capital Almanac, www.cbinsights.com. CB Insights is a venture capital database and angel investment database that provides daily real-time information about venture capital and angel investors.

second quarter of 2017.* San Francisco Bay Area based venture capital firms are ranked among the world's most active seed-stage venture capital firms, including 500 Startups, Slow Ventures, New Enterprise Associates, Accel Partners, and First Round Capital.

Bay Area Housing Market

Trends in the housing market in a region generally follow economic cycles and are an indicator of overall economic activity and personal income levels that will, in turn, help to spur air travel demand. Figure 13 presents the percent change in home prices for San Francisco and composites for 10 selected metropolitan areas from January 1988 through May 2017, based on the Standard & Poor's/Case-Shiller Home Price Index. Historically, San Francisco home prices have generally followed the trends for other major metropolitan areas, with somewhat larger peaks and valleys in certain years. During the 2008-2009 economic recession, housing prices in the Bay Area decreased more than 30%, reflecting the effects of the U.S. subprime mortgage crisis and the financial credit crisis. Since then, housing prices in the Bay Area have generally increased (notwithstanding decreases averaging about 4% in 2011) to reach all-time highs. From May 2016 through May 2017, Bay Area home prices increased an average of 5.4% compared with the previous year, compared with a 4.9% growth rate for the composite indices for the 10 selected metropolitan areas included in the index.



^{*}PwC/CB Insights, MoneyTree Report, Q2 2017, www.cbinsights.com.

Visitor Industry

The visitor industry is an important driver of the San Francisco CSA economy and passenger traffic at the Airport. According to the San Francisco Travel Association, a total of 25.2 million people visited San Francisco in 2016, an increase of 2.4% from 2015. Leisure visitors accounted for 86% of all visitors in 2016 (21.6 million); business travelers accounted for the remaining 14% (3.6 million). The San Francisco Travel Association forecasts a 1.8% increase in San Francisco visitors in 2017, increasing to 25.6 million.*

Popular U.S. Travel Destination. According to Visit California, the San Francisco area ranked fourth in the State in terms of the number of domestic visitors in 2015 (preceded by Los Angeles, San Diego, and Anaheim).** A 2016 readers' poll *in Condé Nast Traveler* magazine ranked San Francisco third in the "Best Big Cities in the U.S." category. Carmel, located on the coast approximately 120 miles south of San Francisco, ranked eighth among small cities. Popular tourist attractions in the San Francisco area include Fisherman's Wharf, the Golden Gate Bridge, Chinatown, and Union Square. Many visitors also travel to the nearby coastal regions north and south of San Francisco, including Carmel and Monterey, the wine-producing areas in the Napa and Sonoma valleys, and the Sierra Nevada Mountains.

Fifth Busiest U.S. Destination for Overseas Visitors. San Francisco is a top destination for overseas visitors to the United States. In 2016, approximately 2.9 million travelers from abroad visited San Francisco, according to the San Francisco Travel Association. San Francisco ranked fifth in the nation for overseas visitors (excluding Canada and Mexico), preceded by New York, Miami, Los Angeles, and Honolulu.

Leading Business and Convention Destination. The diversity of the Bay Area economy as well as the presence of Fortune 500 companies contributes to its role as a leading business and convention destination. San Francisco's Moscone Center continues to have a significant role in drawing domestic and international visitors to the city. Of the estimated 33,000 hotel rooms in San Francisco, more than 20,000 are within walking distance of the Moscone Center. In a typical year, the Moscone Center hosts 90 to 100 events attended by a total of nearly one million people. In May 2015, a \$500 million expansion of the Moscone Center began, with portions of the new complex expected to open in the fall of 2017 and total completion expected in December 2018.

Hotel Occupancy. Reflecting strong demand from both business and leisure travelers, San Francisco's hotel occupancy rates averaged 87.6% in 2016 (up from 86.6% in 2015), according to the San Francisco Center for Economic Development (SFCED). In comparison, U.S. hotel occupancy rates reached an annual high of 65.3% in 2016 according to CBRE.*** The average revenue per available hotel room in San Francisco increased 12.1% in 2014, 5.9% in 2015, and 4.3% in 2016, reflecting high occupancy rates, a stable inventory of hotel rooms, and the strength of San Francisco as a destination for tourism, conventions, and business.

^{*}San Francisco Travel, "San Francisco Travel Presents Tourism Forecast for 2017," March 2, 2017, www.sanfrancisco.travel.

^{**}Visit California, "2015 Domestic travel to California," www.visitcalifornia.com. Visit California is a nonprofit corporation formed in 1998 to market California as a desirable tourism destination and works in coordination with California's Division of Tourism.

^{***}CBRE Hotels, "Q4 2016 U.S. Hotel Marketview," March 2, 2017, www.cbrehotels.com. CBRE is a global real estate services firm.

ECONOMIC OUTLOOK

The economic outlook for the United States and the San Francisco CSA forms a basis for anticipated growth in airline traffic at the Airport. Economic activity in the San Francisco CSA is directly linked to the production of goods and services in the United States and the world. Both airline travel and the movement of cargo through the Airport depend on the economic linkages between and among the regional, national, and global economies. The economic and other assumptions underlying the forecasts of enplaned passengers are based on a review of global, national, and regional economic outlooks as well as an analysis of historical socioeconomic trends and airline traffic trends.

Global Economic Outlook

Globalization of the world economy has linked national economies, with positive impacts on travel as well as trade. The San Francisco CSA and the State are strongly connected to the global economy through a number of industry sectors and the six world regions (Australia/Oceania, Asia, Europe, Latin America/Caribbean, the Middle East, and North America,) that are currently served at SFO. The economic growth of these world regions, in terms of Gross Domestic Product (GDP), is directly related to the growth in air travel. According to IHS Global Insight, world GDP, in 2010 dollars, is forecast to increase an average of 3.0% per year between 2016 and 2023, with the strongest growth forecast for Asia and the Pacific Region (an average increase of 4.4% per year).* Continued growth in the economies of the world regions most closely aligned with the San Francisco CSA economy and airline service at SFO are expected to contribute to continued growth in passenger traffic at the Airport.

National Economic Outlook

The U.S. economy has grown at a slow to moderate pace since the 2008-2009 economic recession, with U.S. GDP growth averaging 2.1% per year between 2009 and 2016. The Congressional Budget Office (CBO) projects U.S. economic growth, as measured by U.S. GDP in constant dollars, to increase an average of 1.9% per year between 2016 and 2023.** Since the 2008-2009 economic recession, U.S. unemployment rates (seasonally adjusted) have decreased from 9.5% in July 2009 to 4.3% in July 2017. The CBO projects an average unemployment rate of 4.9% by 2023.

Regional Economic Outlook

The Transportation Economics Branch of the California Department of Transportation publishes county-level projections of demographic and economic variables, prepared by the California Economic Forecast. According to the California Economic Forecast, continued economic growth is forecast for the San Francisco CSA between 2016 and 2023, including:***

- Population growth of 0.9% per year
- Nonagricultural employment growth of 1.1% per year
- Per capita income growth, in constant dollars, of 2.2% per year

^{*}Federal Aviation Administration, FAA Aerospace Forecast, Fiscal Years 2017-2037, www.faa.gov, March 2017. IHS Global Insight is a global economics company that prepares the underlying economic forecasts used for the FAA's annual national aviation forecasts.

^{**}Congressional Budget Office, An Update to the Budget and Economic Outlook: Fiscal Years 2017-2027, June 2017, www.cbo.gov.

^{***}The California Economic Forecast, California County-Level Economic Forecast 2016-2050, October 2016, www.dot.ca.gov.

A favorable long-term economic outlook for the Bay Area is supported by its growing population, well-educated work force, high per capita income, diverse local economy, popularity as a domestic and international tourist destination, and its strong competitive position in the six key industry clusters described earlier.

HISTORICAL AIRLINE SERVICE AND TRAFFIC

Airlines serving the Airport, enplaned passenger trends, airline shares of passengers, origindestination markets, airline service at the Airport, and airline fares and yields are discussed in this section.

Airlines Serving the Airport

As of July 2017, 13 U.S. passenger airlines provided scheduled service at the Airport, including 5 network airlines, 3 regional airlines, and 5 low cost carriers, as shown in Table 7. International passenger service was provided by 39 foreign-flag airlines, including airlines from Asia (13), Canada (3), Europe (14), Latin America and the Caribbean (2), Mexico (2), the Middle East (2), and the South Pacific (3). In addition, 6 airlines provided all-cargo service as discussed in the section "Cargo".

Enplaned Passenger Trends

Table 8 presents historical trends in enplaned passengers at the Airport between FY 2005 and FY 2017. The number of enplaned passengers increased an average of 4.3% annually between FY 2005 and FY 2017, with stronger growth between FY 2010 and FY 2017 (an average increase of 5.0% per year). In comparison, total enplaned passengers at U.S. airports increased an average of 1.5% annually between FY 2005 and FY 2017 and an average increase of 2.9% per year FY 2010 and FY 2017. International passenger traffic at the Airport increased an average of 4.1% per year between FY 2005 and FY 2017, compared with an average increase of 4.3% per year in domestic passengers. O&D passengers are estimated to account for 79.9% of total enplaned passengers at the Airport in FY 2017; connecting passengers accounted for the remaining 20.1%.

As shown on Figure 14, the distribution of passenger traffic at the Airport has changed since FY 2005, following the introduction of service by Southwest, Virgin America, and jetBlue in 2007. In FY 2017, U.S. LCCs accounted for 21% of total enplaned passengers, up from 7% in FY 2005. Over that same period, the share decreased for U.S. network airlines (from 68% in FY 2005 to 55% in FY 2017) and U.S. regional affiliate airlines (from 12% to 8%). Foreign-flag airlines' share increased to 16% in FY 2017, up from 14% in 2005.

Table 7 PASSENGER AIRLINES PROVIDING SCHEDULED SERVICE AT SAN FRANCISCO As of July 2017

U.S. airlines

Low cost carriers (b)

Regional airlines (a)

Network airlines

	110 6 1011011 011111100 (07)	2011 0000 00111010 (2)
Alaska <i>(c)</i>	Compass (AA, DL)	Frontier
American	Horizon (AS)	jetBlue
Delta	SkyWest (DL, UA)	Southwest
Hawaiian		Sun Country
United		Virgin America (c)
	Foreign-flag airlines	
Asia	Europe	Latin America/Caribbean
Air China	Aer Lingus	Avianca
Air India	Air Berlin (d)	Сора
All Nippon	Air France	
Asiana	British Airways	Mexico
Cathay Pacific	Finnair	Aeromexico
China Airlines	KLM	Volaris
China Eastern	Lufthansa	
China Southern	SAS	Middle East
EVA	Swiss	Etihad
JAL	Thomas Cook	Emirates
Korean	Turkish	
Philippine	Virgin Atlantic	South Pacific
Singapore	WOW Air	Air New Zealand
.	XL Airways France	Fiji Airways
Canada	·	Qantas
Air Canada		
Jazz Aviation (e)		
WestJet		

(a) Codesharing airline in parenthesis: AA=American; AS=Alaska; DL=Delta; UA=United.

- (b) As defined by the U.S. Department of Transportation, low cost carriers operate under a generally recognized low-cost business model, which may include a single passenger class of service, standardized aircraft utilization, limited in-flight services, use of smaller and less expensive airports, and lower employee wages and benefits.
- (c) Alaska acquired Virgin America in 2016. The merged airline plans to adopt Alaska's name and logo and retire the Virgin America brand in 2019.*
- (d) Air Berlin commenced bankruptcy proceedings under German and U.S. law in August 2017. In FY 2017, Air Berlin accounted for 0.1% of passenger traffic at SFO, reflecting daily service to Dusseldorf and four times weekly service to Berlin which started in May 2017. Air Berlin has announced that it will discontinue its operations at SFO on October 16, 2017.
- (e) Regional airline flights are operated by Jazz Aviation, one of Air Canada's regional affiliates.

Source: OAG Worldwide Ltd, OAG Analyser database, accessed July 2017.

^{*&}quot;Alaska Airlines and Virgin America share vision for the future," March 22, 2017, www.alaskaair.com.

Table 8
HISTORICAL ENPLANED PASSENGERS
San Francisco International Airport

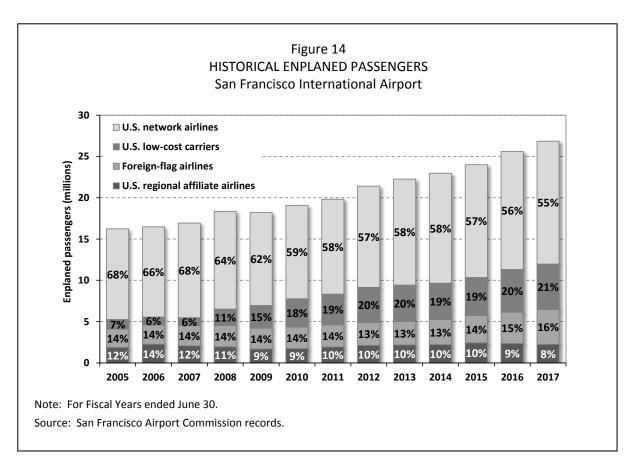
Fiscal		Enpl	aned passengers	S		Percer	nt of total
Year	Domestic	International	Total	O&D (a)	Connecting	O&D (a)	Connecting
2005	12,319,662	3,929,431	16,249,093	11,881,565	4,367,528	73.1%	26.9%
2006	12,343,442	4,146,903	16,490,345	12,093,643	4,396,702	73.3	26.7
2007	12,608,974	4,345,004	16,953,978	12,445,638	4,508,340	73.4	26.6
2008	13,807,246	4,566,243	18,373,489	13,904,928	4,468,561	75.7	24.3
2009	14,003,850	4,221,214	18,225,064	14,025,432	4,199,632	77.0	23.0
2010	14,859,869	4,240,533	19,100,402	14,808,754	4,291,648	77.5	22.5
2011	15,371,769	4,464,941	19,836,710	15,365,178	4,471,532	77.5	22.5
2012	16,808,644	4,610,898	21,419,542	16,744,292	4,675,250	78.2	21.8
2013	17,515,978	4,757,444	22,273,422	17,422,172	4,851,250	78.2	21.8
2014	17,987,093	5,008,581	22,995,674	18,033,407	4,962,267	78.4	21.6
2015	18,749,797	5,273,802	24,023,599	19,062,716	4,960,883	79.3	20.7
2016	19,844,991	5,776,519	25,621,510	20,458,910	5,162,600	79.9	20.1
2017	20,513,891	6,357,658	26,871,549	21,457,073	5,414,476	79.9 <i>(b)</i>	20.1 <i>(b)</i>
		Percent	increase (decre	ase)			
2005-2006	0.2%	5.5%	1.5%	1.8%	0.7%		
2006-2007	2.2	4.8	2.8	2.9	2.5		
2007-2008	9.5	5.1	8.4	11.7	(0.9)		
2008-2009	1.4	(7.6)	(8.0)	0.9	(6.0)		
2009-2010	6.1	0.5	4.8	5.6	2.2		
2010-2011	3.4	5.3	3.9	3.8	4.2		
2011-2012	9.3	3.3	8.0	9.0	4.6		
2012-2013	4.2	3.2	4.0	4.0	3.8		
2013-2014	2.7	5.3	3.2	3.5	2.3		
2014-2015	4.2	5.3	4.5	5.7	(0.0)		
2015-2016	5.8	9.5	6.7	7.3	4.1		
2016-2017	3.4	10.1	4.9	4.9	4.9		
		Compound annua	I percent increa	se (decrease)			
2005-2010	3.8%	1.5%	3.3%	4.5%	(0.3%)		
2010-2017	4.7	6.0	5.0	5.4	3.4		
2005-2017	4.3	4.1	4.3	5.0	1.8		

Notes: For Fiscal Years ended June 30. O&D = Origin-destination.

Sources: San Francisco Airport Commission records and U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100, accessed July 2017.

⁽a) Includes passengers making connections from one international flight to another on foreign-flag airlines.

⁽b) Estimated.



Enplaned Passenger Market Shares

Compared with other U.S. large-hub airports, the Airport has only a moderate degree of airline concentration. In FY 2017, United and United Express together enplaned 44.2% of all passengers at the Airport, relatively unchanged from 44.0% in FY 2010 (where the FY 2010 figure includes Continental and its regional affiliates), as shown in Table 9 and on Figure 15. Virgin America ranked second with 9.3% of the total in FY 2017, followed by American (including US Airways) with 8.2%, and Delta with 7.7%.

As noted in "Role as a Connecting Hub", United has increased its capacity at the Airport in recent years, in contrast to capacity reductions at most of its other major airports. Between FY 2010 and FY 2017, United's scheduled departing seats at SFO increased an average of 4.1% per year, compared with an average increase of 5.1% per year in United's enplaned passengers. In comparison, the scheduled departing seats and enplaned passengers of all other airlines at SFO increased an average of 5.3% and 5.0% per year, respectively, between FY 2010 and FY 2017. As a result of the similar rates of growth in departing seats and passengers for United and all other airlines, United's share of SFO passengers has remained relatively unchanged since FY 2010.

In FY 2017, United and United Express together accounted for 48.2% of all domestic passengers at the Airport. Virgin America and American (including US Airways and its affiliates) ranked second and third, respectively. The three LCCs that initiated service at the Airport in 2007—Southwest, Virgin America, and jetBlue—accounted for a combined 24.5% of all domestic enplaned passengers at the Airport in FY 2017.

United also enplaned the most passengers on international flights at the Airport in FY 2017, with 31.3% of the total. Seven foreign-flag airlines, ranking second through eighth, together enplaned 27.4% of international passengers at the Airport in FY 2017.

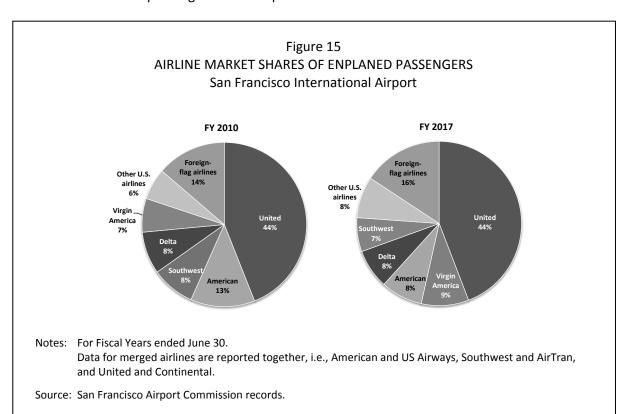


Table 9
ENPLANED PASSENGERS BY AIRLINE
San Francisco International Airport

	Enplaned	passengers	Percent of total	
Airline (a)	FY 2010	FY 2017	FY 2010	FY 2017
Domestic				
United (b)	6,930,875	9,884,799	46.6%	48.2%
Virgin America	1,265,676	2,449,044	8.5	11.9
American (c)	2,410,901	2,204,111	16.2	10.7
Delta (d)	1,517,774	2,080,821	10.2	10.1
Southwest (e)	1,628,983	1,794,989	11.0	8.8
jetBlue	321,645	785,328	2.2	3.8
Alaska	478,516	701,785	3.2	3.4
All others	305,499	613,014	2.1	3.0
Subtotaldomestic	14,859,869	20,513,891	100.0%	100.0%
International				
United (b)	1,476,420	1,990,440	34.8%	31.3%
Air Canada	276,574	484,287	6.5	7.6
Lufthansa	205,192	245,550	4.8	3.9
Cathay Pacific	234,852	241,381	5.5	3.8
British Airways	194,120	223,556	4.6	3.5
EVA Airways	152,828	201,606	3.6	3.2
Air France	123,153	178,767	2.9	2.8
Singapore	168,675	166,569	4.0	2.6
All others	1,408,719	2,625,502	33.2	41.3
Subtotalinternational	4,240,533	6,357,658	100.0%	100.0%
Гotal				
United (b)	8,407,295	11,875,239	44.0%	44.2%
Virgin America	1,266,273	2,502,709	6.6	9.3
American <i>(c)</i>	2,410,901	2,204,111	12.6	8.2
Delta (d)	1,591,617	2,080,821	8.3	7.7
Southwest (e)	1,628,983	1,794,989	8.5	6.7
Alaska	554,062	792,496	2.9	2.9
jetBlue	321,645	785,328	1.7	2.9
Air Canada	276,574	484,287	1.4	1.8
All others	2,643,052	4,351,569	13.8	16.2
Total passengers	19,100,402	26,871,549	100.0%	100.0%

Note: For Fiscal Years ended June 30.

Source: San Francisco Airport Commission records.

⁽a) Includes regional code-sharing affiliates, if any.

⁽b) United and Continental merged in October 2010. Includes Continental in 2010.

⁽c) American and US Airways merged in December 2013. Includes US Airways in 2010.

⁽d) Northwest and Delta merged in October 2008.

⁽e) Southwest and AirTran merged in February 2013. Includes AirTran in 2010.

Domestic Origin-Destination Markets

In FY 2016, the top 20 domestic passenger markets accounted for 77.0% of domestic O&D passengers at the Airport, as shown in Table 10. New York and Los Angeles are the top two destination markets for O&D passengers at the Airport, accounting for 12.0% and 11.7%, respectively, of domestic O&D passengers at the Airport in FY 2016. Other major destinations include Las Vegas, Chicago, and Washington, D.C. Each of the top 20 domestic destinations is served nonstop from the Airport in July 2017, with service provided by 2 or more airlines to each of the top 20 markets and 3 or more airlines to 16 of the top 20 markets, as shown in Table 10.

International Origin-Destination Markets

In FY 2016, the top 20 international passenger markets at SFO (those markets accounting for at least 1.0% of SFO's international O&D passenger bookings*) accounted for 47.9% of the total international O&D passenger bookings, as shown in Table 11. Passenger bookings include data for U.S. and foreign-flag airlines and are used as a proxy for international passengers due to the reporting limitations of U.S. DOT O&D passenger data. London, England, is the largest O&D market with 5.4% of international O&D passenger bookings, followed by Hong Kong, China (3.5%); Toronto, Canada (3.1%); Taipei, Taiwan (3.0%); Tokyo, Japan (2.9%); and Seoul, Korea (2.8%). Of the top 20 international destinations, 19 were served nonstop from the Airport in July 2017, with service provided by 2 or more airlines to 15 of the top 20 markets, as shown in Table 11.

Airline Airfares

Table 12 provides a comparison of average domestic one-way airfares paid at the Airport in FY 2016 with the airfares at OAK and SJC.** Average airfares tend to be higher at SFO than at OAK and SJC airports due to longer trips and a larger share of premium fares. In short and medium-haul markets, SFO airfares are competitive (i.e., no more than 15% higher than at OAK or SJC), except for markets such as Austin, Dallas/Fort Worth, and Houston where Southwest Airlines accounts for a large number of discount seats at OAK and SJC. SFO airfares were lowest to Las Vegas and Phoenix and competitive in several other markets including Denver, Los Angeles, and San Diego. As shown in Table 10, each of the top 20 domestic O&D markets at SFO are served by 2 airlines or more, ensuring competitive airline service and airfares.

SFO accounted for 70% or more of domestic O&D passengers at the three Bay Area airports in eight of its nine long-haul markets (1,500 miles or more) in FY 2016, reflecting its role in providing service for longer domestic trips in the San Francisco CSA, as shown in Table 12. SFO's medium-haul markets accounted for 47% to 82% of domestic O&D passengers at the three primary airports in the San Francisco CSA, while short-haul markets accounted for a considerable but smaller share (40% to 56%).

*As defined by the International Air Transport Association (IATA), a passenger airline "booking," equivalent to the term "reservation," means the allotment in advance of seating accommodation for a passenger. IATA, Passenger Glossary of Terms, www.iata.org.

^{**}The fares that airlines report to the U.S. DOT are exclusive of many ancillary charges (fees for checked baggage and preferred aircraft seating, for example) and, given the rapid rise in such fees beginning in 2008, increasingly understate the consumer's real cost of airline travel.

Table 10

DOMESTIC ORIGIN-DESTINATION PATTERNS AND AIRLINE SERVICE

San Francisco International Airport

Rank	Origin-destination market	Air miles from San Francisco	Percent of domestic O&D passengers FY 2016	Average daily scheduled nonstop departures July 2017	Number of airlines
1	New York (a)	2,235	12.0%	39	5
2	Los Angeles (b)	300	11.7	92	7
3	Las Vegas	359	5.6	23	4
4	Chicago (c)	1,601	5.5	25	4
5	Washington DC (d)	2,111	4.8	14	2
6	Boston	2,344	4.3	16	4
7	Seattle	588	4.2	29	4
8	San Diego	388	3.9	21	3
9	Denver	839	3.3	21	4
10	Dallas/Fort Worth (e)	1,275	2.8	18	4
11	Phoenix	565	2.7	12	3
12	Miami (f)	2,241	2.4	9	4
13	Atlanta	1,854	2.2	10	3
14	Portland	478	2.1	18	4
15	Minneapolis-St. Paul	1,377	1.8	13	4
16	Philadelphia	2,185	1.7	7	2
17	Houston (g)	1,418	1.6	10	2
18	Honolulu	2,080	1.5	7	3
19	Austin	1,304	1.5	7	2
20	Orlando	2,121	<u>1.4</u>	<u> 5</u>	3
	Cities listed		77.0%	397	
	Other cities		23.0	<u>129</u>	
	All cities		100.0%	526	

Note: For Fiscal Years ended June 30.

(a) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

- (c) Chicago O'Hare and Midway International airports.
- (d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.
- (e) Dallas Fort Worth International Airport and Love Field.
- (f) Miami and Fort Lauderdale International airports.
- (g) Bush Intercontinental Airport / Houston and William P. Hobby airports.

Sources: O&D percentage: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100, accessed July 2017. Departures: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2017.

⁽b) Los Angeles International, Burbank Bob Hope, Long Beach, John Wayne/Orange County, and Ontario International airports.

Table 11
INTERNATIONAL ORIGIN-DESTINATION PATTERNS AND AIRLINE SERVICE
San Francisco International Airport

Rank	Origin-destination market	Air miles from San Francisco	Percent of international O&D passengers In FY 2016	Average daily scheduled nonstop departures July 2017	Number of airlines
1	London (a)	4,651	5.4%	6	3
2	Hong Kong	6,006	3.5	4	3
3	Toronto	1,959	3.1	6	1
4	Taipei (b)	5,608	3.0	5	3
5	Tokyo <i>(c)</i>	4,457	2.9	4	3
6	Seoul (d)	4,903	2.8	4	3
7	Shanghai (e)	5,331	2.8	3	2
8	Paris (f)	4,837	2.7	3	3
9	Manila	6,060	2.6	1	1
10	Vancouver	694	2.6	11	3
11	Cancun	2,090	2.2	3	2
12	Beijing	5,124	2.1	2	2
13	San Jose del Cabo	1,085	1.9	3	3
14	Puerto Vallarta	1,352	1.9	3	3
15	Delhi	6,682	1.7	1	1
16	Mexico City (g)	1,635	1.6	6	3
17	Frankfurt	4,938	1.4	3	2
18	Ho Chi Minh City	7,837	1.2	(h)	(h)
19	Amsterdam	4,741	1.2	1	1
20	Singapore	7,330	<u>1.1</u>	2	2
	Cities listed		47.9%	71	
	Other cities		<u>52.1</u>	<u>33</u>	
	All cities		100.0%	105	

Notes: For Fiscal Years ended June 30.

Data are for international O&D passenger bookings.

- (a) Heathrow, Gatwick, Stansted, and London City airports.
- (b) Taoyuan and Sung Shan airports.
- (c) Haneda and Narita airports.
- (d) Incheon and Gimpo airports.
- (e) Pudong and Hongqiao airports.
- (f) Charles de Gaulle and Orly airports.
- (g) Juarez and Toluca airports.
- (h) Airline service from SFO to Ho Chi Minh City is provided through other airports.

Sources: OAG Aviation Worldwide Ltd, OAG Analyser database and OAG Traffic database, accessed July 2017.

Table 12 COMPARISON OF AIRFARES IN SFO'S TOP DOMESTIC ORIGIN-DESTINATION MARKETS IN FY 2016 Bay Area Airports

Rank	Market	Length of haul	SFO percent of domestic O&D passengers for three airports	Ū	one-way o airfare pai		SFO percent of first/business class fare revenue for three airports
1	New York (a)	Long	91.2%	\$317	\$193	\$218	98.7%
2	Los Angeles (b)	Short	41.3	115	112	121	66.8
3	Las Vegas	Short	56.0	85	86	96	72.1
4	Chicago (c)	Long	77.2	195	144	194	89.9
5	Washington DC (d)	Long	80.5	296	222	237	97.7
6	Boston	Long	87.9	289	206	237	97.6
7	Seattle	Medium	46.9	132	118	123	72.8
8	San Diego	Short	45.6	121	120	134	90.8
9	Denver	Medium	61.0	155	154	172	86.2
10	Dallas/Fort Worth (e)	Medium	62.6	169	104	198	68.2
11	Phoenix	Medium	47.5	105	125	139	81.2
12	Miami (f)	Long	92.5	239	187	249	96.4
13	Atlanta	Long	76.6	265	198	245	93.9
14	Portland	Short	40.6	129	117	121	66.1
15	Minneapolis-St. Paul	Medium	81.8	223	196	241	88.7
16	Philadelphia	Long	83.8	299	238	246	96.2
17	Houston (g)	Medium	59.5	259	176	247	80.9
18	Honolulu	Long	46.9	258	231	230	75.1
19	Austin	Medium	58.5	218	163	209	93.5
20	Orlando	Long	75.9	244	199	218	93.7
	Cities listed		60.3	201	120	140	01.7
	Cities listed			201	128	149	91.7
	Other cities		60.1	239	185	219	81.1
	All cities		60.3	210	142	165	89.8

Notes: For Fiscal Years ended June 30.

For the purposes of this Report, short-haul flights are 500 miles or less, medium-haul flights are 501 to 1,500 miles, and long haul flights are more than 1,500 miles.

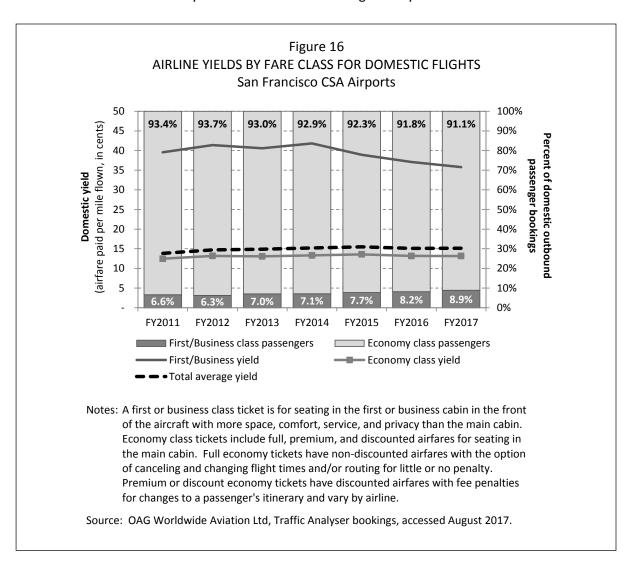
- (a) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.
- (b) Los Angeles International, Burbank Bob Hope, Long Beach, John Wayne/Orange County, and Ontario International airports.
- (c) Chicago O'Hare and Midway International airports.
- (d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.
- (e) Dallas Fort Worth International Airport and Love Field.
- (f) Miami and Fort Lauderdale International airports.
- (g) Bush Intercontinental Airport/Houston and William P. Hobby airports.

Sources: U.S. Department of Transportation, *Air Passenger Origin-Destination Survey*, reconciled to Schedule T100 and OAG Worldwide Aviation Ltd, Traffic Analyser bookings, accessed July 2017.

As shown in Table 12, SFO accounted for 89.8% of first and business class domestic fare revenue at the three primary airports in the San Francisco CSA in FY 2016. OAK and SJC each accounted for 5.1%. SFO's long-haul markets accounted for 75% to 99% of first and business class domestic fare revenue in the top nine long-haul markets.

Airline Yields

Figure 16 presents recent trends in airline yields, the airfare paid per mile flown (which excludes any ancillary charges), by fare class for domestic flights at SFO based on passenger bookings. Between FY 2011 and FY 2017, total average domestic yields at SFO increased an average of 1.5% per year, reflecting an increase in the share of first and business class passengers from 6.6% to 8.9% at domestic yields 172% higher than economy yields and 136% higher than total average yields in FY 2017. In comparison, the percentage of economy passengers decreased from 93.4% in FY 2011 to 91.1% in FY 2017 at domestic yields 13% lower than average total yields in FY 2017.



Bay Area-Los Angeles Area Corridor

Airline service in the Bay Area-Los Angeles Area Corridor (the "Corridor" linking the three Bay Area airports with the five Los Angeles area airports) is highly competitive. In July 2017, the nine airlines providing service in the Corridor* operated an average of 195 daily nonstop departures, the equivalent of approximately 8 departures per hour during a 24-hour period, including 4 hourly flights from SFO. Three of the nine airlines—Delta, jetBlue, and Southwest—provide service at each of the three Bay Area airports. Southwest is the only airline to provide service at each of the five Los Angeles Area airports. As shown in Table 12, SFO accounted for 41% of the O&D passengers in the Corridor in FY 2016. In comparison, Oakland and SJC accounted for 34% and 25%, respectively, of O&D passengers in the Corridor in FY 2016. The highly competitive nature of airline service in the Bay Area-Los Angeles corridor results in competitive airfares and airline service options that are not dominated by a single airline or airport.

Airline Service

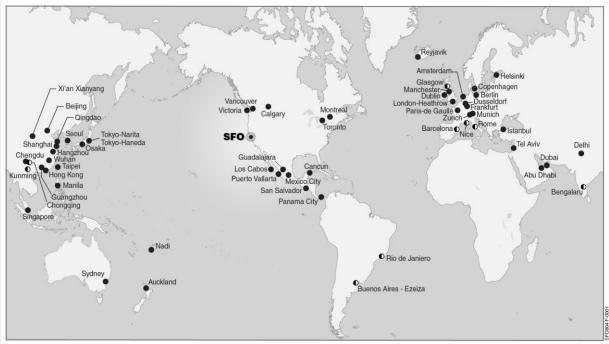
In July 2017, SFO provided a total of 631 scheduled daily nonstop departures, including 526 domestic departures and 105 international departures. SFO provides nonstop international service to seven international regions—Asia, Canada, Europe, Latin America/the Caribbean, Mexico, the Middle East, and the South Pacific—as shown on Figure 17.

From FY 2007 through FY 2017, scheduled departing seats at the Airport increased an average of 4.2% per year, compared with an average increase of 0.2% per year for all U.S. airports during this period. Strong growth in seats at the Airport in recent years reflects, in part, the buildup in low cost carrier service, including jetBlue, Southwest/AirTran, and Virgin America. Continued growth in seats at the Airport is expected, including the planned or recently initiated new nonstop service shown in Table 13. In addition to the changes shown in Table 13, normal seasonal adjustments are also occurring. No significant airline service has been reduced in 2017.

*Alaska, American, Delta, jetBlue, JetSuite, Southwest, Spirit, United, and Virgin America.

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Figure 17
INTERNATIONAL SCHEDULED AIRLINE SERVICE IN JULY 2017
San Francisco International Airport



LEGEND

- Scheduled nonstop service
- $\ensuremath{\mathbf{0}}$ Scheduled one-stop same-plane service

Note: Etihad Airways is discontinuing service to Abu Dhabi in October 2017. Air Berlin is discontinuing service to Berlin in October 2017.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed July 2017.

Table 13
PUBLISHED AIRLINE SERVICE ADDITIONS IN 2017
San Francisco International Airport

Sector	Airline	Destination	New average daily flights, except as noted	Date of change
Domestic	Alaska	Albuquerque	1.0	September
		Kansas City	1.0	September
		Minneapolis-St. Paul	2.0	July
		Orange County	2.9	July
	Delta	Boston	1.9	June
	Frontier	Colorado Springs	0.4 <i>(a)</i>	June
	United	Cincinnati	1.0	June
		Detroit	1.0	June
		Hartford	1.0	June
		Sonoma County	3.0	June
		Spokane	2.0	June
		Tampa	1.0	February
	Southwest	Portland (OR)	3.0	June
	Virgin America	Baltimore	1.0	October
		Indianapolis	1.0	September
		Kona	1.0	December
		Nashville	1.0	September
		New Orleans	1.0	September
		Philadelphia	1.0	August
		Raleigh-Durham	<u>1.0</u>	October
		Total Domestic	28.1	
International	Air Berlin	Berlin-Tegel, Germany	0.6 <i>(b) (c)</i>	May
	Alaska	Mexico City	1.0	August
	Cathay Pacific	Hong Kong	0.7 <i>(d)</i>	October
	Fiji Airways	Nadi	0.4 <i>(e)</i>	June
	Finnair	Helsinki, Finland	0.4 <i>(a)</i>	June
	Thomas Cook	Manchester, England	0.3 <i>(f)</i>	May
	United	Munich, Germany	1.0	May
	Virgin Atlantic	Manchester, England Total International	<u>0.4 (a)</u> <u>4.9</u>	March
		Total Airport	33.0	

Note: No significant airline service has been reduced in 2017.

Sources: San Francisco Airport Commission records and OAG Worldwide Aviation Ltd, online database, accessed July 2017.

⁽a) New 3 times weekly service.

⁽b) New 4 times weekly service.

⁽c) Air Berlin is discontinuing service to Berlin in October 2017.

⁽d) Increased frequency of service by 5 weekly flights.

⁽e) Change from seasonal to year-round service.

⁽f) New 2 times weekly service.

Cargo

Since 2000, the cargo industry nationwide and at SFO has experienced significant changes related to air cargo security regulations by the FAA and Transportation Security Administration (TSA), consolidation in the air cargo industry, an increasing trend in the volume of cargo transported by truck, and the national and global economic recessions. As shown in Table 14, total air cargo tonnage at SFO increased an average of 3.1% per year between FY 2010 and FY 2017, with considerable year-to-year variation, including an 18.6% increase in FY 2017. In FY 2017, passenger airlines accounted for 70.9% of total air cargo at the Airport; cargo airlines accounted for the remaining 29.1%.

Table 14
TRENDS IN AIR CARGO
San Francisco International Airport

			CAGR		
	Metri	c tons	FY 2010	Percent	of total
	FY 2010	FY 2017	FY 2017	FY 2010	FY 2017
By Airline Type					
Domestic					
Passenger airlines	87,342	113,329	3.8%	20.2%	21.2%
Cargo airlines	<u>75,843</u>	<u>95,712</u>	3.4	<u>17.6</u>	<u> 17.9</u>
Subtotal-domestic	163,185	209,042	3.6%	37.8%	39.0%
International					
Passenger airlines	183,610	266,591	5.5%	42.5%	49.8%
Cargo airlines	<u>85,196</u>	<u>59,948</u>	(4.9)	<u> 19.7</u>	11.2
Subtotal-international	268,805	326,539	2.8%	62.2%	61.0%
Total					
Passenger airlines	270,952	379,920	4.9%	62.7%	70.9%
Cargo airlines	<u>161,038</u>	<u>155,661</u>	(0.5)	37.3%	29.1%
Total air cargo	431,990	535,581	3.1%	100.0%	100.0%
By World Area					
United States	163,185	209,042	3.6%	37.8%	39.0%
Asia and South Pacific	213,258	241,211	1.8	49.4	45.0
Europe	49,922	75,498	6.1	11.6	14.1
Middle East	3,678	7,005	9.6	0.9	1.3
Canada	1,052	1,874	8.6	0.2	0.3
Mexico, Central & South America	896	952	0.9	0.2	0.2
Total air cargo	431,990	535,581	3.1%	100.0%	100.0%

Notes: For Fiscal Years ended June 30.

CAGR = Compound annual growth rate.

Sum of enplaned and deplaned freight and mail.

All-cargo airlines serving SFO in 2017 include ABX Air, Atlas Air, FedEx, Kalitta Air, Nippon Cargo, and Redding Aero Enterprises . In addition, cargo service was provided by the subsidiaries of four passenger airlines (Asiana, China, EVA, and Korean) and two ground handling companies

(Swissport and Total Airport Services).

Source: San Francisco Airport Commission records.

Domestic air cargo accounted for 39.0% of total air cargo in FY 2017. Of this total, passenger airlines handled 54% of domestic cargo volumes and cargo airlines handled the remainder. International air cargo accounted for 61.0% of total air cargo in FY 2017. Passenger airlines carried 82% of international air cargo and cargo airlines handled the remainder. Asia and the South Pacific accounted for 74% of total international air cargo in FY 2017, followed by Europe with 23%.

SFO accounted for 47.4% of air cargo tonnage at the three Bay Area airports in FY 2017, Oakland International Airport, a regional hub for Federal Express, handled 47.7%, while Mineta San Jose handled 4.9%.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In addition to the economy and demographics of the Airport service region, discussed earlier, key factors affecting future airline traffic at the Airport include:

- National economic conditions
- International economic and political conditions
- The financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- The availability and price of aviation fuel
- Aviation safety and security concerns
- The capacity of the national air traffic control system
- The capacity of the Airport
- High Speed Rail in California

National Economic Conditions

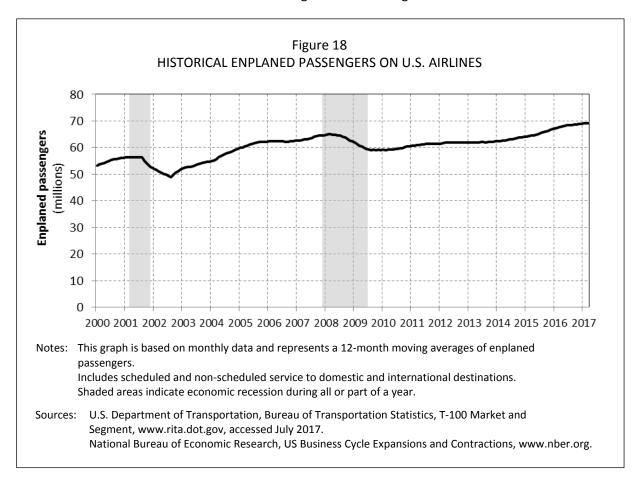
Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated on Figure 18, recessions in the U.S. economy in 2001 and 2008–2009 and associated high unemployment reduced discretionary income and contributed to a reduction in airline travel demand in those years.

International Economic and Political Conditions

With the globalization of business and the increased importance of international trade and tourism, international economics, trade balances, currency exchange rates, and political relationships all influence passenger traffic at major U.S. airports. Concerns about hostilities and other perceived security and public health risks also affect travel demand to particular international destinations.

On September 24, 2017, the Trump administration issued a third executive order seeking to restrict travel from seven countries (Iran, Libya, North Korea, Somalia, Sudan, Syria, and Yemen) effective on October 18, 2017. In addition, certain citizens from Iraq and Venezuela will face restrictions and heightened scrutiny. Such proposed travel restrictions have been challenged in court and have to date only been partially implemented. In response to the third travel ban, the Supreme Court canceled a hearing on the second version of the travel ban and requested written arguments addressing the implications. Depending on the form of restrictions eventually adopted, increased scrutiny by U.S. Customs and Border Protection could prevent or discourage some travel. It is important to note that the travel ban primarily affects travel to the United States from countries in

the Middle East and Africa which together account for about 1% of all international travelers to SFO. Sustained future increases in passenger traffic at the Airport will depend on stable and secure international conditions as well as national and global economic growth.



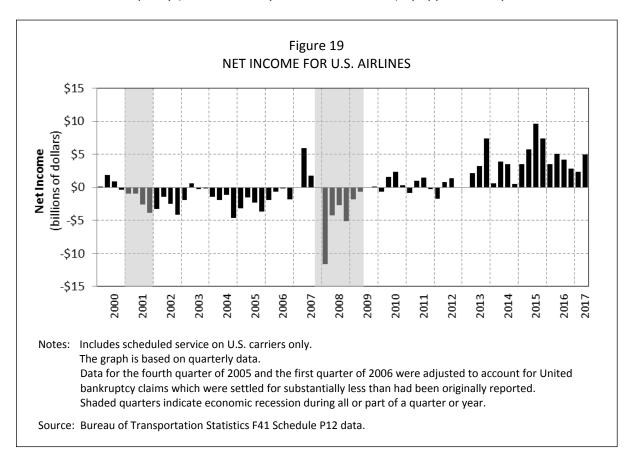
Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to provide service. Figure 19 shows historical net income for U.S. airlines.

As a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 attacks, increased fuel and other operating costs, and price competition, the industry experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately \$61 billion. To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Between 2002 and 2005, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways all filed for bankruptcy protection and restructured their operations.

In 2007, the U.S. passenger airline industry as a whole was profitable, recording net income of approximately \$7 billion, but in 2008, as oil and aviation fuel prices increased to unprecedented

levels, the industry experienced a profitability crisis. In 2008 and 2009, the U.S. passenger airline industry recorded net losses of approximately \$26 billion. The industry responded by, among other actions, grounding less fuel-efficient aircraft, eliminating unprofitable routes and hubs, reducing seat capacity, and increasing airfares. Between 2007 and 2009, U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10%.



In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately \$15 billion, in spite of sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Between 2009 and 2013, the airlines collectively increased domestic seat-mile capacity by an average of just 1.0% per year. American filed for bankruptcy protection in 2011. In 2014, the U.S. passenger airline industry reported net income of \$9 billion, assisted by reduced fuel prices in the second half of the year (as discussed in the later section, "Availability and Price of Aviation Fuel"). In 2015, the industry then achieved record net income of \$27 billion as fuel prices decreased further, demand remained strong, and capacity control allowed average fares to remain high. Strong industry profitability continued in 2016 and the first half of 2017.

Consolidation has resulted in four airlines (American, Delta, Southwest, and United) accounting for approximately 80% of domestic seat-mile capacity and is expected by airline industry analysts to contribute to industry profitability. However, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide.

