NORMAN Y. MINETA
SAN JOSE INTERNATIONAL AIRPORT

Independent Accountant's Report,
Schedule of Forecasted Revenues and Costs of the
Consolidated Rental Car Facility and
Notes to the Forecasted Schedule

For the Period from July 1, 2020 through June 30, 2041
(Forecasted Schedule)

Certified
Public
Accountants

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
Forecasted Revenues and Costs of the
Consolidated Rental Car Facility
For the Period from July 1, 2020 through June 30, 2041

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MGO Certified Public Accountants

Independent Accountant's Report

The Honorable City Council
City of San José, California

We have examined the accompanying Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility of the Norman Y. Mineta San José International Airport (Airport), a Department of the City of San José, California (City) for the period from July 1, 2020 through June 30, 2041 (Forecasted Schedule). The Airport's management is responsible for preparing and presenting the Forecasted Schedule, based on guidelines for the presentation of forecasts and projections. The projection was prepared by management for compliance with California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 Division 3, and California Government Code Section 50474.1 through 50474.3 (CFC Code), related to Customer Facility Charges (CFC) and Consolidated Rental Car Facilities (ConRAC), and should not be considered a presentation of expected future results. Our responsibility is to express opinions on the forecast and on the projection based on our examinations.

The "Actuals" column on the Forecasted Schedule represents the total amounts of the CFC revenues and costs for the years noted. Those amounts have been subjected to the auditing procedures applied in the audits of the Airport's basic financial statements as of and for the years ended June 30, 2010 and 2011; June 30, 2012 and 2013; June 30, 2014 and 2015; June 30, 2016 and 2017; June 30, 2018 and 2019; and June 30, 2019 and 2020, as stated in the independent auditor's reports dated November 30, 2011; November 12, 2013; November 13, 2015; November 16, 2017; November 7, 2019; and November 12, 2020, respectively.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the Forecasted Schedule. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast and projection are presented in accordance with the guidelines for the presentation of forecasts and projections established by the American Institute of Certified Public Accountants, in all material respects. An examination involves performing procedures to obtain evidence about the statements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast and projection, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the accompanying Forecasted Schedule is presented, in all material respects, in accordance with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast. Also, in our opinion, the accompanying projection referred to above is presented, in all material respects, in accordance with the guidelines for presentation of a projection established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's projection, given the hypothetical assumptions.

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

Because events and circumstances frequently do not occur as expected, there will usually be differences between the forecasted and actual results, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

See all forecasted assumptions described in detail in the Notes to the Forecasted Revenues and Costs of the Consolidated Rental Car Facility.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 19, 2021

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility
For the Period from July 1, 2020 through June 30, 2041
(amounts in thousands)

	Actuals July 1, 2009 through June 30, 2020	Forecasted July 1, 2020 through June 30, 2041	Total
Revenues:			
Customer Facility Charge:			
At previous rate	$ 168,152	$ 5,718	$ 173,870
At alternate rate ($9 per day)	-	501,646	501,646
Facility Rent [1]	24,049	2,486	26,535
Other Income [2]	5,395	3,900	9,295
Total Actual and Forecasted Revenues	**$ 197,596**	**$ 513,750**	**$ 711,346**
Costs:			
Debt Service:			
Net Bond Payments on 2011B	$ 160,268	$ 465,995	$ 626,263
Commercial Paper Payments	1,337	-	1,337
Transportation Costs	27,977	55,769	83,746
Total Actual and Forecasted Costs	**$ 189,582**	**$ 521,764**	**$ 711,346**

Notes:

[1] Contractually, Facility Rent includes rental car company contributions for Debt Service and Transportation Costs that are not covered by the Customer Facility Charge revenue. The Facility Rent revenue was adjusted so that Total Actual and Forecasted Revenues match Total Actual and Forecasted Costs, as the intention of management is to minimize the additional costs for the rental car companies. The calculated annual Facility Rent without the anticipated rebates included in Facility Rent above totaled $64.6 million, including $24.0 million for the Actual period from FY 2009-10 through FY 2019-20 and up to $40.6 million for the Forecast period from FY 2020-21 through FY 2040-41.

[2] Other Income (Actuals) is comprised of the following amounts: investment income ($1.0 million), operating grants ($0.1 million in FY 2009-10), release of capitalized interest ($3.3 million in FY 2012-13), and excess bond proceeds ($1.0 million in FY 2013-14).

