



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

Sacramento County Department of Airports  
An Enterprise Fund of the County of Sacramento  
Sacramento, California

Fiscal Year Ended June 30, 2013

# Comprehensive Annual Financial Report

Sacramento County Department of Airports

An Enterprise Fund of the County of Sacramento, California

For the Fiscal Years Ended  
June 30, 2013 and 2012

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Sacramento County Department of Airports  
Finance and Administration Division – Accounting Section

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# Sacramento County Department of Airports

## Table of Contents

### For the Fiscal Years Ended June 30, 2013 and 2012

	Page
INTRODUCTORY SECTION	
AIRPORT LOCATIONS AND SERVICE AREA .....	3
CERTIFICATE OF ACHIEVEMENT .....	4
TRANSMITTAL LETTER .....	5
ORGANIZATIONAL CHART .....	14
LIST OF PRINCIPAL OFFICIALS .....	15
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT .....	18
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTAL INFORMATION) .....	20
BASIC FINANCIAL STATEMENTS:	
<i>Statements of Net Position</i> .....	27
<i>Statements of Revenues, Expenses and Changes in Net Position</i> .....	28
<i>Statements of Cash Flows</i> .....	29
<i>Notes to the Basic Financial Statements</i> .....	31
STATISTICAL SECTION	
NET POSITION .....	57
CHANGES IN NET POSITION .....	58
TOTAL ANNUAL REVENUES .....	60
TOTAL ANNUAL EXPENSES .....	61
AIRLINE RATES AND CHARGES .....	62
AIRLINE AND NONAIRLINE REVENUES .....	63
DEBT SERVICE COVERAGE .....	64
RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES .....	66
DEBT PER ENPLANED PASSENGER .....	66
OUTSTANDING DEBT .....	67
SERVICE AREA POPULATION .....	68
POPULATION/PERSONAL INCOME .....	69
PRINCIPAL EMPLOYERS FOR THE COUNTY OF SACRAMENTO .....	69
ACTIVITY STATISTICS .....	70
SCHEDULED AIRLINE SERVICE .....	71
PRINCIPAL CUSTOMERS .....	72
DEPARTMENT OF AIRPORTS EMPLOYEES .....	72
CAPITAL ASSETS .....	72
BOND DISCLOSURE SECTION	
ANNUAL REPORT .....	75
HISTORICAL ENPLANED PASSENGERS .....	76
HISTORICAL AIRCRAFT LANDED WEIGHTS .....	77
AIRLINES' MARKET SHARES OF ENPLANED PASSENGERS .....	78
AIRLINE AND NONAIRLINE REVENUES .....	79

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## Introductory Section

This section contains the following subsections:

Airport Locations and Service Area

Certificate of Achievement

Transmittal Letter

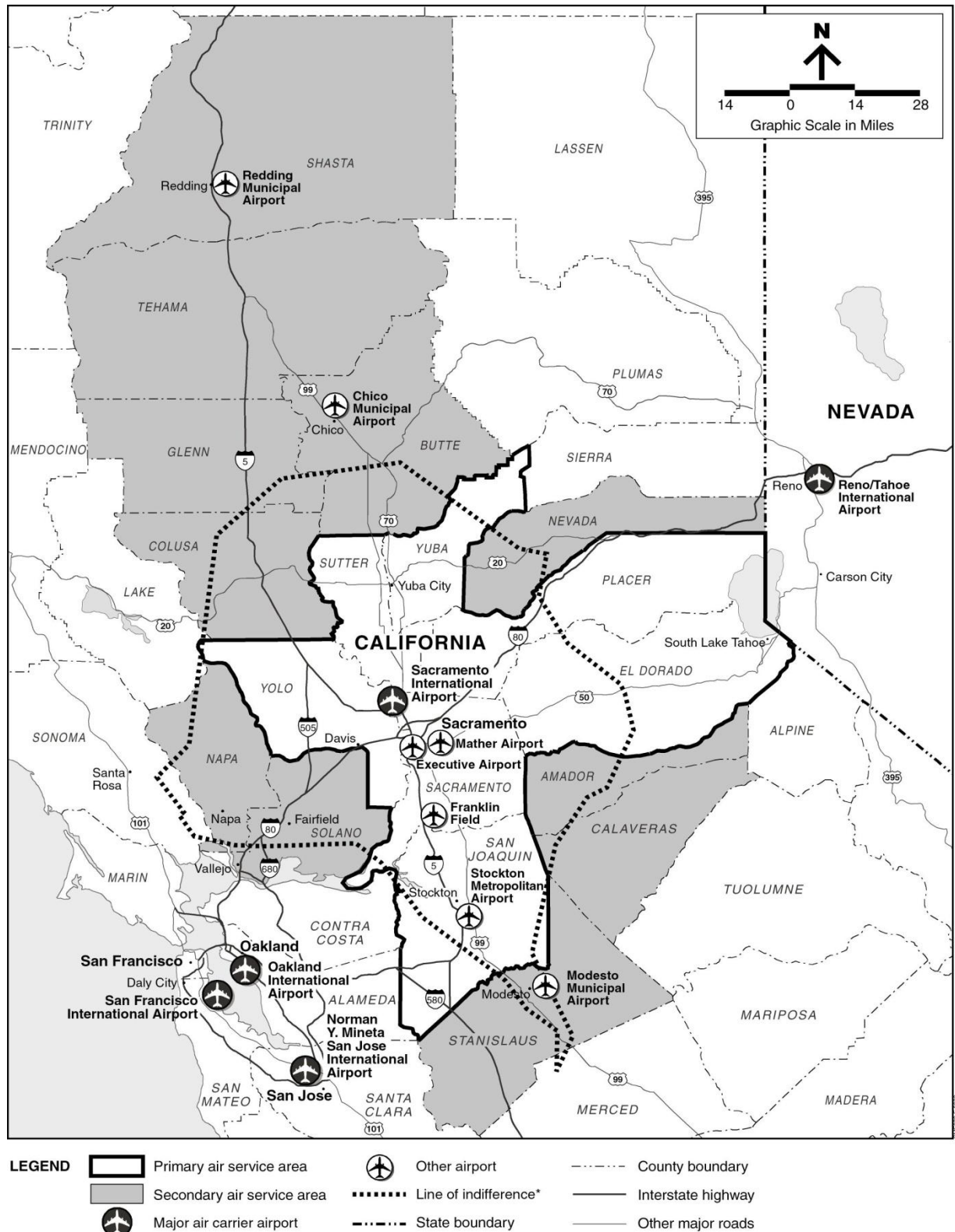
Organizational Chart

List of Principal Officials

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# Airport Locations and Service Area



\* Line of indifference denotes the Census tracts within which potential customers (residents and visitors) are indifferent about using Sacramento International Airport or one of the three Bay Area airports (Oakland, San Francisco, or Norman Y. Mineta San Jose International Airports), *Defining the Sacramento Catchment Area*, GRA Inc., April 2007.





Government Finance Officers Association

**Certificate of  
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Presented to

**Sacramento County  
Airport System, California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

A handwritten signature in black ink, reading "Jeffrey R. Emen". The signature is fluid and cursive.

Executive Director/CEO



## County of Sacramento

November 6, 2013

To The Public:

The Comprehensive Annual Financial Report for the Sacramento County Department of Airports (Department), for the fiscal years ended June 30, 2013 and 2012, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Department. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Department. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

The Government Finance Officers Association (GFOA), under its certificate program, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The Department's MD&A can be found on pages 20 through 26 of this report.

The County of Sacramento (County) is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The Department of Airports, as a department of the County, is included in the scope of the County's audit. Information related to this single audit, including the schedule of expenditures of federal awards, findings and questioned costs, and the independent auditors' report on internal controls and tests of compliance with applicable laws, regulations, contracts and grants, is included in the County's Comprehensive Annual Financial Report.