Virgin America, Inc. and Alaska Air Group, Inc., the parent company of Alaska Airlines, announced plans to merge in April 2016, which were approved by Virgin America, Inc. shareholders in July 2016 and by the U.S. Department of Justice in December 2016.* In March 2017, Alaska and Virgin America announced plans to adopt Alaska's name and logo and retire the Virgin America brand in 2019.** Alaska Airlines and Virgin America accounted for 2.9% and 9.3%, respectively, of total enplaned passengers at the Airport in FY 2017, with very limited overlap in the markets served from SFO. Since closing the merger in December 2016, Alaska has increased service at the primary West Coast airports in the combined airline network, including a 10% increase in scheduled departing seats at SFO between 2016 and 2017. Although Alaska is not considered a LCC, an expansion in the combined airline's service at SFO increases the level of competition which, in turn, puts downward pressure on airfares.

Airline Service and Routes

Most large airports serve as gateways to their communities and as connecting points. The number of origin and destination passengers at an airport depends on the intrinsic attractiveness of the region as a business and leisure destination, the propensity of its residents to travel, and the airline fares and service provided at the Airport and at other competing airports. The number of connecting passengers, on the other hand, depends entirely on the airline service provided. As discussed in the earlier section, "Enplaned Passengers," in FY 2017, approximately 80% of passengers at the Airport are originating their journeys, with the remaining 20% connecting between flights.

The network airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry has consolidated, airline service has been or is being drastically reduced at many former connecting hub airports, including those serving St. Louis (American 2003-2005), Dallas-Fort Worth (Delta 2005), Pittsburgh (US Airways 2006-2008), Las Vegas (US Airways 2007-2010), Cincinnati (Delta 2009-2011), Memphis (Delta 2011-2013), and Cleveland (United 2014).

SFO is less susceptible to the potential impacts of an airline bankruptcy due to its relatively low degree of airline concentration compared with many other large U.S. hub airports and its large population and O&D passenger traffic base which would likely be served by other airlines at the Airport.

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips for which the automobile and other travel modes are potential alternatives, and for price-sensitive "discretionary" travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport, will depend, in part, on the level of airfares.

*"Virgin America Shareholders Vote to Approve Merger Agreement with Alaska Air Group, Inc.," July 26, 2016, www.virginamerica.com. "Justice Department Clears Alaska Air Group's Acquisition of Virgin America," December 6, 2016, www.alaskaair.com.

^{**&}quot;Alaska Airlines and Virgin America share vision for the future," March 22, 2017, www.alaskaair.com.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S. airlines decreased from 14.9 cents to 13.8 cents per passenger-mile. In 2006 through 2008, as airlines reduced capacity and sustained fare increases, the average domestic yield increased to 15.9 cents per passenger-mile. In 2009, yields again decreased, but, beginning in 2010, as airline travel demand increased and seat capacity was restricted, yields increased to 17.7 cents per passenger-mile by 2015. Beginning in 2006, ancillary charges have been introduced by most airlines for services such as checked baggage, preferred seating, in-flight meals, and entertainment; thereby increasing the effective price of airline travel more than these yield figures indicate.

Airline Consolidation and Alliances

In response to competitive pressures, the U.S. airline industry has consolidated. Among the significant mergers and combinations were:

- In April 2001, American completed an acquisition of failing Trans World Airlines.
- In September 2005, US Airways and America West Airlines merged.
- In October 2009, Republic Airways Holdings completed purchases of Frontier and Midwest airlines.
- In December 2009, Delta and Northwest merged.
- In October 2010, United and Continental completed a merger.
- In May 2011, Southwest completed its acquisition of AirTran, and integrated operations in 2014.
- In December 2013, American and US Airways completed their merger and have maintained all hubs in the combined system.
- In December 2016, Alaska Air Group, parent of Alaska Airlines, and Virgin America Airlines completed their merger and the merged airline has stated its intention to adopt Alaska's name and logo and retire the Virgin America brand in 2019.

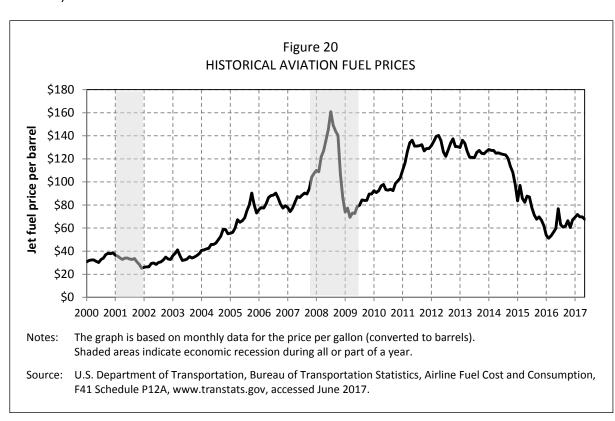
Alliances, joint ventures, and other marketing arrangements provide airlines with many of the advantages of mergers. Alliances typically involve marketing, code sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. Joint ventures involve even closer cooperation and the sharing of costs and revenues on designated routes. Most of the largest U.S. airlines are members of such alliances with foreign-flag airlines.

Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Figure 20 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Fuel prices fell sharply in the second half of 2008 as demand declined worldwide, but increased as global demand increased.

Between early 2011 and mid-2014, fuel prices were relatively stable, partly as a result of increased supply from U.S. domestic production. As of mid-2014, average aviation fuel prices were approximately three times the prices prevailing at the end of 2003. Beginning in mid-2014, an imbalance between worldwide supply and demand resulted in a precipitous decline in the price of oil and aviation fuel. Decreased demand from China and other developing countries, combined with a continued surplus in the worldwide supply (and the potential for further surpluses from Iran as trade sanctions are lifted) resulted in further reductions in fuel prices in 2015. As shown on Figure 20, the average price of aviation fuel at the end of 2015 was approximately 50% of the price at mid-2014, before rising again modestly in the early months of 2016. The reduction in fuel prices is having a positive effect on airline profitability as well as far-reaching implications for the global economy.

Three Category 4 and 5 hurricanes made U.S. landfall in August and September 2017, causing billions of dollars in damage and uncertainty for aviation fuel supply and prices. Hurricane Harvey, which first made landfall on August 25, 2017, affected an estimated 50% of total refining capacity in the Gulf Coast region and 26% of total U.S. refining capacity. As of September 26, 2017, only one refinery was shut down in the Gulf Coast region and eight refineries were operating at reduced rates, according to the U.S. Department of Energy* Hurricane Irma made landfall in southern Florida on September 10, 2017, followed by Hurricane Maria in Puerto Rico on September 20, 2017. According to the U.S. Department of Energy, the spot price of West Texas Intermediate oil increased 5% between August 25, 2017 (Hurricane Harvey landfall) and September 18, 2017 (the most recent data available).



*U.S. Department of Energy, Hurricanes Maria, Irma, and Harvey, Event Report (#47), September 26, 2017.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term, although, absent unforeseen disruptions, prices are expected to remain relatively low for some time. However, there is widespread agreement that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite oil supplies that are becoming more expensive to extract.

Aviation fuel prices will continue to affect airfares, passenger numbers, airline profitability, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips. Public health and safety concerns have also affected airline travel demand to particular regions of the world from time to time.

Safety concerns in the aftermath of the September 2001 attacks were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies. The TSA has introduced "pre-check" service to expedite the screening of passengers who have submitted to background checks. Concerns about the safety of air travel have recently been heightened by a suicide attack at Brussels Airport in March 2016, the crash of an EgyptAir flight into the Mediterranean Sea in May 2016, and a gun and bomb attack at Istanbul Ataturk Airport in June 2016. Public health concerns have also increased in the past year with the spread of the Zika virus, including travel guidance for certain foreign locations issued by the U.S. Center for Disease Control and Prevention in January 2016, and travel guidance for certain locations in Miami, Florida issued by the same organization in August 2016.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, and public health and safety concerns. Provided that precautions by government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not safety or security, factors.

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance

the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations (down approximately 18% between 2007 and 2016), but, as airline travel increases in the future, flight delays and restrictions can be expected.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at the Airport will depend on the provision of capacity to accommodate aircraft flights and passengers. The forecasts presented later in this section were based on the assumption that neither available airfield capacity nor demand management initiatives will constrain traffic growth at the Airport. Furthermore it is assumed that the forecast increases in enplaned passengers can be accommodated by existing terminal capacity in conjunction with the capital improvements planned through the end of the forecast period.

High Speed Rail in California

In November 2008, California voters passed a referendum authorizing the State to issue approximately \$10 billion in bonds to fund the first phase of a high-speed electric train system. The California High-Speed Rail Authority plans a rail network stretching from Sacramento and San Francisco, through the Central Valley, to Los Angeles and San Diego. In January 2015, construction of the initial part of the system began in the Central Valley. In April 2016, the California High Speed Rail Authority approved a revised business plan to construct the initial operating segment from the Central Valley north to Silicon Valley, a change from the original plan to build a southern segment to the San Fernando Valley. Such rail service is not expected to be operational before the end of the forecast period considered in this Report.

AIRLINE TRAFFIC FORECASTS

The forecast of enplaned passengers at the Airport through FY 2023 was developed taking into account travel demand to and from the Bay Area, economic projections, trends in historical enplaned passengers, and other key factors likely to affect future passenger levels, all discussed in earlier sections.

In developing the passenger forecast for this Report, it was assumed that, over the long term, airline traffic at the Airport will increase as a function of growth in the economy of the San Francisco CSA and continued airline competition. It was assumed that airline service at SFO will not be constrained by the availability of aviation fuel, the capacity of the air traffic control system or the Airport, charges for the use of aviation facilities, or government policies or actions that restrict growth. As noted in "Capacity of the Airport", it was assumed that the forecast increases in enplaned passengers could be accommodated by existing terminal capacity in conjunction with the capital improvements planned through the end of the forecast period.

Underlying Assumptions

From FY 2017 through FY 2023, passenger numbers at the Airport are forecast to increase gradually on the basis of the following assumptions:

• The economy of the Bay Area will increase at a rate comparable to or greater than that of the State and nation as a whole.

- The U.S. economy will experience sustained GDP growth averaging 1.9% per year, as noted in the previous section "National Economic Outlook".
- United will continue to develop the Airport as its primary West Coast connecting hub and international gateway. United will gradually increase the number of destinations served and the frequency of flights from the Airport. Other airlines will continue to provide competitive nonstop service to and from large travel markets.
- Any airline consolidation that may occur during the forecast period, including the merger of Alaska Airlines and Virgin America, will not have a material impact on the level of passenger activity at the Airport.
- Neither Oakland nor Mineta San Jose international airports will attract sufficient domestic
 feeder traffic to support international gateway operations on more than a very limited
 scale, and international airline travel demand to and from the Bay Area will continue
 primarily through the Airport.
- Competition among the airlines serving the Airport will ensure the continued availability of competitive airfares, and SFO will continue to be served by a broad array of U.S. and foreign flag airlines, with no significant increase in airline concentration.
- There will be no major disruption of airline service or airline travel behavior as a result of airline bankruptcies or liquidations, international hostilities, terrorist acts or threats, or public health crises.
- The exit of the United Kingdom from the European Union will not have a material impact on the level of passenger activity at the Airport. As shown in Table 11, London accounted for 5.4% of international O&D passengers at SFO in FY 2016 and an average of 6 daily nonstop flights from SFO to London in July 2017.
- Downward pressure on aviation fuel prices will continue in 2017 and 2018, with fuel prices remaining considerably lower through 2023 than the record prices reached in mid-2008. In its September 2017 Short-Term Energy Outlook, the U.S. Energy Information Administration projected crude oil prices, in terms of West Texas Intermediate oil, to average \$49 and \$50 per barrel, respectively, in 2017 and 2018, up from \$43 per barrel in 2016.

Enplaned Passengers

From FY 2017 through FY 2023, the numbers of passengers enplaned at the Airport are forecast to increase an average of 1.9% per year, reaching 30.0 million in FY 2023, as shown on Figure 21 and in Table 15. In its most recent *Terminal Area Forecast* for the Airport (published February 2017), the FAA forecasts an average annual increase of 2.3% in the number of enplaned passengers at SFO over the same period.

Domestic enplaned passengers at SFO are forecast to increase an average of 1.6% per year between FY 2017 through FY 2023, reflecting the socioeconomic forecasts for the Bay Area and airline plans for new service at the Airport presented earlier. International enplaned passengers at SFO are forecast to increase an average of 2.6% per year between FY 2017 through FY 2023, driven by the continued development of Asian and European markets and new service to Australia and Oceania and the Middle East and Africa.

As shown in Table 15, O&D passengers at SFO are forecast to increase an average of 1.9% per year between FY 2017 and FY 2023. The increasing base of connecting passengers reflects the ongoing role of the Airport as a primary connecting hub and international gateway in United's system. As shown in Table 15, the percent of connecting passengers at the Airport is forecast to average 20.1% through FY 2023.

Landed Weight and Landings

From FY 2017 through FY 2023, aircraft landed weight at the Airport is forecast to increase an average of 1.3% per year to 40.6 million 1,000-pound units in FY 2023, as shown in Table 15. The forecast rate of growth in landed weight is lower than that for enplaned passengers, reflecting an assumed gradual increase in the enplaned passenger load factors and the average aircraft size, in terms of seats, at the Airport.

In recent years, the aircraft fleet mix at the Airport has changed, reflecting the cessation of United's service with 30-seat turbo prop aircraft and replacement with larger capacity regional jets; thereby increasing the overall aircraft size and reducing the number of landings and the potential for Airport congestion. As shown in Table 15, total airline landings at the Airport are forecast to increase an average of 1.1% per year between FY 2017 and FY 2023, from 207,980 to 222,440.

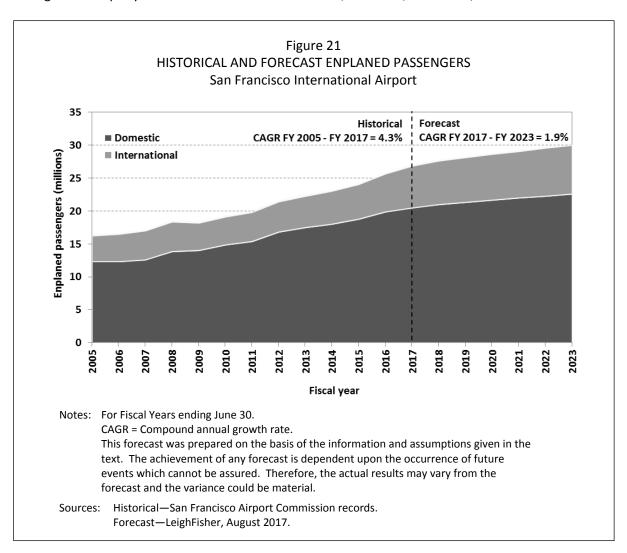


Table 15
AIRLINE TRAFFIC FORECASTS
San Francisco International Airport

	Histo	orical			Fore	cast			CAGR FY 2017
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2023
Enplaned passengers by market sector and type (thousands)									
Domestic									
Network airlines (a)	12,482	12,876	13,155	13,369	13,569	13,750	13,933	14,119	1.5%
Low cost carriers	5,129	5,454	5,617	5,729	5,833	5,920	6,009	6,099	1.9
Regional airlines/affiliates	2,233	2,184	<u>2,221</u>	<u>2,253</u>	2,282	<u>2,311</u>	<u>2,339</u>	2,368	1.4
Subtotal—domestic	19,845	20,514	20,994	21,351	21,684	21,980	22,281	22,586	1.6
International									
Asia	2,284	2,457	2,531	2,601	2,662	2,721	2,781	2,843	2.5
Australia/Oceania	227	309	319	327	335	343	350	358	2.5
Canada	778	795	826	849	869	888	908	928	2.6
Europe	1,637	1,751	1,838	1,889	1,933	1,976	2,020	2,065	2.8
Central/South America	104	137	141	145	149	152	155	159	2.5
Mexico	532	653	679	698	714	730	746	763	2.6
Middle East/Africa	214	<u>255</u>	<u>263</u>	270	<u>277</u>	283	289	<u>296</u>	2.5
Subtotal—international	<u>5,777</u>	6,358	6,598	6,780	6,939	7,093	7,250	7,412	2.6
Total enplaned passengers	25,622	26,872	27,591	28,131	28,622	29,073	29,532	29,998	1.9
Annual percent increase		4.9%	2.7%	2.0%	1.7%	1.6%	1.6%	1.6%	
O&D and connecting enplaned passengers	(thousands)								
Domestic									
O&D	15,858	16,631	17,077	17,411	17,715	17,994	18,278	18,566	1.9%
Connecting	_3,987	3,883	3,917	3,940	3,969	3,986	4,004	4,020	0.6
Subtotaldomestic	19,845	20,514	20,994	21,351	21,684	21,980	22,281	22,586	1.6
International									
O&D	4,601	4,826	4,955	5,052	5,140	5,221	5,303	5,387	1.9%
Connecting	_1,175	1,532	1,643	1,728	1,798	1,872	1,947	2,024	4.8
Subtotal—international	5,777	6,358	6,598	6,780	6,939	7,093	7,250	7,412	2.6
Total									
O&D	20,459	21,457	22,032	22,463	22,855	23,215	23,581	23,953	1.9%
Connecting	<u>5,163</u>	5,414	5,560	5,668	5,767	5,858	5,950	6,044	1.9
Total enplaned passengers	25,622	26,872	27,591	28,131	28,622	29,073	29,532	29,998	1.9
Percent O&D									
Domestic	79.9%	81.1%	81.3%	81.5%	81.7%	81.9%	82.0%	82.2%	
International	79.7%	75.9%	75.1%	74.5%	74.1%	73.6%	73.1%	72.7%	
Total	79.9%	79.9%	79.9%	79.9%	79.9%	79.9%	79.9%	79.9%	
Percent connecting	75.570	, 5.570	, 5.5/0	, 3.370	, 3.370	, 5.570	, 5.570	, 3.370	
Domestic	20.1%	18.9%	18.7%	18.5%	18.3%	18.1%	18.0%	17.8%	
International	20.1%	24.1%	24.9%	25.5%	25.9%	26.4%	26.9%	27.3%	
Total	20.1%	20.1%	20.1%	20.1%	20.1%	20.4%	20.5%	20.1%	
i Otal	20.1/0	20.1/0	20.1/0	20.1/0	20.1/0	20.1/0	20.1/0	20.1/0	

Table 15 (page 2 of 2)
AIRLINE TRAFFIC FORECASTS
San Francisco International Airport

	Hist	orical	Forecast					CAGR FY 2017	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2023
Landed weight (thousands of 1,000-pound									
units)									
Passenger airlines									
Domestic									
Network airlines (a)	14,529	15,364	15,525	15,698	15,853	15,984	16,116	16,250	0.9%
Low cost carriers	5,894	6,323	6,644	6,733	6,811	6,869	6,928	6,988	1.7
Regional airlines/affiliates	2,570	<u>2,551</u>	2,633	2,614	2,606	2,596	2,595	2,594	0.3
Subtotal—domestic	22,992	24,238	24,802	25,046	25,270	25,450	25,640	25,832	1.1
International	10,739	12,050	12,275	12,534	12,746	12,948	13,154	13,364	1.7
Total—passenger airlines	33,731	36,288	37,077	37,580	38,016	38,397	38,793	39,196	1.3
All-cargo airlines	1,281	1,309	1,321	1,335	1,348	1,361	1,375	1,389	1.0
Total	35,012	37,597	38,399	38,914	39,364	39,759	40,168	40,584	1.3
Annual percent increase		7.4%	2.1%	1.3%	1.2%	1.0%	1.0%	1.0%	
Landings									
Passenger airlines									
Domestic									
Network airlines (a)	85,951	87,480	88,400	89,380	90,260	91,000	91,760	92,520	0.9%
Low cost carriers	43,005	45,500	47,800	48,450	49,010	49,430	49,850	50,280	1.7
Regional airlines/affiliates	42,392	40,500	41,820	41,520	41,390	41,250	41,210	41,170	0.3
Subtotal—domestic	171,348	173,480	178,020	179,350	180,660	181,680	182,820	183,970	1.0
International	28,546	31,820	32,610	33,340	33,920	34,470	35,050	35,630	1.9
Total—passenger airlines	199,894	205,300	210,630	212,690	214,580	216,150	217,870	219,600	1.1
All-cargo airlines	2,801	2,680	2,700	2,740	2,760	2,790	2,820	2,840	1.0
Total	202,695	207,980	213,330	215,430	217,340	218,940	220,690	222,440	1.1
Annual percent increase (decrease)		2.6%	2.6%	1.0%	0.9%	0.7%	0.8%	0.8%	

Note: For Fiscal Years ending June 30; CAGR = Compound annual growth rate.

The forecasts presented in this table were prepared using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

(a) Includes charter airlines.

Sources: Historical: San Francisco Airport Commission records.

Forecast: LeighFisher, August 2017.

3. FRAMEWORK FOR FINANCIAL OPERATION

The framework for the Airport Commission's financial operation is discussed in this section, which contains descriptions of the Bond Resolution, the Annual Service Payment, airline Lease and Use Agreements, commercial agreements and leases, and Special Facility Obligations.

THE BOND RESOLUTION*

Pursuant to the City Charter, the City (acting through the Airport Commission) is authorized to issue airport revenue bonds subject to approval by the Board of Supervisors of the City. Bonds issued by the Commission are not general indebtedness of the City, but are limited, special indebtedness of the Commission payable solely from revenues received by the Commission from its airport facilities. The Commission has no taxing power.

On December 3, 1991, the Commission adopted Resolution No. 91-0210 (together with amendments and supplemental resolutions, the Bond Resolution) authorizing the issuance of San Francisco International Airport Second Series Revenue Bonds.

These Bonds are called "second series" Bonds to distinguish them from bonds of the Commission issued prior to December 1991. All bonds issued under prior bond resolutions are no longer outstanding, having been defeased or refunded, and the Airport Commission has covenanted not to issue additional bonds under the terms of those prior resolutions. The Commission's Second Series Revenue Bonds have the most senior lien on the revenues of the Commission of any outstanding debt, and the Commission has covenanted in the Bond Resolution not to issue any debt with a pledge of, or lien on, Net Revenues senior to that of the Second Series Revenue Bonds.

Rate Covenant

The Commission has covenanted in Section 6.04(a) of the Bond Resolution that it shall establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport, and for services rendered by the Commission in connection with the Airport, so that:

- (i) Net Revenues in each Fiscal Year will be at least sufficient (a) to make all required payments and deposits in such Fiscal Year into the Revenue Bond Account. . .and (b) to make the Annual Service Payment to the City; and
- (ii) 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.

Net Revenues are defined in the Bond Resolution as Revenues less Operation and Maintenance Expenses. Revenues are defined as substantially all revenues from the operation of the Airport determined in accordance with generally accepted accounting principles (GAAP), with the exception of passenger facility charge (PFC) revenues (unless designated as such by the Airport Commission), Special Facility Revenues, and certain other excluded revenue categories. Operation and

^{*}References in this Report to the Bond Resolution, the Lease and Use Agreements, and various leases and agreements entered into by the City and the Airport Commission are not intended to be comprehensive or definitive. Capitalized terms have the same meaning as defined in the Bond Resolution, except as otherwise noted herein.

Maintenance Expenses are defined as substantially all day-to-day expenses of operating the Airport as defined under GAAP, but exclude depreciation, amortization, or expenses for which the Commission is paid or reimbursed from sources other than Revenues. The Transfer, for any given Fiscal Year, is the amount withdrawn from the Airport Commission's Contingency Account and deposited into the Revenues Account on the last day of the Fiscal Year (plus withdrawals for certain purposes from the Contingency Account during the Fiscal Year, net of deposits to the Account made from Revenues during the Fiscal Year).

Application of Revenues

The City Charter caused the creation of the Commission's Airport Revenue Fund. The Bond Resolution established a Revenues Account and five other accounts within the Airport Revenue Fund. In addition to the accounts created within the Airport Revenue Fund, a Debt Service Fund and a Reserve Fund were also established for Bonds issued under the Bond Resolution. The Airport Revenue Fund is held by the City Treasurer, while the Debt Service Fund and the Reserve Fund are held by the Trustee.

On the first business day of each month, moneys in the Revenues Account are applied in the following order to accounts within the Airport Revenue Fund:

- (a) Into the Operation and Maintenance Account, an amount equal to one-twelfth (1/12) of the estimated Operation and Maintenance Expenses for the then current Fiscal Year or such other amount as may be required to provide for the payment of Operation and Maintenance Expenses due (the O&M Account is not pledged and shall not be applied to Bond payments).
- (b) Into the Revenue Bond Account, the amount necessary:
 - (i) 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 Bond Resolution and by supplemental resolutions with respect to Bonds; and
 - (ii) 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.
- (c) Into the General Obligation Bond Account, amounts, if any, required with respect to general obligation bonds of the City issued for Airport purposes. (The City does not have General Obligation Bonds outstanding, nor does it anticipate issuing General Obligation Bonds for Airport purposes in the future.)
- (d) Into the General Purpose Account, an amount at least equal to the payments estimated to be made from the account during such month. Moneys in the General Purpose Account may be used for any lawful purpose of the Commission.

(e) Into the Contingency Account, such amounts, if any, as the Commission may determine from time to time. Contingency Account balances may be used to pay Operation and Maintenance Expenditures, to pay Bond debt service, and to fund Airport capital expenditures; but only when monies from other sources for such purposes are not available.

The application of Revenues in accordance with the Bond Resolution is illustrated on Figure 22.

Additional Bonds

Whenever the Commission wishes to issue additional Bonds that are not refunding Bonds, the Commission is required by Section 2.11 of the Bond Resolution to file with the Bond Trustee either:

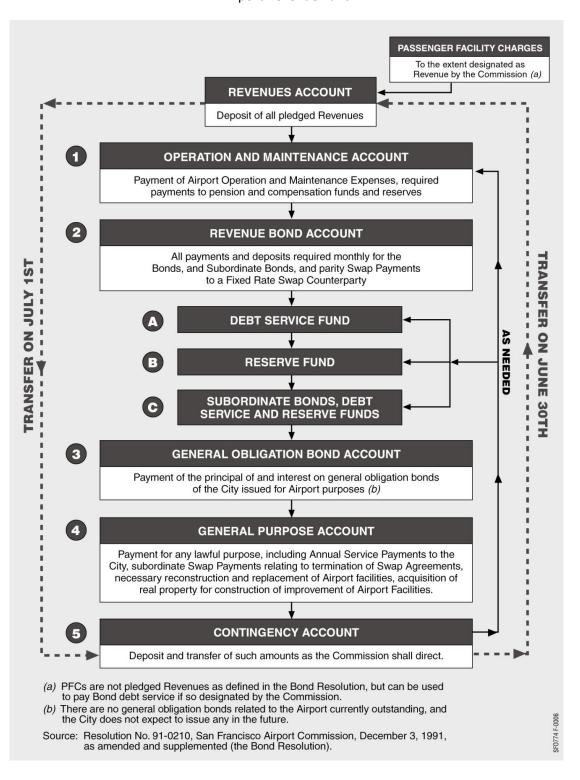
- (a) A certificate of an Airport Consultant dated within 30 days prior to the date of delivery of the Bonds stating that:
 - (i) For the period, if any, from and including the first full Fiscal Year following the issuance of such Bonds through and including the last Fiscal Year during any part of which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and
 - (ii) For the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, if applicable, in each such Fiscal Year will be at least sufficient to satisfy the rate covenants set forth in subsection (a) of Section 6.04 of the Bond Resolution;

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 the purpose of paragraphs (a) and (b) above, the amount of any Transfer shall not exceed 25% of Maximum Annual Debt Service in such Fiscal Year.

Figure 22
APPLICATION OF REVENUES
Airport Revenue Fund



Refunding Bonds may be issued by the Commission under Section 2.12 of the Bond Resolution, but:

...only (i) upon compliance with the conditions set forth in Section 2.11 of the Bond Resolution, or (ii) if the Commission shall deliver to the Trustee a certificate of an Airport Consultant or Financial Consultant to the effect 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 shall 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 shall not exceed Maximum Annual Debt Service with respect to all . . . [Bonds] Outstanding immediately prior to such issuance.

Subordinate Debt

Section 2.13 of the Bond Resolution permits issuance of "... Subordinate Bonds 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."

On May 20, 1997, the Commission adopted Resolution No. 97-0146 (the Subordinate Debt Resolution) authorizing the issuance of San Francisco International Airport Second Series Subordinate Revenue Bonds (the Subordinate Bonds). The Commission is authorized, pursuant to the Subordinate Debt Resolution as amended, to issue Subordinate Commercial Paper Notes in an amount not to exceed a total outstanding principal balance of \$500 million.

The Commission has obtained four Letters of Credit for a total of \$500 million of principal repayment, which expire on various dates between May 2019 and June 2022. The Airport Commission expects to obtain or renew future Letters of Credit when necessary. As of the date of this Report, the Commission has \$330.4 million principal amount of Commercial Paper Notes outstanding, the majority of which will be refunded with a portion of the net proceeds of the 2017 Bonds.

Outstanding Bonds

The Commission had \$4,758 million of Bonds outstanding as of July 2, 2017. Of this amount, \$461 million was issued as Variable Rate Bonds pursuant to the Bond Resolution and \$4,297 million was issued with fixed interest rates to maturity. The last maturity date on the Outstanding Bonds is in FY 2046.

Proposed and Future Bonds

The Airport Commission expects to issue approximately \$632.4 million in principal amount of new money 2017 Bonds which, taken together with an original issue premium, provides \$293.3 million of net proceeds to be applied to project costs in the Capital Improvement Plan and \$300.5 million for the repayment of outstanding Commercial Paper Notes balances (as well as to provide for a deposit to the Contingency Account, reserve funding, capitalized interest, and issuance costs). In addition, a portion of the Series 2017C Bonds are planned to be used to make a swap termination payment associated with the refunding of certain variable rate bonds, and the associated debt service on the Series 2017C Bonds is reflected in the Report.

As described in Section 4, the Commission further expects to issue future Bonds after the proposed 2017 Bonds to fund the majority of Capital Improvement Plan costs to be incurred from FY 2018 to FY

2022. Those bonds anticipated to be issued through FY 2022 (subsequent to the issuance of the 2017 Bonds) are collectively referred to as the Future Bonds. The financial analysis presented in Section 5 of this Report reflects the effect on the Commission's finances of the 2017 Bonds and the Future Bonds*.

Additionally, the Commission may refund certain currently outstanding Bonds during the forecast period (including as part of the 2017 Bond issuance), depending on financial market conditions and the ability of the Commission to lower its debt service payments. The Commission may pursue both fixed-rate current and advance refundings for debt service savings or for other reasons in compliance with the Commission's debt policy. The effect of such potential Bond refundings (including any refunding Bonds that are issued as part of the current transaction) has not been included in the financial analysis.

THE ANNUAL SERVICE PAYMENT

The City Charter provides that a portion of the nonairline revenues generated at the Airport each Fiscal Year can be transferred into the General Fund of the City. This transfer, the Annual Service Payment, is computed under the airline Lease and Use Agreements (described below) as the greater of: (a) 15% of "Concession Revenues" as defined in the Lease and Use Agreements, or (b) \$5 million. The Annual Service Payment to the City constitutes full satisfaction of all obligations of the Airport, the Commission, and the airlines for any and all indirect services provided each year by the City to the Airport and the Commission. Direct services provided by the City to the Airport are paid for as received and are reflected in the financial statements of the Commission as an operating expense.

The document titled "Policies and Procedures Concerning the Use of Airport Revenue", adopted by the FAA in 1999, cites the Commission's Annual Service Payment to the City's General Fund as an example of a lawful revenue diversion that is "grandfathered", as such term is defined in that document.

LEASE AND USE AGREEMENTS

The City (acting through the Airport Commission) and most of the airlines serving the Airport have entered into Lease and Use Agreements, effective July 1, 2011 and expiring June 30, 2021, which govern, among other things, the procedures and formulas for the periodic setting of terminal rental rates and landing fees for the use of the Airport by the airlines serving the Airport. Airlines representing substantially all of the passenger throughput of the Airport are signatory to the Lease and Use Agreements. For purposes of this Report, it was assumed that the residual airline ratemaking methodology currently in effect would remain in effect beyond FY 2021, under the terms of successor agreements with the airlines, and that the Annual Service Payment described above would continue to be made to the City's General Fund in accordance with the arrangements described in the current Lease and Use Agreements.

Airlines that are not signatory to the Lease and Use Agreements or that operate on an itinerant basis may use the Airport under the terms of a 30-day operating permit and pay landing fees at a rate 25% higher than the signatory rates.

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^{*}The financial analysis described in this Report does not reflect the issuance of additional Second Series Revenue Bonds to finance the On-Airport Hotel project (the Hotel Bonds). The Hotel Bonds would be in addition to the \$5.9 billion principal amount of Future Bonds described in Section 5.

Terminal Rentals and Landing Fees

The City Administrative Code states that the Commission has the power to fix, change, and adjust rates and charges for the furnishing of services at the Airport. This includes landing fees and terminal rentals, and is applied through the Lease and Use Agreements.

The Lease and Use Agreements provide that, among other things, the airlines are to pay landing fees and terminal rentals each year to recover the difference between Commission expenses and Commission Non-Airline Revenues (i.e., a residual airline rate-making methodology).

The Commission expenses for any given Fiscal Year include the sum of the following:

- Allocated direct and indirect Operation and Maintenance Expenses
- Equipment and Small Capital Outlay
- Debt service requirements, including amounts required:
 - For debt service on Bonds
 - For deposits to the Contingency Account
 - To ensure compliance with the Rate Covenant (if any)
 - To be paid under credit and liquidity facilities, interest rate swaps, and other agreements entered into in connection with Airport debt
 - For debt service on Special Facility Bonds, to the extent such Special Facility Bonds are further secured by and payable from Revenues, which must be authorized by a Majorityin-Interest (MII) of the airlines (none of the Commission's currently outstanding Special Facility Bonds are further secured by Revenues)
 - Other subordinate contractual or debt-related payments
- The Annual Service Payment to the City

The Commission's Non-Airline Revenues include concession revenues, revenues from other sales and fees, fixed or cost-recovery rentals, interest income, and those PFC revenues designated as Revenues.

The Commission computes, in accordance with procedures set forth in the Lease and Use Agreements, the landing fee rates and the terminal rental rates for the ensuing Fiscal Year using budgetary and estimated information for the Airport Cost Centers (noted below). Not less than 60 days prior to the start of a Fiscal Year, the airlines are notified of the proposed rates, rentals, and fees for the ensuing year. These proposed rates, rentals, and fees are subject to review by, but not the approval of, the airlines at a meeting with representatives of the Commission, as provided for in Article 5 of the Lease and Use Agreements. Rates, rentals, and fees become effective July 1 each year – the first day of the City's Fiscal Year.

Additionally, if at any time during a Fiscal Year, the actual expenses (including debt service) are projected by the City to exceed by 10% or more the actual revenues in certain areas as defined in the Lease and Use Agreements, then the Commission may, after consultation with the airlines and after using commercially reasonable efforts to reduce expenses, increase landing fees and/or terminal rental rates following a 60-day notification period. The airlines are required to pay such additional landing fees and/or terminal rentals, which shall equal the projected deficiency, over the remaining months of the then-current Fiscal Year.

At the end of each Fiscal Year, the amount the airlines should have paid in landing fees and terminal rentals to meet the requirement of the Rate Covenant is compared with the amount actually paid in such Fiscal Year. If there is an over-collection, as provided for in the Lease and Use Agreement the Airport Commission can apply such unearned aviation revenue balances to reduce future airline rates and charges, and when used for this purpose in future years will be recognized as part of Revenues.

Airport Cost Centers

The Commission allocates both costs and revenues to five Airport Cost Centers to calculate the landing fee rate and terminal rental rates to be charged to the airlines in the ensuing Fiscal Year:

- Airfield Area, which includes all runways, taxiways, ramps, aprons, landing areas, adjacent
 infield areas, and related support facilities (e.g., perimeter dike, drainage pumping stations,
 field lighting, navigational aids, aircraft rescue and fire-fighting (ARFF) support facilities, fire
 and rescue watercraft, boathouses and related support facilities, and cart roads).
- Airport Support Area, which includes all areas and facilities that support airline functions
 (e.g., hangars, aircraft maintenance facilities, cargo facilities, fuel farms, flight kitchens),
 Airport support, City/State/federal installations, fixed base operators (FBOs), airline and
 certain other offices outside the Terminal Area, airline and Commission employee parking,
 sewage/waste treatment plants, detention ponds, other related facilities, and all unleased
 land not included in another cost center.
- Terminal Area, which includes all areas within the passenger terminals of the Airport (e.g., concourses, boarding areas, public circulation space, pedestrian bridges, entrance areas to the underground walkways to the parking garages, mechanical/utility areas, lobbies, offices, concession areas, Commission facilities, baggage facilities, and storage areas).
- **Groundside Area**, which includes all roadways, parkways, courtyards, fences, walks, bridges, culverts, public parking lots, garages, the planned on-Airport hotel, service stations, shuttle bus service (nonairline), the consolidated rental car facility, the AirTrain system (including pedestrian bridges to the terminals), leased commercial unimproved areas, paved areas, and buildings/structures other than terminals and Airport/government installations.
- **Utilities Area**, which includes the facilities for water, gas, electricity, and telecommunications and information systems, including distribution systems. The net cost of the Utilities Area is allocated to the other four Airport Cost Centers.

The Lease and Use Agreements also identify a sixth Airport Cost Center, the West of Bayshore Area, which consists of undeveloped land that is not relevant to the rate calculations until such time as it

might be developed by the Commission. The Commission does not expect to develop the West of Bayshore Area in the foreseeable future and, in the meantime, any associated costs incurred are included in the Groundside Area.

Airline Review of Capital Improvements

The Lease and Use Agreements provide for review of proposed Airport capital improvements by the airlines that are signatory to the agreements. A "capital improvement" is defined as any item of capital expenditure with a cost exceeding \$626,257 in FY 2009 dollars (as adjusted annually pursuant to the Lease and Use Agreements) and a useful life of more than 3 years.

An MII of the airlines signatory to the Lease and Use Agreements may require the Commission to defer a capital improvement for 6 months so that such airlines can present their opposition to the improvement. In the absence of MII concurrence by the airlines, the Commission may undertake such capital improvement after the end of the 6 month period. The following three types of capital improvements are not subject to the MII review process: (1) those required by a federal or State agency having jurisdiction over Airport operations, (2) those financed by Special Facility Bonds, or (3) an emergency that, if not made, would result in the closing of the Airport within 48 hours.

Pursuant to the terms of the Lease and Use Agreements, the Commission is to use commercially reasonable efforts to finance all capital improvements through grants, TSA funding, passenger facility charges, or the issuance of airport revenue bonds. The Commission may budget and spend up to \$4,200,000 (measured in FY 2009 dollars, as adjusted pursuant to the Lease and Use Agreements) per year from its revenues on capital improvements, or a greater amount, as may be agreed to by a MII of the airlines.

The Commission will satisfy the requirement for airline review prior to spending 2017 Bond proceeds on project costs, where applicable. Some projects in the Capital Improvement Plan will require airline review prior to the expenditure of proceeds from the subject Bonds. However, the Commission has received airline review of qualifying projects in excess of the proposed 2017 Bond funding amounts.

COMMERCIAL AGREEMENTS AND LEASES

The Airport Commission enters into commercial agreements and leases for automobile parking operations, rental car facilities, duty free operations, general merchandise concessions, and food and beverage operations, among other services.

Automobile Parking

The public automobile parking facilities at the Airport are operated for the Commission by New South Parking – California under a management contract with a term that expires on June 30, 2018. The Commission periodically reviews and adjusts parking rates, receives all revenues, and pays all costs of operation and maintenance of the facilities. The Commission does not impose a privilege fee on the off-Airport parking operations of private companies, but does impose a trip fee for the shuttle bus operations of off-Airport parking companies.

Rental Cars

By resolution of the Commission, all on-Airport rental car transactions must take place at the consolidated rental car facility, and all off-Airport rental car companies must pick up and may drop off their customers at that facility. No rental car counters are located in the terminal complex.

In 2008, the Commission solicited proposals and executed agreements related to on-Airport rental car operations. The agreements were executed with five companies that operate nine rental car brands on-Airport. These nine rental car brands are Alamo, Avis, Budget, Dollar, Enterprise, Fox, Hertz, National, and Thrifty. The agreements expire on December 31, 2018.

The concession agreements require a concession fee equal to the greater of 10% of gross receipts or the minimum annual guarantee (MAG). The aggregate MAG for the on-Airport rental car companies was \$42.6 million in FY 2017, compared to estimated total concession fees of \$49.0 million. Additionally, the on-airport rental car companies pay facility rent at the consolidated rental car facility.

The Commission imposes a fee on rental car customers per rental contract for transportation between the terminal complex and the consolidated rental car facility on the AirTrain system. The rental car companies collect this transportation fee (which is currently \$18.00 per rental car contract) to reimburse the Commission for a portion of the cost of operating and maintaining the AirTrain system. Revenues from the transportation fee are presented under the Net Sales and Services category of Exhibit F.

Transportation Network Companies

Effective October 2014, the Commission implemented a pilot program allowing transportation network companies (TNCs) including Uber, Lyft, and others to pick up and drop off passengers on Airport property including at the terminal curbsides. The pilot program ended on February 29, 2016, and a new program involving non-exclusive operating permits for all TNCs operating at the Airport was started. Under the terms of these permits, which extend through June 30, 2018, the TNC operator pays the Commission \$3.80 per trip (i.e., per pick up or per drop off).

Duty Free

The Commission entered into a concession agreement with DFS Group L.P. (DFS, or DFS Group) in December 1999 covering approximately 53,000 square feet of space in the ITC for the exclusive right to sell duty-free merchandise (25,000 square feet) as well as for a nonexclusive right to sell duty-paid merchandise (28,000 square feet). The leasehold was increased by 3,100 square feet in 2007. The expiration date of the agreement is December 31, 2017.

The current agreement with DFS provides for the payment of concession fees equal to the greater of a MAG or a percentage of gross sales. The MAG is subject to inflation adjustment. The percentage rent for the duty free portion of the agreement is calculated as 20% of the first \$50 million in gross sales from the duty free operations, 25% of the second \$50 million, and 30% of gross sales in excess of \$100 million.

The Commission currently has a solicitation process underway to engage a new duty free operator for the Airport, with the winning proposer expected to be announced by the end of calendar year 2017. The MAG for the new lease is expected to be set at \$42 million once all duty free locations are

in operation beginning in the summer of 2019 (which includes some duty paid operations under the same contract). The new lease is expected to commence around the third quarter of calendar year 2018, and the current DFS Group lease will be in holdover status between January 1, 2018, and the commencement date of the new lease. During the holdover period, the rental structure of DFS Group's current agreement is similar to but slightly higher than the current rental structure. In addition, certain duty free concession spaces will be out of service for renovations during the first year of the new duty free lease (i.e., during FY 2019). Therefore, the combined duty free and duty paid revenues from the new contract are forecast to be \$32 million for FY 2018, \$25 million for FY 2019, and \$42 million for FY 2020. Duty free revenues are forecast to grow with inflation in FY 2021 and thereafter.

Retail

The Commission provides for retail concessions on a duty-paid basis through agreements with multiple vendors, including DFS, as noted above. All of these agreements have a MAG provision. The Commission continues to review and improve its retail concession activities as opportunities arise. The terms of many of the retail concessionaire agreements result in concession fees equal to the MAG. The domestic terminals currently have 42 retail outlets and the international terminal has 35 retail outlets (including duty free outlets).

Food and Beverage

Food and beverage operations are provided by multiple vendors throughout the terminals under different agreements. These agreements provide for a rental payment equal to the greater of a MAG or a percentage of gross sales. The domestic terminals currently have 46 restaurants and the international terminal has 17 restaurants.

Other Commercial Leases and Agreements

The Commission has entered into other terminal area concession agreements for advertising, banking, foreign currency exchange, and vending machines, among other services. These agreements provide for a rental payment equal to the greater of a MAG or a percentage of gross sales. Among them are an agreement with Travelex to provide currency exchange services in retail stores and automated teller machines at the Airport, which has a MAG of \$5.4 million and extends through January 31, 2020.

The Commission awarded an eight year advertising agreement with Clear Channel Airports, effective January 1, 2015, with an annual MAG of \$10.0 million (as adjusted pursuant to the lease). The Commission also has numerous leases, agreements, and permits with airlines and others for various types of rentals and other activities at the Airport, including, among others, ground transportation, hangar rentals, cargo handling, FBO facilities, aviation support, airline employee parking, and federal government activities.

SPECIAL FACILITY OBLIGATIONS

The Commission, pursuant to Section 2.16 of the Bond Resolution, may designate an existing or planned facility as a "Special Facility," and provide that revenues earned by the Commission from such Special Facility are "Special Facility Revenues" and are not be included in Revenues. Under certain conditions, the Commission may issue Special Facility Bonds to fund such Special Facilities.

Debt service on Special Facility Bonds is payable from and secured by the associated Special Facility Revenues and not from or by Net Revenues of the Commission.

Currently Outstanding Special Facility Obligations

As of June 30, 2017, \$68.4 million in principal amount of Special Facility Bonds was outstanding, related to the SFO Fuel Company LLC, associated with jet fuel and gasoline delivery facilities serving domestic and international airlines and ground service equipment users at the Airport.

Future Special Facility Obligations

The Airport Commission plans to build and own a new on-Airport hotel, and has entered into a long-term management agreement with a hotel operator to operate the facility under the Grand Hyatt brand. Construction of the new hotel commenced in June 2017. The Airport Commission has designated the new on-Airport hotel as a Special Facility, and the Airport Commission expects to issue Special Facility Bonds to finance the construction of the hotel. Simultaneously, the Airport Commission plans to issue Second Series Revenue Bonds (the Hotel Bonds) to purchase the Special Facility Bonds and to finance the construction of the adjacent AirTrain station. The initial phases of construction of the hotel are anticipated to be funded with commercial paper proceeds.