See accompanying Notes to Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility.

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NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
Notes to Schedule of Forecasted Revenues and Costs of the
Consolidated Rental Car Facility
For the Period from July 1, 2020 through June 30, 2041

(1) Summary of Significant Forecast Assumptions

The accompanying Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility (Schedule) presents, to the best of management's knowledge and belief, the Norman Y. Mineta San José International Airport (Airport) expected revenues generated for and reasonable costs of the Consolidated Rental Car Facility (ConRAC), for the period from July 1, 2020 through the fiscal year of the final payment of debt service on related bonds in 2041. Accordingly, the Schedule reflects management's judgment as of February 19, 2021 of the expected conditions and its expected course of action. This presentation is intended for the use by the City of San José (City) in evaluating the revenue forecast, including the need to collect the alternative Customer Facility Charge (CFC) in accordance with §50474.3 of the California Government Code (hereinafter "Code"), in connection with the financing, design and construction of the ConRAC, in addition to the costs of providing a common-use transportation system to transport rental car customers between Terminal A and the ConRAC. The assumptions disclosed herein are those that management believes are significant to the forecasted schedule. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Pursuant to the Code, the Airport has determined the need for a ConRAC to provide for the safe, secure and efficient processing of rental car transactions for the traveling public, to enhance the choice afforded to rental car customers, and to mitigate the environmental impacts of the current rental car operations on the Airport's neighbors.

In order to provide for the long-term financing of the ConRAC, the City initially established collection of a CFC of $10.00 per rental transaction, in accordance with the Code, effective January 1, 2008. Effective upon opening of the ConRAC, the $10.00 CFC per rental transaction was designated to help pay for debt service and the common-use transportation costs of rental car customers between Terminal A and the ConRAC. Effective December 1, 2011, the City increased the CFC rate to $6.00 per day, up to a maximum of five days per rental car contract. The State of California, through budget action, subsequently removed the requirement that the State Controller's Office substantiate the continue need for the rate increase. Based on this change in the law, the City increased the CFC rate to $7.50 per day, up to a maximum of five days per rental car contract, effective January 1, 2014. Based on recent forecasted revenue and costs, the City has determined that it is necessary to collect the alternative CFC ($9.00/rental day) described in the Code, as the current projections indicate that the current CFC rate will be insufficient to cover the debt service and transportation costs between Terminal A and the ConRAC. The current CFC rate of $7.50 per day has been in place and was sufficient to cover the debt service and transportation costs, until the current COVID pandemic impacted the number of passengers renting cars as well as the associated CFC collections. The intent is to raise the CFC rate to the maximum of $9.00, monitor the revenues and costs, and adjust the rate based on annual updates of actual data. In no case will the CFC be higher than $9.00 per day for a maximum of five days.

All significant assumptions related to the forecasted revenues and costs are summarized in Note 6.

(2) Description of the Airport

The Charter of the City created the Airport Department in 1965 as a department within the City. The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub domestic airport with some international service. The Department's mission is to connect, serve and inspire, with the Airport's vision being to transform how Silicon Valley travels.

The primary area served by the Airport consists of Santa Clara County, which is also the San José Primary Metropolitan Statistical Area and is commonly referred to as Silicon Valley. Furthermore, the primary service area includes the adjacent counties of Monterey, San Benito, and Santa Cruz and portions of two adjacent counties, Alameda and San Mateo (collectively, the "Air Service Area"). The Air Service Area is part of the larger San Francisco/San José/Oakland Area. The nearby counties of Merced, Stanislaus, and San Joaquin comprise a secondary service area. Three of the six Air Service Area counties belong to the Association of Bay Area Governments (ABAG) regional planning agency and rank within the top five most populated counties of the ABAG Region, with Santa Clara and Alameda Counties ranking first and second, and the County of San Mateo ranking fifth. In addition to the Airport, two other commercial airports serve the San Francisco/San José/Oakland area: San Francisco International Airport and Oakland International Airport. A separate unit of local government operates each of the three facilities independently.

(3) Consolidated Rental Car Facility

Currently, eleven rental car company brands (associated with seven rental car companies) operate at the Airport in the seven-story ConRAC located immediately across the roadway from the entrance to Terminal B. The ConRAC, which opened in June 2010, includes 2,000 ready/return spaces and approximately 308 covered public parking spaces located on the first floor. The costs of the public parking share of the facility represents approximately 5.0 percent of the total facility costs and these costs are excluded from the accompanying schedule.