### PROFILE OF THE GOVERNMENT

The Department of Airports was created by Sacramento County Code in 1963 as a department within the County of Sacramento. The purpose of the Department is to provide for the efficient planning, development and operation of public air transportation facilities in Sacramento County and adjoining areas. In addition to promoting the efficient use and development of air transportation, the Department is responsible for assuring residents of Sacramento and the immediate surrounding areas of minimal environmental impact from air navigation and transportation.

The Department operates a system of airports comprised of Sacramento International Airport (International), Executive Airport, Mather Airport, and Franklin Field. International, Mather Airport and Franklin Field are owned by the County. Mather Airport's title was conveyed from the United States Air Force to the County in November 2012. Executive Airport is owned by the City of Sacramento and leased to the County on an annually renewing 25-year lease.

International is the principal air carrier airport serving the County of Sacramento and a wide region surrounding the County. International's primary service area is a seven-county region consisting of

Sacramento, El Dorado, Placer, San Joaquin, Sutter, Yolo and Yuba counties (the Sacramento Area). Scheduled commercial passenger flights are accommodated at International, which is classified by the Federal Aviation Administration (FAA) as a medium air traffic hub. International occupies approximately 6,000 acres of land and has two 8,600 foot-long parallel runways, 16R-34L and 16L-34R. Runway 16R is equipped with a Category III Instrument Landing System ("CAT III ILS"). CAT III ILS is a ground-based precision instrument approach system which provides properly-equipped aircraft with visual and electronic navigational aids to help a pilot safely land with minimal outside visibility.

Airlines operating at International do so from one of its two terminal buildings. Terminal A provides 13 aircraft gates and Terminal B provides 19 gates, for a total of 32 gates. Arriving international passengers are processed through customs and immigration in the Federal Inspection Facility located in Terminal B. The airport offers a variety of automobile parking options at various price points. Covered parking is available for hourly or daily customers in a six-floor parking garage containing 5,300 parking spaces which is conveniently attached via enclosed, conditioned pedestrian bridges to both terminals. Surface parking is available for hourly customers using Terminal B. Economy parking is also available with complimentary shuttle bus service to each terminal.

Rental cars are available from each of the major national rental car companies in the consolidated rental car terminal which is served from both terminals via complimentary shuttle bus. General aviation customers are provided aircraft tie-down, hangar storage, and associated services by the Sacramento Jet Center, a full-service fixed base operator located at both International and Executive airports.

Executive Airport is a general aviation reliever airport with no scheduled airline service. Executive Airport occupies approximately 520 acres of land and has three intersecting runways and one heliport. The primary runway, Runway 02-20 is 5,503 feet long and 150 feet wide. Runway 02-20 is equipped with a Category I instrument landing system (ILS).

Mather Airport serves as an air cargo and general aviation facility. Mather Airport occupies approximately 2,875 acres of land and has two runways. Runway 04R-22L is 11,301 feet long and 150 feet wide and is equipped with a Category I ILS. Runway 04L-22R is 6,040 feet long and also 150 feet wide. Both runways are lighted.

Franklin Field is a general aviation reliever airstrip used primarily for training. Franklin Field occupies 496 acres and has two intersecting runways. The primary runway, Runway 18-36 is 3,122 feet long and 60 feet wide. Runway 09-27, the cross-wind runway, is 3,030 feet long and 60 feet wide. Both runways have standard basic visual approach runway markings.

## ECONOMIC CONDITIONS

Economic activity in the Sacramento region is directly linked to the production of goods and services in the rest of the United States. Airline travel and the movement of air cargo through the Department's airports depend on the economic linkages between the U.S., California and the Sacramento Area economies. The impacts of the most recent national recession were also felt within California and the Sacramento Area. In the most recent years, the unemployment rate in California, although still elevated, has fallen steadily. According to the UCLA Anderson economic forecast published in September 2013, California can expect a continued fall in unemployment in the coming years, with the Sacramento Area and the rest of the Central Valley still lagging behind the more prosperous coastal regions. California's unemployment rate decreased to 8.5% in June 2013 from 10.6% in June 2012. Nonfarm jobs in California totaled 14,648,700 in June 2013, an increase of 253,900 from June 2012 (1.8%). The California Association of Realtors reports that the median sale price of existing homes in the Sacramento Area was \$247,100 in June 2013, which represents an increase of 43.2% from the previous year, and a 37.4% reduction from the 2005 peak of \$394,450.

The recession has also had a direct, negative impact on the demand for air travel. Less discretionary income was available for leisure travel, and business travel slowed as companies tightened their proverbial belts. In addition to the direct impacts the recession has had on the demand for air travel services, the combined impact of the weakened U.S. dollar and rising oil prices played havoc on the airline industry's ability to generate profits. The industry responded by reducing capacity to drive an increase in fares and higher load factors in an attempt to increase yields.

The result for the Department of Airports has included certain airlines implementing reductions in frequencies to certain cities which negatively impacts landed weight generated revenue from aircraft landing fees; fewer passengers flying which negatively impacts revenues from automobile parking, rental cars, food and beverage, and retail concessions; and a much more challenging environment for efforts aimed at increasing air service. Airline decisions to add additional frequencies or new service involve many factors including the projected demand for service in the market, competitive factors with other airlines, desire for market share and the cost of operating at the airport. As such, it is important for the Department to manage its costs to be competitive in attracting new air service.

### Population

According to the U.S. Department of Commerce Census Bureau, the population of the Sacramento Area was over 3.1 million in 2013, concentrated primarily in Sacramento and San Joaquin counties. The high rate of population growth in the Sacramento Area in the first half of the past decade has slowed to a 0.9% increase from January 2012 to January 2013.

The Sacramento Area accounted for 8.1% of the State's population and 5.7% of its non-agricultural employment in 2013. The Sacramento Area's per capita personal income in 2012 (\$40,745) was lower than both the State average (\$44,980) and the national average (\$42,693). The pattern of per capita income growth in the Sacramento Area has generally mirrored the pattern of nationwide growth, albeit at a slightly lower level, over the past two decades.

### Unemployment Rate

The unemployment rate in the Sacramento Area generally tracks the Statewide pattern, but is typically higher than the national rate. In the first six months of 2013, unemployment in the Sacramento Area averaged 8.9%, compared with the most recent low of 4.8% in 2006. In comparison, the unemployment rates for California and the nation were 8.5% and 7.6%, respectively.

On a positive note, according to the most recent business review report published by the University of the Pacific, both the Sacramento regional labor and the local housing markets are showing signs of improvement and upward trend. Sacramento Area's economic outlook has been upgraded during fiscal year 2013, due to the housing surge and the improved State budget. After years of lagging behind, Sacramento is projected to lead the region in 2015 with a 2.8% annual job growth.

### Major Employers

Table 1 lists major private sector employers in the Sacramento-Arden-Arcade-Roseville Metropolitan Statistical Area (MSA), which accounts for 72.5% of the Sacramento Area population. The MSA's top five private employers include three health care providers - Kaiser Permanente, Sutter Health, and Mercy/Catholic Healthcare West. Many of the companies listed are involved in national and international operations which rely on airline travel.

**Table 1**  
**MAJOR PRIVATE SECTOR EMPLOYERS**  
**Sacramento-Arden-Arcade-Roseville MSA**

<u>Company</u>	<u>Employment</u>	<u>Type of business</u>
Kaiser Permanente	10,140	Health care
Sutter Health	9,112	Health care
Raley's Inc. / Bel Air	7,283	Retail grocery
Mercy/Catholic Healthcare West	7,054	Health care
Intel Corp.	6,500	Semiconductor manufacturer
Hewlett-Packard Co.	3,200	Computer hardware manufacturer
Wells Fargo & Co.	3,188	Financial services
Health Net Inc.	2,552	Health plan
Cache Creek Casino Resort	2,400	Casino resort
Pacific Gas and Electric Co.	2,247	Natural gas and electric utility

Note: Includes companies with operations in El Dorado, Placer, Sacramento, and Yolo counties.

Source: *Sacramento Business Journal*, "2012 Book of Lists."