The Airport Commission is utilizing this financing structure for technical and operational reasons, but in effect this will result in the entire hotel project being funded by the Hotel Bonds and secured by the general Revenues of the Airport. The hotel project is structured to provide the Airport Commission with a stream of revenue equivalent to (1) debt service payments on the Hotel Bonds, plus (2) net hotel project revenues after the payment of hotel operating expenses, hotel management fees, and other hotel-related requirements. Such amounts may constitute Revenues of the Commission and may be available (after payment of Commission Operation and Maintenance Expenses) to pay debt service on all Second Series Revenue Bonds outstanding (including the Hotel Bonds). Such amounts may also be used to pay down Special Facility Bond principal or retained in the hotel fund to meet operating requirements if needed.

The Airport Commission is proceeding with the hotel project and the related debt on the expectation that these hotel-related Revenues will exceed the corresponding debt service on the planned Hotel Bonds. As such, and because the Airport Commission is in the process of finalizing the financing plan related to the hotel, the Hotel Bonds are not included in the definition of Future Bonds as described in this Report, and the revenues, expenses, and debt service associated with the hotel project are not included in the financial forecasts described in this Report.

The airlines have undertaken a review of the hotel project as part of the MII review process described in the Lease and Use Agreements and have stated no objections to the project. (If the hotel-related Revenues are less than debt service on the Hotel Bonds, then the difference would be included in the airline rate base and paid by the airlines in accordance with the residual airline ratemaking methodology.)

Additionally, the Commission may issue additional Special Facility Bonds related to the SFO Fuel Company LLC, to finance new fuel storage tanks at the Airport.

4. AIRPORT CAPITAL IMPROVEMENT PLAN AND FUNDING

This section includes summaries of the Airport Commission's Capital Improvement Plan and the funding sources for the Capital Improvement Plan.

SUMMARY OF THE CAPITAL IMPROVEMENT PLAN

Airport staff periodically develops and updates a plan for the redevelopment, improvement, and expansion of Airport facilities, which is reviewed by the airlines and approved by the Airport Commission. The plan is submitted to the Airport Commission periodically and approved based on anticipated facility needs, current and expected future airline traffic, available funding sources, airline feedback, and project priority. The Commission-approved plan is included in the City's two-fiscal-year capital budget, which is approved by the City's Board of Supervisors.

On September 5, 2017, the Airport Commission adopted a resolution approving a \$7.4 billion capital improvement plan for the Airport (the Capital Improvement Plan), which calls for \$6.2 billion of capital spending over the 10-year period from FY 2018 to FY 2027. For the 5-year period from FY 2018 to FY 2022 the Capital Improvement Plan calls for \$5.8 billion in spending, with a further \$0.4 billion in spending during the succeeding 5-year period from FY 2023 to FY 2027.

The Capital Improvement Plan reflects completion costs of certain currently ongoing projects, and estimated total costs for projects yet to be initiated. A total of \$1.2 billion was funded through the end of FY 2017, which is included in the Capital Improvement Plan spending total of \$7.4 billion noted above.

The approved Capital Improvement Plan reflects the combination of two distinct categories of projects:

- The "Ascent Program Phase 1", which represents \$6.1 billion of capital spending during the 10-year period FY 2018 to FY 2027 (including program reserves). This program encompasses 49 projects that collectively address the passenger and airline growth-related needs of the Airport. These projects were identified as part of the Commission's previous FY 2017 to FY 2026 capital plan which was approved by the Commission in June 2016. For purposes of the new Capital Improvement Plan, these same projects have been identified as the Ascent Program Phase 1. Approximately \$1.2 billion has already been funded through the end of FY 2017 on projects that are part of the Ascent Program Phase 1.
- "Infrastructure Projects Plan", which represents an additional \$122 million of spending during the FY 2018 to FY 2023 period. Projects in this category were identified subsequent to the adoption of the previous capital plan in June 2016.

Table 16 summarizes the overall Capital Improvement Plan, as adopted by the Airport Commission on September 5, 2017.

The Capital Improvement Plan reflects an increase of \$722 million in total spending from the previous capital plan (totaling \$6.7 billion) approved by the Airport Commission in June 2016. The primary drivers of the overall cost increase are as follows:

- The addition of a program reserve for the Ascent Program Phase 1, including \$600 million in newly budgeted project reserves and \$139 million in previously existing project reserves included in the Commission's prior capital plan approved in June 2016 (the Ascent Program Reserve).
- The addition of scope and associated cost for the Terminal 1 projects, related to improvements to Terminal 1 North.
- The addition of scope and cost to the departures level portion of the International Terminal refresh projects.
- The addition of the "Infrastructure Projects Plan" as noted above.

These increases are offset by the removal of the new Consolidated Rental Car facility and related parking project, two projects totaling \$540 million, which were included in the June 2016 capital plan, but have been omitted from the new Capital Improvement Plan pending additional planning related to the future rental car needs of the Airport.

Before implementing a capital project, Airport Commission management is required to obtain approvals from the Airport Commission; obtain, for certain projects, a finding of fiscal feasibility by the City Board of Supervisors (certain actions of which are subject to approval or veto by the Mayor of San Francisco); obtain applicable environmental approvals, which may include actions by the Airport Commission, the City Board of Supervisors, or both; and conduct a consultation with the airlines signatory to the Lease and Use Agreements when required by the terms of those Agreements.

Table 16 SUMMARY OF CAPITAL IMPROVEMENT PLAN SPENDING San Francisco International Airport										
Funding Funding during 10-year										
	th	rough	FY	2018 to	FY 2023 to		_	total	Program	
(\$ in millions)	F	Y 2017	F	Y 2022	FY 2027		(FY 2018-27)		total	
	[A] [B]			[C]	[D	= B + C]	[E:	= A + D]		
Ascent Program - Phase 1										
Project costs	\$	1,164	\$	4,925	\$	442	\$	5,366	\$	6,531
Program reserves		-		739		-		739		739
Subtotal - Ascent	\$	1,164	\$	5,664	\$	442	\$	6,105	\$	7,269
Infrastructure Projects Plan		-		122		-		122		122
Capital Improvement Plan total	\$	1,164	\$	5,786	\$	442	\$	6,227	\$	7,392

Proceeds of the 2017 Bonds will be spent on (1) construction costs of projects that either do not require environmental review or have already undergone all necessary environmental review and received Commission approval to proceed, and (2) planning and development costs necessary to prepare other projects for environmental review and the necessary approvals. The Commission has also presented these projects to the airlines. In accordance with the Lease and Use Agreements, projects will receive formal airline MII review before monies are spent on those projects.

For purposes of this Report it was assumed that all approvals necessary for the implementation of the projects in the Capital Improvement Plan would be obtained by the Commission in accordance with the project implementation schedules reflected in Exhibit A-1.

The scope, phasing, and timing of implementation of some projects in the Capital Improvement Plan are subject to further refinements depending on aviation activity trends and other Airport operational factors.

The forecast period extends through FY 2023, which reflects the full impact on revenues and expenses of projects completed over the duration of the first 5 years of the Capital Improvement Plan (i.e., through FY 2022). The Commission would need to issue additional Bonds during FY 2023 to FY 2027 to fund costs incurred during the final five years of the Capital Improvement Plan. These additional Bond issues are not reflected in the financial forecasts included in this Report. Interest on these additional Bonds are expected to be capitalized until dates beyond the forecast period (i.e., until after FY 2023).

The Commission recently embarked on the preparation of a recommended Airport Development Plan (ADP), which has recently been completed and is undergoing environmental review. The recommended ADP provides a long-term planning framework to guide future Airport development to cost effectively accommodate up to approximately 71 million annual passengers. The recommended ADP, as modified during environmental review, will result in the identification of a range of potential additional capital projects, one or more of which may be designated as the "Ascent Program – Phase 2" (or similar title) and added to future versions of the Commission's capital improvement plan, if and when the Airport Commission deems that they are warranted to address traffic growth and other factors. The recommended ADP is not included in the Ascent Program – Phase 1 or the Capital Improvement Plan, nor is it reflected in the financial forecasts included in this Report.

Projects in the Capital Improvement Plan

The major projects in the Ascent Program – Phase 1 portion of the Capital Improvement Plan are summarized as follows, with the costs shown reflecting the entire project cost, including amounts funded before FY 2018 and after FY 2022, where applicable:

Terminal 1 projects: Redevelopment of Terminal 1, including a new architectural building envelope (encompassing the Terminal 1 Center and Terminal 1 North segments of the building), construction of a new 24-gate Boarding Area B (18 replacement gates and 6 new gates), a new consolidated baggage handling system and checked baggage screening system, a secure connector to Boarding Area C, a sterile corridor to the International Terminal, and the relocation of certain taxilanes adjacent to the building. (Total cost: \$2,331 million.)

- Terminal 3 redevelopment projects: Comprehensive renovation of the portion of Terminal 3 known as Terminal 3 West including seismic stability improvements and building systems upgrades, and Boarding Area F gate capacity enhancements.
 (Total cost: \$1,029 million.)
- International Terminal refresh projects: Upgrades and improvements to parts of the International Terminal to increase operational efficiency. (Total cost: \$272 million.)
- **On-Airport Hotel**: Development of a new 351-room four-star on-Airport hotel adjacent to the International Terminal. (Total cost: \$237 million.)
- AirTrain extension: Construction of an extension to the AirTrain system from the Airport Rental Car Center to the long-term parking facilities, including construction of a new AirTrain station at Lot DD and construction of a new AirTrain station adjacent to the hotel. This project has yet to receive all required environmental approvals. (Total cost: \$217 million.)
- Courtyard 3 connector: Construction of a secure passenger connector between Terminal 2 and Terminal 3, and development of a new office block for use by Commission staff and third-party tenants. (Total cost: \$210 million.)
- **Security improvements**: Strengthening of Airport-wide security with various improvements, including implementation of an enhanced perimeter intrusion detection system, CCTV systems, and other security system upgrades. (Total cost: \$203 million.)
- Energy improvement program (Net Zero): Implement energy efficiency improvements and on-site renewable energy systems related to various projects in the Capital Improvement Plan. (Total cost: \$176 million.)
- **New long-term public parking garage**: Development of a second long-term parking facility with 3,600 spaces, comprised of a new garage with 3,000 spaces and an existing parking area with 600 surface spaces (Lot DD), to accommodate expected growth in Airport parking demand. (Total cost: \$161 million.)
- **Technology improvement projects**: Upgrades, replacements, and additions of new telecommunications systems infrastructure to enhance the delivery and connectivity of business services around the Airport. (Total cost: \$128 million.)
- Waste water system improvements: Construction of a new industrial waste treatment plant, installation of a new recycled water system for reclaimed water, upgrading of water pipes and infrastructure, and improvements to other supporting infrastructure. (Total cost: \$122 million.)
- Superbay renovation projects: Renovation of the existing Superbay facility to address ageing infrastructure; improvement including systems upgrades and environmental abatement. (Total cost: \$105 million.)
- Revenue enhancement and customer hospitality (REACH) projects: Implementation of various terminal enhancements to improve the customer experience and increase concession revenues. (Total cost: \$104 million.)

In addition to these projects, the Ascent Program – Phase 1 portion of the Capital Improvement Plan includes a total of \$1,235 million of spending associated with other projects around the Airport, including airfield, terminal, and landside facilities. The Capital Improvement Plan also includes an Ascent Program Reserve of \$739 million, which consists of \$600 million in newly budgeted project reserves and \$139 million in previously identified project reserves. The Ascent Program Reserve will be used to address unanticipated needs of projects within the Ascent Program, should they arise. It is the intent of the Airport Commission to only utilize Ascent Program Reserves after all other available cost mitigation methods have been considered.

The Infrastructure Projects Plan component of the Capital Improvement Plan includes \$122 million of total spending, primarily related to support systems, miscellaneous airfield improvements, energy and efficiency improvement, and equipment.

The scope, phasing, and timing of implementation of projects in the Capital Improvement Plan are subject to further refinements depending on aviation activity trends and other Airport operational factors.

Mitigation Factors

Where possible, the Commission implements capital projects using a modular and phased approach, so that future project phases could be deferred (or cancelled) if unanticipated events occur, such as significant declines in aviation activity at the Airport. For example, the Terminal 3 redevelopment projects constitute a phased, modular set of projects. Sections of this project, such as the secure connector between Terminal 2 and Terminal 3, and the office block, could be deferred if needed.

The Commission's design-build and design-bid-build contracts allow the Commission to change, suspend, or delay the work, or terminate an entire contract for the Commission's convenience, while allowing the contractor to seek compensation for costs, if any, associated with a change order, or with the work's suspension, delay, or termination.

If unanticipated events such as a material reduction in aviation activity were to occur at the Airport, the Commission has a range of options at its disposal for addressing a more constrained financial environment, such as:

- Deferring or cancelling a variety of projects (or elements of projects) in the Capital Improvement Plan, such as elements of the Terminal 3 redevelopment project.
- Reducing, or limiting the increase in, Airport Operation and Maintenance Expenses.
- Increasing certain non-airline fees and charges that are not subject to agreements with Airport tenants and users (such as automobile parking rates and ground transportation fees).
- Adjusting airline rates and charges in accordance with the terms of the Airline Lease and Use Agreements (including the provision to implement mid-year rate adjustments if needed).
- Adjusting the debt structure for Future Bond issues to better correlate with the debt
 maturities for Bonds currently outstanding; as described later, for purposes of this Report it
 was assumed that all future Bond issuance after the 2017 Bonds would be undertaken on a
 level annual debt service basis.
- Increasing the amount of PFCs designated and applied as Revenues, to the extent such PFC cash balances are available.

SUMMARY OF CAPITAL IMPROVEMENT PLAN FUNDING

Several funding sources are expected to be available to finance the improvements in the Capital Improvement Plan, including the following sources, as shown in more detail in Exhibit A-2.

Grants

The Airport Commission expects to receive a total of \$126 million in grants for projects in the Capital Improvement Plan for the period through FY 2022 (excluding amounts already received), which covers the first five years of the Capital Improvement Plan. These grants primarily consist of \$66 million of anticipated federal Airport Improvement Program (AIP) and State of California grants and \$60 million of TSA grants, which would be approved and disbursed by the FAA and the TSA respectively. AIP grants encompass both entitlement grants and discretionary grants; entitlement grants are determined on a formula based on passenger and cargo numbers, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison with projects at other airports in the FAA region.

In recent years, AIP discretionary grants requested by the Airport Commission have been reduced by the FAA because of the growing Annual Service Payments being made to the City's General Fund. For example, during federal fiscal year 2016, the FAA provided discretionary grants of \$12.4 million to the Commission, \$15.4 million less than the amount requested.

When determining the distribution of discretionary grants, the FAA may consider, as a militating factor, whether the Airport Commission uses its revenues for purposes other than its capital or operating costs when those revenues exceed the amount used by the Commission for such costs in the base year ending June 30, 1995, as adjusted for inflation. The Commission's Annual Service Payment to the City's General Fund for indirect services, management, and facilities provided by the City to the Commission is considered to be a non-capital, non-operating cost for this purpose. For the past ten fiscal years, the Annual Service Payment has exceeded the inflation-adjusted base year payment. Growing levels of Annual Service Payments are a direct result of the Airport Commission's success in increasing concession revenues at the Airport, as noted in Section 3. There may be similar reductions in AIP discretionary grants in the future for the same reason.

During FY 2017, the Airport Commission received \$7.0 million in entitlement grant funding and \$12.4 million in discretionary grant funding. The Commission intends to apply the majority of its AIP discretionary and entitlement grants to airfield related projects. For purposes of this Report, it was assumed that an average of approximately \$7.5 million per year in AIP entitlement funding and an average of approximately \$5.4 million per year in AIP discretionary grant funding would be available.

The Airport Commission has also executed Other Transaction Agreements (OTAs) with the TSA to receive up to \$60 million of funds related to Checked Baggage Inspection System (CBIS) improvements, of which \$0.3 million has been received by the Commission to date.

Any reductions in AIP grant and TSA funding amounts below the total assumed for this analysis would instead necessitate the Airport Commission to issue additional Bonds to make up for the shortfall (and include the associated debt service in the airline rate base), or fund those shortfalls with PFCs on a pay-as-you-go basis, or with other available Airport Commission funds such as unrestricted cash balances.

Bonds

This Report assumes Bond funding of \$5.5 billion in Capital Improvement Plan project costs expected to be incurred during the period FY 2018 to FY 2022, including \$593.8 million to be provided by the 2017 Bonds. (This excludes the issuance of Hotel Bonds, as described earlier.) The Commission expects to use a portion of the 2017 Bond proceeds to repay \$300.5 million of outstanding commercial paper previously issued to finance a portion of the costs of the Capital Improvement Plan.

The Airport Commission has approved the issuance of the 2017 Bonds, and expects to obtain the additional approvals required before the issuance of the planned Future Bonds during the forecast period. Bond proceeds are to be used to fund a wide range of projects in the Capital Improvement Plan*. Proceeds of the new money 2017 Bonds are also to be used for issuance and financing costs, for adding to the balance in the Contingency Account, and for the funding of reserves and capitalized interest associated with the 2017 Bonds. In addition, a portion of the Series 2017C Bonds are planned to be used to make a swap termination payment associated with the refunding of certain variable rate bonds, and the associated debt service on the Series 2017C Bonds is reflected in the Report.

The total Bond-funded Capital Improvement Plan project costs of \$5.5 billion for the period FY 2018 to FY 2022 noted above, and reflected in this Report, does not include additional Bonds associated with the on-Airport hotel project. As described in Section 3, the on-Airport hotel is being developed as a Special Facility.

Passenger Facility Charges

The majority of the Commission's PFC revenues have been and will continue to be applied to pay a portion of the debt service on outstanding Bonds. As described more fully in Section 3, PFC revenues are not defined as Revenues pursuant to the Bond Resolution, unless specifically designated as such by the Airport Commission. Annually since 2002, the Commission has designated and applied a certain amount of PFC revenues as Revenues, and used those amounts to pay debt service on Outstanding Bonds. (In certain circumstances, the Commission may elect to actually apply fewer PFCs as Revenues than it had earlier designated as Revenues, during any given period.) During FY 2016 and FY 2017, \$43.1 million and \$23.4 million in PFC revenues, respectively, was applied as Revenues pursuant to the Bond Resolution and applied to Bond debt service. The Commission does not currently anticipate applying PFCs to projects on a pay-as-you-go basis.

The Airport Commission's current PFC collection authorization totals \$2.0 billion (and PFC spending authorization totals \$1.7 billion), and extends until the date on which the total authorized amount has been collected, but not later than February 2030, as approved by the FAA in its Final Agency Decision associated with the Airport Commission's most recently approved PFC application. Of the \$2.04 billion in PFC collection authority, \$319.7 million was approved by the FAA for PFC collection at the \$3.00 per eligible enplaned passenger level (but not for spending on project costs, pending the receipt of FAA and environmental approvals) in the Commission's most recent PFC application related to the AirTrain extension project.

The PFC revenues received by the Commission are subject to audit and final acceptance by the FAA and costs reimbursed with PFC revenues are subject to adjustment upon audit. As of June 30, 2017,

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^{*}A portion of the 2017 Bond and Future Bond proceeds will be used to fund deposits to the Commission's Contingency Account.

the Commission had collected a total of \$1,177.7 million in PFC revenues (including associated interest income) on a cash basis, including \$273.6 million in PFC revenues collected but not yet expended.

The Commission intends to submit future PFC applications seeking PFC funding for the Terminal 1 and Terminal 3 projects, and an application to obtain approval to use PFCs on the AirTrain extension project, including approval to pay associated Bond debt service with PFCs. The Commission intends to structure its overall PFC program and seek the necessary approvals to ensure that it can continue to collect PFCs throughout the forecast period at the \$4.50 per eligible enplaned passenger level.

Exhibit B shows the forecast collection of PFC revenues during the forecast period, and the projected application of those PFC revenues. Annual PFC revenues are forecast to increase from \$103.0 million in FY 2018 to \$111.9 million in FY 2023 (excluding associated interest income). The Airport Commission plans to adjust the amount of PFC revenues included as Revenues to manage realized airline payments in each future year, and to increase the amount to \$240.7 million in FY 2023. From FY 2018 through FY 2023, the Airport Commission plans to include a total of \$822.2 million of PFC revenues as Revenues. As of June 30, 2017, the remaining PFC spending authority under the Commission's approved PFC applications is \$811.9 million. As discussed above, the Airport Commission expects to continue submitting PFC applications to obtain additional PFC collection and spending authorization in the future.

Other Funding Sources

Additional sources of funds available to the Airport Commission to finance capital improvements at the Airport include the Airport's unrestricted or available cash balances, unspent proceeds from Bonds issued prior to the 2017 Bonds, and funds from the issuance of special facility bonds to finance improvement to the fuel storage and distribution system at the Airport (i.e., SFO Fuel bonds). Unrestricted cash balances are those amounts that are primarily generated from the day-to-day operation of the Airport (i.e., operating cash flow, net of Bond debt service and reserve funding requirements). Third party funding sources may also be used for certain types of projects in the Capital Improvement Plan.

The Commission currently anticipates funding \$52.2 million in fuel system improvements with SFO Fuel bonds and \$24.7 million on equipment and capital outlays with available cash balances. The Commission has also used \$239.8 million of prior Bond proceeds and grants to fund projects in the Capital Improvement Plan through FY 2017.

OTHER POTENTIAL AIRPORT CAPITAL IMPROVEMENTS

As noted earlier, the Airport Commission expects to continue to develop and finance needed capital improvements at the Airport, including repair and rehabilitation of existing facilities, and development of new facilities to accommodate anticipated airline traffic demand at the Airport. These projects would only be undertaken as needed, based on market demand for airfield facilities, terminal facilities, gates, and landside facilities. Such projects, if any, are outside the Capital Improvement Plan and have not been reflected in the financial forecasts in this Report.

5. FINANCIAL ANALYSIS

Our study was undertaken to evaluate the ability of the Airport Commission to generate sufficient Net Revenues to meet the requirements of the Bond Resolution, taking into account Annual Debt Service on the currently Outstanding Bonds, the 2017 Bonds, and anticipated Future Bonds. The forecast period for this Report extends to FY 2023, three full fiscal years after capitalized interest on the 2017 Bonds has been fully applied (a portion of the interest on the 2017 Bonds is capitalized through May 1, 2020).

The financial data for FY 2015 and FY 2016 reflect the actual operating results; the financial data for FY 2017 are estimated based on the full year preliminary unaudited results; the financial data for FY 2018 are forecast based on the Airport Commission's budget (adjusted primarily to reflect the 2017 Bond debt service as described below). Data for FY 2019 through FY 2023 were forecast by taking into consideration historical operating results, the preliminary results for FY 2017, the Commission's FY 2018 budget, and the aviation activity forecasts described in Section 2, among other factors.

To provide the basis for the financial analysis the following are presented: annual debt service requirements, reconciliation of historical financial results, Operation and Maintenance Expenses, Revenues, application of Revenues, debt service coverage, and a summary of financial forecasts. A sensitivity scenario is also presented.

ANNUAL DEBT SERVICE REQUIREMENTS

Exhibit C presents a summary of estimated sources and uses of funds for the 2017 Bonds as prepared by Public Financial Management, Inc. (PFM), the Airport Commission's co-financial adviser, based on certain data and information provided by the Commission. For purposes of this Report, it was assumed that the 2017 Bonds are to be issued as fixed-rate securities and a term to final maturity of 30 years. An estimated all-in true interest cost of 4.33% on the Series 2017 Bonds was provided by PFM in September 2017, which is higher than comparable rates in the financial markets as of the date of this report. The 2017 Bonds are structured with interest capitalized through May 2020, and full maturity in FY 2047.

Exhibit C also presents a summary of the estimated sources and uses of funds for the anticipated Future Bonds, which are expected to be issued during the forecast period, although the timing and amount of these issues may change based on future events and circumstances. The estimated sources and uses of funds for the Future Bonds were also provided by PFM, based on certain data and information provided by the Commission. These planned Bonds were assumed to have a term to final maturity of 30 years with approximately level annual debt service (after the respective capitalized interest periods), and to be issued at a true interest cost in the range of 5.08% to 6.09%.

While for purposes of this Report a level annual debt service structure was assumed for the Future Bonds, the Commission intends to investigate alternative structures that would smooth total annual debt service (taking both currently outstanding Bonds and Future Bonds into account) and better enable the Commission to achieve its financial targets, such as smoothing the future annual airline cost per enplaned passenger metric.

In addition to providing funds for the Capital Improvement Plan, for purposes of this Report it was assumed that the Airport Commission would use a portion of the proceeds of the 2017 Bonds and the

Future Bonds to increase the balance of the Contingency Account by approximately \$128.5 million through FY 2022. A summary of the 2017 Bonds and the Future Bond issues assumed for purposes of this Report is shown in Table 17. (The Hotel Bonds are not included in these totals.)

Table 17
SUMMARY OF 2017 BONDS AND FUTURE BOND ASSUMPTIONS
San Francisco International Airport

					All-in	
		Principal	Project		True	Interest
	Issuance	Amount	Costs	Final	Interest	Capitalized
	Date	(\$ millions)	(\$ millions)	Maturity	Cost	through
2017 Bonds (Fall) (a)	Oct-17	632	594	2047	4.33%	May-20
Future Bonds						
2018 Bonds (Winter)	Feb-18	549	455	2047	5.08%	Feb-21
2018 Bonds (Summer)	Jul-18	563	455	2048	6.09%	Jul-21
2018 Bonds (Fall)	Nov-18	978	784	2048	6.08%	Jun-20
2019 Bonds (Spring)	May-19	958	784	2049	6.08%	Sep-20
2019 Bonds (Fall)	Nov-19	624	513	2049	6.09%	Feb-21
2020 Bonds (Summer)	Jul-20	604	513	2050	6.09%	Apr-21
2021 Bonds (Spring)	Mar-21	943	810	2051	6.08%	Nov-21
2022 Bonds (Spring)	May-22	656	582	2052	6.09%	Aug-22
Subtotal - Future Bonds		5,877	4,898			
Total - 2017 Bonds & Future	e Bonds	6,509	5,491			

⁽a) The 2017 Bonds include the refinancing of \$301 million of commercial paper.

Source: Public Financial Management, Inc., September 2017.

Exhibit D shows annual debt service for all current and anticipated Future Bonds to be issued under the Bond Resolution during the forecast period, including the 2017 Bonds. Debt service on a cash basis is forecast to increase from \$419.4 million in FY 2017 to \$887.5 million in FY 2023, and to decline gradually thereafter. On June 22, 2017, the Airport Commission used available cash to defease \$12.9 million of outstanding principal of the Series 34E Bonds, which is reflected in the debt service for FY 2017.

In addition, the Airport Commission would need to issue additional Bonds during FY 2023 to FY 2027 to fund up to \$442 million of additional project costs incurred during that period, assuming the current Capital Improvement Plan is fully implemented in that period. Associated debt service is not included in the financial analysis described in this Report because any associated debt service (net of capitalized interest) would not be incurred during the forecast period. Similarly, the debt service presented in Exhibit D does not include debt service on Second Series Revenue Bonds for the onairport hotel, as described in Section 4.

The Airport Commission intends to closely monitor aviation activity levels at the Airport, the Airport Commission's financial position, Airport operational factors, and general financial market conditions; and make adjustments as needed to its Capital Improvement Plan phasing (to the extent possible), overall debt levels, and airline payments per enplaned passenger levels to ensure that needed Airport facilities are provided on a timely basis and in a manner that will not impede the Airport's competitive position or financing capability.

Additionally, the Airport Commission intends to use commercial paper as interim financing for the Capital Improvement Plan, and to repay the principal amount of commercial paper using the proceeds of Future Bonds. The interest payments on the commercial paper, as well as related expenses, are subordinate debt service of the Airport Commission.

RECONCILIATION OF HISTORICAL FINANCIAL RESULTS

The Airport Commission maintains its accounting records on an accrual basis, in conformance with generally accepted accounting principles (GAAP) for governmental entities. Table 18 presents a summary and reconciliation of the historical operating results of the Commission for FY 2015 and FY 2016, as obtained from the Commission's audited financial statements.

OPERATION AND MAINTENANCE EXPENSES

As described in Section 3, under the Bond Resolution, Operation and Maintenance (O&M) Expenses are defined as substantially all operating and maintenance expenses of the Airport, excluding depreciation and amortization expenses.

Forecast O&M Expenses for FY 2018 through FY 2023 are based on the Commission's FY 2018 budget (with certain adjustments for utilities expenses and other post-employment benefits expenses) and its plan for operating Airport facilities through the forecast period. O&M Expenses for FY 2019 through FY 2023 take into consideration assumed inflationary increases in the cost of labor, services, utilities, and supplies, as well as the effect of new facilities coming into service during the forecast period. Annual inflation of 2% per year was assumed.

Exhibit E (and Table 19) shows O&M Expenses for the forecast period, as determined in accordance with the Bond Resolution. In total, O&M Expenses are forecast to increase from \$468.1 million estimated for FY 2017 to \$650.0 million in FY 2023, representing an average increase of 5.6% per year.

Table 18 RECONCILIATION OF HISTORICAL FINANCIAL RESULTS San Francisco International Airport For Fiscal Years ended June 30; dollars in thousands

		2015		2016
Financial Statements (FS)				
Operating Revenues	\$	815,364	\$	866,991
Operating Expenses exc. Depreciation & Amortization		(392,883)		(412,114)
Depreciation and Amortization		(216,146)		(228,359)
Operating Income	\$	206,335	\$	226,518
Nonoperating Revenues (expenses)				
Interest Income	\$	9,118	\$	13,957
Interest Expenses		(210,608)		(208,597)
Passenger Facility Charge Revenues		92,042		99,131
Write-offs and Loss on Disposal		(8,104)		(13,091)
Net Other Nonoperating Revenues (expenses)		(24,274)		(35,863)
Total Nonoperating Revenues (expenses)	\$	(141,826)	\$	(144,463)
Income before Contributions and Special Items	\$	64,509	\$	82,055
Capital Grant Contributions		32,119		10,424
Transfers to the City and County of San Francisco		(40,480)		(42,542)
Changes in Net Assets	\$	56,148	\$	49,937
Net Revenues under Bond Resolution				
Revenues	\$	867,064	\$	917,127
Operation and Maintenance Expenses	_	(427,683)		(443,684)
Net Revenues under Bond Resolution	\$	439,381	\$	473,443
Reconciliation				
Changes in Net Assets	\$	56,148	\$	49,937
Excluding				
Passenger Facility Revenues Collected		(92,042)		(99,131)
Interest Income		(9,118)		(13,957)
Interest Expenses		210,608		208,597
Write-offs and Loss on Disposal		8,104		13,091
Net Other Nonoperating Revenues (expenses)		24,274		35,863
Capital Grant Contributions		(32,119)		(10,424)
Transfers to the City and County of San Francisco		40,480		42,542
Including				
Depreciation		216,146		228,359
Passenger Facility Revenues Designated as Revenues		47,550		43,110
Interest Income Classified as Revenues		4,151		7,025
Net Expenses Adjustment under Bond Resolution	_	(34,801)	_	(31,569)
Net Revenues under Bond Resolution	\$	439,381	\$	473,443

Sources: Airport Commission financial statements for FY 2015 and FY 2016.

Table 19
OPERATION AND MAINTENANCE EXPENSE SUMMARY
For Fiscal Years Ending June 30; dollars in thousands

	Act FY 2		Estim FY 2		Fored FY 20	
Categories	Amount	% of total	Amount	% of total	Amount	% of total
Salaries and benefits	275,301	62.0%	291,634	62.3%	378,036	58.2%
Contractual services	68,108	15.4%	84,686	18.1%	131,328	20.2%
Services provided by other City departments	20,653	4.7%	19,055	4.1%	33,623	5.2%
Repairs and maintenance	37,108	8.4%	29,544	6.3%	35,277	5.4%
Utilities	23,738	5.4%	23,067	4.9%	29,623	4.6%
Materials and supplies	17,001	3.8%	16,240	3.5%	21,226	3.3%
General administration	1,774	0.4%	3,930	0.8%	4,693	0.7%
Incremental expenses for new facilities (a)	0	0.0%	0	0.0%	16,201	2.5%
Total Operation and Maintenance Expenses	443,684	100.0%	468,156	100.0%	650,007	100.0%

 $⁽a) \ Net \ of \ operating \ expense \ reductions \ associated \ with \ the \ implementation \ of \ certain \ projects \ in \ the \ Capital \ Plan.$

Note: Numbers may not add to totals due to rounding.

Sources: Actual and estimated - Airport Commission; Forecast - LeighFisher.

For the purposes of this Report, the following assumptions were used:

- The cost of labor (salaries) and benefits for the Commission, including police and fire services, will increase on average 4.4% per year during the forecast period, which reflects assumed inflation and a real (net of inflation) increase.
- Contractual services will increase on average 7.6% per year, reflecting the Commission's FY 2018 budget, followed by inflationary increases in the following years.
- Other expenses, including services provided by other City departments, repairs and maintenance, utilities, materials and supplies, general and administration, and environmental expenses, will increase on average 5.2% per year, reflecting the Commission's FY 2018 budget, followed by inflationary increases in the following years.
- Incremental operating expenses are expected to be cumulatively up to \$16.2 million per year by FY 2023 associated with completion of additional facilities in the Capital Improvement Plan.
- An assumed reduction in annual operating expenses of approximately \$4.4 million starting in FY 2021 due to the elimination of certain shuttle bus expenses after the AirTrain extension is completed and in operation.

The allocation of O&M Expenses to Airport Cost Centers, as shown in Exhibit E, was based on the Airport Commission's procedures and cost accounting system, as described in the airline Lease and Use Agreements. The main categories of O&M Expenses are described below.

Personnel Expenses

Personnel expenses include the salaries and fringe benefits of Commission employees, as well as the direct expenses for police and fire services provided by the City. Personnel expenses of the Commission accounted for 44.0% of O&M Expenses in FY 2016. Police and firefighting expenses accounted for 12.6% and 5.4% of O&M expenses, respectively, in FY 2016.

Contractual Services

Contractual services include payments made to outside vendors for services such as maintenance, professional services, and rents. Contractual services accounted for 15.4% of O&M Expenses in FY 2016.

Other Operating Expenses

Other operating expenses include services provided by other City departments, repairs and maintenance, utilities, materials and supplies, general administration, and environmental expenses.

- Services Provided by Other City Departments include legal, purchasing, human resources, the Contract Monitoring Division, workers' compensation, and finance services, as well as water supply. (These are direct services in addition to those paid for with the Annual Service Payment.) This expense category accounted for 4.7% of O&M Expenses in FY 2016.
- Repairs and Maintenance includes routine maintenance expenses for buildings, vehicles, and equipment, including elevators, escalators, and moving sidewalks. Write-offs of construction work in progress may also be recorded as part of this line item. Repairs and maintenance accounted for 8.4% of O&M Expenses in FY 2016.
- **Utilities** include expenses for light, heat, power, and natural gas at the Airport. The gross costs for electricity net of the cost of electricity sold to tenants are recorded as part of this line item. Utilities accounted for 5.4% of O&M Expenses in FY 2016. No utility cost savings associated with the Commission's Net Zero initiative were assumed.
- Materials and Supplies reflect expenses incurred to support the maintenance and repair of buildings, vehicles, and equipment and to support various services of the Airport.
 Materials and supplies accounted for 3.8% of O&M Expenses in FY 2016.
- **General Administration** includes expenses related to insurance; taxes, licenses, and permits; judgments and claims; and write-offs for bad debts. General and administration expenses accounted for 0.4% of O&M Expenses in FY 2016.
- **Environmental** includes the costs of environmental cleanup incurred in connection with normal operations or with capital improvement projects; the costs are offset by reimbursements, if any, for such costs.

REVENUES

Airport Revenues consist of substantially all airline revenues and nonairline revenues generated from the operation of the Airport, as shown in Table 20. Exhibit F presents Revenues of the Airport Commission for FY 2015 and FY 2016 (actual), FY 2017 (estimated), and FY 2018 through FY 2023 (forecast).

Table 20
OPERATING REVENUE SUMMARY
For Fiscal Years Ending June 30; dollars in thousands

		Act				Estim				Fore	
Categories	Δr	FY 2 nount	% of t	ntal	Δr	FY 2	017 % of	ntal	_	FY 20 Amount	% of total
<u>categories</u>		nount	70 OI (otai		ilount	/0 01	otai		Amount	70 OI total
Aviation Revenues											
Landing Fee Revenues	\$:	162,287	:	18.7%	\$ 1	.83,391	2	20.0%	\$	324,124	24.2%
Terminal Rentals	:	255,031	3	<u> 29.4</u> %	2	265,481	3	<u> 29.0</u> %		479,608	35.8%
Airline Revenue	\$ 4	417,318	4	48.1%	\$ 4	148,873	4	19.1%	\$	803,732	59.9%
Other Aviation Revenues											
Other Rental Revenue		47,322		5.5%		50,540		5.5%		55,559	4.1%
Other Aviation Revenue		30,800		3.6%		33,195		3.6%		39,957	3.0%
		78,122		9.0%		83,735		9.2%		95,516	7.1%
Total Aviation Revenues	\$ 4	495,440	į	57.1%	\$ 5	32,607	į	8.2%	\$	899,248	67.0%
Concession Revenues											
Parking	:	103,282	:	11.9%	1	.06,791	:	L1.7%		118,925	8.9%
Rental Car		50,401		5.8%		48,967		5.4%		52,708	3.9%
Duty Free		25,080		2.9%		24,982		2.7%		39,975	3.0%
Retail		18,198		2.1%		18,564		2.0%		23,762	1.8%
Food & Beverage		21,377		2.5%		23,483		2.6%		35,551	2.7%
Other Services		22,979		2.7%		24,123		2.6%		27,148	2.0%
TNC and Ground Transportation Trip Fees		26,098		3.0%		36,573		4.0%		38,566	2.9%
Other Concession Revenue		16,199		1.9%		16,763		1.8%		17,924	<u>1.3</u> %
	:	283,615	3	32.7%	3	800,245	3	32.8%		354,558	26.4%
Net Sales and Services											
Utilities (Net of Costs)		9,588		1.1%		10,075		1.1%		13,565	1.0%
BART Payments		3,435		0.4%		3,391		0.4%		3,516	0.3%
Rental Car Facility Fees		14,982		1.7%		15,470		1.7%		17,482	1.3%
Rental Car Transportation Fees		38,811		4.5%		34,724		3.8%		34,937	2.6%
Other Sales and Services		21,121		2.4%		18,197		2.0%		17,962	1.3%
		87,937	<u>:</u>	<u>10.1</u> %		81,857		<u>8.9</u> %		87,461	<u>6.5</u> %
Total Nonairline Revenues		371,552	4	42. <u>9</u> %	3	82,102	4	11.8 <u></u> %	_	442,019	33.0%
Total operating revenues	\$ 8	866,991	10	00.0%	\$ 9	14,709	10	00.0%	\$	1,341,267	100.0%

Note: Numbers may not add to totals due to rounding.

Source: Actual and estimated -- Airport Commission; Forecast -- LeighFisher.

Airline Revenues

Airline revenues are derived from landing fees and terminal rentals paid by airlines to the Airport Commission pursuant to the Lease and Use Agreements. Airline revenues, taken in the aggregate, are equivalent to the airline revenue requirement in the residual rate-making methodology used at the Airport.

The airline revenue requirement is calculated by subtracting nonairline revenues from the total revenue requirement as determined pursuant to the Lease and Use Agreements. Nonairline revenues are discussed in more detail below.

As of June 30, 2016, the Airport Commission has recorded unearned aviation revenues of \$67.6 million, which are revenues over-collected from airlines in prior fiscal years (and therefore not recognized as revenues in the prior years). As provided for in the Lease and Use Agreement, the Airport Commission can apply such unearned aviation revenue balances to reduce future airline rates and charges, and when used for this purpose in future years will be recognized as part of Revenues.

Landing Fee Revenues. The calculation of the landing fee rate and landing fee revenues is shown in Exhibit F-1. Allocated costs of the Airfield Area (including O&M Expenses and allocable debt service) are calculated first. Then, certain adjustments are made, as follows:

- Allocable Utilities Area expenses are added.
- Nonairline revenues generated from airfield activities, including allocated PFC revenues, are deducted.
- Airport Support Area deficits or surpluses are added (or subtracted, as applicable).
- Adjustments for prior year Airfield Area surpluses (or deficits) are added (or subtracted, as applicable).

The resulting net amount is then divided by the forecast landed weight of the scheduled airlines to calculate a basic landing fee rate.

Subsequently, a landing fee surcharge is collected to recover 50% of the Rental Surcharge (described below) net of surplus in the Groundside Area, if any. The sum of the basic landing fee rate and the surcharge rate, if any, is the effective landing fee rate to be paid by the airlines.

The effective landing fee rate is forecast to increase from \$5.24 per 1,000 pounds of landed weight charged in FY 2018 to \$7.99 per 1,000 pounds of landed weight in FY 2023. Landing fee revenues are forecast to increase from \$208.2 million to \$324.1 million over the same period.

Terminal Rentals. The calculation of the terminal rental rate and terminal rental revenues are shown in Exhibit F-2. Allocated costs of the Terminal Area (including allocable O&M Expenses and debt service) are calculated first. Then, certain adjustments are made as follows:

- Allocable Utilities Area expenses are added.
- The Annual Service Payment to the City is added.
- Adjustments to prior year surpluses (or deficits) in the Terminal Area are added (or subtracted, as applicable).

The resulting amount is divided by the gross square footage of the Terminal Area to calculate the basic terminal rental rate per square foot.

Subsequently, a terminal Rental Surcharge is calculated, as follows:

- The cost of public space in the Terminal Area (the basic rental rate multiplied by total public space) is calculated.
- Nonairline revenues generated in the Terminal Area, including allocated PFC revenues, are deducted.
- Groundside Area deficits are added.

If the resulting net amount is a deficit, it is allocated 50% to the Terminal Area (and 50% to the Airfield Area, as noted above), with the 50% share allocated to the Terminal Area divided by airline leased space to calculate the terminal rental surcharge rate per square foot. If the resulting net amount is a surplus, it is allocated 100% to the Terminal Area and results in a downward adjustment to the basic terminal rate. The effective terminal rental rate paid by the airlines is the sum of the basic rental rate and the Rental Surcharge, if any.

The effective average terminal rental rate is forecast to increase from \$169.03 per square foot charged in FY 2018 to \$262.71 per square foot in FY 2023. Airline terminal rental revenues are forecast to increase from \$312.8 million to \$479.6 million over the same period.

Total Airline Revenues and Airline Payments per Enplaned Passenger. As shown in Exhibit F-3, passenger airline payments per enplaned passenger are forecast to decline from \$16.52 in FY 2016 to an estimated \$16.46 in FY 2017, and to increase to \$26.42 in FY 2023 when measured in nominal dollars, primarily reflecting additional debt service associated with the 2017 Bonds and Future Bonds to be issued to implement the Capital Improvement Plan. The enplaned passenger forecasts used to calculate these figures are described earlier in Section 2, and such enplanement forecasts took into account the anticipated increases in airline cost levels associated with the Capital Improvement Plan, among numerous other factors. (These figures reflect airline payments made by the passenger airlines only; landing fees paid by the cargo airlines are excluded from the numerator for the calculation.)

Other Aviation Revenues

The Commission generates revenues from aviation sources in addition to fees and charges paid by the airlines. It was assumed that the Airport Commission's current operating practices related to the other aviation revenue items would remain generally unchanged during the forecast period; and where applicable, expiring contracts and agreements would be renewed or replaced on generally the same terms as the current contracts and agreements.

Other Rental Revenue. This revenue category represents monies collected from the aviation-related activities of Airport tenants. It consists primarily of (1) rental revenue from ground leases, cargo building leases, and aircraft parking area leases, and (2) fees for parking by airline employees. Other rental revenue totaled an estimated \$50.5 million in FY 2017 and is forecast to increase to \$55.6 million in FY 2023.

Other Miscellaneous Aviation Revenue. This revenue category consists primarily of rentals, fees, and charges related to the sale of aviation fuel, servicing of airline and general aviation aircraft, and for the use and occupancy of general aviation facilities. Other aviation revenue totaled an estimated \$33.2 million in FY 2017 and is forecast to increase to \$40.0 million in FY 2023.

Nonairline Revenues

Nonairline revenues include revenues generated from automobile parking, automobile rentals, TNCs, duty free, retail, food and beverage, telephone and other services, and other concessions. Additionally, nonairline revenues include certain interest earnings of the Commission. It was assumed that the Airport Commission's current operating practices related to nonairline revenue items would remain generally unchanged during the forecast period unless otherwise noted; and where applicable, expiring contracts and agreements would be renewed or replaced on generally the

same terms as the current contracts and agreements (unless otherwise noted below). These revenues are described below and shown in Exhibit F.

Automobile Parking. Automobile parking revenues consist of all revenues derived from public parking at the Airport, including 13,840 public parking spaces in parking garage and surface lots, as described in Section 1. The remote long-term parking facility is served by shuttle bus. Effective June 10, 2016, the Commission adjusted its parking rates to \$2 per 15-minute increment up to a maximum of \$36 for each 24 hours in the Domestic Parking Garage and in the ITC garages, and a daily maximum parking rate of \$25 in the long term parking lot. Revenues from valet parking, the sale of impounded vehicles, and parking for employees of concession operators are also included in parking revenues.

Revenues from the Commission's parking operation increased from \$102.4 million in FY 2015 to an estimated \$106.8 million in FY 2017.