The ConRAC includes all facilities necessary for each of the eleven rental car company brands serving the Airport and their associated operations, including customer service, administrative offices, ready/return parking, fueling, and maintenance facilities.

(4) California Government Code §50474.3 (previously California Civil Code §1936 Background and Overview

The California Government Code §50474.3 (Code), permits an airport sponsor to require rental car companies to collect from a renter a CFC to finance, design and construct a consolidated airport rental car facility; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems. The City currently imposes a CFC rate of $7.50 per day up to a maximum of five days per rental car contract on vehicles rented at the Airport in accordance with Senate Bill 1192 to help pay for debt service and other capital costs associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. The Airport has determined that not only the base CFC rate of $10.00 per rental car transaction, but also the current $7.50 per day for a maximum of five days per rental car contract will be insufficient to pay for debt service associated with the ConRAC and operating expenses related to the transportation of the rental car customers. The San Jose City Council approved Resolution No. 79855 on January 5, 2021, to increase the CFC rate up to $9.00 per day for a maximum of five days per rental car contract.

(5) Revenue Forecast and Rental Car Agreements

The Airport financed the project costs of the ConRAC initially through the issuance of City of San José, Norman Y. Mineta San Jose International Airport subordinated commercial paper notes and transaction customer facility charges. The City issued general airport revenue bonds (GARBs), Series 2011B, to refund the subordinated commercial paper notes issued to help fund the costs of the ConRAC; to fund a capitalized interest fund, debt service reserve fund and a coverage fund; and to pay the cost of issuing the GARBs.

The GARBs will be repaid through CFC collections together with Facility Rent paid by the rental car companies. Although the GARBs are secured by a pledge of net general airport revenues, the debt service associated with the bonds and certain transportation expenses are expected to be repaid solely from CFCs collected from rental car transactions and Facility Rent paid by the rental car companies using the ConRAC. The Airport is currently planning to refinance the original Series 2011B GARBs in the spring of 2021.

Rental Car Agreements

The City opened the ConRAC in June 2010. Each of the seven rental car companies that currently operate from the ConRAC (Airport Rental Car Companies) has an agreement with the City (Rental Car Agreement) for its operations at the ConRAC that was set to terminate on June 30, 2020, subject to two mutually agreed optional ten-year extensions, which must be approved by the City and the rental car companies. The City and the rental car companies are currently negotiating the terms of the first ten-year extension, and the parties continue to operate pursuant to the terms of the agreements during this holdover period. The Rental Car Agreement requires the Airport Rental Car Companies to pay certain concession, Facility Rent, and ground rent amounts to the City. In addition, the Airport Rental Car Companies must remit to the City the CFC charges that are collected from the rental car companies' customers. Pursuant to the Rental Car Agreement, for a given Fiscal Year, the Airport Rental Car Companies must pay Facility Rent to the City equal to the annual debt service and transportation expenses associated with the ConRAC minus CFC Revenues.

In order to help keep Facility Rent to be paid by the Airport Rental Car Companies reasonable, the City plans to increase the CFC per transaction day to $9.00 (subject to the 5-day maximum) beginning April 1, 2021. Based on the fact that the last CFC rate increase was done in 2014, the rate increase is small, and many other airports within California are already charging $9.00 per transaction day, the City's plan to begin collecting a $9.00 CFC per transaction day (subject to a five-day maximum) beginning April 2021 is not expected to have a significant impact on rental car activity at the Airport.

Should the City or the rental car companies determine at the expiration of the contract not to extend the term of the agreements, the City would not be able to continue to collect CFC after the on-Airport rental car companies vacate the ConRAC. In such event, the City would be responsible for payment of the remaining ConRAC debt services from other Airport revenues.