### Tourism and Local Activities

Visitors are attracted to the Sacramento Area by the State Capitol and other historical attractions, as well as the natural amenities, recreational activities, sporting events, and cultural attractions in the area. According to the California Travel & Tourism Commission statistics, direct travel spending in the Sacramento Area totaled \$5.5 billion in 2011. Sacramento also serves as a gateway to cultural and recreational attractions that are within a day-trip driving distance, such as the Napa Valley and Amador County vineyards and the Sierra/Yosemite/Lake Tahoe regions.

### Business Growth

The Sacramento Area is one of the most attractive locations in which to do business in the western United States. Few inland metropolitan areas can boast a major airport, an airport specializing primarily in air cargo, a deep-water port, a transcontinental rail line and several interstate freeways. Comparatively inexpensive business costs, plentiful skilled labor, abundant water supply, quality of life and proximity to the San Francisco Bay Area create an outstanding business climate.

### Air Service

An integral component of a region's economic growth is the availability of accessible, affordable, and convenient air transportation service. International Airport, as the chief point of entry for many of Sacramento Area's business, government, and leisure travelers, as well as some air cargo shipments, is well suited to meet these demands for economic activity.

## **PASSENGER TRAFFIC**

Passenger traffic at International is affected by the Sacramento Area's economic profile; for example, the amount and type of commerce in the Sacramento Area may affect the level of business travel to and from Sacramento, or the amount of per capita personal income in the Sacramento Area may affect the level of discretionary travel from International. The Sacramento Area is among many metro areas across the nation

still feeling the bite of the economic downturn. Approximately 8.8 million total passengers (enplaning and deplaning) chose International during fiscal year 2013, reflecting a 1.3 percent decline from the prior year. As of June 2013, International was served by 10 scheduled passenger airlines which provided an average of 171 daily scheduled aircraft departures. International is also served by one all-cargo airline.

The busiest carrier at International is Southwest Airlines (68 daily nonstop flights), followed by United Airlines/United Express and Delta Air Lines (each with 15 daily nonstop flights), and Alaska/Horizon Airlines (12 daily nonstop flights). Over 110,694 operations (takeoffs and landings) occurred at International during fiscal year 2013 on parallel runways that can accommodate up to 400,000 operations per year, a decrease of 7 percent as compared with fiscal year 2012.

As of June 30, 2013, over 73 percent of the passenger traffic at International was concentrated in the 19-gate Terminal B which opened in October 2011. Southwest Airlines, serving 4.6 million total passengers in fiscal year 2013, comprised the majority of passenger traffic in Terminal B. Southwest has accounted for approximately half the number of passengers enplaned at International each year since fiscal year 1998. Other airline tenants in Terminal B include Alaska Airlines, American Airlines, Horizon Air, JetBlue Airways, Hawaiian Airlines, Volaris Airlines and Aeroméxico. As of June 2013, international service at International consisted of less-than-daily flights to Guadalajara, Mexico, provided by Volaris Airlines and Aeroméxico.

In fiscal year 2013, the 13-gate Terminal A housed United Airlines/United Express, the second largest carrier at International (1,035,778 passengers), Delta Air Lines, the third largest carrier at International (539,999 passengers) and US Airways (473,202 passengers).

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. The recent economic recession combined with reduced discretionary income and increased airfares has contributed to reduced air travel demand. Nearly all airlines serving Sacramento were providing fewer seats in fiscal year 2013 than in fiscal year 2012. Reductions in overall seat capacity at International are indicated by flight schedules filed by the airlines with the Official Airline Guide.

An updated forecast of aviation activity at International in support of the Master Plan Update, prepared by Leigh Fisher in February 2013, depicts a 2.9% enplaned passenger annual average growth rate through 2035 and a gradual increase in enplaned passengers from 4.4 million in 2013 to 8.6 million in 2035. The pace of the national economic recovery; the degree to which airlines are able to adjust their business models to re-balance demand, capacity, cost, and airfares; and the extent to which consumers alter their travel behavior in response to these factors will determine the actual pace and magnitude of the resumption of traffic growth at International.

## MAJOR INITIATIVES

### International Master Plan

The original master plan for International was approved by the County Board of Supervisors (Board) in 1964, followed by Board approved updates in 1974, 1980 and 2007. The primary near-term focus of the 2007 update was the Terminal Modernization Program (TMP), which culminated in the opening of the landside Terminal B and airside Concourse B in October 2011. The construction program, dubbed the Big Build, was the largest capital improvement program in Sacramento County history. The project replaced the former Terminal B, which opened in 1967. The modern, efficient new Terminal B welcomes passengers with an innovative mix of sustainable design, eye-catching public art, and locally-based retailers and restaurants. The 740,000 square foot Terminal B complex (the landside terminal and airside concourse) – more than three times the size of the 44-year-old Terminal B – was designed by Corgan & Associates, Inc., in association with Fentress Architects. The program was financed with a combination of passenger facility charges, revenue-



backed bonds and federal grant proceeds. In fiscal year 2013, the Department closed out all contracts related to construction of the new Terminal B, realizing a cost savings of \$72 million as compared to budget for the projects completed. Designed to serve travelers for generations, Terminal B maintains the ease and convenience International's passengers expect while well-positioning the airport for future development. The terminal's design minimizes congestion at the curbs with two separated roadways and curbside access on both sides of the terminal building. An automated people mover quickly transports passengers in quiet, air-conditioned electric cars to the security checkpoint.

Thoughtful details ensure that passengers will enjoy the airport experience. Terminal B features a public art program that includes an endowment for conservation of existing art and the possible purchase of additional art. Beyond the checkpoint, the mix of restaurants offers a glimpse of the Sacramento restaurant scene. A combination of traditional and pod-style seating at the gates allows passengers to socialize or sit alone. The airport continues to offer free wireless Internet throughout both terminals. Free electrical outlets are located throughout both terminals, and at many seats in the gate areas in Terminal B. Now that Terminal B is open, International will continue to evolve with a focus on identifying and developing new sources of aviation and non-aviation revenue.

Given recent economic conditions and their impact on the aviation industry, a master plan update study is underway to re-evaluate activity levels at International to ensure that airside infrastructure is appropriately matched with landside capabilities. The associated consulting agreement was approved by the Board in September 2012. The project is estimated to take about 24 months and will reassess and revalidate assumptions and conclusions from the 2007 master plan for alignment with emerging industry trends and aviation forecasts. Possible developments from the master plan update include a runway extension, a new parking garage and the identification of areas for future commercial development. The update will outline development plans through 2035.

### Mather Airport Master Plan

The Mather Airport master plan process began in June 2001. A draft master plan and associated draft environmental review were completed in 2012. During the public comment period, hundreds of comments were received including comments concerning the validity of the airport activity forecast baseline year (2007) relative to industry and airport activity trends that have occurred since the DEIR was initiated. In consideration of these concerns, a new airport activity forecast with a baseline year of 2012 was prepared. The draft master plan was updated to reflect the updated forecast and the proposed development plan includes reallocation of airside land uses and project rescaling or removal from the Master Plan. The draft plan includes extension of the north runway and installation of a Category III ILS on the south runway to improve aircraft access during very poor visibility conditions that are common during winter months. Other projects are also proposed to accommodate anticipated air cargo and corporate aviation activities. Technical environmental reports have been prepared under the auspices of the National Environmental Protection Act (NEPA) and the California Environmental Quality Act (CEQA). The CEQA Draft Environmental Impact Report (EIR) documents are in preparation status and will be available for public review in early 2014. Upon completion of these environmental review processes, the Board will be asked to take formal action to approve the Mather Airport master plan in early 2014.

The primary focus at Mather Airport is air cargo, while also serving general aviation users. Cargo carriers, including UPS and contracted air cargo feeder companies, shipped over 105.6 million pounds of freight in fiscal year 2013. Other tenants at Mather Airport include government agencies, a Fixed Base Operator (FBO), a rental car agency, a recycling company and a boat repair facility. Compared to International, Mather Airport offers cargo carriers more spacious facilities, including longer runways and more cargo, warehouse, and office space.