Parking revenues were forecast as a function of forecast numbers of originating passengers, parking transactions per passenger, and revenue per transaction, and reflect fluctuations in the number of parking spaces available during the period of construction for certain projects in the Capital Improvement Plan (the Commission is expected to temporarily lose some parking spaces), as well as the anticipated ongoing impact on parking of the increased use of TNC activities at the Airport. The parking revenue forecast for FY 2023 is \$118.9 million, including approximately \$5.2 million annually from a new long-term parking garage planned to open in FY 2020. The FY 2017 estimated parking revenue represents \$5.00 per originating passenger. For purposes of this Report, it was assumed that parking rates would not be adjusted during the forecast period.

Rental Cars. Rental car revenues consist of concession fees from on-Airport rental car companies. Under the terms of agreements with the rental car companies that became effective January 1, 2009, the on-Airport rental car companies pay a privilege fee to the Commission equivalent to 10% of their gross revenues, subject to MAGs. Rental car concession fee revenues declined from \$51.2 million in FY 2015 to \$50.4 million in FY 2016, and declined further to an estimated \$49.0 million in FY 2017, attributable primarily to ground transportation mode share shifts resulting from TNCs starting service at the Airport, offset by passenger growth. Rental car concession fee revenues from on-Airport operators are forecast to increase to \$52.7 million in FY 2023. It was also assumed that the terms and conditions governing the use of the Airport by off-Airport rental car operators, which represents a minimal amount of revenue, would not change materially during the forecast period.

Duty Free. The Airport Commission has a contract with the DFS Group for the duty free concession in the ITC (also encompassing the duty-paid operation), which provides for payment to the Commission of a certain percentage of the concessionaire's gross sales at the Airport, subject to a MAG. The percentage of duty free gross sales paid to the Commission varies from 20% to 30%, depending on the volume of sales. Of the total \$32.0 million of revenues received from the DFS Group in FY 2016, \$25.1 million was recognized as duty-free revenues.

As described in Section 3, the Airport Commission's contract with the DFS Group extends to December 31, 2017, but will be held over until a new agreement is in effect, expected to be in the third quarter of calendar year 2018. Under the new agreement with DFS or another successor duty

free operator, a MAG of \$42 million (encompassing both duty free and duty paid operations) is assumed to be in effect, subject to a percentage of gross sales.

For purposes of this Report it was assumed that the Commission's duty free revenues would be at the level of the MAG, starting in FY 2020. Consequently, revenues are forecast to increase from an estimated \$25.0 million in FY 2017 to \$40.0 million in FY 2023 (where this amount represents the duty free share of the operator's overall MAG).

Retail. Retail revenues consist of concession fees paid by gift and retail concessionaires in both the ITC and the domestic terminals, including those from the duty-paid operations under the DFS Group contract. Revenues in this category increased from \$17.9 million in FY 2015 to an estimated \$18.6 million in FY 2017. Due to a higher anticipated MAG from the duty paid portion of the new duty free contract described above, as well as traffic growth, total retail revenues are forecast to increase to \$23.8 million in FY 2023.

Food and Beverage. Food and beverage revenues consist mainly of rents and fees paid by food and beverage concessionaires for in-terminal operations. In FY 2017, food and beverage revenues totaled an estimated \$23.5 million.

The Airport Commission expects food and beverage revenues to increase when phases of the Terminal 1 Redevelopment program and the Terminal 3 program are completed. For purpose of this Report, it was assumed that net incremental revenues due to completion of the Terminal 1 Redevelopment would be \$4.0 million starting FY 2021, in addition to adjustments for inflation and passenger growth. Food and beverage revenues are forecast to total \$35.6 million in FY 2023.

Other Services. Other services revenues consist of rents and privilege fees paid by banks, advertising companies, and several other miscellaneous concessionaires. Revenues in this category totaled an estimated \$24.1 million in FY 2017 and are forecast to increase to \$27.1 million in FY 2023.

TNCs and Ground Transportation. This category consists of ground transportation and TNC trip fees. As described earlier, TNCs have been operating at the Airport since September 2014. During FY 2016, the Commission generated \$16.9 million in TNC trip fees, increasing to an estimated \$26.5 million during FY 2017, which is the primary driver for the decrease in the other ground transportation revenue categories.

Revenues in this category are forecast to total \$36.6 million in FY 2017 and are forecast to increase to \$38.6 million in FY 2023, based on increased aviation activity levels.

Other Concession Revenues. Other concession revenues consist of nonairline revenues from terminal and other building space, taxicab trip fees, miscellaneous fees and charges, privilege fees assessed off-Airport rental car companies, and rents from on-Airport rental car companies for unimproved land.

Other concession revenues are estimated to total \$16.8 million in total for FY 2017 and are forecast to increase to \$17.9 million in FY 2023.

Net Sales and Services Revenues. Net sales and services revenues consist primarily of revenues from utilities, BART District payments, rental car facility fees, rental car transportation fees, and other miscellaneous sales and services. Revenues in this category totaled an estimated

\$81.8 million in FY 2017 and are forecast to increase to \$87.4 million in FY 2023. Among the individual revenue items in this category are the following:

Utilities. The Commission sells gas and electricity to Airport tenants. Revenues from such sales, net of the cost to purchase the gas and electricity from suppliers, are recorded as utility revenues.

BART District Payments. The BART District pays the Commission a fixed rental amount of \$2.5 million per year and a fee for recovery of certain O&M expenses, which totaled an estimated \$3.4 million in FY 2017.

Rental Car Facility Fees. This category represents revenues derived under facility leases with the on-Airport rental car companies for the use and occupancy of the consolidated rental car facility. This is in addition to the concession fees paid by these companies.

Rental Car Transportation Fees. Rental car companies collect a per rental car contract fee, which is paid to the Commission for reimbursement of certain costs of operating and providing the AirTrain facilities. Effective on July 1, 2017, Transportation and Facilities Fee was reduced from \$19 to \$18 per rental car contract, and is forecast to stay at the level through the remainder of the forecast period.

Other Sales and Services. This category represents, among other sources of revenue, cost-based reimbursements paid by San Francisco Terminal Equipment Company, LLC for equipment and operating expenses in the ITC, revenues from a telecommunications access fee, and revenues from fees for licenses, permits, and security badges.

Interest Earnings

Certain categories of interest earnings of the Commission are categorized as Revenues in accordance with the Bond Resolution. Specifically, interest earnings on operating funds and accounts, the Debt Service Fund, the Debt Service Reserve Fund, and the Contingency Account are classified as Revenues. Interest earnings are estimated to be \$9.3 million in FY 2017, and are forecast to increase to \$32.4 million in FY 2023, due to an assumed increase in the interest earning rates, and an increase in the Debt Service Reserve Fund and Contingency Account balances, reflecting the additional Bonds assumed to be issued during the period.

PFCs Designated and Applied as Revenues

As described earlier in Section 3, the Commission uses, and intends to continue to use, a portion of its PFC revenues to pay debt service on certain FAA-approved and PFC-eligible costs associated with the development of certain terminal and other projects. When declared and applied as such by the Commission, PFC revenues used to pay debt service are classified as Revenues under the terms of the Bond Resolution, which also serve to reduce the amount of the airline revenue requirement under the terms of the Lease and Use Agreements. In any given period, the Commission may decide to apply an amount of PFCs less than the amount it earlier designated for such purpose.

For the purposes of this Report, it was assumed that the Airport Commission would use a portion of its PFC fund balance to designate more PFC revenues than the projected annual collection amount in a few years during the forecast period (e.g., \$240.7 million in FY 2023, compared to a projected PFC

collection amount of \$111.9 million in that year). The Commission has made a strategic decision to allow PFC cash balances to build up during the early years of the forecast period, and to then apply those balances to pay a portion of the debt service during the latter years of the forecast period and beyond, so as to moderate the increase in the airline payments (cost) per enplaned passenger.

If the designated amount were not greater than the annual collection amount in any given year, then airline rates and charges would need to be higher to make up the difference, leading to higher airline cost per enplaned passenger in certain years of the forecast period.

APPLICATION OF REVENUES

Exhibit G presents the forecast application of Airport Commission Revenues for FY 2017 through FY 2023 in accordance with the provisions of the Bond Resolution, as well as historical data for FY 2015 and FY 2016.

After fulfillment of the higher priority funding obligations described in Section 5.06 of the Bond Resolution, all remaining amounts are deposited into the General Purpose Account. For purposes of this Report, it was further assumed that interest income generated from balances in the Contingency Account were applied to the Account (i.e., interest income in the Contingency Account is retained within the Account).

DEBT SERVICE COVERAGE

Exhibit H presents Revenues; O&M Expenses; debt service requirements for current Outstanding Bonds, estimated debt service requirements on the 2017 Bonds, and anticipated debt service on Future Bonds assumed to be issued during the forecast period; and debt service coverage.

Transfer Amount Available

The forecast of the amount available for deposit by the Commission into the Revenues Account from the Contingency Account in each Fiscal Year of the forecast period is shown in Exhibit H. Based upon the plans of, and actions taken by, the Commission, it was assumed that the Commission will maintain a balance in the Contingency Account and increase the amount when needed; however, the Commission is not required to do so. It was further assumed that, as provided for in the Bond Resolution, the amount in the Contingency Account will be deposited into the Revenues Account at the end of such Fiscal Year and that such amount will be re-deposited into the Contingency Account from the Revenues Account at the beginning of the following Fiscal Year.

For the purposes of this Report, as noted above it was assumed that the Airport Commission would retain interest earnings of the Contingency Account, at approximately \$2 million to \$3 million annually, and deposit a total of \$128.5 million of 2017 Bond and Future Bond proceeds into the Contingency Account, as shown in Exhibit C.

While the amount used for the Transfer in the additional bond test calculations is limited to the lesser of (1) the amount available in the Contingency Account for such Fiscal Year, or (2) an amount equal to 25% of Maximum Annual Debt Service as calculated for such Fiscal Year, there is no such restriction for Rate Covenant calculation purposes. However, for purposes of this Report, it was assumed that in any given year the Transfer would be equivalent to the lesser of the Contingency Account balance or 25% of Annual Debt Service for that year. By FY 2023, the balance of \$243.9

million in the Contingency Account is forecast to be higher than 25% of that year's Annual Debt Service net of capitalized interest (i.e., \$221.9 million, which is the assumed Transfer in that year).

Forecast Debt Service Coverage

In each year of the forecast period, Net Revenues (together with Transfers) are forecast to exceed the requirements of the Rate Covenant contained in the Bond Resolution. The forecast debt service coverage reflects the effects of the Commission's Bond issuances during the forecast period, specifically the 2017 Bonds and the anticipated Future Bonds to be issued during the forecast period. Debt service coverage is forecast to range from 134% to 143% between FY 2017 and FY 2023.

The forecast coverage exceeds 125% in each year of the forecast period primarily because certain categories of expenses are included in the airline rate base for the calculation of airline rentals, fees, and charges, but are not included in the application of Revenues for the payment of Bond debt service. These expenses are "below the line" items, and are to be paid after the payment of Bond debt service and the calculation of debt service coverage. The largest of these expense items is the Annual Service Payment to the City, which is assumed to be paid in accordance with current practices throughout the forecast period.

Further, Net Revenues in each Fiscal Year are forecast to be at least sufficient to make all required payments and deposits to the Revenue Bond Account, as well as to make the Annual Service Payment to the City.

Thus, the Rate Covenant provision of the Bond Resolution is forecast to be met in each Fiscal Year of the forecast period.

SUMMARY OF BASE CASE FINANCIAL FORECASTS

Exhibit I summarizes the forecast financial results of the Airport Commission presented in Exhibits A through H, as discussed in the preceding sections, and includes the calculation of airline payments (costs) per enplaned passenger based on such data. Revenues and O&M Expenses were forecast using the forecast of enplaned passengers and aircraft landed weight presented in Section 2 of this Report.

SENSITIVITY SCENARIO

Exhibit J is an identical presentation of financial projections for a hypothetical sensitivity scenario. The hypothetical sensitivity scenario is based on the same assumptions described in the sections above, except:

- The number of enplaned passengers, and all other related airline traffic activities, would be 10% lower, starting in FY 2019, than the forecast of enplaned passengers presented in Table 15.
- Projections of those categories of nonairline and commercial revenues that are variable based on passenger activity were decreased proportionately.
- The debt service profile reflects the base case the annual debt service profile for the 2017 Bonds shown in Exhibit D, and approximately level annual debt service for the Future Bonds.
- The amount of PFCs classified as Revenues is identical to that shown in the base case because sufficient PFC cash balances are available for such purpose during the forecast period.

Airline payments were calculated under the residual cost rate-setting methodology of the airline Lease and Use Agreements. Under this hypothetical scenario, the Commission would generate sufficient Net Revenues to meet the requirements of the Rate Covenant, and debt service coverage would be approximately the same as under the base case forecasts, given the residual airline ratemaking system. Passenger airline payments per enplaned passenger would increase to \$30.47 in FY 2023, compared to \$26.42 in FY 2023 under the base case, when measured in nominal dollars.

In the event that enplaned passenger levels actually declined substantially, the Airport Commission would have a range of options at its disposal to mitigate the impact of such a downturn as described earlier in Section 4. Among them would be the ability to reduce Operation and Maintenance Expenses, and to defer capital improvements (thereby reducing Future Bond issuance during the forecast period).

Additionally, the Airline Lease and Use Agreements provide for mid-year airline rate adjustments, in the event that there is a significant drop in aviation activity at the Airport during the course of a year.

Exhibit A-1

AIRPORT CAPITAL IMPROVEMENT PLAN COSTS

Airport Commission, City and County of San Francisco (for Fiscal Years ending June 30; amounts in millions)

							С	osts fo	r FY	′ 2018-	27 p	ortion	of C	apital Imp	rover	ment Pla	an			
		Prior												Subtotal				Total		Grand
Terminal Area	Fu	ınding	2	2018	2	2019	2	2020	2	2021	2	2022	F	Y 18-22	FY	23-27	F١	Y 18-27		Total
Terminal 1 Projects																				
Boarding Area B Redevelopment	\$	79	\$	252	\$	227	\$	92	\$	75	\$	51	\$		\$	-	\$		\$	776
Central Area Other Terminal 1 Projects		222 170		217 29		327 1		160 1		85 1		137		926 31		205 1		1,131 32		1,353 202
Subtotal	\$	471	\$	498	\$	554	\$	253	\$	161	\$	189	\$	1,654	\$	206	\$	1,860	\$	2,331
Terminal 3 Redevelopment Projects																				
Terminal 3 West Improvements	\$	5	\$	17	\$	62	\$	92	\$	1 205	\$	206	\$	581	\$	189	\$	770	\$	775
Terminal 3 East Improvements		254			_				_		_						_		_	254
Subtotal	\$	259	\$	17	\$	62	\$	92	\$	205	\$	206	\$	581	\$	189	\$	770	\$	1,029
International Terminal Refresh Projects		0		5		68		156		43		-		272		-		272		272
Courtyard 3 Connector Revenue Enhancement and Customer Hospitality (REACH) Program		0 17		17 26		70 12		35		87		-		210 39		-		210 39		210 56
Gate Capacity Enhancements		1		16		43		38		-		-		96		-		96		97
Air Traffic Control Tower Program		60		19		16		2		-		-		37		-		37		97
Miscellaneous Terminal Projects	Φ.	19	_	34	_	60	_	33	_	63	_	14	_	205	_	11	_	215	_	235
	\$	828	\$	632	\$	886	\$	608	\$	558	\$	409	\$	3,093	\$	406	\$	3,499	\$	4,327
Airfield Area	\$	26	\$	63	\$	66	\$	23	\$	4	\$	-	\$	157	\$	4	\$	161	\$	187
Airport Support Area																				
Security Improvements Technology Improvement Projects	\$	15 38	\$	74 46	\$	103 27	\$	12 10	\$	3	\$	2	\$	189 88	\$	2	\$	189 90	\$	203 128
Superbay Renovation Program		12		10		29		39		14		1		93		0		93		105
Consolidated Administration Campus		26		51		2		-		-		-		53		-		53		78
Miscellaneous Support Projects	_	89	_	42	_	30	_	22	_	29	_	28	_	151	_	14	_	166	_	255
Groundside Area	\$	180	\$	224	\$	191	\$	82	\$	45	\$	31	\$	573	\$	17	\$	590	\$	770
On-Airport Hotel	\$	14	\$	52	\$	148	\$	23	\$	-	\$	-	\$	223	\$	-	\$	223	\$	237
Airtrain Extension		29		100		78		10		-		-		188		-		188		217
Additional Long Term Parking Garage Miscellaneous Groundside Projects		35 34		79 76		47 48		34		2		-		126 163		-		126 163		161 197
missionalised Stockhauter Hojeste	\$	112	\$	307	\$	321	\$	68	\$	2	\$	2	\$	700	\$		\$	700	\$	812
Utilities			•						•						·					
Net Zero Energy Program Waste Water System Improvements	\$	0 11	\$	36 10	\$	42 37	\$	58 37	\$	24 22	\$	15 2	\$	176 108	\$	3	\$	176 111	\$	176 122
Water System Improvements		0		10		1		11		8		1		22		2		24		24
Miscellaneous Other Projects		7		23		48	_	17	_	4				96		10	_	106		113
	\$	18	\$	70	\$	128	\$	124	\$	59	\$	21	\$	402	\$	15	\$	417	\$	435
Reserve	\$	-	\$	140	\$	171	\$	150	\$	159	\$	128	\$	739	\$	-	\$	739	\$	739
SUBTOTAL - ASCENT PROGRAM PHASE 1	\$	1,164	\$	1,436	\$	1,763	\$	1,055	\$	819	\$	591	\$	5,664	\$	442	\$	6,105	\$	7,270
Infrastructure Projects Plan	_	1 161	_	78	_	<u>26</u>	_	16	_	3	_	E04	-	122	_	442	_	122	_	122
CAPITAL IMPROVEMENT PLAN	Þ	1,104	ф	1,514	Þ	1,789	Ф	1,077	\$	822	\$	591	Ф	5,786	\$	442	\$	6,227	Ф	7,392

Note: Figures may not sum to totals due to rounding. Source: Airport Commission, September 2017.

Exhibit A-2

AIRPORT CAPITAL IMPROVEMENT PLAN SOURCES OF FUNDING

Airport Commission, City and County of San Francisco (for Fiscal Years ending June 30; amounts in millions)

							FY	2018-22										
	1	Prior		Other		R	Reve	enue Bono	ds		S	ubtotal				Total	(Grand
	Fu	ınding	Fu	nds (a)		2017		Future	Sı	ubtotal	FY	2018-22	FΥ	23-27	F١	18-27		Total
Terminal Area Terminal 1 Projects													_	-				
Boarding Area B Redevelopment Central Area Other Terminal 1 Projects	\$	79 222 170	\$	60	\$	89 89 17	\$	608 777 14	\$	697 866 31	\$	697 926 31	\$	205 1	\$	697 1,131 32	\$	776 1,353 202
Subtotal	\$	471	\$	60	\$	195	\$	1,399	\$	1,594	\$	1,654	\$	206	\$		\$	2,331
Terminal 3 Redevelopment Projects Terminal 3 West Improvements	\$	5	\$	_	\$	7	\$	574	\$	581	\$	581	\$	189	\$	770	\$	775
Terminal 3 East Improvements		254	_		_		_	<u> </u>	_				_		_		_	254
Subtotal	\$	259	\$	-	\$	7	\$	574	\$	581	\$	581	\$	189	\$	770	\$	1,029
International Terminal Refresh Projects Courtyard 3 Connector		0		-		5		267 210		272 210		272 210		-		272 210		272 210
Revenue Enhancement and Customer Hospitality (REACH) Program		17		_		7		31		39		39		_		39		56
Gate Capacity Enhancements		1		-		4		92		96		96		_		96		97
Air Traffic Control Tower Program		60		-		11		26		37		37		-		37		97
Miscellaneous Terminal Projects		19				6		199		205		205		11		215		235
	\$	828	\$	60	\$	235	\$	2,799	\$	3,033	\$	3,093	\$	406	\$	3,499	\$	4,327
Airfield Area	\$	26	\$	46	\$	22	\$	89	\$	111	\$	157	\$	4	\$	161	\$	187
Airport Support Area					_				_						_			
Security Improvements	\$	15	\$	-	\$	22	\$		\$	189	\$		\$	-	\$	189	\$	203
Technology Improvement Projects		38		-		10		78		88		88		2		90		128
Superbay Renovation Program Consolidated Administration Campus		12 26		-		0 46		93 6		93 53		93 53		0		93 53		105 78
Miscellaneous Support Projects		89		28		8		115		123		151		14		166		255
Miscellarieous Support Frojects	\$	180	\$	28	\$		\$		\$		\$	573	Φ.	17	•	590	•	770
Groundside Area	·					00		459		343				17				
On-Airport Hotel	\$	14 29	\$	223	\$	- 44	\$	- 147	\$	188	\$	223	\$	-	\$		\$	237 217
Airtrain Extension Additional Long Term Parking Garage		35		-		41 20		147		126		188 126		-		188 126		161
Miscellaneous Groundside Projects		34		-		51		112		163		163				163		197
Miscellarieous Grounuside Frojects	\$	112	\$	223	\$	112	\$	365	\$	477	¢	700	\$		\$	700	\$	812
Utilities	Φ	112	Φ	223	Ф	112	Ф	303	Φ	411	φ	700	φ	-	Φ	700	Φ	012
Net Zero Energy Program	\$	0	\$	-	\$	1	\$	175	\$	176	\$	176	\$	-	\$	176	\$	176
Waste Water System Improvements		11		-		4		104		108		108		3		111		122
Water System Improvements		0		-		-		22		22		22		2		24		24
Miscellaneous Other Projects		7			_	6		90		96		96		10		106		113
	\$	18	\$	-	\$	11	\$	391	\$	402	\$	402	\$	15	\$	417	\$	435
Reserve	\$	-	\$	-	\$	-	\$	739	\$	739	\$	739	\$	-	\$	739	\$	739
SUBTOTAL - ASCENT PROGRAM PHASE 1 Infrastructure Projects Plan	\$	1,164	\$	357 65	\$	465 2	\$	4,842 56	\$	5,307 58	\$	5,664 122	\$	442	\$	6,105 122	\$	7,270 122
CAPITAL IMPROVEMENT PLAN Refunding Commercial Paper Issued as Prior Funding	\$	1,164	\$	422	\$	467 127	\$	4,897	\$	5,364	\$	5,786	\$	442	\$	6,227	\$	7,392
Subtotal 2017 and Future Bonds					\$	594			\$	5,491								

⁽a) Including grants and funds other than bond proceeds. Note: Figures may not sum to totals due to rounding. Source: Airport Commission, September 2017.

Exhibit B

PFC REVENUE FORECAST AND APPLICATION OF PFC REVENUES

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except PFC levels)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		2015	ı	Historical 2016	ı	Estimated 2017		Forecast 2018		2019		2020		2021		2022	2023
PFC Collections Enplaned Passengers Percent of PFC Eligible Passengers Paying		24,024 <u>87.9</u> %		25,622 <u>87.5</u> %		26,871 <u>82.5</u> %		27,591 <u>85.0</u> %		28,131 <u>85.0</u> %		28,622 <u>85.0</u> %		29,073 <u>85.0</u> %		29,532 <u>85.0</u> %	29,998 <u>85.0</u> %
PFC Eligible Enplaned Passengers		21,117		22,422		22,161		23,452		23,911		24,329		24,712		25,102	25,498
PFC Level Less: PFC Airline Collection Fee	\$	4.50 (0.11)	\$ 4.50 (0.11)														
Net PFC Level	\$	4.39	\$	4.39	\$	4.39	\$	4.39	\$	4.39	\$	4.39	\$	4.39	\$	4.39	\$ 4.39
PFC Collections (not including interest income)	\$	92,702	\$	98,432	\$	97,287	\$	102,956	\$	104,971	\$	106,803	\$	108,486	\$	110,198	\$ 111,938
Cumulative PFC Collections (a)	\$	978,740	\$	1,078,294	\$	1,177,701	\$	1,283,749	\$	1,392,400	\$	1,503,181	\$	1,615,531	\$	1,728,774	\$ 1,842,500
PFC Cash Flow PFC Fund - Beginning Balance	\$	141,795	\$	141,111	\$	197,554	\$	273,598	\$	347,985	\$	391,752	\$	407,833	\$	368,835	\$ 243,171
Deposits: PFC Collections Interest Earnings	\$	92,702 1,164	\$	98,432 1,121	\$	97,287 2,120	\$	102,956 3,092	\$	104,971 3,680	\$	106,803 3,978	\$	108,486 3,864	\$	110,198 3,045	\$ 111,938 1,788
Total Annual PFC Revenues	\$	93,866	\$	99,553	\$	99,407	\$	106,049	\$	108,651	\$	110,781	\$	112,350	\$	113,243	\$ 113,726
Annual Use of PFC Revenues Planned Pay-as-you-go	\$	(47,000)	¢		\$	_	\$	_	\$	_	\$	_	\$	_	Ф		
Debt Service under Existing PFC Authorization	Ψ	(47,550)	Ψ	(43,110)	Ψ	(23,363)	*	(31,662)	Ψ	(64,885)	Ψ	(94,700)	Ψ	(151,347)	Ψ	(238,907)	(240,657)
Total Annual Use of PFC Revenues	\$	(94,550)	\$	(43,110)	\$	(23,363)		(31,662)	\$	(64,885)	\$	(94,700)	\$	(151,347)	\$	(238,907)	\$ (240,657)
PFC Fund - Ending Balance	\$	141,111	\$	197,554	\$	273,598	\$	347,985	\$	391,752	\$	407,833	\$	368,835	\$	243,171	\$ 116,240

⁽a) The Airport Commission has received PFC collection authority for a total of \$2.0 billion as of October 2017.

Note: Figures may not sum to totals due to rounding.

Exhibit C

SOURCES & USES OF BOND FUNDS

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; dollars in thousands)

				Fu	ture Bonds		
	2016BC		Proposed		through	Other	
	 Bonds	20	17 Bonds	Ju	ne 2022 (a)	Sources	Total
Sources of Funds							
Bond Proceeds	\$ 740,125	\$	632,420	\$	5,876,595	\$ -	\$ 7,249,140
Premium / (Discount)	131,397		74,265		-	-	205,662
Hotel Bonds Net Proceeds	-		-		-	237,000	237,000
FY 2018-2022 Grants	-		-		-	125,700	125,700
Fueling Bonds Net Proceeds	-		-		-	52,200	52,200
Equipment and Capital Outlay	-		-		-	24,700	24,700
Prior Bond Proceeds and Grants	 					239,758	 239,758
Total	\$ 871,522	\$	706,685	\$	5,876,595	\$ 679,358	\$ 8,134,160
Uses of Funds							
Capital Plan Project Expenditures	\$ 436,170	\$	293,270	\$	4,897,496	\$ 679,358	\$ 6,306,294
Commercial Paper Refunding	 343,050		300,523				 643,573
Subtotal Capital Costs	\$ 779,220	\$	593,793	\$	4,897,496	\$ 679,358	\$ 6,949,867
Deposit to Contingency Account	-		28,000		100,500	-	128,500
Swap Termination Payment	-		12,980		-	-	12,980
Capitalized Interest	59,711		45,905		389,062	-	494,678
Bond Reserve Account	29,647		23,529		436,382	-	489,558
Cost of Issuance	 2,945		2,478		53,15 <u>5</u>	 	 58,578
Total	\$ 871,522	\$	706,685	\$	5,876,595	\$ 679,358	\$ 8,134,160

⁽a) Future Bond issuance excludes debt to be undertaken for the on-airport hotel project and to fund year 6-10 of the Capital Improvement Plan.

⁽b) Including \$24.7 million of equipment and capital outlay, and \$239.8 million of prior grants and prior bond proceeds.

Note: Figures may not sum to totals due to rounding.

Sources: Airport Commission; Public Financial Management, Inc., September 2017.

Exhibit D

ANNUAL DEBT SERVICE REQUIREMENTS Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		2015	ŀ	listorical 2016	E	stimated 2017	F	Forecast 2018	2019	2020	2021	2022	2023
DEBT SERVICE - CASH BASIS (a) Outstanding Bonds													
Fixed Rate Bonds (b) Variable Rate Bonds	\$	375,153 18,296	\$	376,369 17,787	\$	382,460 36,928	\$	362,565 45,217	\$ 374,426 49,703	\$ 390,072 51,250	\$ 389,405 51,941	\$ 383,618 51,585	\$ 382,211 54,306
Subtotal Proposed 2017 Bonds Future Bonds	\$	393,449 - -	\$	394,157 -	\$	419,388	\$	407,782 5,600 1,801	\$ 424,129 15,795 18,689	\$ 441,322 20,489 33,421	\$ 441,345 35,076 141,774	\$ 435,203 35,075 326,038	\$ 436,517 35,073 415,869
Total Debt Service - Cash Basis	\$	393,449	\$	394,157	\$	419,388	\$	415,183	\$ 458,612	\$ 495,233	\$ 618,195	\$ 796,317	\$ 887,459
DEBT SERVICE - DEPOSIT BASIS (a) Outstanding Bonds													
Fixed Rate Bonds Variable Rate Bonds	\$	366,08 8 18,339	\$	398,466 18,144	\$	383,326 38,051	\$	372,508 45,772	\$ 377,520 49,918	\$ 389,961 51,633	\$ 388,440 52,174	\$ 383,383 52,349	\$ 375,857 55,427
Subtotal Proposed 2017 Bonds Future Bonds	\$	384,427 - -	\$	416,610 -	\$	421,377 -	\$	418,280 8,109 3,138	\$ 427,437 16,547 22,538	\$ 441,593 23,075 45,400	\$ 440,614 35,076 173,947	\$ 435,733 35,075 344,079	\$ 431,284 35,074 421,216
Total Debt Service - Deposit Basis	\$	384,427	\$	416,610	\$	421,377	\$	429,527	\$ 466,523	\$ 510,068	\$ 649,636	\$ 814,887	\$ 887,574
DEBT SERVICE BY COST CENTER - DEPOSIT BAS	IS												
Airfield Area Airport Support Area Terminal Area Groundside Area Utility		-		-	\$	54,802 41,411 193,145 108,526 23,494	\$	54,865 35,713 204,545 109,604 24,800	\$ 54,559 41,769 229,678 113,017 27,500	\$ 49,187 49,012 266,808 115,256 29,804	\$ 49,559 66,220 365,409 127,040 41,408	\$ 54,210 84,792 480,073 140,316 55,497	\$ 56,751 92,873 528,642 147,509 61,798
Total Debt Service by Cost Center					\$	421,377	\$	429,527	\$ 466,523	\$ 510,068	\$ 649,636	\$ 814,887	\$ 887,574

⁽a) Debt service expressed on a deposit basis reflects the monthly payments the Commission is required to make to the Trustee, while debt service expressed on a cash basis reflects the actual payment of principal and interest to the Bond holders.

Sources: Airport Commission; Public Financial Management, Inc., September 2017.

⁽b) Includes \$24.7 million of cash defeasance for the Series 34E Bonds in June 2016 and \$12.9 million in June 2017.

Note: Figures may not sum to totals due to rounding.

Exhibit E

OPERATION AND MAINTENANCE EXPENSES

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		2015	H	listorical 2016	E	stimated 2017	F	Forecast 2018		2019		2020		2021		2022		2023
Salaries & Benefits																		
Commission Staff	\$	185,698	\$	195,424	\$	217,348	\$	241,036	\$	247,627	\$	254,815	\$	262,231	\$	270,747	\$	279,571
Police		54,310		55,987		51,887		58,733		61,177		62,844		64,559		66,321		68,133
Fire	_	24,220	_	23,890	_	22,399	_	26,047	_	27,176	_	27,932	_	28,710	_	29,510	_	30,333
Total Salaries and Benefits	\$	264,228	\$	275,301	\$	291,634	\$	325,817	\$	335,979	\$	345,592	\$	355,500	\$	366,578	\$	378,036
Contractual Services																		
Parking Garage Management Services	\$	22,172	\$	23,077	\$	20,266	\$	21,906	\$	22,564	\$	23,241	\$	23,938	\$	24,656	\$	25,396
Other Contractual Services		45,035		45,031		64,420		91,378		94,120		96,943		99,851		102,847		105,932
Total Contractual Services	\$	67,207	\$	68,108	\$	84,686	\$	113,285	\$	116,683	\$	120,184	\$	123,789	\$	127,503	\$	131,328
Services Provided by Other City Departments	\$	18,538	\$	20,653	\$	19,055	\$	26,344	\$	27,662	\$	29,045	\$	30,497	\$	32,022	\$	33,623
Repairs and Maintenance		34,352		37,108		29,544		30,430		31,343		32,284		33,252		34,250		35,277
Utilities		23,015		23,738		23,067		24,951		25,635		27,333		28,080		28,843		29,623
Materials and Supplies		15,050		17,001		16,240		17,961		18,500		19,425		20,008		20,608		21,226
General and Administration		5,294		1,774 0		3,930		4,048		4,169		4,294		4,423		4,556		4,693
Environmental	•	(0)	_	<u> </u>	_	100.150			_	-	_		_	-	_	-	_	-
BASE EXPENSES Incremental Expenses for Future Facilities (a)	\$	427,683	\$	443,684	\$	468,156 -	\$	542,837 -	\$	559,972 4,155	\$	578,157 10,335	\$	595,549 10,395	\$	614,359 12,489	\$	633,806 16,201
OPERATION AND MAINTENANCE EXPENSES	\$	427,683	\$	443,684	\$	468,156	\$	542,837	\$	564,127	\$	588,492	\$	605,945	\$	626,848	\$	650,007
Percent Change	Ψ	4.3%		3.7%		5.5%		16.0%	*	3.9%	*	4.3%		3.0%	Ψ	3.4%	Ψ	3.7%
O&M Expenses by Cost Center																		
Airfield Area					\$	37,880	\$	44,160	\$	45,667	\$	48,114	\$	49,821	\$	51,733	\$	53,290
Airport Support Area						44,163		54,826		56,444		58,160		60,089		61,907		63,767
Terminal Area						231,149		266,241		279,284		292,486		308,688		320,228		334,678
Groundside Area						108,788		128,735		132,831		137,831		133,884		138,120		142,045
Utility Area						37,466		42,079		42,932		44,754		46,133		47,342		48,520
Total O&M Expenses by Cost Center					\$	459,447	\$	536,041	\$	557,158	\$	581,345	\$	598,615	\$	619,331	\$	642,298
Adjustment (b)					,	8,709	•	6,796	,	6,969	•	7,147	*	7,330	,	7,517	*	7,709
OPERATION AND MAINTENANCE EXPENSES					\$	468,156	\$	542,837	\$	564,127	\$	588,492	\$	605,945	\$	626,848	\$	650,007
J. 2					Ψ	.55,100	<u>~</u>	3 .=,001	<u> </u>	331,121	Ψ	333, 102	Ψ	000,010	<u>~</u>	3_3,0.0	<u>-</u>	

⁽a) Also reflects projected saving of shuttle bus operating expenses in 2020 after AirTrain extension, among other expenses.

Sources: Historical and Estimated - Airport Commission; Forecast - LeighFisher. Estimates for FY 2017 are based on 12 months of preliminary unaudited data.

⁽b) Adjustments are for the difference in other post-retirement benefit expenses between the amounts charged to the airlines and the amount recognized under GAAP. Note: Figures may not sum to totals due to rounding.

Exhibit F

REVENUES

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

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_	2015		2016		2017	2018		2019		2020		2021		2022		2023
Aviation Revenues																
Landing Fees	148,3		\$ 162,287	\$	183,391	\$ 208,161	\$	225,807	\$	225,807	\$	252,400	\$	288,870	\$	324,124
Terminal Rentals	241,6	28	 255,031		265,481	 312,782		317,486	_	323,564	_	383,073				
Aviation Revenue - Airlines	\$ 390,0	15	\$ 417,318	\$	448,873	\$ 520,943	\$	543,293	\$	549,371	\$	635,474	\$	719,994	\$	803,732
Other Rental Revenues	45,7		47,322		50,540	49,838		51,270		52,758		53,673		54,607		55,559
Other Aviation Revenues	28,8	_	 			 	_		_		_		_			
:	\$ 464,6	10	\$ 495,440	\$	532,607	\$ 603,732	\$	628,461	\$	636,993	\$	725,036	\$	81 3,507	\$	899,248
Concession Revenues												*				
· a.m.g	102,3		\$ 103,282	\$	106,791	\$ 106,486	\$	106,445	\$	-,	\$	115,259	\$	117,077	\$	118,925
Rental Car	51,2		50,401		48,967	49,428		49,428		50,291		51,083		51,888		52,708
Duty Free (a)	27.8 37.8	03	25,080 18,198		24,982 18,564	27,226 19,507		20,146 20,263		37,048 30,995		37,999 32,357		38,97 <u>4</u> 39,954 23,048		39,975
Retail	,															23,762
Food & Beverage	19,6		21,377		23,483	26,084		27,116		28,132		33,138		34,323		35,551
Other Services	21,2		22,979		24,123	24,717		25,208		25,690		26,167		26,653		27,148
TNC and Ground Transportation Trip Fees (b)	16,2		26,098		36,573	34,133		36,166		36,797		37,377		37,967		38,566
Other Concession Revenues	14,1	_	 16,199	_	16,763	 16,604	_	16,733	_	17,035	_	17,326	_		_	
:	\$ 269,8	68	\$ 283,615	\$	300,245	\$ 304,185	\$	301,511	\$	329,379	\$	340,706	\$	347,552	\$	354,558
Net Sales and Services																
		47	\$ 9,588	\$	10,075	\$ 10,733	\$	11,239	\$	11,774	\$	12,338	\$	12,935	\$	13,565
BART Payments	,	98	3,435		3,391	3,418		3,437		3,456		3,475		3,495		3,516
Rental Car Facility Fees	14,5		14,982		15,470	15,834		16,151		16,474		16,803 17,622 33,860		17,139 17,924 34,394		17,482
Rental Car Transportation Fees	38,7		38,811		34,724	32,134		32,763		33,335				34,394		34,937
Other Sales and Services	15,1	60	 21,121		18,197	 17,171	_	17,323		17,478		17,636	_			
•	\$ 80,8	86	\$ 87,937	\$	81,857	\$ 79,290	\$	80,912	\$	82,516	\$	84,113	\$	85,760	\$	87,461
TOTAL OPERATING REVENUES	815,3	64	\$ 866,991	\$	914,709	\$ 987,207	\$	1,010,884	\$	1,048,888	\$	1,149,854	\$	1,246,819	\$	1,341,267
PFCs CLASSIFIED AS REVENUES (c)	\$ 47,5	50	\$ 43,110	\$	23,363	\$ 31,662	\$	64,885	\$	94,700	\$	1 <u>51,347</u> 17,797	\$	238,907 17,962	\$	240,657
INTEREST INCOME (d)	\$ 4,	51	\$ 	\$		\$ 	\$		\$		\$		\$		\$	
TOTAL REVENUES	\$ 867,0	64	\$ 	\$		\$ 	\$		\$		\$		\$		\$	

⁽a) Revenues from duty-free sales only. Amounts attributed as revenues from duty-paid sales under the DFS Group contract are included in retail revenues.

Note: Figures may not sum to totals due to rounding.

1,091,007 1,167,566 1,327,515 1,516,281 1,614,366

30,555

32,442

Sources: Historical and Estimated - Airport Commission; Forecast - LeighFisher. Estimates for FY 2017 are based on 12 months of preliminary unaudited data.

^{23,978} 26,314

⁽b) Trip fees from Transportation Network Companies (TNCs) were estimated to be \$26.5 million 2743 2017. 15.238 (c) Portion of PFC receipts used to pay debt service in such fiscal year, based on the Airport Commission's expectations. (d) Certain interest income included by the Commission in Airline Rates and Charges calculation 111 917,127 947,342

Exhibit F-1

LANDING FEES

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except rates)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	F	orecast										
		2018		2019		2020		2021		2022		2023
Airfield Area												
Operation and Maintenance Expenses	\$	44,160	\$	45,667	\$	48,114	\$	49,821	\$	51,733	\$	53,290
Existing Debt Service		54,288		52,532		45,866		40,818		39,931		39,567
Future Debt Service		577		2,027		3,321		8,741		14,279		17,184
Subordinate Lien Debt		557		600		745		789		833		877
Small Capital Outlays		-		-		-		-		-		-
Equipment	_	311	_	320	_	330	_	340	_	350	_	360
Airfield Area Expenses	\$	99,893	\$	101,146	\$	98,377	\$	100,510	\$	107,126	\$	111,278
Allocated Expenses from Utility Area		4,266		4,508		4,775		5,752		6,904		7,441
PFCs Classified as Revenues		(4,662)		(1,700)		(0.004)		(10,400)		(30,800)		(35,070)
Airfield Nonairline Revenues		(1,745)		(1,876)		(2,394)		(2,266)		(2,331)		(2,380)
Deficit/(Surplus) from Prior Fiscal Years	_	(6,937)	_	(15,278)	_		_		_		_	
Adjusted Airfield Area Expenses	\$	90,815	\$	86,800	\$	100,758	\$	93,596	\$	80,899	\$	81,269
Deficit/(Surplus) from Airport Support Area		9,283		14,664	_	20,994		38,995		58,268		66,655
Gross Landing Fee Payable by Airlines	\$	100,098	\$	101,464	\$	121,753	\$	132,592	\$	139,167	\$	147,924
Landed Weight of Scheduled Airlines		38,398	_	38,914	_	39,363		39,758		40,168		40,584
Basic Landing Fee Rate (per 1,000 lbs)	\$	2.61	\$	2.61	\$	3.09	\$	3.33	\$	3.46	\$	3.64
Total Terminal and Groundside Area Surcharge	\$	223,847	\$	230,316	\$	226,363	\$	267,818	\$	299,405	\$	352,401
Airfield Portion (50%)		<u>50.0</u> %										
Terminal Area Rental Surcharge	\$	111,923	\$	115,158	\$	113,182	\$	133,909	\$	149,702	\$	176,200
Surplus of Groundside Area		(10,797)		(6,092)		(9,128)		(14,100)				
Subtotal	\$	101,126	\$	109,066	\$	104,054	\$	119,809	\$	149,702	\$	176,200
Landed Weight of Scheduled Airlines		38,398		38,914		39,363		39,758		40,168		40,584
Landing Fee Surcharge Rate (per 1,000 lbs)	\$	2.63	\$	2.80	\$	2.64	\$	3.01	\$	3.73	\$	4.34
Basic Landing Fee Rate	\$	2.61	\$	2.61	\$	3.09	\$	3.33	\$	3.46	\$	3.64
Landing Fee Surcharge Rate		2.63		2.80		2.64		3.01		3.73		4.34
Effective Landing Fee Rate (per 1,000 lbs)	\$	5.24	\$	5.41	\$	5.74	\$	6.35	\$	7.19	\$	7.99
Total Landing Fee Revenues	\$	201,224	\$	210,529	\$	225,807	\$	252,400	\$	288,870	\$	324,124
Adjustment for Deferred Aviation Revenues		6,937		15,278								
Landing Fee Revenues Recognized	\$	208,161	\$	225,807	\$	225,807	\$	252,400	\$	288,870	\$	324,124

Note: Figures may not sum to totals due to rounding.

Source: LeighFisher.

Exhibit F-2

TERMINAL AREA RENTALS

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except rates)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	F	orecast										
		2018		2019		2020		2021		2022		2023
Terminal Area												
Operation and Maintenance Expenses	\$	266,241	\$	279,284	\$	292,486	\$	308,688	\$	320,228	\$	334,678
Existing Debt Service		198,644		207,265		225,518		231,617		228,151		225,469
Future Debt Service		5,900		22,413		41,291		133,791		251,922		303,173
Subordinate Lien Debt		7,616		8,217		10,201		10,802		11,403		12,004
Small Capital Outlays		2,408		2,463		2,519		2,578		2,637		2,697
Equipment	_	1,102	_	1,135	_	1,169	_	1,204	_	1,240	_	1,277
Terminal Area Expenses	\$	481,911	\$	520,777	\$	573,183	\$	688,680	\$	815,581	\$	879,299
Allocable Expenses from Utility Area		36,791		38,882		41,185		49,613		59,544		64,179
Annual Service Payments		45,628		45,227	_	49,407	_	51,106	_	52,133		53,184
Total Terminal Area Expenses	\$	564,330	\$	604,886	\$	663,775	\$	789,399	\$	927,258	\$	996,662
Deficit/(Surplus) from Prior Fiscal Years		(30,063)		(15,278)	_				_			
Adjusted Terminal Area Expenses	\$	534,267	\$	589,608	\$	663,775	\$	789,399	\$	927,258	\$	996,662
Divided by Gross Building Area (square feet)		5,231		5,249		5,425		5,689		5,997		5,997
Annual Cost per Square Foot ("Basic Rate")	\$	102.14	\$	112.32	\$	122.36	\$	138.75	\$	154.62	\$	166.20
Airline Leased Space (square feet)		1,672		1,665	_	1,719		1,796		1,820		1,826
Airline Rental Payable	\$	170,795	\$	187,050	\$	210,383	\$	249,164	\$	281,422	\$	303,407
Annual Cost per Square Foot ("Basic Rate")	\$	102.14	\$	112.32	\$	122.36	\$	138.75	\$	154.62	\$	166.20
Public Space (square feet)		3,558		- 3,584		3,705		3,894		4,177		4,171
Cost of Public Space	\$	363,472	\$	402,558	\$	453,392	\$	540,235	\$	645,836	\$	693,255
PFCs Classified as Revenues		(27,000)		(63,185)		(94,700)		(130,290)		(197,450)		(194,930)
Terminal Nonairline Revenues		(112,625)		(109,057)		(132,329)		(142,127)		(150,150)		(154,797)
Deficit of Groundside Area						<u> </u>				1,169		8,873
Total Terminal and Groundside Area Surcharge	\$	223,847	\$	230,316	\$	226,363	\$	267,818	\$	299,405	\$	352,401
Terminal Portion (50%)		<u>50.0</u> %										
Terminal Area Rental Surcharge	\$	111,923	\$	115,158	\$	113,182	\$	133,909	\$	149,702	\$	176,200
Airline Leased Space		1,672		1,665		1,719		1,796		1,820		1,826
Rental Surcharge Rate	\$	66.93	\$	69.15	\$	65.83	\$	74.57	\$	82.25	\$	96.52
Basic Rate (per square foot)	\$	102.14	\$	112.32	\$	122.36	\$	138.75	\$	154.62	\$	166.20
Rental Surcharge Rate		66.93		69.15		65.83		74.57		82.25		96.52
Effective Average Rental Rate (per square foot) (a)	\$	169.08	\$	181.47	\$	188.19	\$	213.32	\$	236.88	\$	262.71
Total Airline Terminal Rentals	\$	282,719	\$	302,208	\$	323,564	\$	383,073	\$	431,124	\$	479,608
Adjustment for Deferred Aviation Revenues		30,063		15,278								
Terminal Revenues Recognized	\$	312,782	\$		\$		\$		\$		\$	
<u>-</u>						*	_					

(a) Actual charged average rental rate in FY 2018 is \$169.03 per square foot.