Forecast Summary

Based on forecasted amounts from July 1, 2020 through June 30, 2041 using the assumptions discussed in Note 6, the total revenues and costs are as follows (in thousands):

	Forecasted July 1, 2020 through June 30, 2041
Revenues:	
Customer Facility Charge:	
At previous rate	$ 5,718
At alternate rate ($9 per day)	501,646
Facility Rent [1]	2,486
Other Income [2]	3,900
Total Actual and Forecasted Revenues	**$ 513,750**
Costs:	
Debt Service:	
Net Bond Payments on 2011B	$ 465,995
Commercial Paper Payments	-
Transportation Costs	55,769
Total Actual and Forecasted Costs	**$ 521,764**

While the forecasted revenues are less than the forecasted costs, from Fiscal Year 2009-10 through Fiscal Year 2019-20, approximately $8.0 million of reserves were accumulated. These carryover reserves combined with the forecasted revenues should be sufficient to cover the forecasted costs. The debt service costs are net of approximately $34.5 million of the Debt Service Reserve and Debt Service Coverage Funds to be released in Fiscal Year 2040-41. These funds will not be available for use until that time.

(6) Development of Financial Model and Assumptions Used

The primary assumptions in the Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility are as follows:

1. The Airport provided data on actual rental car transactions as reported by the car rental companies starting in fiscal year 2009-10. Historically, rental car transaction activity at the Airport has generally followed the trends for Origination & Designation (O&D) deplaned passengers. Based on this relationship, the passenger projection for the Airport serves as the basis for the projection of rental car activity at the Airport. Fiscal year 2018-19 was the last

full fiscal year of operations prior to the impact of COVID-19. Based on the planning scenario used, it is estimated that rental car transactions will return to the fiscal year 2018-19 levels by fiscal year 2026-27. Subsequent to fiscal year 2026-27, the annual growth rate in rental car transactions is estimated to be 0.5% to 0.75%, half of the growth rate assumed for passengers in each of these years.

2. The percentage of O&D deplaned passengers to total deplaned passengers at the Airport is assumed at 94.0 percent throughout the projection period, based on the percentage for fiscal years 2018-19 and 2019-20. Total deplaned passengers are estimated based on historical deplaned passengers and planned passenger growth rates for the projection period.
3. The number of rental car transactions per O&D deplaned passenger is calculated throughout the projection period, based on the estimated number of transactions and the number of passengers. The number of rental car transactions was assumed to grow at a slower rate than the O&D deplaned passenger growth, with the number of rental car transactions per O&D deplaned passenger ranging from 0.119 to 0.135 between fiscal years 2020-21 and 2040-41.
4. The number of rental car days per transaction is assumed to be 3.0 throughout the projection period based on the actual results for fiscal year 2017-18 through fiscal year 2019-20.
5. No adjustment was factored in for transaction days that may be over the 5-day maximum, as prior year actuals deem that any such adjustment is not warranted.
6. The economic base of the Air Service Area is expected to remain stable and diversified during the projection period.
7. The Airport's passenger projections were based on the financial planning scenario that was established based on various passenger scenarios built by Moody's and Fitch rating agencies as well as projections from other airports.
8. The current CFC of $7.50 per transaction day (subject to a 5-day maximum charge), at the Airport is assumed to change to $9.00 per transaction day (subject to a 5-day maximum charge) beginning April 1, 2021.
9. The Airport Rental Car Companies will continue to operate at the Airport for the duration of the projection period. In the event one or more Airport Rental Car Companies leave the market, the Airport Rental Car Companies remaining (and any new entrant rental car companies) will act to serve demand and capture the market share of any departing company.
10. The emergence of transportation network companies (TNCs) have had an impact on the rental car demand in the past few years and are expected to continue to impact rental car demand during the duration of the projection period. The impact of the COVID-19 virus has appeared to slow the use of TNCs, with passengers choosing to rent cars or drive their own vehicles and park when travelling to and from the Airport.
11. Transportation expenses include operating costs related to the transport of rental car customers between Terminal A to the ConRAC. These costs are primarily based on the number of service hours charged by an outside bus operator. These costs are projected to drop by 5.6 percent in fiscal year 2020-21, stay flat for fiscal year 2021-22, and assumed to grow at a 3.0 percent rate thereafter.
12. Commercial paper related to the ConRAC is fully paid off, as of June 30, 2020.