### Executive Airport and Franklin Field Master Plans

The draft master plans for Executive Airport and Franklin Field were initially completed in 2010, but the forecast baseline year is currently being revised to reflect current conditions and airport activity trends. The updated master plans will be presented to the Board seeking approval to proceed to the environmental review phase of the plans, which is anticipated to occur in early 2014. The environmental review process is anticipated to take about a year, after which formal adoption of the master plans by the Board could occur. A major long term recommendation of the Executive Airport plan is the relocation of general aviation facilities from the west side of the airport to the east, making available the west side for corporate and compatible non-aviation development and new revenue opportunities. The ongoing focus at Executive Airport will continue to be infrastructure improvements in order to ensure the operational and financial viability of the airport.

For Franklin Field, a five-year period of status quo is proposed, during which time no major projects are planned. A design for accommodating future growth is prepared for implementation but is dependent upon future decisions about south County general aviation market needs.

### Capital Improvement Program

Each year, the Department of Airports prepares a 5-year Capital Improvement Plan (CIP). The CIP is re-evaluated and modified as necessary to accommodate traffic activity, security needs, and other needs which could result in additions to or subtractions from the CIP, or changes in the timing of individual projects. Significant capital improvements planned to be undertaken during fiscal year 2014 are: Parking Access Revenue Control System Replacement at International and Runway 22L/4R-CAT III ILS at Mather Airport.

### Federal and State Grants

The County is eligible to receive AIP grants for up to 80.59% of the costs of eligible projects at International and 90%-95% at Mather and Executive Airports. Certain of these grants are awarded as entitlement grants, the annual amount of which is calculated on the basis of the number of enplaned passengers and the amount of landed weight of all-cargo aircraft at International and Mather airports. Large and medium-hub airports at which a PFC of \$4.00 or \$4.50 is collected (such as International) forego 75% of their AIP entitlement funds. Other discretionary grants are awarded on the basis of the FAA's determination of the priorities for projects at the Department's airports and at other airports nationwide. The FAA issues Letters of Intent (LOIs) for grants, based on the FAA's assessment of national priorities. An LOI represents the FAA's intention to obligate funds from future federal budget appropriations.

On March 6, 2009, the FAA approved the Department's LOI application to fund \$59.9 million of the eligible costs of the TMP. As of June 30, 2013, the Department received a total of \$36.0 million in grants under this LOI. Additional AIP discretionary grants for certain non-TMP projects in the CIP were also assumed in the financing plan, primarily for projects at Mather and Executive airports. The FAA-grant-eligible costs of the non-TMP projects through 2018 are estimated at \$65.6 million. Certain projects eligible for federal grants will only be undertaken if such grant funds are received.

### Passenger Facility Charges (PFCs)

PFCs are imposed on enplaned passengers by airport operators—collected by airlines—for the purpose of generating revenue for airport projects that increase capacity, increase safety, enhance airline competition, or mitigate noise impact. The Department of Airports is authorized by the FAA to impose a PFC fee and to use up to \$964.3 million of PFC revenues. The PFC collection dates for approved PFC applications are estimated to expire in 2028. During fiscal year 2013, the Department received \$16.8 million in PFC receipts, bringing the total PFC receipts and interest received since April 1993 under the approved applications to \$337.0 million. In fiscal year 2013, PFC revenues provided partial funding for the TMP projects and bond debt service payments.

### Future

The recent economic recession and the slow recovery have adversely impacted the Department, resulting in reductions of daily flights being offered by the airlines serving International and a slight decrease in enplanements in 2013. During fiscal year 2014 and future years, the Department will work to continue development and expansion of airline service to existing and new locations. International may be particularly advantaged in the future due to its substantially available capacity to accommodate additional aviation activity. A key goal will also be to maintain the Department's commitment to providing superior service to customers while continuing to be a good neighbor to the surrounding community.

## **FINANCIAL INFORMATION**

Management of the Department of Airports is responsible for establishing internal controls designed to ensure that the assets of the Department are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2), the valuation of costs and benefits requires estimates and judgments by management.

For financial accounting purposes and in compliance with Governmental Accounting Standards Board Pronouncements, the Department of Airports is accounted for as a self-sufficient enterprise fund within the County of Sacramento. The Department's accounting records are maintained using the accrual basis of accounting.

Single Audit—as a recipient of federal funds and State financial assistance, the Department is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the internal audit staff of the County.

The Department of Airports was initially authorized to impose a PFC at International effective April 1, 1993. Legislation authorizing the collection of PFCs restricts use of PFC revenue to acquisition of specified assets and prescribes reporting and control requirements. At least annually, during the period in which the PFC is collected, held, or used, the Department must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Department's internal accounting controls to account for the collection and use of PFCs. The auditor must also issue an opinion on whether the quarterly reports fairly represent the transactions within the PFC accounts.

Budgetary Controls—the Department prepares an annual budget to serve as an approved plan for operational control and performance evaluation. State law does not require the formal adoption of an appropriated budget for government enterprise activities. Each year, the Department prepares an operations and a capital budget, which is presented to the Board for review and approval. The budget, as approved by the Board, serves as the Department's basis for operations. The Department and the County impose controls that require the use of requisitions, purchase orders, contracts and specific approval steps for purchases of goods and services. Procedures have been established to verify expenses and ensure that budgeted amounts are not exceeded. Monthly comparisons of actual to budgeted revenues and expenses may identify significant variances that would require the Department to take corrective action.

Rate Ordinance—the Board adopted an Airline Rate Ordinance which became effective July 1, 2008. Under the Rate Ordinance, landing fee rates are calculated annually according to a cost center residual methodology; terminal rental rates are calculated annually according to a commercial compensatory

methodology; revenues, after deposits required by the Bond Master Indenture, are retained by the County; and the County has no obligation to share remaining revenues with the airlines. Likewise, airlines are under no obligation to pay landing fees in amounts required to ensure that Net Revenues are sufficient to meet the Rate Covenant set forth in the Bond Master Indenture.

## AWARDS AND ACKNOWLEDGEMENTS

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department of Airports (also referred to as the Sacramento County Airport System) for its comprehensive annual financial report for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

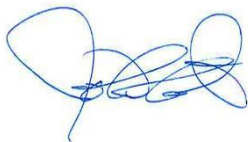
A Certificate of Achievement is valid for a period of one year only. The Department has received a Certificate of Achievement for each of the last 24 years (fiscal years ended 1989-2012). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

Independent Audit—the financial statements of the Department of Airports are audited each year by an independent certified public accountant. The accounting firm of Vavrinek, Trine, Day & Co., LLP performed the audit for fiscal year 2013. The independent auditors' report on the financial statements is included in the financial section of this report.

Acknowledgments—the preparation of the Comprehensive Annual Financial Report on a timely and efficient basis was made possible by the dedicated service of staff in the Accounting Section. Each member of the section has our sincere appreciation for the contributions made in the preparation of this report.

We also wish to thank staff of the Sacramento County Department of Finance for their cooperation and assistance. In closing, without the leadership and support of the County Executive and the Board of Supervisors, preparation of this report would not have been possible.