Note: Figures may not sum to totals due to rounding.

Source: LeighFisher.

317,486 323,564 383,073 431,124 479,608

Exhibit F-3

AIRLINE PAYMENTS PER ENPLANED PASSENGER

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Н	listorical	Е	stimated	F	orecast					
	2015		2016		2017		2018	2019	2020	2021	2022	2023
Aviation Revenue - Airlines												
Landing Fees	\$ 148,387	\$	162,287	\$	183,391	\$	208,161	\$ 225,807	\$ 225,807	\$ 252,400	\$ 288,870	\$ 324,124
Terminal Area Rentals	241,628		255,031		265,481		312,782	317,486	323,564	 383,073	 431,124	 479,608
Aviation Revenue - Airlines	\$ 390,015	\$	417,318	\$	448,873	\$	520,943	\$ 543,293	\$ 549,371	\$ 635,474	\$ 719,994	\$ 803,732
Adjustment for Deferred Aviation Revenues (a)	 71		11,851				(37,000)	(30,556)	<u>-</u>	 <u> </u>	 -	<u>-</u>
Subtotal	\$ 390,086	\$	429,169	\$	448,873	\$	483,943	\$ 512,738	\$ 549,371	\$ 635,474	\$ 719,994	\$ 803,732
Estimated Cargo Carrier Landing Fees	 (5,754)		(5,954)		(6,559)		(7,163)	(7,744)	(7,732)	 (8,643)	(9,888)	 (11,091)
Passenger Airline Payments	\$ 384,332	\$	423,215	\$	442,314	\$	476,780	\$ 504,993	\$ 541,639	\$ 626,831	\$ 710,106	\$ 792,641
Enplaned Passengers	24,024		25,622		26,871		27,591	28,131	28,622	29,073	29,532	29,998
Airline Cost per Enplaned Passenger - Nominal Dollars In Constant 2018 Dollars (b)	\$ 16.00	\$	16.52	\$	16.46	\$	17.28 17.28	\$ 17.95 17.60	\$ 18.92 18.19	\$ 21.56 20.32	\$ 24.05 22.21	\$ 26.42 23.93

⁽a) The amount reflects the difference between actual receipts and recalculated airline requirement.

Note: Figures may not sum to totals due to rounding.

⁽b) Discounted at an assumed inflation rate of 2.0% annually.

Exhibit G

APPLICATION OF REVENUES

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	2015	Historical 2016		Estimated 2017		Forecast 2018			2019		2020		2021		2022	2023
REVENUES	 2013		2010		2017		2010		2019		2020		2021		2022	2023
Operating Revenues																
Aviation	\$ 464,610	\$	495,440	\$	532,607	\$	603,732	\$	628,461	\$	636,993	\$	725,036	\$	813,507	\$ 899,248
Concession	269,868		283,615		300,245		304,185		301,511		329,379		340,706		347,552	354,558
Net Sales and Service	 80,886		87,937		81,857		79,290		80,912		82,516		84,113	_	85,760	 87,461
	\$ 815,364	\$	866,991	\$	914,709	\$	987,207	\$	1,010,884	\$	1,048,888	\$	1,149,854	\$	1,246,819	\$ 1,341,267
PFCs Classified as Revenues	47,550		43,110		23,363		31,662		64,885		94,700		151,347		238,907	240,657
Interest Income	 4,151		7,025		9,270		12,243		15,238		23,978		26,314	_	30,555	 32,442
Total Revenues	\$ 867,064	\$	917,127	\$	947,342	\$	1,031,111	\$	1,091,007	\$	1,167,566	\$	1,327,515	\$	1,516,281	\$ 1,614,366
APPLICATION OF REVENUES																
Operation and Maintenance Expenses	\$ 427,683	\$	443,684	\$	468,156	\$	542,837	\$	564,127	\$	588,492	\$	605,945	\$	626,848	\$ 650,007
Debt Service on Bonds - Deposit Basis	384,427		416,610		421,377		429,527		466,523		510,068		649,636		814,887	887,574
Reserve Fund Deposits	-		-		-		-		-		-		-		-	-
Subordinate Debt Service	6,197		6,568		4,370		11,877		12,814		15,908		16,845		17,783	18,720
Deposit to General Purpose Account																
For Annual Service Payment to City	40,480		42,542		45,037		45,628		45,227		49,407		51,106		52,133	53,184
Other Deposits to the General Purpose Account	7,721		7,112		7,742		100		100		100		100		100	100
Deposits to the Contingency Account (a)	 555		610		661		1,143	_	2,216		3,592	_	3,883	_	4,531	 4,782
Total Application of Revenues	\$ 867,064	\$	917,127	\$	947,342	\$	1,031,111	\$	1,091,007	\$	1,167,566	\$	1,327,515	\$	1,516,281	\$ 1,614,366

⁽a) Equal to interest income earned in the Contingency Account.

Note: Figures may not sum to totals due to rounding.

Exhibit H

RATE COVENANT COMPLIANCE FORECAST

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		2015	H	listorical 2016	E	stimated 2017		Forecast 2018		2019		2020		2021		2022		2023
RATE COVENANT CALCULATIONS						-												
Requirement 6.04(a)(i)	•		•		•	0.4= 0.40	•		•		•		•		•	. =	•	
Revenues (a)	\$	867,064	\$	917,127	\$	947,342	\$	1,031,111	\$	1,091,007	\$	1,167,566	\$	1,327,515	\$	1,516,281	\$	1,614,366
Less: Operation and Maintenance Expenses	_	(427,683)	_	(443,684)	_	(468,156)	_	(542,837)	_	(564,127)	_	(588,492)	_	(605,945)	_	(626,848)	_	(650,007)
Net Revenues	\$	439,381	\$	473,443	\$,	\$,	\$	526,880	\$	579,075	\$	721,571	\$	889,433	\$	964,359
Debt Service on Bonds - Deposit Basis		(384,427)		(416,610)		(421,377)		(429,527)		(466,523)		(510,068)		(649,636)		(814,887)		(887,574)
Deposit to Debt Service Reserve Fund		(0.407)		(0.500)		- (4.070)		(44.077)		(40.044)		(45,000)		(40.045)		(4.7.700)		(40.700)
Subordinate Debt Service		(6,197)		(6,568)		(4,370)		(11,877)		(12,814)		(15,908)		(16,845)		(17,783)		(18,720)
Annual Service Payment to City	_	(40,480)	_	(42,542)	_	(45,037)	_	(45,628)	_	(45,227)	_	(49,407)	_	(51,106)	_	(52,133)	_	(53,184)
Equals: Remaining Amounts (must not be < zero)	\$	8,277	\$	7,722	\$	8,403	\$	1,243	\$	2,316	\$	3,692	\$	3,983	\$	4,631	\$	4,882
Requirement 6.04(a)(ii)																		
Contingency Account Balance	\$	93,883	\$	94,426	\$	95,221	\$	130,363	\$	179,580	\$	194,171	\$	226,555	\$	239,086	\$	243,867
Net Revenues	\$	439,381	\$	473,443	\$	479,186	\$	488,274	\$	526,880	\$	579,075	\$	721,571	\$	889,433	\$	964,359
Transfer (b)		93,883		94,426		95,221		103,796		114,653		123,808		154,549		199,079		221,865
Total Amount Available	\$	533,264	\$	567,869	\$	574,407	\$	592,070	\$	641,533	\$	702,883	\$	876,119	\$	1,088,513	\$	1,186,224
Debt Service on Bonds - Cash Basis (c)	\$	393.449	\$	394,157	\$	419,388	\$	415,183	\$	458,612	\$	495,233	\$	618.195	\$	796,317	\$	887,459
(,,	,	,	•	, ,	,	-,	•	-,	,	, -	,	,	•	,	•	, -	•	,
Coverage (must not be < 125%)		136%		144%		137%		143%		140%		142%		142%		137%		134%

⁽a) Revenue totals include PFCs classified as Revenues.

Note: Figures may not sum to totals due to rounding.

⁽b) Transfer amounts for FY 2018 - FY 2023 are limited to 25% of annual Debt Service for the purpose of this Report.

⁽c) Annual Debt Service is presented net of accrued interest and net of capitalized interest.

Exhibit I

SUMMARY OF FINANCIAL FORECASTS

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except rates and ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		2015	Н	istorical 2016	E	stimated 2017	ı	Forecast 2018		2019		2020		2021		2022		2023
ENPLANED PASSENGERS Percentage Change		24,024 4.5%		25,622 6.7%		26,871 4.9%		27,591 2.7%		28,131 2.0%		28,622 1.7%		29,073 1.6%		29,532 1.6%		29,998 1.6%
DEBT SERVICE COVERAGE Revenues (a) Operation and Maintenance Expenses Net Revenues Debt Service on Bonds - Cash Basis Debt Service Coverage (without Transfer) Transfer Amount (b)	\$ \$	867,064 (427,683) 439,381 393,449 112% 93,883	\$ \$	917,127 (443,684) 473,443 394,157 120% 94,426	\$	947,342 (468,156) 479,186 419,388 114% 95,221	\$	1,031,111 (542,837) 488,274 415,183 118%	·	(564,127)	\$	1,167,566 (588,492) 579,075 495,233 117% 123,808	_	1,327,515 (605,945) 721,571 618,195 117%	\$ 	(626,848)	\$ \$	1,614,366 (650,007) 964,359 887,459 109% 221,865
Debt Service Coverage (with Transfer) PFCs Classified as Revenues	э \$	93,883 136% 47,550	·	94,426 144% 43,110		137%		143%	·	140%	\$	123,808 142% 94,700	\$	154,549 142% 151.347	\$	137%	Ť	134% 240,657
AIRLINE FEES AND CHARGES Budgeted/Forecast Landing Fee Rate Budgeted/Forecast Average Terminal Rate (c) Airline Payments per Enplaned Passenger - Nominal In Constant 2018 Dollars (d)	\$	4.57 149.98 16.00		4.87 157.18 16.52		4.99 161.16 16.46		5.24 169.03 17.28	·	5.41 181.47 17.95 17.60	•	5.74 188.19 18.92 18.19	Ť	6.35 213.32 21.56 20.32	·	7.19 236.88 24.05 22.21		7.99 262.71 26.42 23.93
CONCESSION REVENUES Concession Revenues Concession Revenues per Enplaned Passenger Percentage Change	\$ \$	269,868 11.23 2.0%	\$	283,615 11.07 -1.5%		300,245 11.17 0.9%	\$	304,185 11.02 -1.3%	\$	301,511 10.72 -2.8%	\$	329,379 11.51 7.4%	\$	340,706 11.72 1.8%	\$	347,552 11.77 0.4%		354,558 11.82 0.4%

⁽a) Revenue totals include PFCs classified as Revenues.

(off) Prisation for at 2018 solution rate of 2.0% annually.

Note: Figures may not sum to totals due to rounding.

⁽b) Transfer amounts for FY 2018 - FY 2023 are limited to 25% of annual Debt Service for the purpose of this Report.

⁽c) The terminal rental rate in effect for FY 2018 is \$169.03 per square foot. The FY 2018 rate of \$169.08 shown on Exhibit F-2 reflects the recalculation based on more recent available

Exhibit J

SUMMARY OF FINANCIAL PROJECTIONS - SENSITIVITY SCENARIO

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands except rates and ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projected, and the variations could be material.

	_	2015	Н	listorical 2016	F	Projected 2017	F	Projection 2018		2019	2020	2021		2022		2023
ENPLANED PASSENGERS Percentage Change		24,024 4.5%		25,622 6.7%		26,871 4.9%		27,591 2.7%		25,318 -8.2%	25,760 1.7%	26,166 1.6%		26,579 1.6%		26,998 1.6%
DEBT SERVICE COVERAGE Revenues (a) Operation and Maintenance Expenses Net Revenues Debt Service on Bonds - Cash Basis Debt Service Coverage (without Transfer) Transfer Amount (b)	\$ \$	867,064 (427,683) 439,381 393,449 112% 93,883	\$ \$	917,127 (443,684) 473,443 394,157 120% 94,426	\$	947,342 (468,156) 479,186 419,388 114% 95,221	\$	1,031,111 (542,837) 488,274 415,183 118% 103,796	•	1,087,229 (564,127) 523,102 458,612 114%	1,163,080 (588,492) 574,588 495,233 116% 123,808	1,322,940 (605,945) 716,995 618,195 116%	\$ \$	(626,848)	\$ \$	1,609,606 (650,007) 959,599 887,459 108% 221,865
Debt Service Coverage (with Transfer) PFCs Classified as Revenues	\$	136% 47,550		144% 43,110		137%		143%	\$	139% 64,885	\$ 141% 94,700	\$ 141% 151,347	\$	136%	Ť	133% 240,657
AIRLINE FEES AND CHARGES Budgeted/Projected Landing Fee Rate Budgeted/Projected Average Terminal Rate (c) Airline Payments per Enplaned Passenger - Nominal In Constant 2018 Dollars (d)	\$	4.57 149.98 16.00	\$	4.87 157.18 16.52	\$	4.99 161.16 16.46	\$	5.24 169.03 17.28 17.28	\$	6.47 186.69 20.90 20.49	\$ 6.93 193.49 22.12 21.26	\$ 7.68 217.15 25.05 23.60	\$	8.42 244.70 27.82 25.70	\$	9.31 270.66 30.47 27.60
CONCESSION REVENUES Concession Revenues	\$	269,868	\$	283,615	\$	300,245	\$	304,185	\$	276,322	\$ 299,471	\$ 310,203	\$	316,443	\$	322,827
Concession Revenues per Enplaned Passenger Percentage Change	\$	11.23 2.0%	\$	11.07 -1.5%	\$	11.17 0.9%	\$	11.02 -1.3%	\$	10.91 -1.0%	\$ 11.63 6.5%	\$ 11.86 2.0%	\$	11.91 0.4%	\$	11.96 0.4%

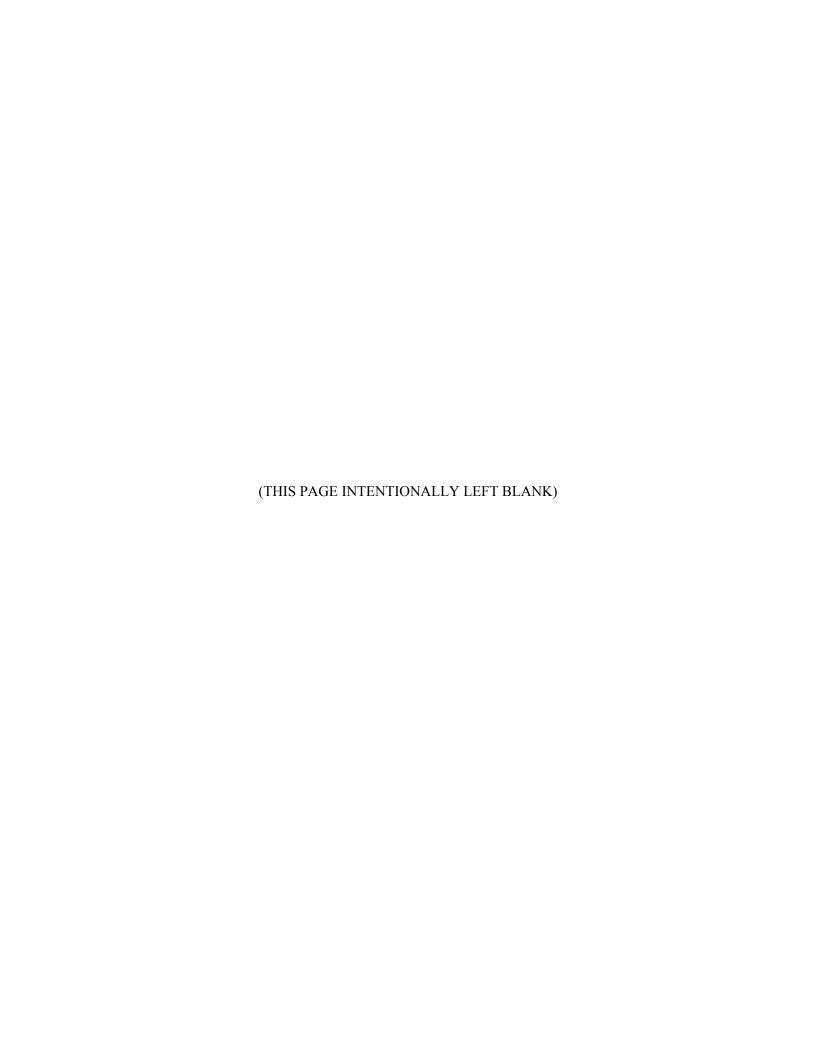
⁽a) Revenue totals include PFCs classified as Revenues.

Note: Figures may not sum to totals due to rounding.

⁽b) Transfer amounts for FY 2018 - FY 2023 are limited to 25% of annual Debt Service for the purpose of this Report.

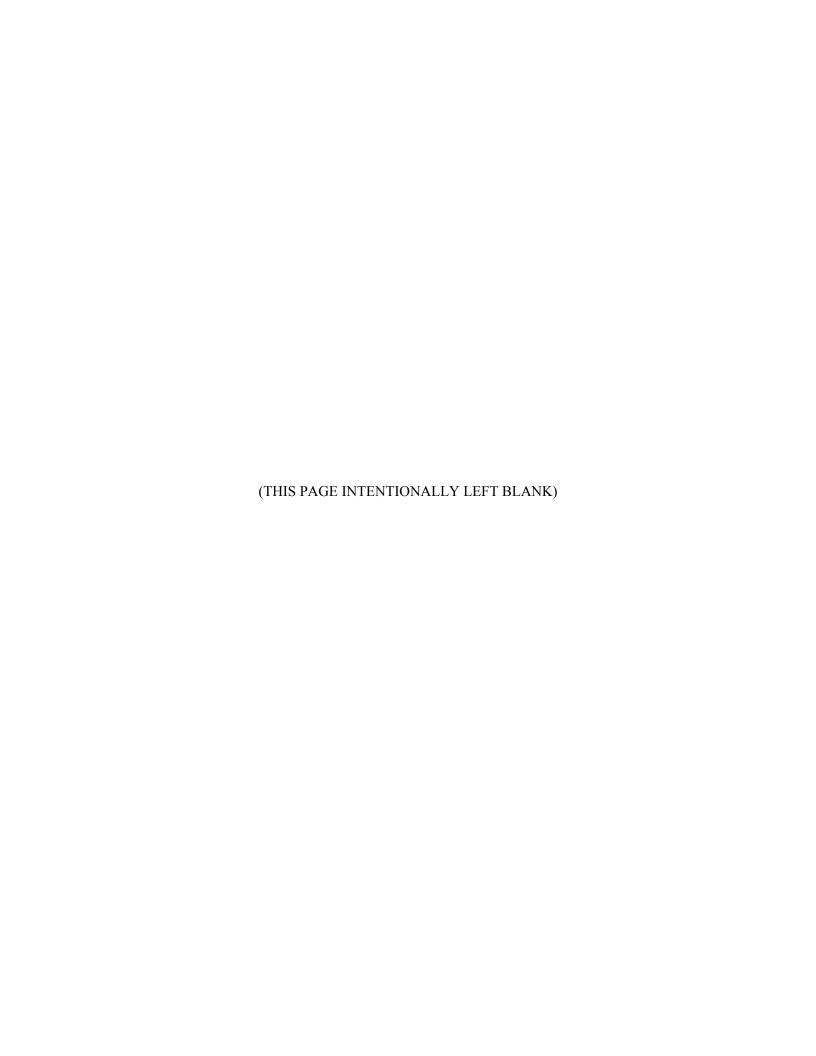
⁽c) The terminal rental rate in effect for FY 2018 is \$169.03 per square foot. The FY 2018 rate of \$169.08 shown on Exhibit F-2 reflects the recalculation based on more recent available information for FY 2018 debt service.

⁽d) Discounted at an assumed inflation rate of 2.0% annually.



APPENDIX B

FINANCIAL STATEMENTS WITH SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES JUNE 30, 2016 AND 2015 (WITH INDEPENDENT AUDITORS' REPORT THEREON)





Financial Statements with Schedule of Passenger Facility Charge Revenues and Expenditures

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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 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, 2016 and 2015, and the related notes to the 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 Airport Commission, City and County of San Francisco, San Francisco International

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Airport as of June 30, 2016 and 2015, the changes in its financial position and its cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

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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, 2016 and 2015, 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, effective July 1, 2015, the Airport adopted Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application.

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 ecrain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare 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 October 21, 2016 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

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San Francisco, California October 21, 2016 3

SAN FRANCISCO INTERNATIONAL AIRPORT CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016, with comparative data for the fiscal year ended June 30, 2015. 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.

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 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 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

compared to the prior fiscal year, establishing a new peak for the Airport. Domestic growth was from a combination of Low Cost Carriers (LCCs) and legacy carrier United Airlines (United), which increased service. The with service to Düsseldorf, and new seasonal service was commenced by Fiji Airways to Nadi. There is also an increasing presence of international LCCs at SFO, including seasonal service by XL Airways and year round Fiscal year 2016 passenger traffic at SFO concluded with 25.6 million enplanements, an increase of 6.7% international sector also experienced service additions. These included new services commenced by Copa Airlines to Panama City and Air India to New Delhi. Qantas Airways returned with service to Sydney, Air Berlin returned service by WOW air. Total cargo and U.S. mail tonnage increased by 2.2% due to an increase in domestic shipments, while international shipments were slightly below last year's levels.

CITY AND COUNTY OF SAN FRANCISCO SAN FRANCISCO INTERNATIONAL AIRPORT

Management's Discussion and Analysis

June 30, 2016 and 2015

The 6.7% fiscal year-over-year enplanement increase at SFO compares to increases of 8.1% at Oakland International Airport and 6.8% at Mineta San Jose International Airport, resulting in relatively stable Bay Area passenger market share of 70.2% for SFO.

Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) increased by 2.7% fiscal year-over-year. Aircraft revenue landed weight, which affects revenue generated by landing fees, increased by 7.4% above prior fiscal year levels. 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 51.4 million, establishing a new peak for the Airport. Overall enplaned passengers totaled 25.6 million, a 6.7% increase, with 19.8 million domestic and 5.8 million international enplaned passengers, increases of 5.8% and 9.5%, respectively. Cargo and U.S. mail tonnage increased by 2.2% primarily attributable to a mail increase of 16.7%, while freight tonnage was flat. The following table³ presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2016, 2015, and 2014:

Hight operations 439,918 428,171 429,377 Landed weight (in 000 lbs.) 35,012,485 32,610,052 31,628,572 Total Alrian passengers 51,421,348 42,243,910 46,191,454	rations	439 918		FY 2014	FY 2016	FY 2015
(in 000 lbs.) 35,012,485 32,610,052 strengers 51,421,348 48,243,910	sight (in 000 lbs.)	017,701	428,171	429,377	2.7%	(0.3)%
susengers 51,421,348 48,243,910	agin (iii ooo iba.)	35,012,485	32,610,052	31,628,572	7.4	3.1
002 000 10	ort passengers	51,421,348	48,243,910	46,191,454	9.9	4.4
24,025,599	passengers	25,621,510	24,023,599	22,995,674	6.7	4.5
18,749,797	ic enplaned passengers	19,844,991	18,749,797	17,987,093	5.8	4.2
5,273,802	ional enplaned passengers	5,776,519	5,273,802	5,008,581	9.5	5.3
441,797	U.S. mail tonnage (in metric tons)	451,501	441,797	370,525	2.2	19.2

^{*}Numbers updated to include revised data received subsequent to the 2015 fiscal year end.

Fiscal Year 2016

Passenger Traffic

services. Europe had the largest increase in international enplanements with 163,745, followed by Asia with 150,396, and Latin America with 81,093. Growth to Europe was from a number of new and increased services, including service additions and upgauging by British Airways, Air France and Virgin Atlantic. Asia growth was Compared to fiscal year 2015, passenger enplanements in fiscal year 2016 increased by 6.7% from 24.0 million to increased 9.5%. The enplanement increase totaled 1,597,911 passengers, 1,095,194 of which were domestic and 502,717 were international. The domestic sector grew mostly from service additions by LCCs JetBlue, Frontier and Virgin America, and by legacy carrier United. The international sector had a number of new and added 25.6 million passengers. Domestic passenger enplanements increased 5.8%, while international enplanements

¹ Source: Oakland International Airport Traffic Report.
² Source: Mineta San Jose International Airport Traffic Report.

Sources: Analysis of Airline Traffic, Fiscal Years 2014, 2015 and 2016.

⁽Continued)

Management's Discussion and Analysis

June 30, 2016 and 2015

also from number of new services such as Air India to New Delhi and United to Xi'an, China, as well as frequency increases by Cathay Pacific and China Southern. Latin America enplanements increased mainly due to new service by Copa Airlines to Panama City in September 2015. The Middle East which is now served non-stop by 3 carriers, increased in enplanements by 32, 186 passengers due to Etihad's increase in frequency to Abu Dhabi and United's new service to Tel Aviv that started in March 2016. Australia/Oceania enplanements increased by 34,226 mainly from the return of Qantas Airways with service to Sydney in December 2015, and the start of seasonal service to Nadi by Fiji Airways in June 2016.

The fiscal year quarterly results outpaced the previous year with strong performance in both domestic and international sectors, with growth rates of 6.5%, 8.9%, 5.6%, and 5.6% in each of the four consecutive quarters. The increases resulted from added frequencies and operations of larger aircraft, and the addition of new services. Aritine seat capacity increased by 8.0%, with a domestic increase of 7.0% and an international increase of 11.6%. The overall load factor decreased by 1.0 percentage point to 83.5%. Domestic load factor decreased by 0.9 percentage point to 83.8% and international decreased by 1.5 percentage points to 82.6%.

Flight Operations

During fiscal year 2016, the number of aircraft operations (takeoff's and landings) increased by 11,747 flights (2.7%). Scheduled passenger aircraft arrivals and departures increased by 11,274 flights (2.7%). Civil and military traffic increased by 473 flights (3.0%).

Total scheduled airline passenger and cargo landings increased by 1.9% with an increase in revenue landed weight of 7.4%. Domestic passenger landings increased by 1.4%, while domestic landed weight increased by 5.8%. International passenger landings increased by 6.3%, while international landed weight increased by 11.6%. Average passenger aircraft size increased by 6.3%, while international landed weight increased by 11.6%. Average passenger aircraft size increased from approximately 1.45 to 153 seats per flight. Domestic scheduled seats per flight increased from 2.33 to 2.45 in fiscal year 2016. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) continues to shift towards mainline, which increased in share by 3.7 percentage points to 7.7% for domestic and international operations combined. Mainline landings increased by 10.348, and commuter landings decreased by 6.374. Cargo only aircraft landings decreased by 9.4%, while cargo-only landed weight increased by 1.3%.

Cargo Tonnage

Fiscal year 2016 cargo and U.S. mail tonnage increased by 9,704 metric tons (2.2%). Mail increased by 9,749 metric tons (16.7%), and cargo volume excluding mail remained flat at 383,305 metric tons (0.0%), as growth in domestic shipments was offset by a decrease in international shipments. The decrease is from a relatively high base from last year, where shipment volume was high due to labor issues at west coast ports. Cargo-only carriers from as a west coast ports. Cargo-only carriers while those on passenger carriers decreased by 2.9%. Tomage on cargo-only carriers increased by 22.1%, while those on passenger carriers decreased by 2.9%.

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

Management's Discussion and Analysis

June 30, 2016 and 2015

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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. Donestic 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. The Asia/Middle East region had the highest international enplaned passenger growth with 152,423, followed by Europe with 83,791, and Canada with 58,074. The Asia/Middle East region increase was due to new and increased service fron China Southern, Etihad Airways, United, and EVA Ari: Europe's increase was due to new service by Turkish Airlines and service increases by Lufthansa, British Airways, Virgin Adantic, and Scandinavian Airlines (SAS). Latin America 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's 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 226 to 232 in fiscal year 2015. The overall balance between main line 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

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Management's Discussion and Analysis

June 30, 2016 and 2015

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%.

Financial Highlights, Fiscal Year 2016

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$167.1 million.
- Total revenue bonds payable by the Airport decreased by \$235.2 million.
- Operating revenues were \$867.0 million.
- Operating expenses were \$640.5 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of \$99.1 million from Passenger Facility Charges) were \$144.5 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Air Traffic Control Tower, and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System were \$10.4 million.
- Transfers to the City and County of San Francisco as annual service payment were \$42.5 million.
- Net position increased by \$49.9 million due to higher operating income resulting from growth domestic and international passenger traffic.

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.
- 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), Air Traffic Control Tower, and Transportation Security Administration's (TSA) Airport Checked
 Baggage Screening System were \$32.1 million.
- Transfers to the 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.

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

Management's Discussion and Analysis

June 30, 2016 and 2015

Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2016, 2015, and 2014 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NET POSITION

	FY 2016	FY 2015 (As Restated)	FY 2014 (As Restated)	Percentage Increase (Decrease) FY 2016	Percentage Increase (Decrease) FY 2015
Assets: Unextricted current assets Restricted current assets Restricted non-current assets Capital assets, net Total assets	\$ 467,577	450,598	425,951	3.8%	5.8%
	282,371	245,719	278,346	14.9	(11.7)
	640,970	643,686	579,933	(0.4)	11.0
	4,045,636	3,936,426	3,869,718	2.8	1.7
	5,436,554	5,276,429	5,153,948	3.0	2.4
Deferred outflows of resources: Unamortized loss on refunding of debt Deferred outflows on derivative instruments Deferred outflows related to pensions Total deferred outflows of resources	68,100 83,614 43,982 195,696	78,388 65,408 37,517 181,313	92,147 63,791 — 155,938	(13.1) 27.8 17.2 7.9	(14.9) 2.5 — — — — — — — — — — — — — — — — — — —
Liabilities: Current liabilities Current liabilities payable from restricted assets Noncurrent liabilities Net pension liability Derivative instruments Total liabilities	309,888	285,929	268.723	8.4	6.4
	494,128	154,611	410.087	219.6	(62.3)
	4,372,604	4,608,523	4,285,257	(5.1)	7.5
	144,271	111,332	—	28.9	-
	96,132	79,321	79,062	21.2	0.3
	5,417,023	5,240,316	5,043,129	3.4	3.9
Deferred inflows of resources: Deferred inflows related to pensions Total deferred inflows of resources	48,154 48,154	100,290		(52.0)	
Net position: Net investment in capital assets Restricted for debt service Restricted for capital projects Unrestricted Total net position	(117,377)	(103,109)	(149,894)	13.8	(31.2)
	35,462	37,427	25,390	(5.3)	47.4
	212,931	165,224	200,219	28.9	(17.5)
	36,057	17,594	191,042	104.9	(90.8)
	\$ 167,073	117,136	266,757	42.6%	(56.1)%

Management's Discussion and Analysis

June 30, 2016 and 2015

The Airport adopted the provisions of GASB Statement No. 72 – Fair Value Measurement and Application (GASB 72), which changes how fair value is measured and provides guidance for applying fair value. As a result, the Airport restated the beginning deferred outflows on derivative instruments and derivative instruments liabilities for fiscal year 2014 and fiscal year 2015.

Fiscal Year 2016

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources execeded hishlities and deferred inflows of resources by \$167.1 million and \$11.7.1 million as of June 30, 2016 and 2015, respectively, representing an increase of \$50.0 million (42.6%). Unestricted net position represented 21.6% and 15.0% of total net position as of June 30, 2016 and 2015, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by \$17.0 million (3.8%) as of June 30, 2016, 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 increased \$36.7 million (14.9%) as of June 30, 2016. The increase was primarily due to increase in the Airport's cash and investments held in the City Treasury.

Restricted non-current assets decreased by \$2.7 million (0.4%) as of June 30, 2016. The decrease was primarily due to the amortization of prepaid bond insurance cost.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by \$109.2 million (2.8%) as of June 30, 2016, primarily due to the capitalization of capital improvement project costs.

Unamortized loss on refunding of debt decreased by \$10.3 million (13.1%) as of June 30, 2016. The decrease was due to the amortization of deferred refunding loss.

Deferred outflows on derivative instruments increased by \$18.2 million (27.8%) as of June 30, 2016, 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) and GASB Statement No. 72 – Fair Value Measurement and Application (GASB 72).

Deferred outflows related to pensions - See note 10a.

Current liabilities payable from unrestricted assets increased by \$24.0 million (8.4%) as of June 30, 2016, primarily due to increases in current maturities of the Airport's long-term debt and unearmed aviation revenue.

Current liabilities payable from restricted assets increased by \$339.5 million (219.6%) as of June 30, 2016, primarily due to the issuance of commercial paper notes to fund capital improvement projects.

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

Management's Discussion and Analy June 30, 2016 and 2015 Noncurrent liabilities before net pension liability and derivative instruments decreased by \$236.0 million (5.1%) as of June 30, 2016, primarily due to redemptions and the refunding of outstanding debt.

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

Derivative instruments liabilities increased by \$16.8 million (21.2%) as of June 30, 2016, due to the change in fair values of interest rate swap contracts per GASB 53 and GASB 72.

Deferred inflows related to pensions - See note 10a.

The Airport's net investment in capital assets decreased by \$14.3 million (13.8 %) as of June 30, 2016, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt.

Net position restricted for debt service decreased \$2.0 million (5.3%) as of June 30, 2016, primarily due to a reduction in the bond debt service reserve fund requirement, largely as the result of a bond refunding during fiscal year 2016.

Net position restricted for capital projects increased \$47.7 million (28.9%) as of June 30, 2016, primarily due to the issuance of commercial paper notes.

Unrestricted net position increased \$18.5 million (104.9%) as of June 30, 2016, primarily due to higher operating income from Airport operations.

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 (\$6.1%). 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.

Management's Discussion and Analysis

June 30, 2016 and 2015

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 \$1.6 million (2.5%) as of June 30, 2015, representing deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB 53 and GASB 72.

Deferred outflows related to pensions - 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.

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 liabilities increased by \$0.3 million (0.3%) as of June 30, 2015, due to the change in fair values of interest rate swap contracts per GASB 53 and GASB 72.

Deferred inflows related to pensions - 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.

Net position 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.

Net position 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

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

Management's Discussion and Analysis June 30, 2016 and 2015

Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2016, 2015, and 2014 (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET POSITION

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).

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 Airport's estimated non-airline revenues and the Airport's budgeted total costs, including operating expenses, debt service expenses

⁴ In fiscal year 2010, the Airport and airlines reached agreement on a new form of Lease and Use Agreement that became effective on July 1, 2011 and expires June 30, 2021. 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."

Management's Discussion and Analysis June 30, 2016 and 2015 and the annual service payment to the City 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 sasets.

The overcharge balance of \$55.7 million as of June 30, 2015, increased to \$67.6 million as of June 30, 2016, and was recorded as unearned aviation revenue in the statements of net position.

(Continued)

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The following table shows the air carriers that served the Airport in fiscal year 2016:

Air Carriers Serving the Airport in Fiscal Year 2016

Domoctio necessario ei comiene	All Califers Serving the All port in riseal real 2010	ZOTO
Domestic passenger an carriers	roteign hag carriers	cargo omy carriers
Alaska Airlines	Aer Lingus	ABA Air Inc.
American Airlines	Aeromexico	Air Cargo Carriers
Delta Air Lines	Air Berlin	Ameriflight
Frontier Airlines	Air Canada	Atlas Air (DHL)
Hawaiian Airlines	Air China (CAAC)	Federal Express
JetBlue Airways	Air France	Kalitta Air
Southwest Airlines	Air India Limited	Nippon Cargo Airlines
Sun Country (MN Airlines)	Air New Zealand	Redding Aero Enterprise
United Airlines	All Nippon Airways	,
US Airways	Asiana Airlines	
Virgin America	British Airways	
	COPA Airlines, Inc.	
	Cathay Pacific Airways	Charter air carriers
	China Airlines	Miami Air International
	China Eastern Airlines	
	China Southern Airlines	
	Emirates Airlines	
	Etihad Airways	
Commuter air carriers	EVA Airways	
Compass Airlines (American Airlines)	Fiji Airways	
Compass Airlines (Delta Air Lines)	Japan Airlines	
Jazz Aviation (Air Canada)	KLM Royal Dutch Airlines	
Sky West Airlines (Alaska Airlines)	Korean Air Lines	
Sky West Airlines (Delta Airlines)	Lufthansa German Airlines	
Sky West Airlines (United Airlines)	Philippine Airlines	
	Qantas Airways	
	Scandinavian Airlines	
	Singapore Airlines	
	Swiss International Air Lines	
	TACA (Avianca)	
	Turkish Airlines	
	Virgin Atlantic Airlines	
	WestJet Airlines	
	WOW air	
	XL Airways France	

Management's Discussion and Analysis June 30, 2016 and 2015 The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2016, 2015, and 2014:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

	_l	FY 2016	FY 2015	FY 2014
Effective average terminal rental rate (per sq. ft.)	S	157.18	149.98	140.85
Signatory Airline – landing fee rate (per 1,000 lbs.)		4.87	4.57	4.29
General aviation and itinerant aircraft - landing fee rate (per 1,000 lbs.)		5.36	5.03	4.72

During fiscal years ended June 30, 2016, 2015, and 2014, revenues realized from the following source equal or exceed 5% of the Airport's total operating revenues:

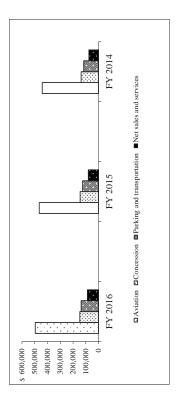
FY 2014	23.6%
FY 2015	23.5%
FY 2016	23.5%
	United Airlines

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

Management's Discussion and Analysis June 30, 2016 and 2015 The following shows a comparative summary of operating revenues for fiscal years 2016, 2015, and 2014 (in thousands):

COMPARATIVE SUMMARY OF AIRPORT'S OPERATING REVENUES

		FY 2016	FY 2015	FY 2014	FY 2016 Percentage Increase	FY 2015 Percentage Increase
Aviation	\$	495,439	464,610	441,259	%9.9	5.3%
Concession		146,872	144,781	136,587	1.4	0.9
Parking and transportation		136,743	125,087	116,703	9.3	7.2
Net sales and services		87,937	80,886	76,142	8.7	6.2
Total operating revenues	↔	866,991	815,364	770,691	6.3%	5.8%



(Continued)

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Management's Discussion and Analysis June 30, 2016 and 2015

Fiscal Year 2016

Operating revenues increased by 6.3%, from \$815.4 million in fixeal year 2015 to \$867.0 million in fixeal year 2016. The Airport experienced increases in aviation revenues, concession revenues, parking and transportation revenues, and net sales and services revenues.

Aviation revenues increased by 6.6%, from \$464.6 million in fiscal year 2015 to \$495.4 million in fiscal year 2016, 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 6.7%, from \$4.57 in fiscal year 2015 to \$4.87 in fiscal year 2016. The airline average annual terminal rent per square foot increased 4.8%, from \$149.98 in fiscal year 2015 to \$157.18 in fiscal year 2015, partially due to a 6.9% increase in the residual airline terminal rental revenue requirement. Airlin fessed space increased 2.0% to 1.65 million square feet.

Before the unearned aviation revenue adjustment, revenues from landing fees increased by \$18.5 million (12.5%), which reflects the rate increase and a 7.4% increase in airline landed weight. Terminal remals increased by \$20.6 million (8.5%), based on the rate increase and additional leased space. The overcharge balance increased by \$11.9 million, from \$55.7 million in fiscal year 2015 to \$67.6 million at the end of fiscal year 2016. In aggregate, all other aviation revenues increased by \$3.5 million (4.7%), from \$74.6 million in fiscal year 2015 to \$78.1 million in fiscal year 2016, with net aviation retal revenue and activity-based fees including aircraft parking, jet bridge fees, and employee parking all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news) and retrail care concessions increased by 1.4%, from \$14.4 smillion in fiscal year 2015 to \$14.69 million in fiscal year 2016 to \$14.69 million in fiscal year 2016. The higher revenues primarily resulted from a 6.6% increase in passenger revenue spread rate per passenger. Food and beverage revenues increased by \$1.7 million (8.8%) due to the re-opening of Boarding Area E with new concessions on January 28, 2016 and al 1.7% increase in the passenger spend rate. Retail merchandise excluding duty free revenue decreased by \$0.1 million (0.7%) despite increases in passenger traffic, as the per passenger spend rate for such merchandise declined from \$4.97 to \$4.85 (2.4%). Revenues from duty free merchandise sales decreased by \$1.6 million (5.2%) with a decline in spend rate per international passenger of 18.4% from \$22.14 to \$18.07. likely primarily the result of recent global events. On and off-Ariport rental car revenues decreased slightly by \$0.1 million (0.2%). Other concession revenues increased by \$2.2 million (8.1%), primarily from a new foreign currency exchange lease that includes a higher Minimum Annual Guarantee (MA6) rent to the Ariport.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 9.3%, from \$12.5.1 million in fiscal year 2016 to \$13.6.7 million in fiscal year 2016. Public parking transactions increased by 1.0% in fiscal year 2016, partly offset by a slight decline in a verage ticket price by 0.1%, from \$29.13 in fiscal year 2015 to \$29.12 in fiscal year 2016. The net result was a parking revenue increase of \$0.9 million (0.9%). Ground transportation revenues, including taxi trip fee revenue, increased by \$10.7 million (47.4%) in fiscal year 2016 primarily due to both commercial vehicle trip fee rate increases of up to 4.7% and a 157.7% increase in the transportation network companies' (TNC) operations at the Afriport. TNC Airport pick-ups/drop-offs totaled nearly 4.4 million during the fiscal year resulting in \$16.9 million in trip fee revenue. All other modes of transportation experienced activity declines compared to fiscal year 2015.

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

Management's Discussion and Analysis June 30, 2016 and 2015 including door-to-door pre-arranged vans (23.9%), shared-ride-vans (21.2%), charter buses (21.2%), taxis (13.2%), linnousines (4.3%), hotel shuttles (3.6%) and off-airport parking vans (3.0%).

Net sales and service revenues consist of revenue derived from utility services, telecommunication access fees, Badge and permit fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 8.7%, from \$80.9 million in fiscal year 2015 to \$87.9 million in fiscal year 2016. Sales of electricity revenue increased by \$0.8 million (18.9%) from increased usage demand and utility rate increases. Revenue from the sale of water-sewage disposal decreased by \$0.2 million (5.2%) from a 17.2% usage decline partly offset by a 13.9% water rate increase in fiscal year 2016. Telecommunication fees were higher by \$0.3 million (10.6%) from increased demand for technology services. Licenses and permits fees increased \$0.4 million (27.3%) from increased badging activity from tenant employees and contractors. The transportation and facility fee (AriTrain fee charged on rental car contracts) increased \$0.1 million (0.2%) due to a 0.9% increase in rental car contracts. RCD increased \$0.4 million (3.2%) due to RCC structure and surface rent annual Consumer Price Index (CPI) adjustments. Revenue from penalties increased by \$1.3 million (434.8%) resulting from additional revisions to the airfield safety rules and regulations and their enforcement. Miscellaneous airport revenue increased \$3.6 million (292.4%) primarily due to payments from certain air carriers and other Airport users under a settlement agreement governing cost sharing for residual contamination. Net revenue from all other sales and services including collection charges, food court infrastructure/cleaning fees, refuse disposal miscellaneous terminal fees, and other settlements increased \$0.3 million (2.5%).

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

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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% increases in rental car transactions. Food and beverage revenues increased \$1.7 million (2.2%), 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 \$2.2 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 public prublic parking increased by 1.6% from \$28.68 in fiscal 2014 to \$29.13 in fiscal year 2015; partly offset by a decline of 29.4 string transactions (0.8%). The net result was a parking revenue increase of \$0.8 million (0.7%). Ground transportation, including task 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 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, increased by 6.2%, from \$76.1 million in fiscal year 2014 to \$80.9 million in fiscal year 2015. The transportation and 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 (AriTrain fee charged on retural 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 Ariport Data Center in November 2013. Licenses and permits fees increased \$0.2 million (6.5%) due to increases to the Terminal 2 beggage handling system maintenance contract. Revenue from the sale of water-sewage disposal increased \$0.1 million (3.6%) from 11.8% water rate increase court infrastructure and cleaning fees, refuse disposal, telecommunication access fees, and settlements increased \$0.2 million (2.0%).