13. The forecasted debt service requirements on the ConRAC Bonds, based on the debt service schedule are as follows (in thousands):

Fiscal Year	Principal	Interest	Total Debt Service	Release of Debt Service Reserve Fund	Release of Coverage Fund	Net Debt Service
2021	$ 2,865	$ 16,554	$ 19,419	$ —	$ —	$ 19,419
2022	3,380	16,413	19,793	—	—	19,793
2023	3,930	16,241	20,171	—	—	20,171
2024	4,540	16,024	20,564	—	—	20,564
2025	5,200	15,766	20,966	—	—	20,966
2026	5,910	15,466	21,376	—	—	21,376
2027	6,675	15,127	21,802	—	—	21,802
2028	7,535	14,695	22,230	—	—	22,230
2029	8,470	14,208	22,678	—	—	22,678
2030	9,470	13,660	23,130	—	—	23,130
2031	10,550	13,048	23,598	—	—	23,598
2032	11,710	12,366	24,076	—	—	24,076
2033	12,960	11,609	24,569	—	—	24,569
2034	14,320	10,752	25,072	—	—	25,072
2035	15,785	9,804	25,589	—	—	25,589
2036	17,360	8,760	26,120	—	—	26,120
2037	19,045	7,612	26,657	—	—	26,657
2038	20,885	6,353	27,238	—	—	27,238
2039	22,775	4,971	27,746	—	—	27,746
2040	25,065	3,465	28,530	—	—	28,530
2041	27,330	1,808	29,138	27,182	7,284	(5,329)
	$ 255,760	$ 244,702	$ 500,462	$ 27,182	$ 7,284	$ 465,995

Source: City of San Jose

The financial model outputs the required annual cost to service the debt each year until all debts have been repaid. The estimate of forecasted annual bond debt service repayment cost is $500.5 million, which will need to be recovered through CFC collections and Facility Rent. Release of the debt service reserve fund and the coverage fund will be available in fiscal year 2040-41. Thus, the net debt service requirement during the remaining forecast period is $466.0 million.

14. The final step in the financial model is to develop a plan to pay the annual net debt service requirements and transportation operating expenses. The City expects to pay these costs with Facility Rent paid by the Airport Car Rental Companies and CFC revenues plus Interest Income earned on these revenues. Interest and other sources of income are forecasted to be $100 thousand per year for three years, and $200 thousand thereafter. The financial model assumes that costs will first be covered by CFC revenues and Other Income, with any remaining costs to be covered by Facility Rent.

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Notes to Schedule of Forecasted Revenues and Costs of the
Consolidated Rental Car Facility (Continued)
For the Period from July 1, 2020 through June 30, 2041

Annual CFC receipts during the remaining forecast period are estimated by the Airport to be \$507.4 million. It is the intention of airport management to minimize the amount of Facility Rent required to be paid by the rental car companies. From fiscal year 2020-21 through 2040-41, the Facility Rent is estimated to be \$2.5 million and is calculated as the shortfall between the CFC revenue collected and costs of debt service and transportation over this time period. The summary of forecasted CFC revenues, Facility Rent revenues, and Other Income is presented below.

Fiscal Year	Total CFC	Facility Rent	Other Income	Revenues Available for Expenditures	Net Debt Service on Bonds	Total Available for Transportation Expenses
2021	$ 5,718	$ 187	$ 100	$ 6,005	$ 19,419	$ (13,413)
2022	12,844	548	100	13,492	19,793	(6,301)
2023	17,982	260	100	18,342	20,171	(1,829)
2024	20,551	131	200	20,882	20,564	318
2025	22,264	54	200	22,518	20,966	1,552
2026	24,067	—	200	24,267	21,376	2,891
2027	25,603	—	200	25,803	21,802	4,002
2028	25,731	—	200	25,931	22,230	3,701
2029	25,924	—	200	26,124	22,678	3,446
2030	26,118	—	200	26,318	23,130	3,188
2031	26,314	—	200	26,514	23,598	2,917
2032	26,512	16	200	26,727	24,076	2,651
2033	26,711	38	200	26,949	24,569	2,380
2034	26,911	62	200	27,173	25,072	2,101
2035	27,113	87	200	27,399	25,589	1,810
2036	27,316	112	200	27,628	26,120	1,508
2037	27,521	138	200	27,859	26,657	1,202
2038	27,727	167	200	28,094	27,238	856
2039	27,935	191	200	28,326	27,746	580
2040	28,145	232	200	28,577	28,530	47
2041	28,356	263	200	28,819	(5,329)	34,148
	$ 507,364	$ 2,486	$ 3,900	$ 513,750	$ 465,995	$ 47,755

Source: City of San Jose