Respectfully submitted,



John Wheat  
Director of Airports

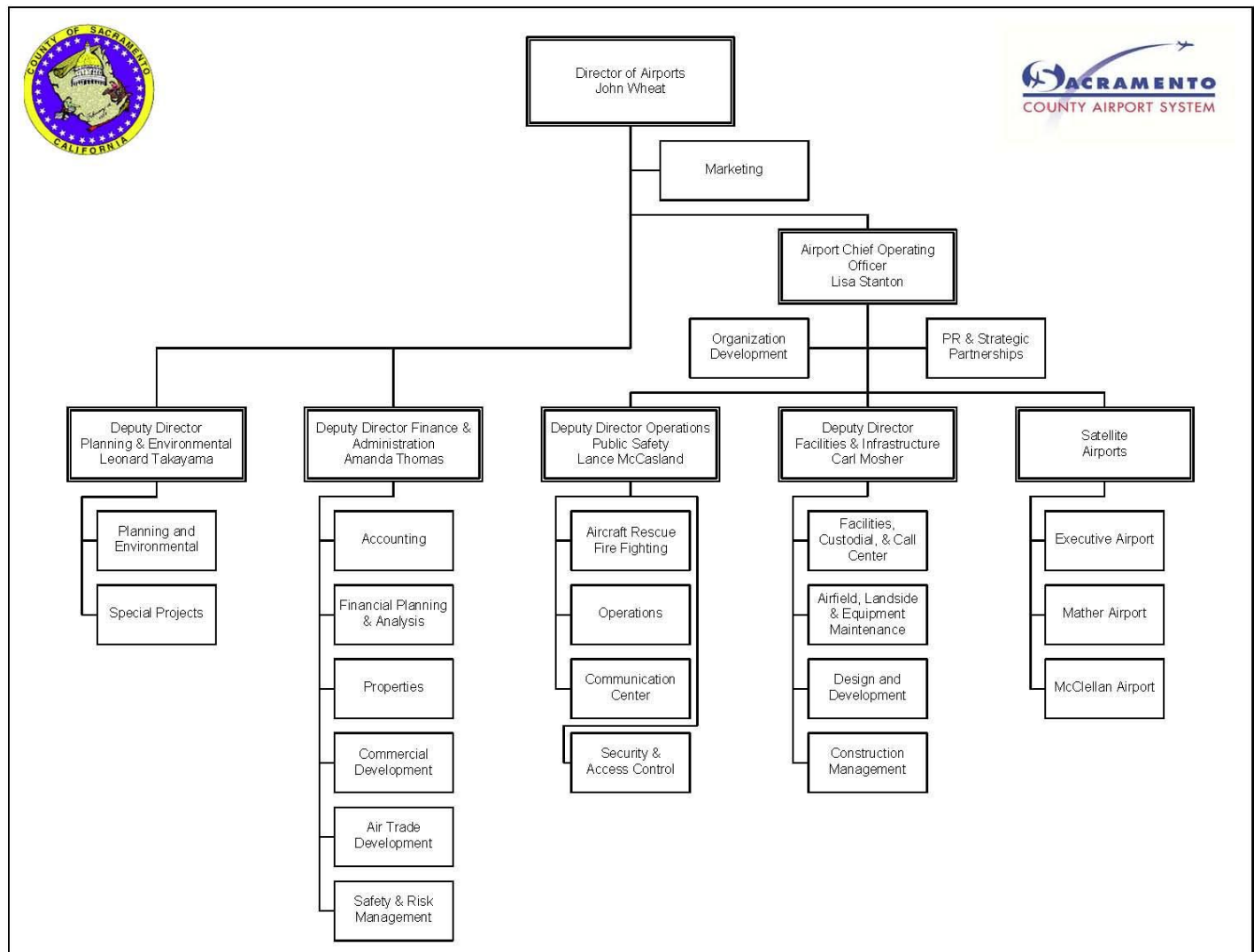


Amanda Thomas  
Deputy Director, Finance & Administration

# Sacramento County Department of Airports

## Organizational Chart

At June 30, 2013



# Sacramento County Department of Airports

## List of Principal Officials At June 30, 2013

### ELECTED:

#### COUNTY BOARD OF SUPERVISORS

Phil Serna.....	District 1
Jimmie Yee.....	District 2
Susan Peters, Chair.....	District 3
Roberta MacGlashan.....	District 4
Don Nottoli .....	District 5

### APPOINTED:

Bradley J. Hudson .....	County Executive
-------------------------	------------------

#### SACRAMENTO COUNTY DEPARTMENT OF AIRPORTS

John Wheat .....	Director of Airports
Lisa J. Stanton .....	Airport Chief Operating Officer
Amanda Thomas .....	Deputy Director, Finance and Administration
Leonard H. Takayama .....	Deputy Director, Planning & Environmental
Lance McCasland .....	Deputy Director, Operations and Public Safety
Carl Mosher.....	Deputy Director, Facilities & Infrastructure
Camelia Radulescu, CPA.....	Senior Accounting Manager



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## Financial Section

This section contains the following subsections:

Independent Auditors' Report

Management's Discussion and Analysis (Unaudited)

Basic Financial Statements



Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
County of Sacramento, California

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Sacramento County Department of Airports (Department), an enterprise fund of the County of Sacramento, California (County) as of and for the years ended June 30, 2013 and 2012, 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 accounting principles generally accepted in the United States of America; 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 audits 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 auditor's 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 financial position of the Department, as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Emphasis of Matter******Individual Department Financial Statement***

As discussed in Note 1, the financial statements present only the Sacramento County Department of Airports, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the County of Sacramento, California, as of June 30, 2013 and 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Implementation of New Accounting Standards***

As discussed in Note 1 to the financial statements, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

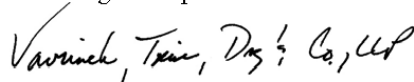
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The introductory, statistical, and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, on our consideration of the Department'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 Department's internal control over financial reporting and compliance.



Sacramento, California  
November 6, 2013

## Management's Discussion and Analysis (Unaudited)

The following Management's Discussion and Analysis (MD&A) of the Sacramento County Department of Airports (Department) financial performance provides an introduction to the financial statements for the fiscal years ended June 30, 2013 and 2012. The information contained in this MD&A should be considered in conjunction with the information contained in the Department's basic financial statements.

### Financial Highlights

The assets of the Department exceeded liabilities for the fiscal year ended June 30, 2013 by \$598,941,426 (net position). Of this amount, \$101,721,002 (unrestricted net position) may be used to meet the ongoing obligations of the Department, \$78,394,402 was restricted for specific purposes (restricted net position), and \$418,826,022 represented the net investment in capital assets.

The Department's total net position increased by \$29,820,947 during the fiscal year ended June 30, 2013. This increase was primarily due to operating income of \$13,600,448; passenger facility charges of \$17,604,328; interest income of \$1,836,288; capital contributions and intergovernmental revenues of \$56,547,640 which consisted of \$11,030,740 federal grants and a transfer of the Mather Airport from the United States Air Force valued at \$45,516,900; and was offset by interest expense of \$59,286,319.

### Overview of the Basic Financial Statements

The Department's financial statements are prepared using the full accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Department of Airports is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and, with the exception of land and construction in progress, are depreciated over their useful lives. See the notes to the basic financial statements for a summary of the Department's significant accounting policies.

Following this MD&A are the basic financial statements of the Department together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Department's basic financial statements are designed to provide readers with a broad overview of the Department's finances.

The Statement of Net Position presents information on the Department's current and long-term assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Department's financial position.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Department's net position changed during the most recent years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows relate to the flow of cash and cash equivalents. Consequently, only transactions that affect the Department's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

## Management's Discussion and Analysis (Unaudited) (continued)

### Financial Analysis

An indicator of the Department's financial position is the total net position at the end of each fiscal year. As shown below and on the next page, at June 30, 2013 assets exceeded liabilities by \$598.9 million, an increase over the prior year of 5.2%. Restricted net position was \$78.4 million or 13.1% of total net position. Restricted net position represents resources that are subject to restrictions on how they can be used. The net investment in capital assets at June 30, 2013 was \$418.8 million or 69.9% of total net position and represented investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Department uses these capital assets to provide services to its passengers and visitors; consequently these assets are not available for future spending. Although the Department's investment in capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining portion of net position is unrestricted, which was \$101.7 million or 17.0% at June 30, 2013 and may be used to meet the Department's ongoing obligations. Unrestricted net position increased during fiscal year 2013, by \$18.7 million or 22.5%.