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Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2016, 2015, and 2014 (in thousands):

	I	FY 2016	FY 2015	FY 2014	FY 2016 Percentage Increase (Decrease)	FY 2015 Percentage Increase (Decrease)
Personnel	S	241,162	226,790	250,088	6.3%	(6.3)%
Depreciation		228,359	216,146	222,815	5.7	(3.0)
Contractual services		68,064	67,491	65,126	8.0	3.6
Light, heat, and power		22,925	22,296	20,919	2.8	9.9
Services provided by other City departments		19,946	17,958	16,918	11.1	6.1
Repairs and maintenance		35,839	33,278	29,831	7.7	11.6
Materials and supplies		16,419	14,592	14,536	12.5	0.4
General and administrative		3,369	5,132	3,334	(34.4)	53.9
Amortization of prepaid bond insurance costs		325	522	699	(37.7)	(22.0)
Environmental remediation		4,065	4,824	1,424	(15.7)	238.8
Total operating expenses	S	640,473	609,029	625,660	5.2%	(2.7)%

Fiscal Year 2016

Operating expenses increased \$31.4 million (5.2%), from \$609.0 million in fiscal year 2015 to \$640.5 million in fiscal year 2016, due to increases in expenses for personnel, depreciation, contractual services, services provided by other City departments, repairs and maintenance, and materials and supplies expenses. The increase was partially offset by a decrease in general and administrative costs, amortization of prepaid bond insurance costs, and costs of environmental remediation. In fiscal year 2016, the Airport capitalized \$14.6 million of indirect costs related to construction of capital projects as overhead, compared to \$12.7 million in fiscal year 2015. The variance in the different operating expense categories are discussed below.

Personnel costs increased \$14.4 million (6.3%), from \$226.8 million in fiscal year 2015 to \$241.2 million in fiscal year 2016. The increase was primarily due to additional positions and cost of living adjustments included in collective bargaining agreements for Airport employees.

Depreciation increased \$12.2 million (5.7%), from \$216.1 million in fiscal year 2015 to \$228.4 million in fiscal year 2016. The increase was primarily due to the addition of completed capital improvement projects such as Terminal 3 east improvements, the air traffic control tower, and power and water distribution system.

Contractual services increased \$0.6 million (0.8%), from \$67.5 million in fiscal year 2015 to \$68.1 million in fiscal year 2016. This increase was driven by higher costs for curbside management services related to a significant increase in commercial ground transportation activity, particularly from TNCs.

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Light, heat, and power expenses increased \$0.6 million (2.8%), from \$22.3 million in fiscal year 2015 to \$22.9 million in fiscal year 2016. The increase was primarily due to an increase in electricity rates and higher consumption.

Services provided by other City departments increased \$2.0 million (11.1%), from \$18.0 million in fiscal year 2015 to \$19.9 million in fiscal year 2016. The increase was primarily due to costs associated with the City's new Financial System Project.

Repairs and maintenance expenses increased \$2.6 million (7.7%), from \$33.3 million in fiscal year 2015 to \$35.8 million in fiscal year 2016. This increase was primarily due to higher costs in information technology & telecommunications support and maintenance of additional networking hardware installed as part of various Airport improvement projects.

Materials and supplies expenses increased \$1.8 million (12.5%), from \$14.6 million in fiscal year 2015 to \$16.4 million in fiscal year 2016. This increase was primarily due to increases in custodial, mechanical, and electrical supplies for the building maintenance.

General and administrative expenses decreased \$1.7 million (34.4%), from \$5.1 million in fiscal year 2015 to \$3.4 million in fiscal year 2016. The decrease was due to lower legal expense.

Amortization of prepaid bond insurance costs decreased \$0.2 million (37.7%), from \$0.5 million in fiscal year 2015 to \$0.3 million in fiscal year 2016. The decrease was primarily due to the decrease of unamortized prepaid bond insurance costs.

Environmental remediation expenses decreased \$0.7 million (15.7%), from \$4.8 million in fiscal year 2015 to \$4.1 million in fiscal year 2016. The decrease was primarily due to the fact that fewer remediation costs were incurred

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 and depreciation expenses. 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

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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.

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.

Management's Discussion and Analysis

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Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2016, 2015, and 2014 (in thousands):

		FY 2016	FY 2015	FY 2014	FY 2016 Percentage Increase (Decrease)	FY 2015 Percentage Increase (Decrease)
Nonoperating revenues: Passenger facility charges (PFC) { Investment income Other	€9	99,131 13,957 2,597	92,042 9,118	86,966 5,425	7.7% 53.1 96.3	5.8% 68.1
Total nonoperating revenues	l	115,685	102,483	93,728	12.9	9.3
Nonoperating expenses: Interest expense		208,597	210,608	201,998	(1.0)	4.3
Write-offs and loss on disposal		13,091	8,104	42,552	61.5	(81.0)
Other	-	38,460	25,597	52,776	50.3	(51.5)
Total nonoperating expenses		260,148	244,309	297,326	6.5	(17.8)
Capital contributions Transfers to City and County of		10,424	32,119	91,024	(67.5)	(64.7)
San Francisco		(42,542)	(40,480)	(37,994)	5.1	6.5
Total	<u> </u>	(176,581)	(150,187)	(150,568)	17.6%	(0.3)%

Fiscal Year 2016

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 \$99.1 million during fiscal year 2016, an increase of 7.7% compared to the \$92.0 million received in fiscal year 2015. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income increased \$4.8 million (53.1%), from \$9.1 million in fiscal year 2015 to \$13.9 million in fiscal year 2016, primarily due to the increase in interest eamed and unrealized gains from investments outside the City Treasury.

Other nonoperating revenues were primarily operating grants received during the fiscal year. For fiscal year 2016, other nonoperating revenues increased \$1.3 million from \$1.3 million in fiscal year 2015 to \$2.6 million in fiscal year 2016, primarily due to prior year's cost recovery.

Interest expense decreased \$2.0 million (1.0%), from \$210.6 million in fiscal year 2015 to \$208.6 million in fiscal year 2016, primarily due to decrease in fixed rate bond interest.

Write-offs and loss on disposal increased \$5.0 million (61.5%), from \$8.1 million in fiscal year 2015 to \$13.1 million in fiscal year 2016, primarily due to write-off of capital asset being replaced.

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

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Other nonoperating expenses increased \$12.9 million (50.3%), from \$25.6 million in fiscal year 2015 to \$38.5 million in fiscal year 2016, primarily due to the portion of Terminal 1 capital improvement costs that did not

Capital contributions received from federal grants decreased \$21.7 million (67.5%), from \$32.1 million in fiscal year 2015 to \$10.4 million in fiscal year 2016, primarily due to the decrease in grant reimbursable capital improvement projects.

The annual service payments transferred to the City increased \$2.0 million (5.1%), from \$40.5 million in fiscal year 2016 to \$42.5 million in fiscal year 2016. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2016.

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.

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, 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, the Air Traffic Control Tower, and Runway Safety Area Program.

Management's Discussion and Analysis

June 30, 2016 and 2015

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.

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.

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.

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

Management's Discussion and Analysis June 30, 2016 and 2015

Fiscal Year 2016

Fiscal year 2016 major capital projects included:

		Amount	
Terminal 1 Redevelopment Program	↔	174,361,928	
Terminal 3 East Improvements		61,835,219	
South Field Redevelopment Program		25,774,425	
Terminal 1 ATCT Integrated Facilities		13,924,685	
Air Traffic Control Tower		7,537,962	
Miscellaneous Airfield Improvements		7,461,396	
Additional Long-Term Parking Garage		6,406,650	
Common Use Self Service Program		6,016,828	
Plot 700 Redevelopment Program		5,888,892	
AirTrain Extension		4,447,992	
Consolidated Administration Campus		4,226,134	
Ground Transportation Management System		3,783,382	
Parking and Garage Improvements		3,509,170	
Cargo and Hangar Improvements		3,173,535	
Power and Lighting Improvements		3,157,769	
On-Airport Hotel		2,995,097	
Screening Improvements		2,928,781	
Technology Improvement Projects		2,696,033	
Wi-Fi Improvements		2,693,263	
Revenue Enhancement and Customer Hospitality (REACH) Program		2,379,012	
Capital Improvement Plan Program Support		2,310,502	
International Terminal Improvements		1,693,937	
Fire Equipment Replacement Program		1,309,215	
AirTrain Improvements		1,115,552	
Total	S	351,627,359	

Significant projects in design or under construction in fiscal year 2017 include the Terminal 1 (T1) Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the T1 Central Area, and a new baggage handling system, in addition to the Terminal 3 (T3) Redevelopment Program which creates a unified T3 checkpoint and constructs a new secure connector and office block. Other notable ongoing projects include the one-airport hotel, a new consolidated administration campus building, a second long term parking garage, and a new industrial waste treatment plant.

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

Management's Discussion and Analysis

June 30, 2016 and 2015

Fiscal Year 2015

Fiscal year 2015 major capital projects included:

	l		
Terminal 3 East Improvements	↔	115,228,647	
Runway Safety Area Program		43,804,471	
Air 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		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	1,043,435	
Total	↔	285,800,376	

Significant projects continuing in fiscal year 2016 include the Terminal 3 East and Terminal 3 West Improvement Projects, and the TI Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the TI 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.

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

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

Management's Discussion and Analysis June 30, 2016 and 2015

Debt Administration

Fiscal Year 2016

Amount

Capital Plan Bonds: The Airport did not issue additional bonds to fund new capital projects during fiscal year 2016

Refunding Bonds: On February 25, 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016A (Non-AMT/Governmental Purpose), in the principal amount of \$232.1 million to refund \$66.5 million of its Issue 32F, \$155.3 million of its Issue 32F, \$155.3 million of its Issue 34D long-term fixed rate bonds, which were refunded for debt service savings.

Cash Defeasance: On June 30, 2016 the Airport used available cash on hand to defease a portion of its Second Series Revenue Refunding Bonds, Issue 34E (AMT) (\$24.7 million).

Remarketed Bonds: During Fiscal Year 2016, the Airport remarketed two series of outstanding bonds:

- On June 29, 2016 the Airport remarketed its Second Series Variable Rate Revenue Refunding Bonds, Issue 36A (Non-AMT/Private Activity), with a new irrevocable letter of credit from Wells Fargo Bank, National Association, that expires on June 29, 2018. The bonds were previously secured by a letter of credit provided by U.S. Bank, National Association, which was terminated on July 7, 2016, prior to its stated expiration date of October 26, 2016.
- On June 29, 2016 the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Series 2010A (AMT), with a new irrevocable letter of credit from Bank of America, N.A., that expires on June 29, 2020. The bonds were originally secured by a letter of credit provided by JPMorgan Chase Bank, National Association, which was terminated on July 11, 2016, prior to its stated expiration date of December 14, 2016.

Subordinate Commercial Paper Notes:

- During fiscal year 2016, the Airport did not retire any of the \$40 million in commercial paper notes that
 were outstanding as of July 1, 2015 and issued \$304.1 million in new money commercial paper notes, of
 which \$1.1 million were retired. As of June 30, 2016, the Airport had \$343.1 million in outstanding
 commercial paper notes.
- On June 2, 2016, the Airport closed a three-year extension of the irrevocable letter of credit issued by Wells Fargo Bank, National Association, supporting \$100.0 million of the Airport's subordinate commercial paper notes, Series A-4, Series B-4 and Series C-4. The letter of credit will expire May 31, 2010

Interest Rate Swaps: The Airport ended fiscal year 2016 with six interest rate swaps outstanding with a total notional amount of \$479.5 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

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016, 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.

Master Bond Resolution Covenant Compliance: During fiscal year 2016, 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 2015

Capital Plan Bonds: 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; all 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 (IRS) 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.

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

Management's Discussion and Analysis June 30, 2016 and 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, 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.

Credit Ratings and Bond Insurance

Fiscal Year 2016

Credit Ratings: During fiscal year 2016, 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 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).

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 January 20, 2016, Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+", respectively, to the Series 2016A Bonds, which were issued on February 25, 2016.

On October 5, 2015, Fitch upgraded the long-term credit rating of U.S. Bank National Association. The Airport's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A, were secured by an irrevocable letter of credit issued by U.S. Bank. As a result, on October 6, 2015, Fitch raised its joint-support, long-term credit rating on the Issue 36A Bonds from "AA4" to "AAA".

On May 23, 2016, S&P applied its updated Methodology and Assumptions for Rating Jointly Supported Financial Obligations criteria to the Airport's Second Series Variable Rate Revenue Bonds, Issues 36A/B/C, Issue 37C, and Series 2010A. As a result, on May 23, 2016, S&P lowered its joint-support, long-term credit rating on those Bonds from "AAA" to "AAA+".

Management's Discussion and Analysis

June 30, 2016 and 2015

On June 29, 2016, the Airport remarketed the Issue 36A Bonds with a new irrevocable letter of credit issued by Wells Fargo Bank, National Association, that replaced the prior letter of credit issued by U.S. Bank National Association, In connection with the new letter of credit, the joint-support credit ratings on the Series 36A Bonds

On June 29, 2016, the Airport remarketed the Series 2010A Bonds with a new irrevocable letter of credit issued by Bank of America, N.A. that replaced the prior letter of credit issued by IPMorgan Chase Bank, National Association. In connection with the new letter of credit, Moody's downgraded its joint-support credit ratings on the Series 2010A Bonds to "Aa2/VMIG1" and Fitch downgraded its joint-support credit ratings on the Series 2010A Bonds to "AA/F1."

Bond Insurance: Prior to fiscal year 2009, 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 2016, the Airport's bond insurance companies' ratings were unchanged. The public ratings of Assured Guaranty Corp. were "A2" by Moody's and "AA" by S&P, and the public ratings of 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 2015

<u>Credit Ratings</u>: 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-Misubishi UFI, 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".

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".

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

Management's Discussion and Analy June 30, 2016 and 2015 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 2017 Airline Rates and Charges

Terminal rental rates and airline landing fees for fiscal year 2017 have been developed as part of the annual budget process that started in October 2015. 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 2017, which became effective on July 1, 2016, are as follows:

Effective average terminal rental rate (per sq. ft)	S	161.16
Signatory Airline – landing fee rate (per 1,000 lbs.)		4.99
Non-Signatory Airline - landing fee rate (per 1,000 lbs.)		6.24
General aviation – landing fee rate (per 1,000 lbs.)		5.49

The effective average terminal rental rate increased by 2.5%, from \$157.18 per sq. ft. in fiscal year 2016 to \$161.16 per sq. ft. in fiscal year 2017. The fiscal year 2017 landing fee rate for Signatory Airlines increased by 2.5%, from \$4.87 per 1,000 pounds in fiscal year 2016 to \$4.99 per 1,000 pounds in fiscal year 2017, while the fiscal year 2017 landing fee rate for general aviation aircraft increased by 2.5%, from \$5.36 per 1,000 pounds in fiscal year 2017. The Non-Signatory Airline landing fee rate increased by 2.5%, from \$5.549 per 1,000 pounds in fiscal year 2017. The Non-Signatory Airline landing fee rate increased by 2.5%, from \$5.09 per 1,000 pounds in fiscal year 2016 to \$5.29 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2016 to \$6.24 per 1,000 pounds in fiscal year 2017.

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.

Statements of Net Position June 30, 2016 and 2015

(In thousands)

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

Statements of Net Position June 30, 2016 and 2015 (In thousands)

			2000		2016	7	2015
	, , , ,		2013		0107	(AS)	(As Kestated)
	2016	ĺ	(As Restated)	Liabilities			
Assets				Current liabilities:			
Current assets:				Accounts payable	\$ 56,483	~	55,734
Cash and investments held in City Treasury	\$ 410,358	358	403,522	Accrued payroll	675'6	•	7,370
Cash and investments outside City Treasury	5,9	5,927	6,435	Compensated absences	9,714	_	0986
Cash – Revolving Fund		10	10	Accrued workers' compensation	1,413	~	1,363
Accounts receivable (net of allowance for doubtful accounts:				Estimated claims payable	1,346	,	2,427
2016: \$1,214; 2015: \$633)	47,851	351	38,895	Unearned aviation revenue	67,556	,	55,704
Accrued interest - City Treasury	4	430	341	Current maturities of long-term debt	163,797	7	153,471
Accrued interest – outside City Treasury	1,1	1,156	734	Payable from restricted assets:			
Inventories		38	42	Accounts payable	82,720	_	43,544
Other current assets	1,8	1,807	619	Accrued payroll	467	7	347
Restricted assets:				Grants received in advance	6,088	~	6,439
Cash and investments held in City Treasury	197,348	348	141,013	Accrued bond interest payable	31,475	16	33,587
Cash and investments outside City Treasury	63,885	385	74,491	Commercial paper	343,050	_	40,000
Accounts receivable	7	781	I	Current maturities of long-term debt	30,328	~	30,694
Accrued interest – Other		39	ю	Total current liabilities	804,016		440,540
Grants receivable	6,6	0,970	20,563				
Passenger facility charges receivable	10,348	348	9,649	Noncurrent liabilities:			
Total current assets	749,948	948	696,317	Compensated absences, net of current portion	7,326	2	6,433
				Accrued workers' compensation, net of current portion	5,244	_	4,718
Non-current assets:				Estimated claims payable, net of current portion	131		1,345
Kestricted assets:				Long-term debt, net of current maturities	4,235,551		4,480,730
Cash and investments held in City Treasury	259,134	134	259,152	Other postemployment benefits obligation	124,352		115,297
Cash and investments outside City Treasury	381,237	237	382,146	Net pension liability	144,271		111,932
Accrued interest – City Treasury	'n	532	436	Derivative instruments	96,132	6)	79,321
Prepaid bond insurance costs		29	1,952	Total noncurrent liabilities	4,613,007	 	4,799,776
Capital assets, net	4,045,636	536	3,936,426	Total liabilities	5 417 023		5 240 316
Total non-current assets	4,686,606	900	4,580,112	TOTAL HACHINGS	70,114,0	 	010,017
Total assets	5,436,554	554	5,276,429	Deferred inflows of resources			
Deferred outflores of recourses				Deferred inflows related to pensions	48,154		100,290
Thomostical long on coffinding of doly	69 100	9	000000000000000000000000000000000000000	Total deferred inflows of resources	48,154		100,290
Unamontized 1955 on retuining of dept. Deferred outflows on derivative instruments	83,100	514	65.408	Net position			
Deferred outflows related to pensions	43 982	280	37.517	Net investment in capital assets	(117,377)		(103,109)
Total deferred outflows of resources	195 696	965	181 313	Restricted for debt service	35,462		37,427
				Restricted for capital projects	212,931		165,224
				Unrestricted	36,057		17,594
				Total net position	\$ 167,073		117,136

2015

(Continued)

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See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

(In thousands)

2016 2015	\$ 495,439 464,610	146,872 144,781	136,743 125,087	87,937 80,886	866,991 815,364		241,162 226,790	2	68,064 67,491	22,925 22,296	19,946 17,958	35,839 33,278	16,419 14,592	3,369 5,132	325 522	4,065 4,824	640,473 609,029	226,518 206,335			(208,597) (210,608)	99,131 92,042	(13,091) $(8,104)$		(38,460) (25,597)	(144,463) (141,826)	82,055 64,509		10,424 32,119	(42,542) $(40,480)$	49,937 56,148	117,136 266,757	(20	117,136	\$ 167,073 117,136
	Operating tevenues Aviation	Concession	Parking and transportation	Net sales and services	Total operating revenues	Operating expenses	Personnel	Depreciation	Contractual services	Light, heat, and power	Services provided by other City departments	Repairs and maintenance	Materials and supplies	General and administrative	Amortization of prepaid bond insurance costs	Environmental remediation	Total operating expenses	Operating income	Nonoperating revenues (expenses)	Investment income	Interest expense	Passenger facility charges	Write-offs and loss on disposal	Other no noperating revenues	Other no noperating expenses	Total nonoperating expenses, net	Income before capital contributions and transfers	Capital contributions	Grants	Transfers to City and County of San Francisco	Changes in net position	Total net position - beginning of year (as originally reported)	Restatement due to adoption of GASB 68	Total net position – beginning of year (as restated)	Total net position – end of year

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities		
Cash received from airline carriers, concessionaires, and others	\$ 891,569	835,229
Cash paid for employees' services	(254,837)	(253,502)
Cash paid to suppliers of goods and services	(194,383)	(168,295)
Net cash provided by operating activities	442,349	413,432
Cash flows from noncapital financing activities		
Transfers to City and County of San Francisco	(42,542)	(40,480)
Other noncapital financing revenues	2,597	1,323
Other noncapital financing expenses	(38,460)	(25,597)
Net cash used in noncapital financing activities	(78,405)	(64,754)
Cash flows from capital and related financing activities		
Principal paid on revenue bonds and commercial paper notes	(209,910)	(182,645)
Interest paid on revenue bonds and commercial paper notes	(225,073)	(221,630)
Acquisition and construction of capital assets	(304,421)	(325,039)
Revenues from passenger facility charges	98,432	92,702
Proceeds from sale of revenue bonds	841	268,420
Proceeds from commercial paper notes	304,100	40,000
Capital contributed by federal agencies and others	20,665	62,789
Net cash used in capital and related financing activities	(315,366)	(262,403)
Cash flows from investing activities		
Sales of investments with Trustee	635,126	764,511
Purchases of investments with Trustee	(624,603)	(808,924)
Interest received on investments	4,808	8,016
Net cash provided (used) in investing activities	15,331	(36,397)
Net increase in cash and cash equivalents	63,909	49,878
Cash and cash equivalents, beginning of year	809,832	759,954
Cash and cash equivalents, end of year	\$ 873,741	809,832
Reconciliation of cash and cash equivalents to the statements of		
net position		
Cash and investments held in City Treasury – unrestricted	\$ 410,358	403,522
Cash and investments held in City Treasury – restricted	456,482	400,165
Cash and investments outside City Treasury – unrestricted	5,927	6,435
Cash and investments outside City Treasury – restricted	1,090	149
Cash – Revolving Fund	10	10
Cash, cash equivalents, and investments	873,867	810,281
Unrealized gain on investments	(126)	(449)
Cash and cash equivalents, June 30	\$ 873,741	809,832

(Continued) 37 (Continued)

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

(In thousands)

	l	2016	2015	
Reconciliation of operating income to net cash provided by				
Operating act which	99	226,518	206,335	
Adjustments for non-cash and other activities:				
Depreciation		228,359	216,146	
Allowance for doubtful accounts		581	98	
Amortization of prepaid bond insurance costs		325	522	
GASB 68 pension expense adjustment		l	(205,769)	
Cost of issuance paid from bond proceeds		655	1,527	
Changes in assets and liabilities:				
Accounts receivable		(9,536)	(1,955)	
Inventories		4	14	
Other current as sets		(1,188)	62	
Accrued payroll receivable			1	
Deferred outflows related to pensions		(6,465)	(37,517)	
Accounts payable and other liabilities		(1,546)	17,336	
Accrued payroll		2,209	(7,915)	
Compensated absences		746	341	
Accrued workers' compensation		576	411	
Other postemployment benefits obligation		9,055	11,514	
Unearned aviation revenue		11,852	71	
Deferred inflows related to pensions		(52,136)	100,290	
Net pension liability	I	32,339	111,932	
Net cash provided by operating activities	\$	442,349	413,432	
Noncash transactions Accrued capital asset costs	\$	83,187	43,890	
Bond refunding		282,453	249,527	

See accompanying notes to financial statements.

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

Notes to Financial Statements June 30, 2016 and 2015

Definition of Reporting Entity

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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 for calendar year 2015 was the seventh busiest airport in the United States in terms of passengers and sixteenth in terms of cago. 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.

As prescribed under GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 net pension liability, deferred outflows/finflows of resources related to pensions, pension expense, information about the fiduciary net position of the San Francisco Employees' Retirement System (SFERS) plan and additions to'deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which

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⁵ Source: Airports Council International – North America, 2015 North American Traffic Report.

Notes to Financial Statements June 30, 2016 and 2015 the contributions are due. Investments are reported at fair value and liabilities are based on the results

(b) Implementation of New Accounting Standards

of actuarial calculations.

Governmental Accounting Standards Board (GASB) Statement No. 72

The Airport adopted GASB Statement No. 72 – Fair Value Measurement and Application, effective July 1, 2014. GASB Statement No. 72 requires the Airport to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach of the income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. As a result, the Airport restated the beginning deferred outflows on derivative instruments of fiscal year 2014 and fiscal year 2015 in the amount of \$1.2 million and \$1.4 million, respectively to reflect GASB 72 fair value.

GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. All required disclosures were added to Notes 3b and 7d. For those investments held with the City Treasury, the City discloses the requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements at the City-wide level. However, such disclosure is not required at the department level for those inventments held with the City Treasury.

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 GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

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

Notes to Financial Statements June 30, 2016 and 2015

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.

Governmental Accounting Standards Board (GASB) Statement No. 78

In December 2015, the GASB issued Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided by state or local governments through a cost-sharing plan that meets the criteria of Statement No. 68 and is not a state or local governmental pension plan. The new standard is effective for periods beginning after December 15, 2015. The Airport will implement the provisions of Statement No. 78 in fiscal year 2017.

Governmental Accounting Standards Board (GASB) Statement No. 79

In December 2015, the GASB issued Statement No. 79 – Certain External Investment Pools and Pool Participants. GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure all their investments at amortized cost. The new standard is effective for periods beginning after June 15, 2015, except for certain provisions that will be effective for reporting periods beginning after December 15, 2015. 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. 80

In January 2016, the GASB issued Statement No. 80 – Blending Requirements for Certain Component Units. GASB Statement No. 80 establishes an additional blending requirement for the financial statement presentation of component units. The new standard is effective for periods beginning after June 15, 2016. The Airport will implement the provisions of Statement No. 80 in fiscal year 2017.

Governmental Accounting Standards Board (GASB) Statement No. 81

In March 2016, the GASB issued Statement No. 81 – Irrevocable Split-Interest Agreements. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreement created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. The Airport will implement the provisions of Statement No. 81 in fiscal year 2018.

Governmental Accounting Standards Board (GASB) Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of

Notes to Financial Statements

June 30, 2016 and 2015

assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The new standard is effective for periods beginning after June 15, 2016. The Airport elected early implementation in fiscal year 2016 and there was no significant impact to its financial statements.

(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 that meet these criteria are 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.

(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.

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

Years	5-50	5 - 20	3 - 20
	Buildings, structures, and improvements	Equipment	Intangible assets

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

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

Notes to Financial Statements

June 30, 2016 and 2015

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 the terms of 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) or Office of Management and Bugget (OMB) Circular A-87, Cost Principles for State and Local Governments (OMB A-87), as applicable (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 and GASB Statement No. 72 – Fair Value Measurement and Application. 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, if the derivatives are determined to be effective hedges, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statements of not position, otherwise changes in fair values are recorded within the investment revenue classification.

(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 offised 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.

(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).

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Notes to Financial Statements

June 30, 2016 and 2015

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. Aritines 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 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 \$67.6 million and \$55.7 million as of June 30, 2016 and 2015, 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.

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

Notes to Financial Statements June 30, 2016 and 2015

(1) 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 amounts have been reclassified to conform to the current year presentation.

(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 as the Airport is able to withdraw amount from the pool on demand without notice or penalty. 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

Notes to Financial Statements

June 30, 2016 and 2015

Code and the City policy, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

The Airport's cash and investments, at fair value, held in the City's pool as of June 30, 2016 and 2015 are as follows (in thousands):

		2016	2015	
Pooled cash and investments				
Cash and investments held in City Treasury - unrestricted	8	410,358	403,522	
Cash and investments held in City Treasury - restricted current	_	197,348	141,013	
Cash and investments held in City Treasury - restricted non-current	7	59,134	259,152	
Total cash and investments in City Treasury	s s	866,840	803,687	

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

12 – 60	38.1%
6 – less than 12	20.3%
1 – less than 6	23.2%
Under 1	18.4%

(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 is 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, 2016 and 2015, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

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

Notes to Financial Statements June 30, 2016 and 2015

	Credit Ratings June 30, 2016 (S&P/Moody's/	June 30, 2016	016	June 30, 2015	5
Investments	Fitch)	Maturities	Fair value	Maturities	Fair value
Federal Home Loan		000		ı	1000
Bank Discount Notes Federal Home Loan	AA+/Aaa/na	May 50, 2017	600'/	October 30, 2015 \$	32,207
Bank Discount Notes	AA+/Aaa/na	I	I	September 28, 2016	20,005
Federal Home Loan					
Bank Discount Notes	AA+/Aaa/na			November 23, 2016	15,759
rederal rione Loan Bank Discount Notes	AA+/Aaa/na	ı	I	May 30, 2017	7,485
Federal National Mortgage					
Association Discount Notes	AA+/Aaa/AAA	September 27, 2017	13,903	September 27, 2017	13,893
Federal National Mortgage Association Discount Notes	AA+/Aaa/na	October 26, 2017	62,617	October 26, 2017	62,329
Federal National Mortgage					
Association Discount Notes	AA+/Aaa/AAA	October 19, 2018	14,785	I	
Federal National Mortgage	A A 4/00/A/- A A	Eohemon 26 2010	10.653		
Federal National Mortgage	COO MINU ILONO	1 corumn 20, 201	70,01		
Association Discount Notes	AA+/Aaa/AAA	January 21, 2020	10,113	Ι	I
Federal National Mortgage	4 4 4 4 4	J 2000	4		
Association Discount Notes Federal National Mortgage	AA+/Aaa/AAA	June 22, 2020	0,44,	I	I
Association Discount Notes	AA+/Aaa/AAA	May 6, 2021	12,181	I	1
US Treasury Notes	AA+/Aaa/AAA	August 31, 2016	165	November 30, 2016	30,236
US Treasury Notes	AA+/Aaa/AAA	October 31, 2016	62,024	May 31, 2017	48,777
US Treasury Notes	AA+/Aaa/AAA	January 31, 2017	100	July 31, 2018	14,514
US Treasury Notes	AA+/Aaa/AAA	May 31, 2017	15,659	February 28, 2019	13,582
US Treasury Notes	AA+/Aaa/AAA	November 30, 2018	16,127	April 30, 2019	14,098
US Treasury Notes	AA+/Aaa/AAA	February 28, 2019	3,497	May 31, 2019	11,011
US Treasury Notes	AA+/Aaa/AAA	April 30, 2019	14,353	August 31, 2019	28,497
US Treasury Notes	AA+/Aaa/AAA	August 31, 2019	29,223	September 30, 2019	51,314
US Treasury Notes	AA+/Aaa/AAA	September 30, 2019	34,042	November 30, 2019	7,248
US Treasury Notes	AA+/Aaa/AAA	November 30, 2019	7,458	I	
US Treasury Notes	AA+/Aaa/AAA	February 29, 2020	18,644	I	l
US Treasury Notes	AA+/Aaa/AAA	July 51, 2020 Neuropher 20, 2020	12 631	I	I
US Treasury Notes	AA+/Aaa/AAA	February 28, 2020	13,021		
Federal Home I can Mortgage	NOT THE WORLD	1 column y 20, 2021	0/2,04		
Corp Discount Notes	AA+/Aaa/AAA	February 22, 2017	11,026	May 27, 2016	19,258
Federal Home Loan Mortgage					
Corp Discount Notes	AA+/Aaa/AAA	January 12, 2018	13,022	February 22, 2017	11,050
Federal Home Loan Mortgage	:		;		
Corp Discount Notes	AA+/Aaa/AAA	May 30, 2019	11,251	January 12, 2018	12,935
Corn Discount Notes	AAAm/Aaa/NK	ı	0699	ı	6.486
Cash		I	1.548	I	42.388
Total Cash and investments with fiscal agent	scal agent		\$ 451,049	S	463,072
		47		(Continued)	(panu

Notes to Financial Statements June 30, 2016 and 2015

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities
 accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the
 asset or liability, either directly or indirectly, for substantially the full term of the asset or
 liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the
 extent that observable inputs are not available, thereby allowing for situations in which there
 is little, if any, market activity for the asset or liability at measurement date.

The following is a summary of the fair value hierarchy of the Airport's cash and investments with fiscal agent as of June 30, 2016 and June 30, 2015.

				Fiscal Year 2016		
				Fair Value	Fair Value Measurement Using	Using
					Significant	
				Quoted Prices in	Other	
			Investments	Active Markets for	Observable	Unobservable
		Fair Value	Exempt from	Identical Assets	Inputs	Inputs
	,	6/30/2016	Fair Value	(Level 1)	(Level 2)	(Level 3)
Investments Outside City Treasury:						
U.S. Treasury securities	69	268,975	I	268,975	I	I
U.S. Agencies		173,606	I	173,606	I	I
Cash and Cash Equivalents		1,548	1,548	.	I	I
Investments exempt from Fair Value*		6,920	6,920	l		
Total	59	451,049	8,468	442,581		
				Fiscal Year 2015		
	ļ			Fair Value	Fair Value Measurement Using	Using
					Significant	
				Quoted Prices in	Other	
			Investments	Active Markets for	Observable	Unobservable
		Fair Value	Exempt from	Identical Assets	Inputs	Inputs
		6/30/2015	Fair Value	(Level 1)	(Level 2)	(Level 3)
Investments Outside City Treasury:	¥	710.010		77.01.0		
U.S. Agencies	÷	194.921	1	194.921	1	1
Cash and Cash Equivalents		42,388	42,388	.		I
Investments exempt from Fair Value*		6,486	6,486	I		
Total	↔	463,072	48,874	414,198		
*Money market funds	"					

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

Notes to Financial Statements June 30, 2016 and 2015 Investments outside the City Treasury pool consists of US Treasury securities, US Government Agency securities, and Money Market Funds. They are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. Investments exempt from fair value treatment consist of money market mutual funds with investment holdings having maturities of one year or less at the time of purchase.

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 vield.

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 (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 Resolution is to be invested in the Banker's Acceptances of any one commercial bank. The Airport has approximately \$451.0 million and \$463.1 million in investments held by, and in the name of, the Trustees as of June 30, 2016 and 2015, respectively.

All other funds of the Airport are invested in accordance with the (1) Treasurer's policy and, if applicable, (2) the 1991 Master Resolution or the 1997 Subordinate Resolution, as appropriate.

Notes to Financial Statements June 30, 2016 and 2015

(4) Grants Receivable

The Airport receives federal funding from the FAA, the TSA, and other federal agencies. Grants receivable of \$10.0 million and \$20.6 million as of June 30, 2016 and 2015, respectively, were based on actual costs incurred, subject to federal reimbursement limits.

In making decisions concerning the distribution of discretionary grants to an airport, the Secretary of Transportation may consider, as a militating factor, whether the Airport uses its revenues for purposes other than capital or operating costs, when those revenues exceed the amount used by the Airport for such costs in the base year ending June 30, 1995 as adjusted for inflation. The Airport 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. The annual service payment is considered to be a non-capital, non-operating cost for this purpose. For the past ten fiscal years, the annual service payment has exceeded the inflation-adjusted base year payment when adjusted for inflation. The Airport Commission uses discretionary grants from the FAA to offiset a portion of the costs of various capital projects at the Airport. In the federal fiscal year ended September 30, 2014, the FAA provided discretionary grants of \$38.6 million, \$\$11.9 million tess than the Airport had requested, as a result of the amount of the amnual service payment. In federal fiscal year ended September 30, 2015, the Airport did not apply for any discretionary grants. The Commission received \$12.4 million in FAA discretionary grants in the future. The reduction in discretionary grants in the future amount of the amount of the amnual service payment. The FAA may further 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.

In fiscal years 2009 and 2010, the Airport was awarded two grants under the American Recovery and Reinvestment Act of 2009 (ARRA) totaling \$14.5 million from the FAA in the DOT for runway improvements. The Office of Inspector General (OIG) for the DOT has audited ARRA grants for several airports nationwide, including these two grants received by the Airport.

The initial OIG audit of the DOT concluded in fiscal year 2012 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. These Airport expenditures were made on contracts with expenditures that were also reimbursed by two other FAA AIP grants. In fiscal year 2014 and fiscal year 2015, the Airport repaid approximately \$1.1 million of the two ARRA grant reimbursements and \$0.6 million of other AIP grant reimbursements. Following an internal review, the Airport identified an additional \$0.5 million of ineligible ARRA grant reimbursements and an additional \$2.5 million of ineligible other AIP grant reimbursements that were repaid to the FAA in December 2015. The Airport received closeout letters from the FAA for the FAA ARRA grants and the other AIP grants in January 2016.

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

Notes to Financial Statements June 30, 2016 and 2015

(5) Capital Assets

Capital assets consist of the following (in thousands):

Fiscal Year 2016

	I	July 1, 2015	Additions	Deletions	June 30, 2016
Capital assets not being depreciated					
Land	∞	3,074			3,074
Intangible assets		6,881	I		6,881
Construction in progress	I	359,799	244,488	(318,059)	286,228
Total capital assets not being depreciated	I	369,754	244,488	(318,059)	296,183
Capital assets being depreciated/amortized					
Buildings, structures, and improvements		5,743,103	388,378	(21,487)	6,109,994
Equipment		272,083	29,647	(11,086)	290,644
Intangible assets	ı	142,332	2,650	1	144,982
Total capital assets being depreciated/amortized	I	6,157,518	420,675	(32,573)	6,545,620
Less accumulated depreciation/amortization					
Buildings, structures, and improvements		(2,339,995)	(190,618)	12,263	(2,518,350)
Equipment		(127,510)	(31,676)	10,775	(148,411)
Intangible assets	ı	(123,341)	(6,065)	1	(129,406)
Total accumulated depreciation/amortization	I	(2,590,846)	(228,359)	23,038	(2,796,167)
Total capital assets being depreciated/amortized, net	ı	3,566,672	192,316	(9,535)	3,749,453
Total capital assets, net	∽	3,936,426	436,804	(327,594)	4,045,636
	l				

Total interest costs were approximately \$216.3 million for fiscal year 2016 and \$220.6 million for fiscal year 2015, of which approximately \$7.7 million and \$10.0 million, respectively, were capitalized.

In fiscal year 2007, the Airport adopted a cost allocation plan to capture indirect costs as a component of a building or other capital asset to reflect the full and true cost of a capital asset. In accordance with OMB A-87 for fiscal year 2015, and in accordance with OMB A-87 or the Uniform Guidance, as applicable, for fiscal year 2016, the indirect costs capitalized for the years ended June 30, 2016 and 2015, were \$14.6 million and \$12.7 million, respectively.

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

Notes to Financial Statements

June 30, 2016 and 2015

22,483 (179,010)(809,9)94,129 (30,528)(216,146)204,257 204,257 287,006 Additions 310,275 (105,372) (2,167,711) (2,389,816)384,422 394,377 258,086 141,546 3,475,341 5,865,157 3.074 6,881 5,465,525 July 1, 2014 Total capital assets being depreciated/amortized, net Total capital assets being depreciated/amortized Total accumulated depreciation/amortization Total capital assets not being depreciated Less accumulated depreciation/amortization Capital assets being depreciated/amortized 3uildings, structures, and improvements Buildings, structures, and improvements Capital assets not being depreciated Construction in progress Fiscal Year 2015 Intangible assets Intangible assets Intangible assets Equipment

Subordinate Commercial Paper Notes

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

The Airport issues CP in series that are subdivided into subseries according to tax status and that are secured by direct-pay letters of credit. 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).

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

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

Notes to Financial Statements

June 30, 2016 and 2015

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.

Fiscal Year 2016

369,754

(228,880)

5,743,103 272,083 6,157,518

(9,428)

(8,486)

6,881 359,799

(228,880)

June 30, 2015

Deletions

letters of credit issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, 2016, had an expiration date of 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 During Fiscal Year 2016, the CP program was supported by two \$100.0 million principal amount direct-pay which, as of June 30, 2016, had expiration dates of May 2, 2019, and May 31, 2019, respectively, and a third letter of credit issued by Royal Bank of Canada in the principal amount of \$200.0 million that, as of June 30,

As of June 30, 2016, there were no obligations other than the CP notes outstanding under the Note Resolution.

(2,339,995) (127,510)(2.590.846)

6,726 8,390 15,116

(17.914)

(123,341)

3,566,672 3,936,426

(231,678)

298,386

3,869,718

Total capital assets, net

AMT) to fund capital improvement projects. The Airport also issued and retired \$1.1 million of new money CP (taxable) during fiscal year 2016, to fund costs related to various bond and note transactions. During fiscal year 2016, the Airport issued \$280.4 million of new money CP (AMT) and \$22.7 million (NonThe following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2016 (in thousands):

	July 1,			June 30,
Interest rate	2015	Increases	Decreases	2016
0.55%	8	1,050	(1,050)	I
0.02% - 0.58%	40,000	280,350		320,350
0.05% - 0.52%		22,700		22,700
	\$ 40,000	304,100	(1,050)	343,050
	0.55% 0.02% - 0.58% 0.05% - 0.52%		101y 1, 2015 Inc 2015 40,000 S 40,000 S 40,000	3015 Increases Dc 2015 Acreases Dc 2015 Acreases Dc 2015 Acreases Dc 20100 Acreases Acreases Dc 20100 Acreases

Fiscal Year 2015

During fiscal year 2015, the CP program was supported by two \$100.0 million direct-pay letters of credit issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, that, as of June 30, 2015, had expiration dates of May 2, 2019, and June 17, 2016, respectively, and a third letter of credit issued by Royal Bank of Canada in the amount of \$200.0 million that, as of June 30, 2015, had an expiration date of 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. As of June 30, 2015, there were no obligations other than the CP notes outstanding under the Note Resolution.

Notes to Financial Statements June 30, 2016 and 2015 During fiscal year 2015, the Airport issued \$40.0 million of new money CP (AMT) to fund capital improvement projects. The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2015 (in thousands):

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

Long-Term Obligations 6

Long-term obligation activity for the years ended June 30, 2016 and 2015, was as follows (in thousands):

July 1,

		2015			June 30,	Due within	
	Ŭ	(As Restated)	Additions	Reductions	2016	one year	
Revenue bonds payable	↔	4,496,390	232,075	(493,740)	4,234,725	194,125	
Less unamortized discounts		(279)		∞	(271)		
Add unamortized premiums		168,784	51,219	(24,781)	195,222		
Total revenue bonds payable		4,664,895	283,294	(518,513)	4,429,676	194,125	
Compensated absences		16,293	13,493	(12,747)	17,039	9,714	
Accrued workers' compensation		6,081	2,654	(2,078)	6,657	1,413	
Estimated claims payable		3,772	108	(2,403)	1,477	1,346	
Other postemployment benefits							
obligation		115,297	9,055		124,352	I	
Net pension liability (see note 10a)		111,932	32,339		144,271		
Derivative instruments		79,321	16,811	I	96,132	1	
Total	↔	4,997,591	357,754	(535,741)	4,819,604	206,598	
	II						

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

Notes to Financial Statements

June 30, 2016 and 2015

	July 1,				June 30, 2015	Due Within
	2014	Additions	Reductions	Adjustment*	(As Restated)	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	1
Total revenue bonds payable	4,344,635	517,946	(197,686)	I	4,664,895	184,165
Compensated absences	15,952	12,775	(12,434)	I	16,293	6,860
Accrued workers' compensation	5,670	2,681	(2,270)		6,081	1,363
Estimated claims payable	1,387	2,403	(18)	I	3,772	2,427
Other postemployment benefits						
obligation	103,783	11,514			115,297	
Net pension liability (see note 10a)	239,459		(127,527)	I	111,932	
Derivative instruments	80,235	487		(1,401)	79,321	1
Total	\$ 4,791,121	547,806	(339,935)	(1,401)	4,997,591	197,815

*Adjustment due to adoption of GASB 72.

Bond Transactions and Balances

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 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 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.

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

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 The bonds are special, limited obligations of the Commission, and the payment of the principal of and interest issued thereunder.

Notes to Financial Statements

June 30, 2016 and 2015

As of June 30, 2016 and 2015, long-term revenue bonds consisted of the following (in thousands):

	ı	0	0	0	0	0	16	0	0	0	0	0	16	0	0	0	0	0	10	0	0	0	10	10	0	16	2	2	0	0	0	0		l_	<u>@</u>	.	10	<u>(c)</u>	L
2015		26,270	380,410	303,470	100,000	40,620	36,145	89,080	175,000	80,590	83,900	485,800	213,295	288,240	74,910	121,360	7,100	49,070	33,565	163,720	124,110	37,590	123,325	106,195	101,600	208,025	108,265	360,785	87,860	12,480	376,320	97,290	1	4,496,390	(279)	168,784	4,664,895	(184,165)	4,480,730
2016		6,385	134,200	199,825	100,000	40,620	36,145	88,650	175,000	51,295	83,490	485,800	212,475	251,615	65,390	121,360	7,100	37,130	29,295	163,720	124,110	19,720	123,325	106,195	88,780	208,025	108,265	360,785	87,860	12,480	376,320	97,290	232,075	4,234,725	(271)	195,222	4,429,676		\$ 4,235,551
Interest Rate		4.80% - 4.91%	4.00% - 5.25%	5.00% - 5.75%	Variable rate	Variable rate	Variable rate	Variable rate	4.90%	3.88% - 5.00%	2.00% - 4.00%	4.38% - 6.00%	Variable rate	3.00% - 5.00%	3.00% - 5.00%	5.00%	5.00%	5.00% - 5.75%	5.00% - 5.50%	2.00%	5.00%	3.03% - 4.48%	5.00%	5.00% - 5.25%	2.32% - 4.15%	5.00%	4.00% - 5.00%	5.00% - 5.50%	5.00%	2.12% - 2.86%	2.00%	2.00%	3.00% - 5.00%						
Date of issue		01/26/05	11/16/06	03/27/08	06/03/09	06/03/09	06/03/09	06/03/09	60/60/60	11/03/09	11/04/09	11/18/09	02/10/10	04/07/10	04/07/10	08/05/10	08/05/10	02/22/11	02/22/11	07/21/11	07/21/11	07/21/11	09/20/11	09/20/11	09/20/11	03/22/12	03/22/12	07/31/13	07/31/13	07/31/13	09/24/14	09/24/14	02/25/16						ls payable
Description	Second Series Revenue Bonds:	Issue 31F	Issue 32F/G	Issue 34C/D/E/F	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Issue 2009A/B	Issue 2009C	Issue 2009D	Issue 2009E	Issue 2010A	Issue 2010C	Issue 2010D	Issue 2010F	Issue 2010G	Issue 2011A	Issue 2011B	Issue 2011C	Issue 2011D	Issue 2011E	Issue 2011F	Issue 2011G	Issue 2011H	Issue 2012A	Issue 2012B	Issue 2013A	Issue 2013B	Issue 2013C	Issue 2014A	Issue 2014B	Issue 2016A		Unamortized discount	Unamortized premium	Total revenue bonds payable	Less current portion	Total long-term revenue bonds payable

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

Notes to Financial Statements June 30, 2016 and 2015

Fiscal Year 2016

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

Pursuant to resolutions approved in fiscal years 2008, 2012, 2014 and 2016, the Airport Commission has authorized the issuance of up to \$5.0 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 outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2016, \$3.4 billion of the authorized capital plan bonds remained unissued.