### Condensed Statements of Net Position

	2013	2012	FY13 vs. FY12 % change	2011	FY12 vs. FY11 % change
Assets:					
Current, restricted and other assets	\$ 326,772,047	\$ 355,522,389	(8.1)%	\$ 494,480,169	(28.1)%
Capital assets, net	1,419,808,987	1,401,135,901	1.3	1,310,315,531	6.9
Total assets	1,746,581,034	1,756,658,290	(0.6)	1,804,795,700	(2.7)
Liabilities:					
Current and other liabilities	68,250,237	85,047,173	(19.8)	123,338,113	(31.0)
Long-term liabilities outstanding	1,079,389,371	1,102,490,638	(2.1)	1,123,785,036	(1.9)
Total liabilities	1,147,639,608	1,187,537,811	(3.4)	1,247,123,149	(4.8)
Net position:					
Net investment in capital assets	418,826,022	385,766,170	8.6	330,395,927	16.8
Restricted	78,394,402	100,313,568	(21.9)	141,872,711	(29.3)
Unrestricted	101,721,002	83,040,741	22.5	85,403,913	(2.8)
Total net position	\$ 598,941,426	\$ 569,120,479	5.2%	\$ 557,672,551	2.1%



## Management's Discussion and Analysis (Unaudited) (continued)

The Department's total net position increased during fiscal years ended 2013 and 2012 by \$29.8 million (5.2%) and \$11.4 million (2.1%), respectively. The following is a summary of changes in net position for fiscal years ended 2013, 2012 and 2011:

### Summary of Changes in Net Position

	Fiscal Years Ended June 30				
	2013	2012	FY13 vs. FY12 % change	2011	FY12 vs. FY11 % change
Operating revenues:					
Concessions	\$ 68,752,509	\$ 66,002,772	4.2%	\$ 63,341,578	4.2%
Building rents	61,114,151	47,204,495	29.5	30,697,623	53.8
Airfield charges	21,849,813	23,395,617	(6.6)	20,931,781	11.8
Ground leases	1,900,740	1,874,055	1.4	1,987,622	(5.7)
Airport services	4,819,705	4,136,078	16.5	920,930	349.1
Sale of fuel	809,600	755,877	7.1	653,673	15.6
Other	146,116	379,768	(61.5)	85,366	344.9
Total operating revenues	159,392,634	143,748,662	10.9	118,618,573	21.2
Non-operating revenue:					
Interest income	1,836,288	915,635	100.5	411,537	122.5
Passenger facility charges revenue	17,604,328	18,022,076	(2.3)	18,348,304	(1.8)
Intergovernmental revenue	1,578,104	1,637,600	(3.6)	622,320	163.1
Gain on disposal of assets	45,688	55,945	(18.3)	10,183	449.4
Other nonoperating revenue	176,702	42,425	316.5	1,291,437	(96.7)
Total revenue	180,633,744	164,422,343	9.9	139,302,354	18.0
Operating expenses:					
Salaries and benefits	36,149,138	37,081,912	(2.5)	35,989,114	3.0
Services and supplies	57,088,926	58,008,301	(1.6)	46,369,353	25.1
Cost of goods sold	641,268	628,838	2.0	542,657	15.9
Depreciation	51,673,862	43,847,407	17.8	29,750,690	47.4
Other	238,992	10,630	2,148.3	983,348	(98.9)
Total operating expenses	145,792,186	139,577,088	4.5	113,635,162	22.8
Non-operating expenses:					
Loss on disposal of assets	802	133,085	(99.4)	163	81,547.2
Amortization of bond issuance cost	703,026	750,981	(6.4)	744,688	0.8
Interest expense	59,286,319	26,906,214	120.3	15,473,662	73.9
Total expense	205,782,333	167,367,368	23.0	129,853,675	28.9
Net income (loss) before capital contributions	(25,148,589)	(2,945,025)	753.9	9,448,679	(131.2)
Capital contributions	54,969,536	14,392,953	281.9	14,556,307	(1.1)
Changes in net position	29,820,947	11,447,928	160.5	24,004,986	(52.3)
Total net position, beginning of year	569,120,479	557,672,551	2.1	533,667,565	4.5
Total net position, end of year	\$ 598,941,426	\$ 569,120,479	5.2%	\$ 557,672,551	2.1%

#### Fiscal year 2013 operating revenues

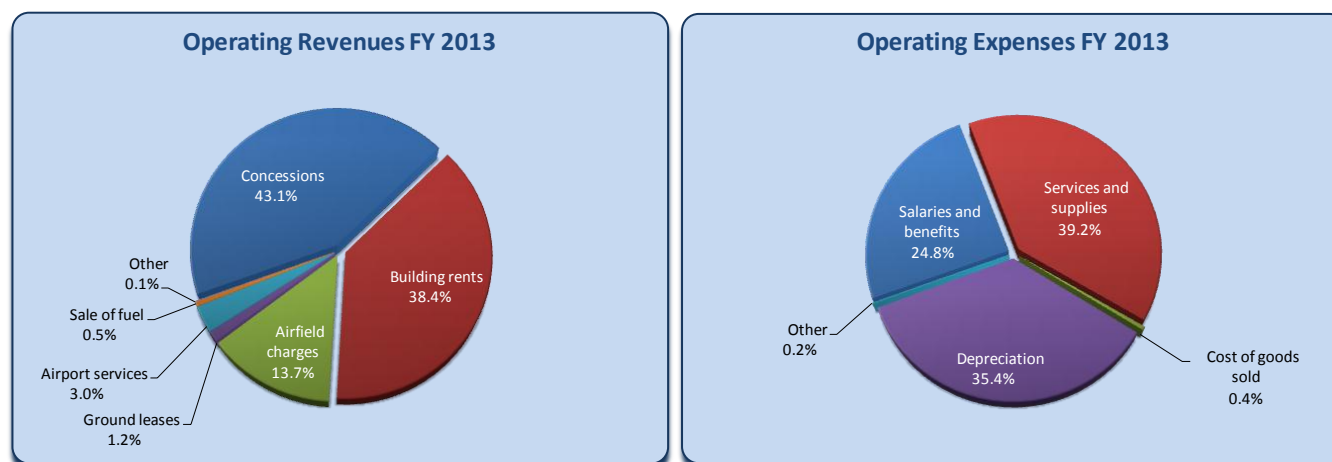
Operating revenues increased by \$15.6 million (10.9%), due to an increase in building rents of \$13.9 million (29.5%) resulting from an increase in rented space and an increase in terminal and preferential aircraft parking position and loading bridge rates; an increase of concession revenues of \$2.7 million (4.2%) due to longer parking duration and a full fiscal year of increased parking lot rates as compared to only three quarters of increased rates in fiscal year 2012; and additional revenues from the concessions which started operating in the new Terminal B in the second quarter of fiscal year 2012.

## Management's Discussion and Analysis (Unaudited) (continued)

### Fiscal year 2013 operating expenses

Operating expenses increased \$6.2 million (4.5%) due to an increase of \$7.8 million (17.8%) in depreciation expense resulting from capitalizing and starting depreciation of the new Terminal B and its related structures. This increase in depreciation was partially offset by reductions in other operating expense categories.

The following charts show the sources of operating revenues and the operating expense categories for FY 2013:



### Fiscal year 2013 non-operating revenues

PFC proceeds decreased \$0.4 million (2.3%) primarily due to a decrease in enplanements of 1.3% and a decrease in interest earnings on a much lower PFC fund balance as compared to the prior year as a result of PFC cash usage for PFC subordinate bond debt service payments and for direct funding of eligible Terminal B capital expenses. Operating grant revenues and capital contributions increased \$40.5 million (252.7%) from the previous year due to a one-time contribution from the United States Air Force (USAF) which consisted of Mather Airport property valued at \$45.5 million.

### Fiscal year 2012 operating revenues

Operating revenues increased by \$25.1 million (21.2%) as compared with the prior fiscal year operating revenues, due to an increase in building rents of \$16.5 million (53.8%) resulting from an increase in rented space and an increase in preferential aircraft parking position and loading bridge rates; an increase of concession revenues of \$2.7 million (4.2%) due to an increase in parking lot rates and additional revenues from the concessions which started operating in the new Terminal B in the second quarter of fiscal year 2012; an increase in airfield charges of \$2.5 million (11.8%) resulting from an increase in the landing fee rate of 1.9% and from a lower net refund to the airlines in fiscal year 2012 in the amount of \$2.8 million as a result of the rates and charges settlement for fiscal year 2011, compared to a \$7.5 million refund to the airlines in fiscal year 2011 as a result of the settlement for fiscal year 2010. In addition, airport services revenue increased by \$3.2 million (349.1%) resulting from a new charge for airline systems and equipment implemented in fiscal year 2012.

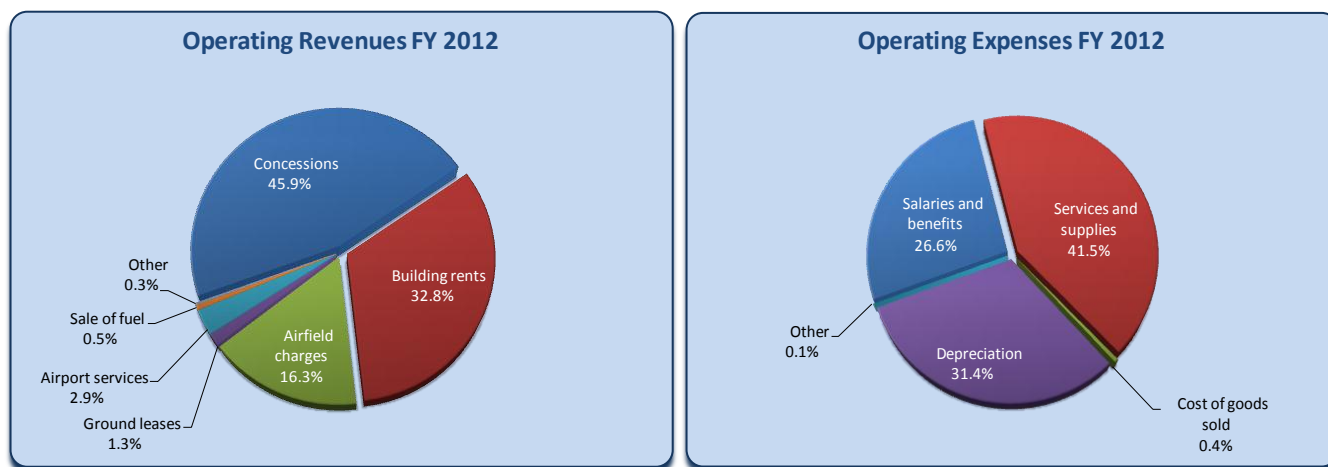
### Fiscal year 2012 operating expenses

Operating expenses increased \$25.9 million (22.8%) as compared with fiscal year 2011 operating expenses, primarily due to an increase of \$11.6 million (25.1%) in services and supplies resulting from additional maintenance and operation services for the new Terminal B, from additional operating expenses related to the demolition of

## Management's Discussion and Analysis (Unaudited) (continued)

numerous old buildings at Mather Airport and from a one-time sewer connection fee paid to the Sacramento Regional County Sanitation District; an increase in salaries and benefits of \$1.1 million (3.0%) resulting from increases in benefits costs and from the addition of personnel to staff the new central warehouse and the communications center; an increase of depreciation expenses of \$14.1 million (47.4%) as a result of shortening the previously estimated useful lives for certain improvements related to the old Terminal B demolished in 2012 and starting depreciation of completed assets related to the new Terminal B.

The following charts show the sources of operating revenues and the operating expense categories for FY 2012:



### Fiscal year 2012 non-operating revenues

PFC proceeds decreased \$0.3 million (1.8%) primarily due to a decrease in interest earnings on a lower PFC fund balance as compared to the prior year; and as a result of PFC cash usage for PFC subordinate bond debt service payments and for direct funding of eligible Terminal B capital expenses. Operating grant revenues and capital contributions increased \$0.9 million (5.6%) from the previous year due to additional awards and an increase in reimbursable expenses funded by grants.

### Capital Assets

The Department's investment in capital assets as of June 30, 2013 amounted to just under \$1.8 billion before depreciation. This investment in capital assets includes buildings and structures, improvements, runways, taxiways, roads, machinery, equipment and construction in progress. The total increase in the Department's investment in capital assets before depreciation for fiscal year 2013 was 3.9% or \$66.9 million, due primarily to the Mather Airport transfer from the USAF (\$45.5 million) and additional capital expenses incurred in fiscal year 2013 (\$25.8 million). Several old buildings and structures at International and Mather airports were demolished during fiscal year 2013, resulting in a retirement of fully depreciated buildings and structures of \$2.9 million.

The major capital projects completed during fiscal year 2013 at International were additions to the Big Build assets capitalized in prior years consisting mainly of the soft costs allocations, \$64.2 million; improvements to Terminal A, \$4.6 million; demolition and resurfacing work at the old Terminal B and International Arrivals Building locations, \$5.0 million; surface parking lot, \$1.8 million; and taxiways Delta 2 and Delta 3 marking and lighting upgrades, \$0.2 million. Construction in progress at June 30, 2013 was \$5.3 million, which included the Mather fuel farm replacement, \$1 million; apron and T-hangars pavement rehabilitation at the Executive Airport, \$0.7 million; and the Environmental Impact Report/Environmental Impact Statement for the Master Plan at Mather, \$2.1 million.

## Management's Discussion and Analysis (Unaudited) (continued)

The Department's investment in capital assets as of June 30, 2012 amounted to \$1.7 billion before depreciation. The total increase in the Department's investment in capital assets before depreciation for fiscal year 2012 was 5.0% or \$81.7 million, due primarily to additional capital expenses incurred in fiscal year 2012. The old Terminal B and the International Arrivals Building were demolished, resulting in retirement of fully depreciated buildings and structures of \$52.4 million.

The major capital projects completed during fiscal year 2012 at International were part of the Big Build program, a \$1.03 billion capital project that replaced the 44-year-old, 13-gate passenger Terminal B with a larger Terminal B and separate 19-gate concourse to provide modernized terminal facilities and meet a forecast rise in demand for passenger service. The new Terminal B complex which opened in October 2011, is three times the size of the original Terminal B with the two parts of the complex, airside and landside, connected by an automated people mover. Other projects in the Big Build program completed during fiscal year 2012 were: a system of terminal facility and commercial roadways, \$88.8 million; an automated people mover, \$41.2 million; new and refurbished loading bridges, \$13.6 million; aprons, \$30.1 million; aircraft remain overnight parking, \$16.2 million; airside hydrant fueling, \$6.9 million; and a baggage handling system, \$34.1 million. Major capital projects completed at the other airports during FY 2012 were: the west cargo apron rehabilitation at Mather, \$3.4 million; and the apron, tie-down and hangar pavement rehabilitation and electrical improvements project at Executive, \$1.4 million. Construction in progress at June 30, 2012 was \$83.4 million, which included improvements to Terminal A and demolition and resurfacing work at the old Terminal B and International Arrivals Building locations, the surface parking lot and the Environmental Impact Report/Environmental Impact Statement for the Master Plan at Mather Airport.

	Fiscal Years Ended June 30		
	2013	2012	2011
Land	\$ 85,762,370	\$ 40,245,470	\$ 40,245,470
Structures and improvements	1,628,207,161	1,491,709,767	593,018,809
Leasehold improvements	25,311,105	62,283,072	57,024,144
Equipment	27,772,619	27,804,694	27,457,259
Construction in progress	5,287,724	83,354,191	905,927,487
	<u>\$ 1,772,340,979</u>	<u>\$ 1,705,397,194</u>	<u>\$ 1,623,673,169</u>

Additional information on the Department's capital assets can be found in Note 5 located on page 40 of this report.