In September 2015, the Airport Commission authorized the issuance of an additional \$243.0 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and \$225.0 million of San Francisco International Airport Hotel 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 debt service on the Hotel Special Facility Bonds. In order too 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 \$243.0 million, which will be applied to the \$225.0 million construction costs of the botel and AirTrain station, capitalized interest on the Hotel Special Facility Bonds and Capital Plan Bonds for the hotel and AirTrain station. Airport Commission approval of the bond sale is required before such bonds can be issued.

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2016, 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.

On February 25, 2016 the Airport issued its Second Series Revenue Refunding Bonds, Series 2016A (Non-AMT/Governmental Purpose), in the principal amount of \$232.1 million to refund \$66.5 million of its Issue 32F, \$155.3 million of its Issue 32G and \$63.1 million of its Issue 34D long-term fixed rate bonds for debt service savings.

As of June 30, 2016, net of expired sale authorizations, \$1.2 billion of such refunding bonds remained authorized but unissued.

Notes to Financial Statements

June 30, 2016 and 2015

(c) Variable Rate Demand Bonds

As of June 30, 2016, the Airport Commission had outstanding an aggregate principal amount of \$477.9 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue \$477.9 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue \$4548/C and Issue 37C, and Series 2010 (Series 2010 A). 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 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 table 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 0.450% and 0.630% per annum. As of June 30, 2016, there were no unreimbursed draws under these facilities

On June 29, 2016, the Airport obtained a new irrevocable letter of credit issued by Wells Fargo Bank, National Association, supporting the Second Series Variable Rate Revenue Refunding Bonds, Issue 36A. The letter of credit will expire June 29, 2018.

On June 29, 2016, the Airport obtained a new irrevocable letter of credit issued by Bank of America, N.A., supporting the Second Series Variable Rate Revenue Refunding Bonds Series 2010A. The letter of credit expires June 29, 2020.

The letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2016,

Series 2010A	\$212,475,000	June 29, 2020	Bank of America (4)
Issue 37C	\$88,650,000	January 28, 2019	MITEG Union Bank (3)
Issue 36C	\$36,145,000	April 25, 2018	RTMI1 ⁽²⁾
Issue 36B	\$40,620,000	April 25, 2018	RTMI1 ⁽²⁾
Issue 36A	\$100,000,000	June 29, 2018	Wells Faron
	Principal Amount	Expiration Date	Credit Provider
Issue 36B Issue 36C	\$100,000,000 \$40,620,000 \$36,145,000	Expiration Date June 29, 2018 April 25, 2018 April 25, 2018 January 28, 2019	Walls Earno(1)

(1) Wells Fargo Bank, National Association

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

(3) Formerly Union Bank, N.A.

(4) Bank of America, National Association

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

Notes to Financial Statements June 30, 2016 and 2015

(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.

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.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Refunding 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

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016, 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, 2016.

			Initial Notional	Notional Amount		
#	Current Bonds		Amount	June 30, 2016	Effective Date	
_	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 (37B)*		79,684,000	78,584,000	5/15/2008	
ς.	37C		89,856,000	88,616,000	5/15/2008	
9	2010A**	'	143,947,000	142,383,000	2/1/2010	
	Total	↔	483,417,000	479,513,000		

sion subsequently refunded, and the Issue 37B Bonds are held The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Com

Fair Value

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 to arrive at the so-called "settlement amount", i.e. the approximate amount a party would have to pay or would rates implied by the yield curve are the market's best estimate of future spot interest rates. These The fair values take into consideration the prevailing interest rate environment and the specific terms This method calculates the future payments required by the swap, assuming that the current forward and conditions of each swap. All values were estimated using the zero-coupon discounting method receive if the swap was terminated.

risk of each party to the swap to arrive at the fair value. For each swap, the non-performance risk was computed as the total cost of the transactions required to hedge the default exposure, i.e., a series of European swaptions, exercisable on each of the future payment exchange dates under the swap that are structured to reverse the remaining future cash flow obligations as of such dates, adjusted probability of default on each future date. Default probabilities were derived from recovery rate adjusted credit default swap quotes or generic ratings based borrowing curves that fall into Level 2 of In addition, pursuant to GASB 72, the settlement amounts are then adjusted for the non-performance the GASB 72 fair value hierarchy.

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

Notes to Financial Statements

June 30, 2016 and 2015

As of June 30, 2016, 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	
-	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444% \$	(8,962,694)	
7	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.445%	(8,965,164)	
33	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444%	(3,842,002)	
4	2010A (37B)**	Merrill Lynch Capital Services, Inc./				
		Merrill Lynch Derivative Products AG	AA-/Aa3/NR*	3.773%	(17,705,290)	
S	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.898%	(20,588,207)	
9	2010A***	Goldman Sachs Bank USA/				
		Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(36,068,731)	
		Total		\$	(96,132,088)	

Fair Value Hierarchy

Fair Value Measurements Using	Significant Other	Observable Inputs	(Level 2)	\$ (96,132,088)
Fai		Fair Value	6/30/2016	(96,132,088)
			١	↔
				Interest rate swaps

Change in Fair Value

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2016 is as follows (in thousands):

		outflowson	
		derivative instruments	Derivative instruments
Balance as of June 30, 2015 (as restated)	છ	65,408	79,321
Change in fair value to year end	ı	18,206	16,811
Balance as of June 30, 2016	S	83,614	96,132

The fair value of the interest rate swap portfolio is recorded as a liability (since the Airport would owe a termination payment to the counterparty) in the statements of net position. Unless a swap was

in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

^{*} Reflects ratings of the guarantor.
** The issue 37B Bonds that are bodged 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 for accounting purposes.
**** Hedges Series 2010A-1 and 2010A-2.

Notes to Financial Statements

June 30, 2016 and 2015

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 a termination payment would be due to the counterparty) or inflow liability (if a termination payment would be due to the Airport). 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 presented in the table above constitutes the unamortized off-market portions of the swaps as of June 30, 2016.

Piche

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 face on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year nedded June 30, 2016, the Airport paid a total of \$2.0 on illion less in interest on its variable frate 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, 2016, 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.

Counterparry Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparry, 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 or from 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 swap 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

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

Notes to Financial Statements June 30, 2016 and 2015 Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate suctions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2016, 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).

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	credit ratings June 30, 2016 (S&P/Moody's/Fitch)
-	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
33	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
9	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 A3A- (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 A3AL/AI (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.

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

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Goldman Sachs Group, Inc., which is the guarantor of the Airport's swap counterparty Goldman Sachs Bank USA, was downgraded to BBB+ by S&P during the year ended June 30, 2016.

Merrill Lynch Derivative Products AG, which is the guarantor of the Airport's swap counterparty Merrill Lynch Capital Services, Inc., was upgraded by one or more of the rating agencies during the year ended June 30, 2016.

termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2016, 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 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

Special Facilities Lease Revenue Bonds (e)

In addition to the long-term obligations discussed above, the Commission's San Francisco 1997A and 2000A, were outstanding in the principal amounts of \$73.2 million and \$78.1 million, respectively, as of June 30, 2016 and 2015. 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 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 International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 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. accompanying financial statements.

Debt Service Reserve and Covenants S

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 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 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

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

Notes to Financial Statements

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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

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, 2016, the reserve requirement was 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 \$351.5 million, which was satisfied by \$355.3 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 Airport Commission's outstanding bonds. The Airport Commission may designate any series of bonds 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

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, 2016, the reserve requirement for the 2009 Reserve Account was \$11.7 million, which was satisfied by \$19.3 million in cash and 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 (iii) 10% of the outstanding principal amount of such series (or allocable issue price of such series if 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 series of 2009 Reserve Series such series is sold with more than a de minimis (2%) amount of original issue discount), in each case Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.). The value of this reserve The Airport Commission has established an additional pooled reserve account identified as the 2009 Bonds, (ii) 125% of average annual debt service for such series of 2009 Reserve Series Bonds, and investment securities, and a reserve policy in the principal amount of \$3.4 million issued by Financial policy may be adjusted downward under certain circumstances and may have experienced a reduction

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 does not maintain 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

Notes to Financial Statements

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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 additional cash in the Issue i Reserve Account to satisfy the reserve requirement and compensate for the diminished value or downgraded providers of these reserve policies, and, as of June 30, 2016, sufficient cash and investments were on deposit in the Issue I Reserve Account and the 2009 Reserve Account to satisfy the applicable reserve requirement without the reserve policies. 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

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:

- 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, (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
- (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.

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. The methods required by the 1991 Master Resolution for calculating debt service coverage differ from those required under GAAP, which are 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-

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

Notes to Financial Statements

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

		Principal	Interest	Total
Fiscal year:				
2017	S	194,125	213,041	407,166
2018		203,190	204,190	407,380
2019		212,845	191,473	404,318
2020		219,200	181,271	400,471
2021		231,085	170,557	401,642
2022 - 2026		1,219,585	674,868	1,894,453
2027 - 2031		812,035	393,784	1,205,819
2032 - 2036		370,955	250,053	621,008
2037 - 2041		435,620	156,909	592,529
2042 - 2044		336,085	34,155	370,240
Total	S	4,234,725	2,470,301	6,705,026
	I			

securing the Airport's outstanding variable rate bonds had to be drawn upon to pay such bonds and the The table below presents the revenue bond debt service requirements in the event the letters of credit 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):

	Pri	Principal	Interest	Total
Fiscal year:				
2017	S	194,125	213,041	407,166
2018		349,110	204,666	553,776
2019		275,775	184,062	459,837
2020		391,610	172,482	564,092
2021		200,315	153,868	354,183
2022 - 2026		1,028,530	614,466	1,642,996
2027 - 2031		652,600	377,680	1,030,280
2032 - 2036		370,955	250,053	621,008
2037 - 2041		435,620	156,909	592,529
2042 - 2044		336,085	34,155	370,240
Total	\$	4,234,725	2,361,382	6,596,107
]	1	

Post-Issuance Compliance with Federal Tax Law (g)

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 IRS.

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

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Cash Defeasance of Bonds (y)

In June 2016, the Airport Commission used cash on hand to defease \$24.7 million of outstanding Second Series Revenue Refunding Bonds Issue 34E.

Fiscal Year 2015

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

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 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 plan bonds remained unissued.

(AMT/Private Activity), and Series 2014B (Non-AMT/Governmental Purpose) in the total amount of On September 24, 2014, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2014A \$473.6 million. The Series 2014A/B Bonds are uninsured, 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%.

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

Second Series Revenue Refunding Bonds (p)

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

Variable Rate Demand Bonds \hat{c}

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

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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 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest 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 table below.

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 Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment

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. On January 28, 2015, the Airport closed a four-year extension of the irrevocable letter of credit issued 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	April 25, 2018	April 25, 2018	January 28, 2019	December 14, 2016
Credit Provider	U.S. Bank(1)	$\mathbf{BTMU}^{(2)}$	$\mathbf{BTMU}^{(2)}$	MUFG Union Bank (3)	JP Morgan ⁽⁴⁾

U.S. Bank National Association
 The Bank of Tokyo-Mitsubishi UFJ. Ltd.

(3) Formerly Union Bank, N.A.

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

Interest Rate Swaps (q)

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. rate swaps (the 2004 swaps) with an aggregate notional amount of \$405.0 million, in connection with Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest

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Notes to Financial Statements

June 30, 2016 and 2015

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. 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 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 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 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

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

Notes to Financial Statements

June 30, 2016 and 2015

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.

*	Current Bonds		Initial Notional Amount	Notional Amount June 30, 2015	Effective Date
_	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
2	37C		89,856,000	89,045,000	5/15/2008
9	2010A	ı	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.

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 The fair values take into consideration the prevailing interest rate environment and the specific terms 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:

Fair

Counterparty/guarantor* (S&P/Moody's/Fitch) Commission (A A+/Aa2/AA- 3,444% 5.1 E. Morgan Chase Bank, N.A. A+/Aa2/AA- 3,444% A+/Aa2/AA- A+/Aa2/AA- 3,444% A+/Aa2/AA- A+/Aa2		Current		Counterparty credit ratings	Fixed rate payable by	value to Commission
J.P. Morgan Chase Bank, N.A.	#	Bonds	Counterparty/guarantor*	(S&P/Moody's/Fitch)	Commission	(As Restated)
J.P. Morgan Chase Bank, N.A.	-	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.444% \$	(7,927,355)
J.P. Morgan Chase Bank, N.A. A+/Aa2/AA- 3,444% Merrill Lynch Capital Services, Inc/ A+/Aa3/NR 3,773% Merrill Lynch Derivative Products AG A+/Aa2/AA- 3,898% J.P. Morgan Chase Bank, N.A. A+/Aa2/AA- 3,898% Goldman Sachs Group, Inc. A-/A3/A 3,925% Total S	2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.445%	(7,927,845)
Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG J.P. Morgan Chase Bank, N.A. Goldman Sachs Group, Inc. Total	3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.444%	(3,399,806)
Merrill Lynch Derivative Products AG A+/Aa3/NR 3,773% J.P. Morgan Clase Bank, N.A. A+/Aa2/AA- 3,898% Goldman Sachs Group, Inc. A-/A3/A 3,925% Total	4	2010A	Merrill Lynch Capital Services, Inc./			
J.P. Morgan Chase Bank, N.A. A+/Aa2/AA- 3.898% Goldman Sachs Bank USA/ A-/A3/A 3.925% Total			Merrill Lynch Derivative Products AG	A+/Aa3/NR	3.773%	(14,630,707)
Goldman Sachs Bank USA/ Goldman Sachs Group, Inc. A-/A3/A 3.925% Total	5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa2/AA-	3.898%	(16,721,752)
A-/A3/A 3.925%	9	2010A	Goldman Sachs Bank USA/			
<i>€</i> 5			Goldman Sachs Group, Inc.	A-/A3/A	3.925%	(28,713,153)
			Total		€9	(79,320,618)

Notes to Financial Statements

June 30, 2016 and 2015

Fair Value Measurements Using	Significant Other	Observable Inputs	(Level 2)	\$ (79,320,618)
副		Fair Value	6/30/2015	(79,320,618)
			1	↔
				Interest rate swaps

Change in Fair Value

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	S	64,964	80,235	
Change in fair value to year end (as originally reported)		1,845	487	
Restatement due to adoption of GASB 72	I	(1,401)	(1,401)	
Balance as of June 30, 2015 (as restated)	S	65,408	79,321	

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 The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of determined to be an off-market swap at the inception of its hedging relationship, the fair value of the the money from the perspective of the Airport) in the statements of net position. Unless a swap was swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). 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.

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 mismatch between the two rates. Changes that cause the payments received from the counterparty to relationship between the LIBOR-based swap rate and the variable bond rates would cause a material be insufficient to make the payments due on the associated bonds result in an increase in the synthetic Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank 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

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

Notes to Financial Statements

June 30, 2016 and 2015

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

become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. 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 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 Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S.

to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would 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 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 Airport's swap policy, the Airport Director determined not to terminate, transfer, or substitute such Counterparty Risk - The Airport is exposed to counterparty risk, which is related to credit and 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, were exceeded with respect to several counterparties. Following the consultation required by the

Termination Risk – All of the interest rate swaps are terminable at their market value at any time at the 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 option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers:

Notes to Financial Statements

June 30, 2016 and 2015

			June 30, 2015
#	Swap	Swap Insurer	(S&P/Moody's/Fitch)
-	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
9	Series 2010A	None	N/A

Insurer credit ratings

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 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 provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a 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 If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and Airport rating thresholds are the same as described above. Additional Termination Events under the swap documents with respect to the Airport include an 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 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. 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.

conditions at the time. As of June 30, 2015, the fair value of each swap was negative to the Airport as 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

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

Notes to Financial Statements

June 30, 2016 and 2015

shown above. The risks and termination rights related to the Airport's swaps are discussed in further

Special Facilities Lease Revenue Bonds e

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 In addition to the long-term obligations discussed above, the Commission's San Francisco respectively, as of June 30, 2015 and 2014. SFO Fuel Company LLC (SFO Fuel), a special purpose 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 other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the 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, to the jet fuel distribution facilities in an amount equal to debt service payments on the bonds and any 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 accompanying financial statements.

Post-Issuance Compliance with Federal Tax Law S

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 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 and other applicable guidance from the U.S. Treasury Department and the IRS. As a result, the Airport of a number of outstanding series of bonds were applied for purposes that present tax law compliance 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 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. federal tax law, including the Internal Revenue Code of 1986, the Regulations promulgated thereunder, gross income for federal income tax purposes retroactively to the date of their issuance. In November

Notes to Financial Statements June 30, 2016 and 2015

(g) 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 7f). 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)

(8) Pledged Revenue

The Airport 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 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, 2016, 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); (c) Special Facility (so we have a selignated 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 seal of Iand, 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

(Continued)

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

Notes to Financial Statements June 30, 2016 and 2015 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) Amunal Service Payments to the City; (f) any costs, or charges made therefor, for capital additions, replacements or improvements 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 2016 and 2015, 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 as 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.

		2010	2012
	l		
Bonds issued with revenue pledge	S	232,075	473,610
Bond principal and interest remaining due at the end of the fiscal year		6,705,026	7,206,612
Commercial paper issued with subordinate revenue pledge		304,100	40,000
Commercial paper principal and interest remaining due at the end of the fiscal year		343,343	40,001
Net revenues		473,086	439,381
Bond principal and interest paid in the fiscal year		416,610	384,427
Commercial paper principal and interest paid in the fiscal year		3,900	3,418

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 hability 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 \$73.2 million and \$78.1 million, respectively, as of June 30, 2016 and 2015. The SFO Fuel bonds were issued to finance improvements to the jet frieth 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.

Notes to Financial Statements June 30, 2016 and 2015

(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 \$26.3 million and \$29.5 million as of June 30, 2016 and 2015, 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 Minimum Annual Guarantee (MAG) for the rental car operators does not apply if the actual enplanements achieved during a non-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 \$43.3 million and \$43.2 million as of June 30, 2016 and 2015, respectively.

Minimum future rents under non-cancelable operating leases at the Airport having terms in excess of one year are as follows (in thousands):

	104,343	88,223	50,050	23,159	16,757	34,731	317,263
Fiscal year ending:	2017 \$	2018	2019	2020	2021	2022 and thereafter	Total

(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 Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). 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 SFERS plans, and additions to/deductions from the Plan's fiduciary net position of the STERS plans, and additions to/deductions from the Plan's fiduciary net position and the same basis as they are reported by Cheiron, the consulting actuary 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.

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Notes to Financial Statements

June 30, 2016 and 2015

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

Fiscal Year 2016	June 30, 2014 updated to June 30, 2015	June 30, 2015	July 1, 2014 to June 30, 2015	Fiscal Year 2015	June 30, 2013 updated to June 30, 2014	June 30, 2014	July 1, 2013 to June 30, 2014
Fisca	Valuation Date (VD)	Measurement Date (MD)	Measurement Period (MP)	Fisca	Valuation Date (VD)	Measurement Date (MD)	Measurement Period (MP)

The City is an employer of the Plan with a proportionate share of 93.90% as of June 30, 2015, and 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 years 2015 and 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 6.64% as of the measurement date in fiscal year 2016 and 6.74% as of the measurement date in fiscal year 2015.

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 after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which 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 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 retinuds 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

Notes to Financial Statements

June 30, 2016 and 2015

- 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, 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
- 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 that 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

determined rate. Based on the July 1, 2014 actuarial report, the required employer contribution rate for fiscal year 2016 was 18.30% to 22.80%. The required employer contribution rate for fiscal year 2015 based on the July 1, 2013 actuarial report ranged from 22.26% to 26.76%. 2016 and 2015 varied from 7.5% to 13.0% as a percentage of gross covered salary. Most employee 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 years groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially

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 2015 was \$556.5 million and \$499.8 million in fiscal year 2014. The Airport's allocation of employer contributions for fiscal year 2015 was \$37.5 million and \$33.7 million for fiscal year 2014. Employer contributions and employee contributions made by the employer to the Plan are recognized

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

Notes to Financial Statements June 30, 2016 and 2015

Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to

Fiscal Year 2016

liability of the Plan of \$2.16 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2015 (MP) and 2014 (MP) was \$144.3 million and \$111.9 million, respectively. During the measurement period fiscal year 2015, there were no changes to benefits. The increase in service costs, As of June 30, 2016, the City reported net pension liabilities for its proportionate share of the pension as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension on a projection of the City's long-term share of contributions to the pension plan relative to the The Airport's liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The City's proportion of the net pension liability was based interest costs, and decrease in the discount rate increased total pension liability and were only partially offset by contributions, investment income, and actuarial experience gains, resulting in an overall projected contributions of all participating employers, actuarially determined. increase in net pension liability. For the year ended June 30, 2016, the City's recognized pension expense was \$106.5 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 \$6.7 million. At June 30, 2016, the Airport's reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources set forth below (in thousands).

Schedule of Deferred Inflows and Outflows

Deferred inflows of resources	2,785 34,976 519 9,874	48,154
Deferred outflows of resources	10,815	43,982
	↔	↔
	Changes of assumptions Net difference between projected and actual earnings on pension plan investments Change in proportionate share Difference between expected and actual experience Pension contributions subsequent to the	measurement date Total

Notes to Financial Statements

June 30, 2016 and 2015

Amounts reported as deferred outflows (excluding pension contributions made subsequent to measurement date) and deferred inflows of resources will be amortized annually and recognized as pension expense as follows (in thousands):

Deferred	outnows/(innows)	of resources	(15,557)	(15,557)	(15,557)	9,546	(37.125)
	0	ļ	↔				€9
		Fiscal year	2017	2018	2019	2020	Total

Fiscal Year 2015

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 \$11.9 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.

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

Notes to Financial Statements

June 30, 2016 and 2015

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).

Schedule of Deferred Inflows and Outflows

		Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	↔	1	3,708
earnings on pension plan investments		I	95,890
Change in proportionate share Pension contributions subsequent to the		l	692
measurement date		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):

Deferred outflows/(inflows)	of resources	\$ (25,073) (25,073) (25,073) (25,071) \$ (100,290)
	Fiscal year	2016 2017 2018 2019 Total

Notes to Financial Statements

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Actuarial Assumptions

Fiscal Year 2016

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation. Refer to the July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions

Valuation Date	June 30, 2014 upd	June 30, 2014 updated to June 30, 2015	115	
Measurement Date	June 30, 2015			
Actuarial Cost Method	Entry-Age Normal Cost Method	al Cost Method		
Expected Rate of Return	7.50%			
Municipal Bond Yield	4.31% as of June 30, 2014	30, 2014		
	3.85% as of June 30, 2015	30, 2015		
	Bond Buyer 20-B	ond GO Index, Jul	Bond Buyer 20-Bond GO Index, July 2, 2014 and July 2, 2015	, 2015
Discount Rate	7.58% as of June 30, 2014	30, 2014		
	7.46% as of June 30, 2015	30, 2015		
Administrative Expenses	0.45% of payroll			
	PIO	Old Police &	Old Police &	Old Police &
	Miscellaneous	Fire pre	Fire, Charters	Fire, Charters
	and all New	7/1/75	A8.595 and	A8.559 and
	Plans	Retirements	A8.596	A8.585

3.585 5.00%

4.00%

3.00%

2.00%

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.

Fiscal Year 2015

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://mysfers.org/.

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

Notes to Financial Statements

June 30, 2016 and 2015

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Assum	
Actuarial.	
Key	

Valuation Date	June 30, 2013 upd	June 30, 2013 updated to June 30, 2014	014
Measurement Date	June 30, 2014		
Actuarial Cost Method	Entry-Age Normal Cost Method	al Cost Method	
Expected Rate of Return	7.58%		
Municipal Bond Yield	4.39% as of June 30, 2013	30, 2013	
	4.31% as of June 30, 2014	30, 2014	
	Bond Buyer 20-B	ond GO Index, Ju	Bond Buyer 20-Bond GO Index, July 3, 2013 and July 2,
Discount Rate	7.52% as of June 30, 2013	30, 2013	
	7.58% as of June 30, 2014	30, 2014	
Administrative Expenses	0.45% of payroll		
	PIO	Old Police &	Old Police &
	Miscellaneous	Fire pre	Fire, Charters
	and all New	7/1/75	A8.595 and

, 2014

Old Police & Fire, Charters A8.559 and A8.585

> A8.596 4.00%

Retirements

Plans 2.00%

3.00%

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. 85

Notes to Financial Statements June 30, 2016 and 2015

Discount Rate

Fiscal Year 2016

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.58% as of June 30, 2014, and 7.46% as of June 30, 2015.

The discount rate used to measure the total pension liability as of June 30, 2015, was 7.46%. 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, a payment for the expected administrative expenses, and an amortization payment to the unfunded actuarial lability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014, any charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 15 years and examption or method changes on or after July 1, 2014, are amortized over 2 by such as an assumption or method changes on or after July 1, 2014, are amortized over 20 years. The remaining unfunded actuarial liability in a darically of payments increase 3.75% each year. 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 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 COLAs is 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, 2015, of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for members with a 2,00% basic COLAs for sample years.

(Continued)

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

Notes to Financial Statements

June 30, 2016 and 2015

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Assumption	0.000%	0.345%	0.375%	0.375%	0.375%
Fiscal year	2016	2021	2026	2031	2036+

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 2076 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 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2015, is 7.46%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board affer consideration of both expected future returns and historical returns experienced 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 rable:

Long-term Expected Real Rates of Return

Asset class Target allocation real rate of return Global equity 40% 5.1% Fixed income 20% 1.2% Private equity 18% 7.5% Real assets 17% 4.1% Hedge Funds/Absolute Returns 5% 3.5% 100% 100% 3.5%			Long-term expected
40% 20% 18% 17% Absolute Returns 5% 100%	Asset class	Target allocation	real rate of return
20% 18% 17% Absolute Returns 5% 100%	Global equity	40%	5.1%
18% 17% Absolute Returns 5% 100%	Fixed income	20%	1.2%
17% 5% 100%	Private equity	18%	7.5%
5% 100%	Real assets	17%	4.1%
100%	Hedge Funds/Absolute Returns	2%	3.5%
		100%	

(Continued)

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Notes to Financial Statements June 30, 2016 and 2015

Fiscal Year 2015

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 eslowed 20-year amortization as a level percentage of payroll of experience gains and tosses 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 gramets on a Supplemental COLA to be gramted, 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 members with a 2.00% basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2,00% Basic COLA

Assumption	. %000.0	0.364%	0.375%	0.375%	0.375%	
Fiscal year	2015	2020	2025	2030	2035+	88

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

Notes to Financial Statements June 30, 2016 and 2015 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 can be made from the projected future benefit payments can be made from the projected futural value 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 are relatively few and far in the future, the municipal bond rate are relatively few and far in the future, 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 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 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 rable:

Long-term Expected Real Rates of Return

Asset class	Target allocation	Long-term expected real rate of return
Global equity	47%	5.3%
Fixed income	25%	1.8%
Private equity	16%	8.8%
Real assets	12%	5.8%
	100%	

Notes to Financial Statements

June 30, 2016 and 2015

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 discountrate, 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):

Fiscal Year 2016

Employer	Proporti onate share	1% decrease share of NPL @ 6.46%	22	Share of NPL @ 7.46%	• <u>·</u>	1% increase share of NPL @ 8.46%
Airport	6.64%	\$ 319,033	\$	144,271	≶	(2,294)
Fiscal Year 2015	115					
		1% decrease				1% increase
	Proportionate	share of NPL @	Sh	Share of NPL @	S	share of NPL @
Employer	share	6.58%		7.58%		8.58%

(b) Health Care Benefits

9

111,932

S

277,262

()

6.74%

Airport

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 #36.7 million and #33.5 million in fiscal years 2016 and 2015, 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 \$10.3 million and \$9.4 million for fiscal years 2016 and 2015, respectively, to provide postretirement benefits for retired Airport employees on a pay-as-you-go basis, as well as \$0.5 million and \$0.4 million for fiscal years 2016 and 2015, 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 2016 and 2015.

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, 2016 and 2015, based upon its percentage of Citywide payroll costs is presented below.

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

Notes to Financial Statements

June 30, 2016 and 2015

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):

		2016	2015
Annual required contribution	છ	18,797	21,409
Interest on net OPEB obligation		5,969	4,872
Adjustment to ARC		(4,853)	(4,062)
Annual OPEB cost	ı	19,913	22,219
Contribution made		(10,858)	(10,705)
Increase in net OPEB obligation	l	9,055	11,514
Net OPEB obligation - beginning of year		115,297	103,783
Net OPEB obligation – end of vear	€9	124.352	115.297

As of June 30, 2016, the Airport has set aside \$107.1 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.

(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 \$140.7 million and \$135.8 million in fiscal years 2016 and 2015, respectively, Included in personnel operating expenses are approximately \$70.5 million and \$68.1 million in fiscal years 2016 and 2015, 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 \$42.5 million and \$40.5 million in fiscal years 2016 and 2015, 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, 2016, the FAA has approved several Airport applications to collect and use PFCs (from PFC #2 to PFC #6) in a total cumulative amount of \$1.7 billion, with a final charge expiration date estimated to

Notes to Financial Statements

June 30, 2016 and 2015

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.

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 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 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, 2016 and 2015, are as follows (in thousands):

	ļ	2016	2015
Amount collected	S	99,131	92,042
Interest earned		1,070	1,155
Total	∽	100,201	93,197

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

(13) Commitments, Litigation, and Contingencies

Commitments (a)

Purchase commitments for construction, material, and services as of June 30, 2016 are as follows (in thousands):

75,769	15,810	91,579
↔		↔
Construction	Operating	Total

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 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

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

Notes to Financial Statements

June 30, 2016 and 2015

communities with Airport funds (using bond proceeds, operating and other internally generated funds), as well as federal grants.

funds). In fiscal year 2015, the Airport disbursed approximately \$1.0 million in this phase of the program (\$6.5 million in federal grants and \$0.5 million in Airport funds). As of June 30, 2016, the cumulative disbursements of Airport funds under this program were approximately \$122.2 million. In fiscal year 2008, these components of the program were finalized and a new phase was started, with approximately \$33,000 in this phase of the program (\$300 in federal grants and \$32,700 in Airport the Airport managing all new noise insulation work directly. In fiscal year 2016, the Airport disbursed

Security Deposits (**p**)

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 Rates and Charges. Under most other leases and permits, a deposit equal to six months is required. to the City or (b) a letter of credit naming the City as a beneficiary. Under the 2011 Lease and Use effective date of the lease or permit. Such deposits are either in the form of (a) a surety bond payable Airline leases and permits require airlines to deliver a security deposit to the Airport prior to the

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.

Litigation \hat{c}

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 GAAP.

Risk Management g

Under the 1991 Master Resolution, the Airport is required to procure or provide and maintain 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 insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts it carry insurance or self-insure against any risks due to land movement or seismic activity.

in War Perils Liability, 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. 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 with \$250.0 million

Notes to Financial Statements

June 30, 2016 and 2015

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 earlies 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 Policie 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, insurens 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 slisk 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

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2014, resulted from the following activity (in thousands):

1,387	(18)	2,403	3,772	(2,403)	108	1,477
S						\$
Balance as of June 30, 2014	Claim payments	Claims and changes in estimates	Balance as of June 30, 2015	Claim payments	Claims and changes in estimates	Balance as of June 30, 2016

(Continued)

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

Notes to Financial Statements

June 30, 2016 and 2015

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, 2014	↔	5,670
Claim payments		(2,270)
Claims and changes in estimates		2,681
Balance as of June 30, 2015		6,081
Claim payments		(2,078)
Claims and changes in estimates		2,654
Balance as of June 30, 2016	99	6.657

(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 guaranties 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 guaranty 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 guaranties under the program as of June 30, 2016.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2j) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2016 and 2015, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

2015	23.5%
2016	23.5%
	United Airlines

Notes to Financial Statements June 30, 2016 and 2015

(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):

	16	7	23
	\$		↔
ng:			
Fiscal year ending			Total
al yea	2017	2018	П
Fisc	7	7	

Net operating lease expense incurred for the fiscal year ended 2016 was the same as 2015 at approximately \$0.2 million.

(14) Subsequent Events

Issuance of Capital Plan Bonds and Refunding Bonds

On September 29, 2016, the Airport issued its Second Series Revenue Bonds, Series 2016B (AMT) and Series 2016C (Non-AMT), in the aggregate principal amount of \$740.1 million to finance and refinance (through the repayment of subordinate commercial paper notes) a portion of the capital plan. It also issued its Second Series Bords selected Bonds, Series 2016D (Non-AMT/Governmental Purpose) in the amount of \$147.8 million to refund a portion of the Series 2010C, 2011D, and 2011G bonds. The Series 2016B bonds mature between May 2016RD bonds are uninsured, long-term, fixed rate bonds. The Series 2016B bonds mature between May 2038 and May 2046 a coupon of 5%. The Series 2016C Bonds mature in May 2046 with a coupon of 5%. The series 2016D Bonds mature between 2017 and 2031 with a coupon of 5%. The net proceeds of the Series 2016B bonds (\$779.2 million) were used to repay the entire outstanding balance of subordinate commercial paper notes (\$53.3.0 million), and make a deposit into the Airport had no subordinate commercial paper notes (\$53.3.0 million).

Pension Liability

A court decision was reached subsequent to the June 30, 2015 measurement date used by the City's actuaries in determining the City's Net Pension Liability for the San Francisco City and County Employees' Retirement System's defined benefit pension plan. The impact of the decision on the System's Net Pension Liability is not yet known, but is expected to significantly increase the City's proportionate share of the plan's Net Pension Liability. The expected increase is due to the determination of the court that the full funding requirement for payment of the Supplemental COLA was unconstitutional as applied to members who worked after November 6, 1996, and before Proposition C passed in November 2011. The June 30, 2016 actuarial report has not been issued as of the date of this report.

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SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

Schedule of Passenger Facility Charge Revenues and Expenditures

Years ended June 30, 2016 and 2015

(In thousands)

Revenues over (under) expenditures	on approved projects	152,192		(10,309)	777,72	22,808	(25,350)	(20,920)	(8)	9,649	(1,353)	150,839		(6,649)	24,817	22,669	24,282	(15,326)	(20)	10,348	57,091	207,930
Expenditures	on approved projects	(743,079)		I		l	(47,000)	(47,550)	I	I	(94,550)	(837,629)		l	l	I	I	(43,110)	I	I	(43,110)	(880,739)
	Total revenues	895,271		(10,309)	777,72	22,808	21,650	26,630	(8)	9,649	93,197	988,468		(6,649)	24,817	22,669	24,282	27,784	(20)	10,348	100,201	1,088,669
	Interest earned	16,096		I	291	255	330	287	(8)	I	1,155	17,251			243	212	305	360	(20)	I	1,070	18,321
Passenger Facility	Charge revenues	879,175		(10,309)	22,486	22,553	21,320	26,343		9,649	92,042	971,217		(6,649)	24,574	22,457	23,977	27,424	I	10,348	99,131	1,070,348
		Program to date as of June 30, 2014	Fiscal year 2014 – 2015 transactions:	Reversal of prior year passenger facility charges accrual	Quarter ended September 30, 2014	Quarter ended December 31, 2014	Quarter ended March 31, 2015	Quarter ended June 30, 2015	Unrealized loss on investments	Passenger facility charges accrual	Total fiscal year 2014 - 2015 transactions	Program to date as of June 30, 2015	Fiscal year 2015 – 2016 transactions:	Reversal of prior year passenger facility charges accrual	Quarter ended September 30, 2015	Quarter ended December 31, 2015	Quarter ended March 31, 2016	Quarter ended June 30, 2016	Unrealized loss on investments	Passenger facility charges accrual	Total fiscal year 2015 - 2016 transactions	Program to date as of June 30, 2016

See accompanying independent auditors' report and notes to schedule of passenger facility charge revenues and expenditures

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

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2016

(1) General

The accompanying schedule of Passenger Facility Charge (PFC) revenues and expenditures includes activities related to applications 02-02-C-00-SFO, 03-03-C-01-SFO, 11-05-C-01-SFO, and 13-06-C-00-SFO of the PFC program of the Ariport Commission, City and County of San Francisco. San Francisco International Ariport (the Airport). The level of PFCs authorized, charge effective dates, and approved collection amounts of the Airport's PFC program are as follows:

Amounts

Application number Level of PFCs Charge effective 02-02-C-00-SFO \$ 4.50 October 1, 2001 \$ 03-03-03-03-03-03-03-03-03-03-03-03-03-0	approved	for collection	(in thousands)	224,035	609,108	741,744	141,076	1,715,963
Level of PFCs authorized S 4.50 4.50 4.50 4.50 4.50 4.50 4.50 4.50 4.50			 	S				S
Level of I mber authori \$ Total		Charge effective	date for collection	October 1, 2001	November 1, 2005	January 1, 2017	October 1, 2024	
Application number 02-02-C-00-SFO 03-03-C-01-SFO 11-05-C-01-SFO 13-06-C-00-SFO Total		Level of PFCs	authorized	4.50	4.50	4.50	4.50	
Application number 02-02-C-00-SFO 03-03-C-01-SFO 11-05-C-01-SFO 13-06-C-00-SFO Total			 	S				
			Application number	02-02-C-00-SFO	03-03-C-01-SFO	11-05-C-01-SFO	13-06-C-00-SFO	Total

(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.

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

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 Comproller General of the United States, the financial statements of the Airport Commusion. 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, 2016, 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 thereom dated October 21, 2016. Our report included an emphasis of matter paragraph related to the Airport's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

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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.

urpose of this Keport

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 Ariport's internal control or no 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.



San Francisco, California October 21, 2016 100



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

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

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, Carage 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, 2016.

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, 2016.

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

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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

program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 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.

KAMO LIP

San Francisco, California October 21, 2016

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

Schedule of Findings and Responses Year ended June 30, 2016

Summary of Auditors' Results i

Ξ.

- The type of report issued on the basic financial statements: Unmodified opinion
- Significant deficiencies in internal control were disclosed by the audit of the financial statements: None reported 7

Material weaknesses: None

- Noncompliance which is material to the financial statements: None
- Significant deficiencies in internal control over the passenger facility charge program: None reported. Material weaknesses: None
- The type of report issued on compliance for the passenger facility charge program: Unmodified opinion δ.
- Any audit findings: No 9
- Findings and Responses Related to the Passenger Facility Charge Program Ħ

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APPENDIX C

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 2017/18 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 2017/18 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 2017/18 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 2017/18 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 2017/18 Bonds. The Series 2017/18 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 2017/18 Bond certificate will be issued for each maturity and series of Series 2017/18 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 bookentry 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 website is not incorporated by reference herein.

Purchases of the Series 2017/18 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017/18 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017/18 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 2017/18 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 2017/18 Bonds, except in the event that use of the book-entry system for the Series 2017/18 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017/18 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 2017/18 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 2017/18 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017/18 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 2017/18 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017/18 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the authorizing documents. For example, Beneficial Owners of the Series 2017/18 Bonds may wish to ascertain that the nominee holding the Series 2017/18 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 2017/18 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 2017/18 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 2017/18 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2017/18 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.

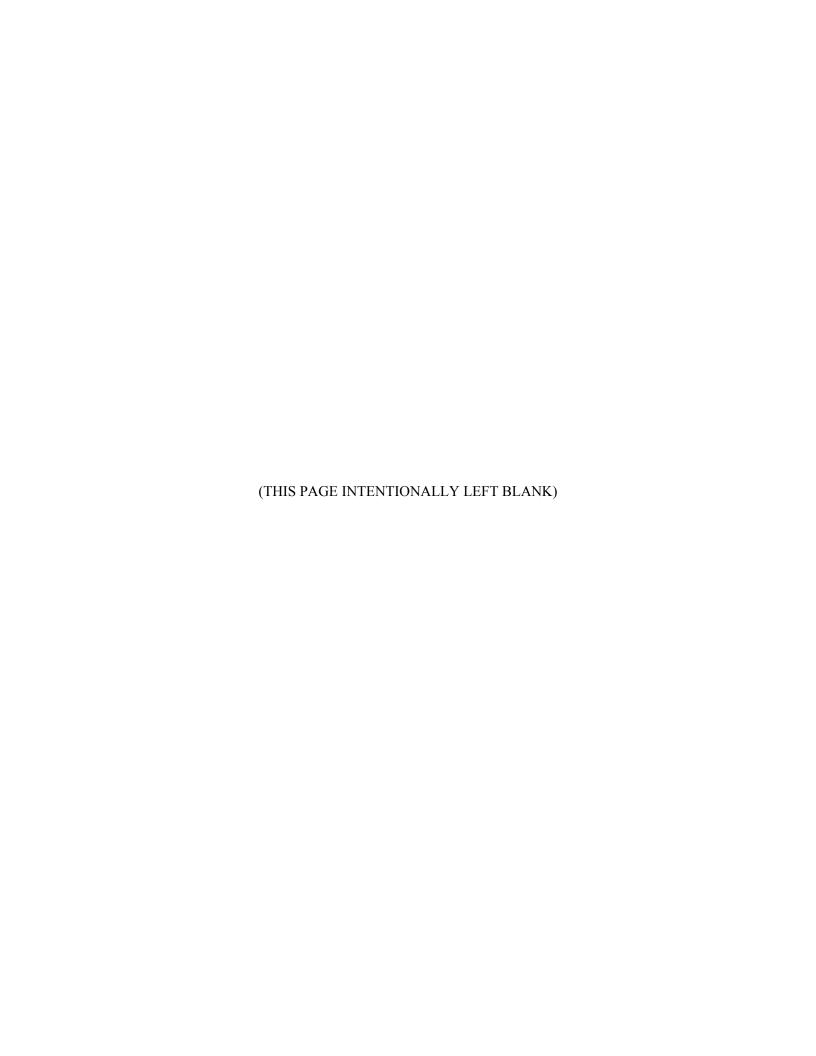
SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2017/18 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR OWNERS OF THE SERIES 2017/18 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2017/18 BONDS.

Discontinuance of DTC Services

DTC may discontinue providing its services as depository with respect to the Series 2017/18 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 2017/18 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 2017/18 Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

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APPENDIX D

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 2017/18 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 2017/18 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).

 $\label{lem:authorized Denominations} Authorized \ Denominations \ means \ with \ respect to the Series \ 2017/18 \ Bonds, \$5,000 \ or \ any \ integral \ multiple thereof.$

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.

Code means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations, rulings and procedures proposed or promulgated thereunder or under the Internal Revenue Code of 1954, as amended.

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 and the Underwriters; (f) accountant 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 2017/18 Bonds, May 1 and November 1 of each year, commencing May 1, 2018.

Issue 1 Reserve Account or Original 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 2017A Bonds and the Series 2017B 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.

Original Reserve Account means the Issue 1 Reserve Account. See definition of Issue 1 Reserve Account above.

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 2017A Bonds and the Series 2017B 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. 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 S&P 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 S&P, 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 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.

Series 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.

Series of Bonds or Bonds of a Series or Series shall mean a series of Bonds issued pursuant to the 1991 Master Resolution.

Series Sale Resolution means one or more resolutions of the Commission, (i) in the case of a competitive sale, awarding or providing for the award of a Series of Bonds to the successful bidder in accordance with the terms of the official notice of sale, or alternatively in the case of a negotiated sale, approving a form of bond purchase contract, and (ii) determining or providing for the determination of the interest rates to be borne by said Series of Bonds, whether principal payments in any given year are to be serial maturities or mandatory sinking fund payments, and the dates of any mandatory sinking fund payments, the purchase price of the Series of Bonds, providing for bond insurance for any or all of the Series of Bonds and determining or providing for the determination of such other matters relating to the Series of Bonds as may be permitted or authorized to be determined by the Commission in accordance with the 1991 Master Resolution. If so designated by resolution of the Commission, a certificate signed by the President and the Secretary or by the Airport Director may be deemed to be a Series Sale 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 2017/18 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 Series Sale Resolution for the Series 2009C Bonds as security for the Series 2009C Bonds and any other 2009 Reserve Series designated by a Supplemental Resolution or a Series Sale Resolution as being secured by the 2009 Reserve Account.

2009 Reserve Series means each of the Series 2009C Bonds, the Series 2010D Bonds and any other Series of Bonds designated by a Supplemental Resolution or a Series Sale Resolution as being secured by the 2009 Reserve Account.

2009 Reserve Requirement means an amount with respect to each 2009 Reserve 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 Series means the aggregate of such amounts for each individual 2009 Reserve Series.

2017 Reserve Account Maximum Annual Debt Service means the maximum amount of aggregate Annual Debt Service for all 2017 Reserve Series Bonds in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the 2017 Reserve Series Bonds.

2017 Reserve Account means the 2017 Reserve Account established in the Reserve Fund pursuant to the Series Sale Resolution for the Series 2017/18 Bonds as security for the 2017 Reserve Series Bonds.

2017 Reserve Series Bonds means, collectively, the Series 2017C Bonds, the Series 2017D Bonds, the Series 2018A Bonds and any other Series of Bonds designated by a Supplemental Resolution or a Series Sale Resolution as participating in and being secured by the 2017 Reserve Account.

2017 Reserve Requirement means, with respect to the 2017 Reserve Account, an amount equal to the lesser of: (a) 2017 Reserve Account Maximum Annual Debt Service, (b) 10% of the outstanding aggregate principal amount of all 2017 Reserve Series Bonds (provided that the issue price of a Series of 2017 Reserve Series Bonds shall be used in this calculation if such Series was sold with an original issue discount that exceeded 2% of the principal of such Series on its original date of sale), and (c) 125% of the average aggregate Annual Debt Service for all 2017 Reserve Series Bonds.

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

All Revenues 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 thencurrent 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 Investments, in accordance with the policies and procedures of the Treasurer; provided, however, amounts in the Series 2017A Construction Account and the Series 2017B Construction Account may be invested in any Permitted Investments or any other obligations or investments in which the Treasurer is permitted to invest Commission funds.

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 Investments.

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 Investments, 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 (Original 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 2017A Bonds and the Series 2017B Bonds are each a Participating Series secured by the Issue 1 Reserve Account.

2009 Reserve Account

The Series Sale Resolution for the Series 2009C Bonds established the "2009 Reserve Account" as security for the Series 2009C Bonds and any other 2009 Reserve Series designated by Supplemental Resolution or by a Series Sale Resolution as being secured by the 2009 Reserve Account. None of the Series 2017/18 Bonds are a 2009 Reserve 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 whenever any moneys then credited to the accounts within the Debt Service Fund for such Series of Bonds are insufficient for such purposes.

2017 Reserve Account

The Sale Resolution for the Series 2017/18 Bonds will establish the "2017 Reserve Account" as security for the Series 2017C Bonds, the Series 2017D Bonds, the Series 2018A Bonds and any other 2017 Reserve Series Bonds designated by a Supplemental Resolution or by a Series Sale Resolution as being secured by the 2017 Reserve Account. The Series 2017A Bonds and the Series 2017B Bonds are not 2017 Reserve Series Bonds and are not secured by the 2017 Reserve Account. The 2017 Reserve Account is required to be funded at the 2017 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 whenever any moneys then credited to the accounts within the Debt Service Fund for such Series of Bonds are insufficient for such purposes.

Separate Reserve Accounts for Bonds not Designated as Participating Series, 2009 Reserve Series or 2017 Reserve Series Bonds

Unless otherwise provided in a Series Sale Resolution, each Series of Bonds will be a Participating Series, a 2009 Reserve Series, 2017 Reserve Series Bonds, or will be secured by a separate Series Reserve Account. The amount in each Series Reserve Account will be established and maintained at an amount equal to Maximum Series Annual Debt Service or such other amount as shall be set forth in a Series Sale Resolution.

Application and Valuation of Issue 1 Reserve Account and 2017 Reserve Account

The moneys in the Issue 1 Reserve Account, the 2017 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 (with respect to the Issue 1 Reserve Account) or the 2017 Reserve Requirement (with respect to the 2017 Reserve Account) 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 (with respect to the Issue 1 Reserve Account) or the 2017 Reserve Requirement (with respect to the 2017 Reserve Account) 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 S&P, 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 S&P.

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 (except for the Series 2017/18 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 the Series 2017/18 Debt Service Accounts are to be invested in Permitted Investments or any other obligations or investments in which the Treasurer is permitted to invest Commission funds, maturing on or before the Series 2017/18 Bond payment dates on which the proceeds of such Permitted Investments or other obligations or investments are intended to be applied for the purposes of the Series 2017/18 Debt Service Accounts. Amounts in the Issue 1 Reserve Account and the 2009 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 the 2017 Reserve Account may be invested in any Permitted Investment or any other obligations or investments in which the Treasurer is permitted to invest Commission funds. Amounts in Series 2017A and Series 2017B Construction Accounts may be invested in any Permitted Investments or any other obligations or investments in which the Treasurer is permitted to invest Commission funds. For a further description of the Permitted Investments with respect to the Series 2017/18 Bonds, see also "Summary of the Supplemental Resolutions - Application of 2017/18 Debt Service Accounts" in this Appendix D.

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 such Bonds constitute valid and binding obligations 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, projected Net Revenues, together with any Transfer, if applicable, in each such Fiscal Year will be (1) 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) 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 in such Fiscal Year. 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 as described above under "—Issuance of Additional Series of Bonds—Additional Bonds Test," or (ii) if the Commission provides the Trustee with a certificate of an Airport Consultant or financial consultant to the effect 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 Siscal 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" below) 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 1991 Master Resolution as described in clause (d) under the caption "— Events of Default" below. 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 1991 Master Resolution as described in clause (d) under the caption "—Events of Default" below.

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:

- 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 2017/18 BONDS" in the front portion of this Official Statement for a summary of the provisions related to the Series 2017/18 Bonds.

Funds and Accounts

The 1991 Master Resolution establishes the following funds and accounts:

Within the Costs of Issuance Fund:

Series 2017A Costs of Issuance Account Series 2017B Costs of Issuance Account Series 2017C Costs of Issuance Account Series 2017D Costs of Issuance Account Series 2018A Costs of Issuance Account

Within the Construction Fund

Series 2017A Construction Account Series 2017B Construction Account

Within the Debt Service Fund:

Series 2017A Capitalized Interest Account Series 2017B Capitalized Interest Account

Series 2017A Interest Account Series 2017B Interest Account Series 2017C Interest Account Series 2017D Interest Account Series 2018A Interest Account

Series 2017A Principal Account Series 2017B Principal Account Series 2017C Principal Account Series 2017D Principal Account Series 2018A Principal Account

Series 2017A Redemption Account Series 2017B Redemption Account Series 2017C Redemption Account

Within the Rebate Fund:

Series 2017A/B Rebate Account Series 2017D/2018A 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 2017A Bonds and the Series 2017B Bonds have been designated as a Participating Series of Bonds with respect to the Issue 1 Reserve Account.

The 1991 Master Resolution will establish the 2017 Reserve Account as security for the 2017 Reserve Series Bonds. The Series 2017C Bonds, the Series 2017B Bonds and the Series 2018A Bonds have been designated as 2017 Reserve Series Bonds and will be secured by the 2017 Reserve Account.

Application of Series 2017/18 Bonds Costs of Issuance Accounts

The 1991 Master Resolution requires the Trustee to apply moneys in the Series 2017A Costs of Issuance Account, the Series 2017B Costs of Issuance Account, the Series 2017C Costs of Issuance Account, the Series 2017D Costs of Issuance Account and the Series 2018A Costs of Issuance Account to the payment of costs of

issuance of the Series 2017/18 Bonds. Amounts in the Series 2017/18 Costs of Issuance Accounts may be invested in any Permitted Investment.

Application of Series 2017A and Series 2017B Construction Accounts

The 1991 Master Resolution requires the Trustee to disperse moneys in the Series 2017A Construction Account and the Series 2017B Construction Account to the payment of Capital Improvement Plan Projects. Upon completion of the Series 2017A and Series 2017B Capital Improvement Plan Projects, the Commission shall give written notice to the Trustee as set forth in the tax certificate and shall apply any remaining moneys in accordance with said notice.

Application of Series 2017/18 Debt Service Accounts

The Series 2017A Interest Account, the Series 2017A Principal Account and the Series 2017A Redemption Account are sometimes referred to herein as the Series 2017A Debt Service Accounts. The Series 2017B Interest Account, the Series 2017B Principal Account and the Series 2017B Redemption Account are sometimes referred to herein as the Series 2017B Debt Service Accounts. The Series 2017C Interest Account, the Series 2017C Principal Account and the Series 2017C Redemption Account are sometimes referred to herein as the Series 2017C Debt Service Accounts. The Series 2017D Interest Account and the Series 2017D Principal Account are sometimes referred to herein as the Series 2017D Debt Service Accounts. The Series 2018A Interest Account and the Series 2018A Principal Account are sometimes referred to herein as the Series 2018A Debt Service Accounts. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2017A Interest Account, the Series 2017B Interest Account, the Series 2017C Interest Account, the Series 2017D Interest Account and the Series 2018A Interest Account to the payment of interest on the applicable Series of Series 2017/18 Bonds when due, including accrued interest on any of the Series 2017/18 Bonds purchased or redeemed prior to maturity. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2017A Principal Account, the Series 2017B Principal Account, the Series 2017C Principal Account, the Series 2017D Principal Account and the Series 2018A Principal Account to the payment of the Principal Amount of the applicable Series of Series 2017/18 Bonds when due.

The Commission may, from time to time, purchase any Series 2017/18 Bonds out of available moneys of the Commission at such prices as the Commission may determine plus accrued interest thereon. All Series 2017/18 Bonds purchased 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 2017A Redemption Account, the Series 2017B Redemption Account and the Series 2017C Redemption Account to the payment of the redemption price of applicable Series of Bonds called for redemption. Accrued interest on the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds redeemed pursuant to the 1991 Master Resolution will be paid from the Series 2017A Interest Account, the Series 2017B Interest Account or the Series 2017C Interest Account, as applicable.

In the event that the amount on deposit in any Series 2017A Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the Series 2017A Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2017A Interest Account, the Series 2017A Principal Account or the Series 2017A Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

In the event that the amount on deposit in any Series 2017B Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the Series 2017B Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2017B Interest Account, the Series 2017B Principal Account or the Series 2017B Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

In the event that the amount on deposit in any Series 2017C Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the Series 2017C Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the 2017 Reserve Account to the Series 2017C Interest Account, the Series 2017C Principal Account or the Series 2017C Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

In the event that the amount on deposit in any Series 2017D Debt Service Account is insufficient to pay the interest or Principal Amount coming due on the Series 2017D Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the 2017 Reserve Account to the Series 2017D Interest Account or the Series 2017D Principal Account, as the case may be, not later than five days prior to the date on which such payment is required.

In the event that the amount on deposit in any Series 2018A Debt Service Account is insufficient to pay the interest or Principal Amount coming due on the Series 2018A Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the 2017 Reserve Account to the Series 2018A Interest Account or the Series 2018A Principal Account, as the case may be, not later than five days prior to the date on which such payment is required.

Rebate; Series 2017/18 Rebate Accounts

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 2017A/B Rebate Account and the Series 2017D/2018A Rebate Account (collectively, the "Series 2017/18 Rebate Accounts") for purposes of paying rebate to the United States. Pending payment to the United States, moneys held in the Series 2017/18 Rebate Accounts 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 2017A Bonds, the Series 2017B Bonds, the Series 2017D Bonds and the Series 2018A Bonds (the "Series 2017/18 Tax Certificate") 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 2017/18 Rebate Accounts in Nonpurpose Investments (as defined in the Series 2017/18 Tax Certificate), as directed by the Commission in the Series 2017/18 Tax Certificate.

Permitted Investments (Series 2017/18 Bonds)

Amounts in the Series 2017/18 Debt Service Accounts shall be invested in Permitted Investments or any other obligations or investments in which the Treasurer is permitted to invest Commission funds maturing on or before the Payment Date on which the proceeds of such Permitted Investments or other obligations or investments are intended to be applied for the purposes of the Series 2017/18 Debt Service Accounts. 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 the 2017 Reserve Account may be invested in any Permitted Investment or any other obligations or investments in which the Treasurer is permitted to invest Commission funds. Amounts in the Series 2017A Construction Account and the Series 2017B Construction Account may be invested in any Permitted Investment or any other obligations or investments in which the Treasurer is permitted to invest Commission funds.

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 2017/18 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 2017/18 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 2017/18 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 2017/18 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 2017/18 Bonds minus one, and the aggregate amount of interest becoming due and payable on the Series 2017/18 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 2017/18 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 2017/18 Bonds maturing by their terms on the next Principal Payment Date.

APPENDIX E

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 documents, 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 and after 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 persquare-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 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, and (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 the following six cost centers based on functional areas of the Airport to be used in accounting for revenues, expenses and debt service: Airfield Area, Airport Support Area, Terminal Area, Groundside Area, Utilities Area and West of Bayshore Area. Direct and indirect expenses are recorded and allocated to the appropriate cost centers. Terminal Area space, including ticket counters, ticket counter back offices, administrative and operation offices, baggage handling areas, and unenclosed or covered areas, is classified in five space categories, each with a different rental rate.

Rentals and Landing Fees and their Adjustment

The 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 untenantable, 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 untenantable 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 untenantable 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 untenantable 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 to 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

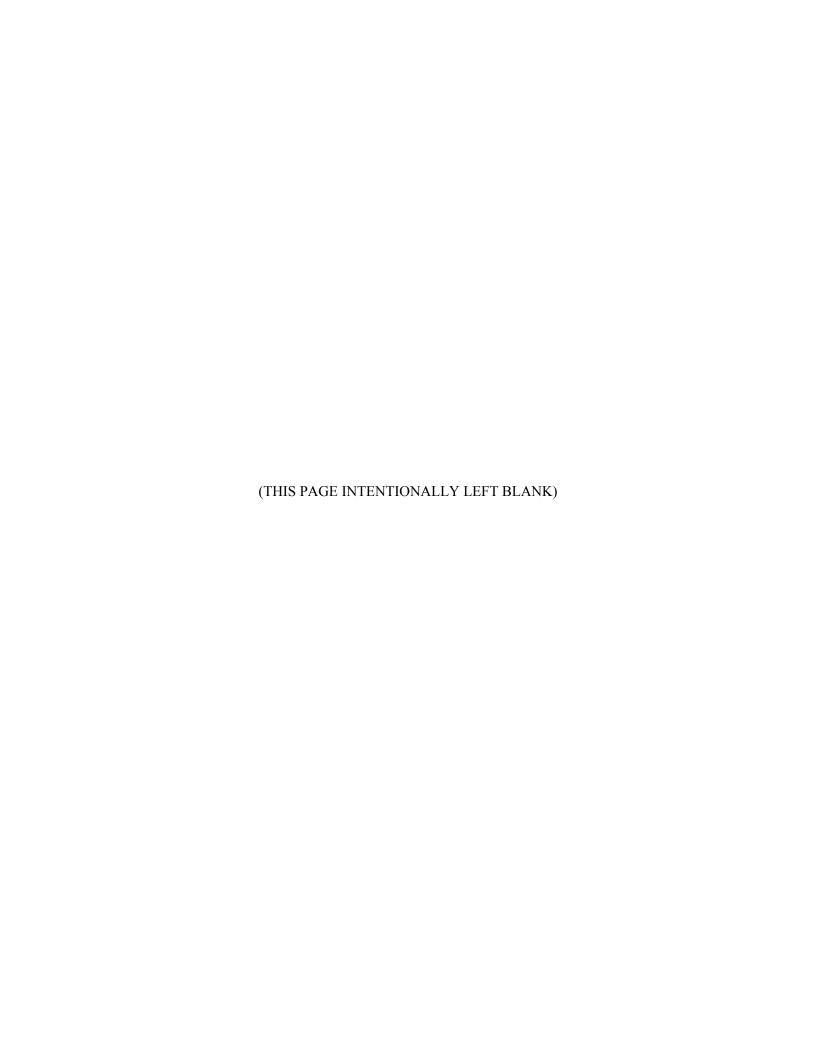
The Commission covenants in the Lease and Use Agreements to: (i) efficiently manage and operate the Airport on the basis of sound business and airport management principles in effect at airports of comparable size in the continental United States and with efficient and prudent control of all capital 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; and (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 to charge any Signatory Airline, its passengers, employees, furnishers of services, or suppliers, any charges, fees or tolls of any nature, direct or indirect, for any of the premises or privileges granted in the 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.

Holding Over

If a Signatory Airline shall, with the concurrence of the Commission, hold over after the expiration or sooner termination of the term of its Lease and Use Agreement, the resulting tenancy shall, unless otherwise mutually agreed, be on a month-to-month basis, and may be terminated by the Signatory Airline or the Commission at any time on 30 days written notice to the other party. During such month-to-month tenancy, the Signatory Airline shall pay to the Commission the same rate of rentals and landing fees as are set forth in its Lease and Use Agreement, unless different rates shall be agreed upon, and the parties shall be bound by all of the provisions of such Lease and Use Agreement, insofar as they may be pertinent, unless different terms and conditions shall be agreed upon. If a Signatory Airline shall, without the written consent of the Commission, hold over after the expiration or sooner termination of the term of its Lease and Use Agreement, the Signatory Airline shall pay to the Commission on a month-to-month basis the rentals and a 25% premium on landing fees as provided in its Lease and Use Agreement for any such holdover period and shall otherwise be subject to the terms and conditions of its Lease and Use Agreement beyond the end of its term. Any holding over without the Commission's consent shall constitute a default by the Signatory Airline and entitle the Commission to exercise any or all remedies as provided in the Lease and Use Agreement, notwithstanding that the Commission may elect to accept one or more payments of Terminal Area rentals, and whether or not such amounts are at the holdover rate specified above or the rate at the end of the term of the Lease and Use Agreement.



APPENDIX F

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 the Series 2017/18 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 2017/18 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 2017/18 Bonds, including persons holding Series 2017/18 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 2017/18 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 2017/18 Bonds required to comply with the Rule in connection with the issuance of the Series 2017/18 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 2016-17, 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.
- Calculation of Net Revenues and compliance with the Rate Covenant (each as defined in the 1991 Master 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 2017/18 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 2017/18 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 2017/18 Bonds or other material events affecting the tax status of the Series 2017/18 Bonds;
 - 2. Modifications to rights of the Series 2017/18 Bondholders;
 - 3. Optional, unscheduled or contingent the Series 2017/18 Bond calls;
 - 4. Release, substitution, or sale of property securing repayment of the Series 2017/18 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 2017/18 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 2017/18 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 2017/18 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 2017/18 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 2017/18 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 2017/18 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

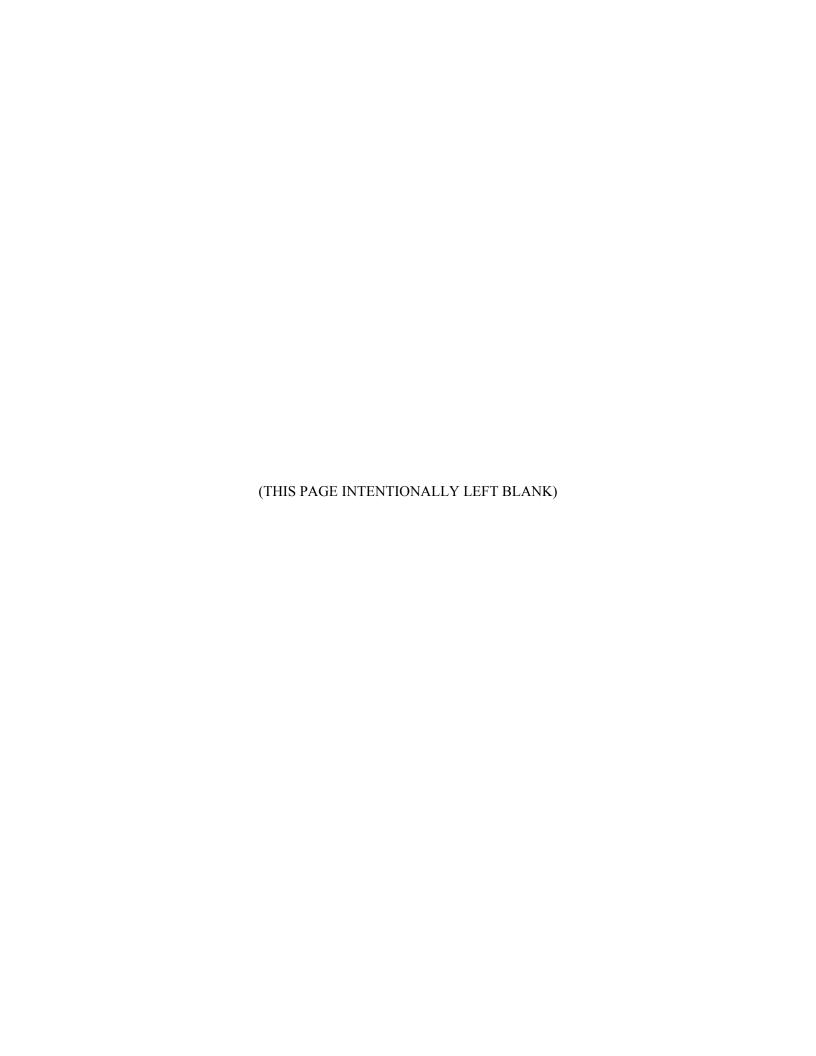
Nothing in the Disclosure Certificate shall be deemed to prevent the Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Disclosure Report or 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 2017/18 Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Series 2017/18 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 2017/18 Bonds, and shall create no rights in any other person or entity.



APPENDIX G-1

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL WITH RESPECT TO SERIES 2017A-D BONDS

[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

\$339,585,000 Second Series Revenue Bonds Series 2017A (AMT) \$231,985,000 Second Series Revenue Bonds Series 2017B (Non-AMT/Governmental Purpose)

\$45,140,000 Second Series Revenue Bonds Series 2017C (Federally Taxable) \$144,830,000 Second Series Revenue Refunding Bonds Series 2017D (AMT)

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 (a) San Francisco International Airport Second Series Revenue Bonds, Series 2017A (AMT), in the aggregate principal amount of \$339,585,000 (the "Series 2017A Bonds"), (b) San Francisco International Airport Second Series Revenue Bonds, Series 2017B (Non-AMT/Governmental Purpose), in the aggregate principal amount of \$231,985,000 (the "Series 2017B Bonds"), (c) San Francisco International Airport Second Series Revenue Bonds, Series 2017C (Federally Taxable), in the aggregate principal amount of \$45,140,000 (the "Series 2017C Bonds"), and (d) San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2017D (AMT) in the aggregate principal amount of \$144,830,000 (the "Series 2017D Bonds," and collectively with the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds, the "Series 2017A-D Bonds"). The Series 2017A-D 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 2017A-D 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 2017A-D 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 2017A Bonds, the Series 2017B Bonds and the Series 2017D Bonds (collectively, the "Tax-Exempt Series 2017A/B/D Bonds") and other matters (the "Tax Certificate"); (c) a copy of the Cash Flow and Yield

Verification Report, dated the date hereof, by Grant Thornton LLP; (d) certifications of the Commission, the Co-Financial Advisors, the Trustee, the Underwriters and others; (e) opinions of counsel to the Commission, the Trustee and the Underwriters; and (f) 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 2017A-D 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 2017A-D Bonds or the 1991 Master Resolution. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated October 11, 2017, or any other offering material relating to the Series 2017A-D 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 2017A-D 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 2017A-D 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 2017A-D 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 2017A-D Bonds, and the Commission is not obligated to pay the principal of and interest on the Series 2017A-D Bonds except from Net Revenues. An owner of the Series 2017A-D 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 2017A-D Bonds. The Commission has no taxing power.
- 4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2017A Bonds and the Series 2017D Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2017A Bond or Series 2017D Bond for any period during which such Series 2017A Bond or Series 2017D Bond is held by a person who is a "substantial user" of the facilities financed or refinanced by the Series 2017A Bonds or the Series 2017D Bonds or a "related person" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2017A Bonds and the Series 2017D Bonds constitutes a specific item of tax

preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.

- 5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2017B Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2017B Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code, 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).
- 6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2017A-D Bonds is exempt from present State of California personal income tax.

The opinions set forth in numbered paragraphs 4 and 5 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 Tax-Exempt Series 2017A/B/D Bonds to be included in gross income retroactive to the date of issue of the Tax-Exempt Series 2017A/B/D Bonds. Although we are of the opinion that interest on the Tax-Exempt Series 2017A/B/D Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Tax-Exempt Series 2017A/B/D 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.

Interest on the Series 2017C Bonds is not excludable from gross income for federal income tax purposes. Except as provided in numbered paragraph 6 above, we express no opinion regarding the tax consequences relating to the ownership of, receipt of interest on or disposition of the Series 2017C Bonds. Taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

Our engagement with respect to the Series 2017A-D Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly yours,

APPENDIX G-2

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL WITH RESPECT TO SERIES 2018A BONDS

[Settlement Date]

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

\$115,355,000
Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Refunding Bonds
Series 2018A
(AMT)

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 2018A (AMT) in the aggregate principal amount of \$115,355,000 (the "Series 2018A Bonds"). The Series 2018A 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 2018A Bonds, dated October 31, 2017 (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 2018A 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 October 31, 2017, relating to the Series 2018A Bonds and other matters (the "Tax Certificate"); (c) an executed copy of the Bond Escrow Agreement, dated as of February 1, 2018, 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 October 31, 2017, 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 2018A 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 2018A Bonds or the 1991 Master Resolution. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated October 11, 2017, the Updated Official Statement dated _______, 2018, or any other offering material relating to the Series 2018A 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 2018A 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 2018A 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 2018A 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 2018A Bonds, and the Commission is not obligated to pay the principal of and interest on the Series 2018A Bonds except from Net Revenues. An owner of the Series 2018A 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 2018A Bonds. The Commission has no taxing power.
- 4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2018A Bond for any period during which such Series 2018A Bond is held by a person who is a "substantial user" of the facilities refinanced by the Series 2018A Bonds or a "related person" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2018A Bonds constitutes a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.
- 5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018A 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 2018A Bonds to be included in gross income retroactive to the date of issue of the Series 2018A Bonds. Although we are of the opinion that interest on the Series 2018A Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2018A 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 2018A Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly yours,

APPENDIX H

SUMMARY OF PROPOSED AMENDMENTS TO 1991 MASTER RESOLUTION

Pursuant to the Twenty-First Supplemental Resolution, certain amendments were made to the 1991 Master Resolution and will become effective upon receipt of all required consents and approvals. The "Proposed Amendments," which consist of the General Proposed Amendments (as described below) and the Original Reserve Proposed Amendments (as described below), include amendments relating to the calculation of Revenues, Annual Debt Service and Maximum Annual Debt Service, amendments to the definition of Permitted Investments, amendments relating to any Credit Facilities deposited to the Original Reserve Account (also known as the Issue 1 Reserve Account) and amendments relating to Bondholder consent requirements, among others.

The Proposed Amendments described below under clauses (a) through (i) of "Section 1.01 Definitions," "Section 2.11 Additional Bonds," "Section 2.12 Refunding Bonds," "Section 6.04 Rate Covenants" and "Section 9.02 Supplemental Resolutions Requiring Consent of Bondholders" (collectively, the "General Proposed Amendments"), will become effective only upon the satisfaction of certain conditions, including (1) receipt by the Commission of the consent of the Holders of a majority in aggregate principal amount of all Outstanding Bonds, and (2) delivery of a certificate from the Airport Director (y) declaring that all other consents required for such amendments have been obtained (i.e., the applicable consents of the applicable Credit Providers), and (z) electing that such amendments shall be effective. The consent and approval of the General Proposed Amendments described in clauses (e), (f) and (g) of "Section 1.01 Definitions" below apply to Permitted Investments, as applicable, held in all funds and accounts established under the 1991 Master Resolution, except the Original Reserve Account and the 2009 Reserve Account. By their purchase of the Series 2017/18 Bonds, the purchasers of the Series 2017/18 Bonds consent to the General Proposed Amendments and authorize the Trustee to take all actions necessary to evidence or effect such consent.

The Proposed Amendments described below under clauses (e), (f) and (g) of "Section 1.01 Definitions" (as such amendments apply to the Original Reserve Account), "Section 1-13.07. Establishment, Application and Valuation of Issue 1 Reserve Account," and "Section 1-13.10. Permitted Investments" (collectively, the "Original Reserve Proposed Amendments"), will become effective only upon the satisfaction of certain conditions, including (1) receipt by the Commission of the consent of the Holders of a majority in aggregate principal amount of all Outstanding Bonds secured by the Original Reserve Account, and (2) delivery of a certificate from the Airport Director (y) declaring that all other consents required for such amendments have been obtained (i.e., the applicable consents of the applicable Credit Providers), and (z) electing that such amendments shall be effective. The consent and approval of the Original Reserve Proposed Amendments described in clauses (e), (f) and (g) of "Section 1.01 Definitions" below only apply to Permitted Investment held in the Original Reserve Account. By their purchase of the Series 2017A Bonds and the Series 2017B Bonds consent to the Original Reserve Proposed Amendments and authorize the Trustee to take all actions necessary to evidence or effect such consent.

On the date of issuance of the Series 2017A-D Bonds, it is expected that approximately 14.22% of the Holders of the then-Outstanding Bonds will have consented to the General Proposed Amendments, and approximately 11.76% of the Holders of the then-Outstanding Bonds secured by the Original Reserve Account will have consented to the Original Reserve Proposed Amendments. On the date of issuance of the Series 2018A Bonds, it is expected that approximately 16.45% of the Holders of the then-Outstanding Bonds will have consented to the General Proposed Amendments, and approximately 12.11% of the Holders of the then-Outstanding Bonds secured by the Original Reserve Account will have consented to the Original Reserve Proposed Amendments. At this time, there can be no assurance that the Proposed Amendments will become effective within any definite time frame and the Proposed Amendments may become effective on different dates. Additionally, not all amendments may become effective.

The Proposed Amendments are set forth below. Additions to the 1991 Master Resolution are shown in **bold and double underline** and deletions are shown in **strikethrough**.

Section 1.01 Definitions

The following definitions are to be amended or added to read as follows:

- (a) Clause (iv) of the definition of "Annual Debt Service" is amended as follows:
- (iv) Amortized Bonds shall be deemed to be amortized on a level debt service basis over a 2030-year period beginning on the date of calculation at the Index Rate;
- (b) The following clause (viii) is added to the end of the definition of "Annual Debt Service":
- (viii) Interest on or principal of any Bonds paid or to be paid during such Fiscal Year from Federal Subsidy Payments shall be excluded from the calculation of Annual Debt Service except to the extent all or a portion of such Federal Subsidy Payments are designated as Revenues by the Commission.
- (c) The following definition of "Customer Facility Charge" is added:
- "Customer Facility Charge" means a customer facility charge imposed by the Commission in accordance with Sections 50474.21 and 50474.3 of the California Government Code, as they may be amended or supplemented, or any other applicable state law.
- (d) The following definition of "Federal Subsidy Payments" is added:
- <u>"Federal Subsidy Payments" means amounts payable by the Federal government to the Commission under direct-pay subsidy programs substantially similar to the Build America Bond program under Section 54AA of the Code.</u>
- (e) Clause (B) in the first sentence of paragraph (i) of the definition of "Permitted Investments" is amended as follows:
 - (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" "A-" or "A3" or better) by at least two Rating Agencies.
 - (f) Paragraph (j) of the definition of "Permitted Investments" is amended as follows:
 - (j) Prime commercial paper of a corporation, finance company or banking institution rated in the highest short-term rating category <u>without regard to any numerical</u> <u>modifier</u>, plus or minus sign or other modifier by at least two Rating Agencies.
 - (g) The following clause (r) is added to the end of the definition of "Permitted Investments":
 - and (r) any other obligations or investments in which the Treasurer is permitted to invest Commission funds.
 - (h) The following clause (j) is added to the end of the definition of "Revenues":
 - (j) any Customer Facility Charge or similar charge levied by or on behalf of the Commission against customers, except to the extent all or a portion thereof is designated as Revenues by the Commission;

(i) The following clause (k) is added to the end of the definition of "Revenues":

and (k) any Federal Subsidy Payments, except to the extent all or a portion thereof is designated as Revenues by the Commission.

Section 2.11. Additional Bonds

The following paragraph is added to the end of Section 2.11:

For purposes of this Section 2.11, "Annual Debt Service" and "Maximum Annual Debt Service" may, at the Commission's option, be calculated based on required deposits to pay Annual Debt Service.

Section 2.12. Refunding Bonds

The following paragraph is added to the end of Section 2.12:

For purposes of this Section 2.12, "Annual Debt Service" and "Maximum Annual Debt Service" may, at the Commission's option, be calculated based on required deposits to pay Annual Debt Service.

Section 6.04. Rate Covenants

The following paragraph is added to the end of Section 6.04:

For purposes of Section 6.04(a)(ii), "Annual Debt Service" may, at the Commission's option, be calculated based on required deposits to pay Annual Debt Service.

Section 9.02. Supplemental Resolutions Requiring Consent of Bondholders

Section 9.02(c) is amended as follows:

(c) <u>Upon receipt of consent</u>, if within such period, not exceeding one year, as shall be prescribed by the Commission, following the first giving of a notice as provided in (b) above, the Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate Principal Amount of Bonds specified in subsection 9.02(a) for the Supplemental Resolution in question, which instrument or instruments shall refer to the proposed Supplemental Resolution described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee may accept such Supplemental Resolution in substantially such form, without liability or responsibility to any Holder of any Bond, regardless of whether such Holder shall have consented thereto.

Section 1-13.07. Establishment, Application and Valuation of Issue 1 Reserve Account

Section 1-13.07(e) is amended as follows:

(e) At its option, the Commission may at any time substitute a Credit Facility meeting the requirements of this Section 1-13.07(e) for amounts on deposit in the Issue 1 Reserve Account. The Commission shall not substitute a Credit Facility for all or any part of the amounts on deposit in the Issue 1 Reserve Account if such substitution will cause the then current ratings on Participating Series to be downgraded or withdrawn. Any such Credit Facility provided in the form of a surety bond shall be issued by an institution then rated in the highest rating category, without regard to subcategories, by Moody's and Standard & Poor's, and any such Credit Facility provided in the form of a letter of credit shall be issued by an institution whose (i) short-term

rating is then rated either "P1" by Moody's or "A-1" by Standard & Poor's, or (ii) long term rating is then rated in at least the second highest rating category, without regard to subcategories, by Moody's and Standard & Poor's. In the event that after the substitution of a Credit Facility for all or any part of the amounts on deposit in the Issue 1 Reserve Account, the amount in the Issue 1 Reserve Account is greater than Aggregate Maximum Annual Debt Service of the then Outstanding Bonds of Participating Series, upon the request of an Authorized Commission Representative, the Trustee shall transfer such excess to the Commission to be used solely for Airport purposes.

Section 1-13.10. Permitted Investments

Section 1-13.10 is amended as follows:

Amounts in the Issue 1 Debt Service Accounts 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 Issue 1 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.

Pursuant to the provisions of the Twenty-First Supplemental Resolution, the Airport Director is authorized, for, in the name and on behalf of the Commission, to supplement or modify the Proposed Amendments described above in such manner as the Airport Director, in consultation with the City Attorney, determines is in the best interest of the Commission, does not otherwise materially increase the obligations or liabilities of the Commission, is necessary or advisable to effectuate the purposes of the Twenty-First Supplemental Resolution, is in compliance with all applicable laws, and does not otherwise materially adversely affect the interests of any Holders of the Bonds.

APPENDIX I

FORM OF INVESTOR DELAYED DELIVERY CONTRACT

Jefferies LLC,

as Representative of the Underwriters

Re: \$115,355,000 Airport Commission of the City and County of San Francisco

San Francisco International Airport Second Series Revenue Refunding Bonds Series 2018A (AMT) (the "2018A Bonds")

Ladies and Gentlemen:

The undersigned (the "Purchaser") hereby agrees to purchase from Jefferies LLC (the "Manager"), as representative of itself and the Underwriters set forth in the Forward Delivery Bond Purchase Contract (defined below) (the "Underwriters") when, as, and if issued and delivered to the Underwriters by the Airport Commission of the City and County of San Francisco (the "Commission"), and the Manager agrees to sell to the Purchaser:

	Maturity	Interest	CUSIP		
Par Amount	Date	Rate	Number	Yield	Price

of the above-referenced 2018A Bonds (the "Purchased 2018A Bonds") offered by the Commission under the Preliminary Official Statement dated October 4, 2017, and the Official Statement relating to the 2018A Bonds dated October 11, 2017 (as further defined in the Forward Delivery Bond Purchase Contract, the "Official Statement"), at the purchase price and with the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Investor Delayed Delivery Contract (the "Delayed Delivery Contract"). The 2018A Bonds are being purchased by the Underwriters pursuant to a Forward Delivery Bond Purchase Contract dated October 11, 2017 among the Commission and the Underwriters (the "Forward Delivery Bond Purchase Contract"), which provides for a "Closing" on or about October 31, 2017. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Forward Delivery Bond Purchase Contract or the Official Statement.

The Purchaser hereby confirms that it has reviewed the Preliminary Official Statement and will review the Official Statement (including without limitation the section entitled "DELAYED DELIVERY OF THE SERIES 2018A BONDS" therein), has considered the risks associated with purchasing the Purchased 2018A Bonds and is duly authorized to purchase the Purchased 2018A Bonds. The Purchaser further acknowledges and agrees that the Purchased 2018A Bonds are being sold on a "forward" basis, and the Purchaser hereby purchases and agrees to accept delivery of such 2018A Bonds from the Underwriters on or about February 1, 2018 (the "Settlement Date") as they may be issued and delivered in accordance with the Forward Delivery Bond Purchase Contract.

Payment for the Purchased 2018A Bonds shall be made to the Manager or upon its order on the Settlement Date upon delivery to the Purchaser of the Purchased 2018A Bonds through the book-entry system of The Depository Trust Company. The Purchaser agrees that in no event shall the Underwriters be responsible or liable for any claim or loss, whether direct or consequential, which the Purchaser may suffer in the event the Commission does not for any reason issue and deliver the Purchased 2018A Bonds.

Upon Settlement, the obligation of the Purchaser to take delivery of the Purchased 2018A Bonds hereunder shall be unconditional. The Purchaser may terminate its obligation to purchase the Purchased 2018A Bonds in the event that between Closing and the Settlement Date, one of the following events (the "Termination Events") shall have occurred after the later of Closing or the date hereof, and the Purchaser has notified the Underwriters in writing as provided herein:

- (1) there shall have been a Change of Law (defined below);
- (2) the Official Statement as of the Closing or the Updated Official Statement (as defined below) as of the Settlement Date contained or contains an untrue statement or misstatement of material fact or omitted or omits to state a material fact necessary in order to make the statements and information contained therein, in the light of the circumstances under which they were made, not misleading;
- (3) a material event of default has occurred and is continuing under the Commission's Bond Resolution; or
- (4) the withdrawal or suspension of any rating of the 2018A Bonds by a national rating agency then rating the 2018A Bonds either at the request of the Commission or for credit related reasons.

A "Change of Law" shall mean (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies; (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date which is on or before the Settlement Date), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule or regulation has an effective date which is on or before the Settlement Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in each such case would, (A) as to the Underwriters, prohibit the Underwriters from completing the underwriting of the 2018A Bonds or selling the 2018A Bonds or beneficial ownership interests therein to the public, or (B) as to the Commission, make the completion of the issuance, sale or delivery of the 2018A Bonds illegal.

The Purchaser acknowledges that if a change in law occurs or is proposed which involves the enactment of legislation which only diminishes the value of, as opposed to eliminating the exclusion from gross income for federal income tax purposes of interest payable on "state or local bonds," the Commission may, nonetheless, be able to satisfy the requirements for the delivery of the 2018A Bonds. In such event, the Underwriters would be obligated to purchase the 2018A Bonds from the Commission and the Purchaser would be required to accept delivery of the Purchased 2018A Bonds from the Underwriters.

The Purchaser acknowledges and agrees that the 2018A Bonds are being sold on a "forward" or "delayed delivery" basis for delivery on the Settlement Date and that the Purchaser is obligated to take up and pay for the Purchased 2018A Bonds on the Settlement Date unless the Underwriters terminate the Forward Delivery Bond Purchase Contract or the Purchaser terminates its obligation to purchase the Purchased 2018A Bonds as provided herein. To effect a termination by the Purchaser, the Purchaser must give written notice of termination of this Delayed Delivery Contract to the Manager before the Settlement Date. The Purchaser agrees that no termination of the obligation of the Purchaser may occur on or after the Settlement Date. The Purchaser is not a third party beneficiary under the Forward Delivery Bond Purchase Contract and has no rights to enforce, or cause the Underwriters to enforce, any of the terms thereof. The Purchaser acknowledges and agrees that it will not be able to withdraw its order except as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Purchased 2018A Bonds on the Settlement Date. In particular, the Purchaser's obligation to purchase the 2018A Bonds is not conditioned upon market or credit changes with respect to the Bonds (other than the Termination Events described above), including specifically, but not limited to (a) changes in the ratings assigned to the 2018A Bonds or changes in the credit associated with the 2018A Bonds generally, and (b) changes in the financial condition, operations, performance, properties or prospects of the Commission. Further, as described in the Official Statement, the Commission plans to prepare an updated Official Statement not more than twenty-five and not less than ten days prior to the Settlement Date (the "Updated Official Statement"). At the option of the Commission, such Updated Official Statement may be either (i) a document in the form of the Preliminary Official Statement (with the omission of Appendix A thereto), or (ii) a supplement containing a copy of the Commission's

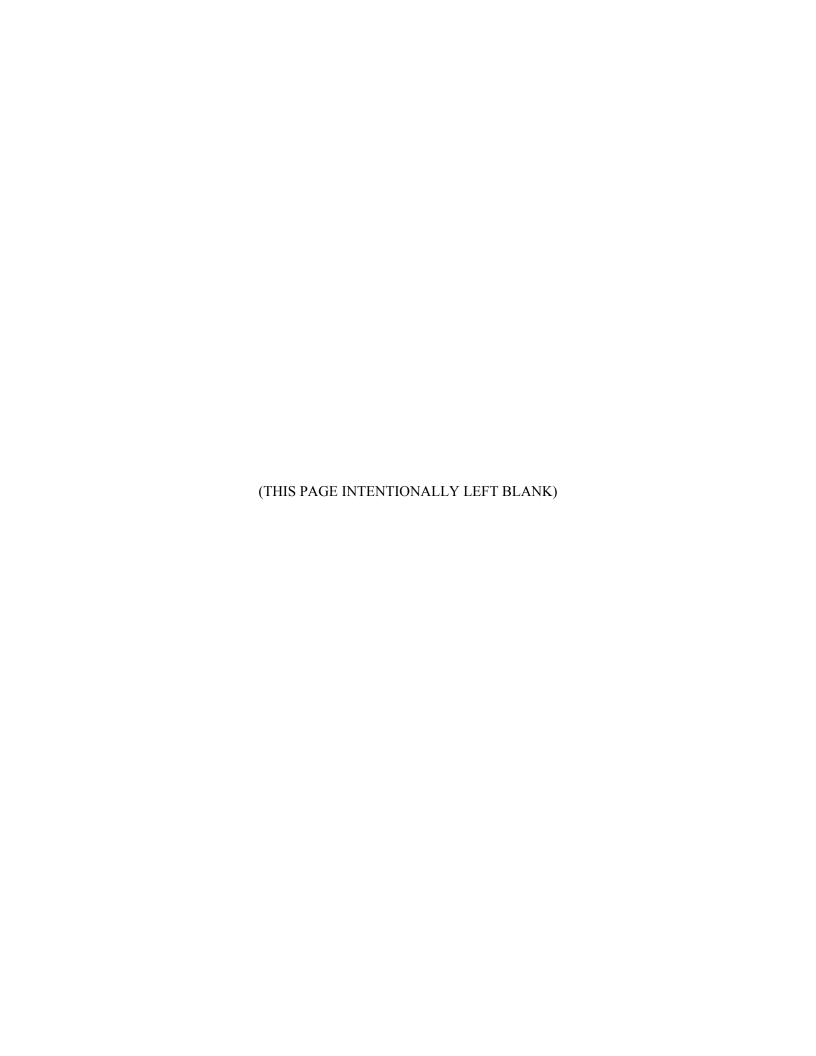
most recent Continuing Disclosure Annual Report and containing the audited financial statements of the Commission for the fiscal year ended June 30, 2017, as well as certain operating data and other information. The Updated Official Statement (and/or other supplements to the Official Statement) may include information regarding material adverse developments affecting the Commission or the 2018A Bonds and, unless such developments are Termination Events, such developments would not excuse the Purchaser's obligation to purchase the Bonds.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Purchased 2018A Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject. This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other. The Purchaser acknowledges that the Manager is entering into the Forward Delivery Bond Purchase Contract with the Commission to purchase the 2018A Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder. This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument under the laws of the State of New York. This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

It is understood that the acceptance by the Manager of any Delayed Delivery Contract (including this one) is in the Manager's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Manager, it is requested that the Manager sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Manager and the Purchaser when such counterpart is so mailed or delivered by the Manager. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

Durchasar

	Turchaser	
	Address	
	Telephone	
	By:	
	Name:	
	Title:	
Accepted: Jefferies LLC, on behalf of the Underw	riters	
Name:		=
Title:		_



APPENDIX J

LIST OF REFUNDED BONDS

2017 Refunded Bonds

The 2017 Refunded Bonds include the following Bonds.

Airport Commission of the City and County of San Francisco San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds

Issue 36A (Non-AMT/Private Activity) Dated Date: June 3, 2009

Maturity Date (May 1)	Principal Amount	Redemption Date	Redemption Price	CUSIP†
2026	\$93,130,000	November 1, 2017	100%	79765AX76
		3 (Non-AMT/Private Ac	tivity)	
	Da	ited Date: June 3, 2009		
Maturity Date	Principal		Redemption	
(May 1)	Amount	Redemption Date	Price	CUSIP†
2026	\$37,820,000	November 1, 2017	100%	79765AX84
	Issue 360	C (Non-AMT/Private Ac	tivity)	
	Da	ited Date: June 3, 2009		
Maturity Date	Principal		Redemption	
(May 1)	Amount	Redemption Date	Price	CUSIP†
2026	\$33,655,000	November 1, 2017	100%	79766DBD0

[Remainder of Page Intentionally Left Blank]

† 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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2018 Refunded Bonds

The 2018 Refunded Bonds include the following Bonds.

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

Issue 34E (AMT)
Dated Date: March 27, 2008

Maturity Date	Principal			Redemption	
(May 1)	Amount	Interest Rate	Redemption Date	Price	CUSIP†
2019	\$25,295,000	5.75%	May 1, 2018	100%	79765AT48
2020	26,405,000	5.75	May 1, 2018	100	79765AT55
2021	19,595,000	5.75	May 1, 2018	100	79765AT63
2022	30,480,000	5.75	May 1, 2018	100	79765AT71
2023	32,535,000	5.75	May 1, 2018	100	79765AT89
2024	5,780,000	5.75	May 1, 2018	100	79766DKF5