### Long-term Debt Administration

As of June 30, 2013, the Department of Airports had outstanding revenue bonds of \$1,115,525,000, a decrease of \$22.8 million as compared to the prior year, due to the principal payment on July 1, 2012.

As of June 30, 2012, the Department of Airports had outstanding revenue bonds of \$1,138,295,000, a decrease of \$20.3 million as compared to the prior year, due to the principal payment on July 1, 2011.

For more detail on the Department's long-term debt, see Note 6 on pages 41 through 44 of this report.

## Management's Discussion and Analysis (Unaudited) (continued)

### Airline Rates and Charges

The level of annual rates and charges billed to the airlines was as follows:

	Fiscal Years Ended June 30				
	2013	2012	FY13 vs. FY12 % change	2011	FY12 vs. FY11 % change
Landing Fee (per 1,000 lbs.)	\$ 4.01	\$ 4.27	(6.1)%	\$ 4.19	1.9%
Terminal Rental Rates (per Sq. Ft.)					
Enclosed	\$ 171.88	\$ 144.56	18.9%	\$ 147.68	(2.1)%
Unenclosed	\$ 12.00	\$ 12.00	0.0%	\$ 12.00	0.0%
Loading Bridge Fees (per loading bridge)	\$ 76,418.00	\$ 87,105.00	(12.3)%	\$ 61,337.00	42.0%
Preferential Aircraft Parking Position Fees (per position)	\$ 134,714.00	\$ 102,032.00	32.0%	\$ 89,713.00	13.7%

Effective July 1, 2008, the County adopted an airline rate ordinance pursuant to which airline rates and charges were calculated for the last five fiscal years. Under the rate ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rental rates are calculated according to a commercial compensatory methodology. The Department of Airports retains all non-airline revenues, net of expenses and debt service associated with non-airline cost centers.

### Requests for Information

This financial report is designed to provide a general overview of the of Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Administration Division, Sacramento County Department of Airports, 6900 Airport Boulevard, Sacramento, California 95837.

Sacramento County Department of Airports  
Statements of Net Position  
June 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash and investments	\$ 123,387,752	\$ 111,830,389
Restricted cash and investments	53,148,060	64,231,362
Deposits with others	-	3,656,388
Receivables, less allowance for doubtful accounts of \$348,651 in 2013 and \$706,906 in 2012	9,587,765	8,483,365
Due from other governments	1,766,249	1,479,293
Prepaid expenses	219,617	6,624,797
Inventories	641,477	495,726
Total current assets	<u>188,750,920</u>	<u>196,801,320</u>
Noncurrent assets:		
Restricted assets (cash and cash equivalents of \$87,892,415 in 2013 and \$107,858,282 in 2012)	121,129,171	141,126,088
Bonds cost of issuance	<u>16,891,956</u>	<u>17,594,981</u>
Capital assets:		
Land	85,762,370	40,245,470
Structures and improvements	1,628,207,161	1,491,709,767
Leasehold improvements	25,311,105	62,283,072
Equipment	27,772,619	27,804,694
Construction in progress	<u>5,287,724</u>	<u>83,354,191</u>
Total capital assets	1,772,340,979	1,705,397,194
Less accumulated depreciation	<u>(352,531,992)</u>	<u>(304,261,293)</u>
Net capital assets	<u>1,419,808,987</u>	<u>1,401,135,901</u>
Total noncurrent assets	<u>1,557,830,114</u>	<u>1,559,856,970</u>
Total assets	<u>1,746,581,034</u>	<u>1,756,658,290</u>
LIABILITIES		
Current liabilities:		
Warrants payable	747,182	1,126,331
Accounts payable and accrued expenses	11,628,244	16,718,743
Unearned revenue	2,726,751	2,970,737
Current liabilities payable from restricted assets	<u>53,148,060</u>	<u>64,231,362</u>
Total current liabilities	<u>68,250,237</u>	<u>85,047,173</u>
Noncurrent liabilities:		
Revenue bonds payable	1,075,925,640	1,098,711,336
Compensated absences	2,783,827	3,226,666
OPEB liability	<u>679,904</u>	<u>552,636</u>
Total noncurrent liabilities	<u>1,079,389,371</u>	<u>1,102,490,638</u>
Total liabilities	<u>1,147,639,608</u>	<u>1,187,537,811</u>
NET POSITION		
Net investment in capital assets	<u>418,826,022</u>	<u>385,766,170</u>
Restricted:		
Expendable:		
Revenue bond operating reserve	25,730,502	26,679,122
Revenue bond reserve and contingency	2,000,000	2,000,000
Restricted for debt service	37,848,404	52,548,331
Passenger facility charges	10,719,354	16,990,794
Trust account earnings	69,591	68,770
Nonexpendable:		
Trust account funds	<u>2,026,551</u>	<u>2,026,551</u>
Total restricted	<u>78,394,402</u>	<u>100,313,568</u>
Unrestricted	<u>101,721,002</u>	<u>83,040,741</u>
Total net position	<u>\$ 598,941,426</u>	<u>\$ 569,120,479</u>

See accompanying notes to the basic financial statements.



**Sacramento County Department of Airports**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	2013	2012
Operating revenues:		
Concessions	\$ 68,752,509	\$ 66,002,772
Building rents	61,114,151	47,204,495
Airfield charges	21,849,813	23,395,617
Ground leases	1,900,740	1,874,055
Airport services	4,819,705	4,136,078
Sale of fuel	809,600	755,877
Other	146,116	379,768
Total operating revenues	<u>159,392,634</u>	<u>143,748,662</u>
Operating expenses:		
Salaries and benefits	36,149,138	37,081,912
Services and supplies	57,088,926	58,008,301
Cost of goods sold	641,268	628,838
Depreciation	51,673,862	43,847,407
Other	238,992	10,630
Total operating expenses	<u>145,792,186</u>	<u>139,577,088</u>
Operating income	<u>13,600,448</u>	<u>4,171,574</u>
Nonoperating revenues (expenses):		
Interest income	1,836,288	915,635
Passenger Facility Charges revenue	17,604,328	18,022,076
Intergovernmental revenue	1,578,104	1,637,600
Gain (loss) on disposal of assets	44,886	(77,140)
Other nonoperating revenue	176,702	42,425
Amortization of bond issuance cost	(703,026)	(750,981)
Interest expense	(59,286,319)	(26,906,214)
Net nonoperating revenues (expenses)	<u>(38,749,037)</u>	<u>(7,116,599)</u>
Income (loss) before capital contributions	(25,148,589)	(2,945,025)
Capital contributions	<u>54,969,536</u>	<u>14,392,953</u>
Change in net position	<u>29,820,947</u>	<u>11,447,928</u>
Total net position, beginning of year	<u>569,120,479</u>	<u>557,672,551</u>
Total net position, end of year	<u>\$ 598,941,426</u>	<u>\$ 569,120,479</u>

See accompanying notes to the basic financial statements.

Sacramento County Department of Airports  
Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers and users	\$ 159,211,803	\$ 144,299,084
Payments to suppliers	(61,636,867)	(54,397,227)
Payments to employees	(36,523,964)	(37,287,920)
Other receipts	176,702	64,732
Net cash provided by operating activities	<u>61,227,674</u>	<u>52,678,669</u>
Cash flows from noncapital financing activities:		
Intergovernmental revenue	<u>1,199,974</u>	<u>1,799,382</u>
Net cash provided by noncapital financing activities	<u>1,199,974</u>	<u>1,799,382</u>
Cash flows from capital and related financing activities:		
Capital contributions	9,543,810	14,324,203
Passenger facility charges	16,741,290	17,973,875
Acquisition and construction of capital assets	(28,155,599)	(129,783,108)
Principal paid on long term debt	(22,770,000)	(20,260,000)
Interest paid on long term debt	(58,885,916)	(59,788,448)
Proceeds from sale of surplus property	<u>46,826</u>	<u>58,688</u>
Net cash used for capital and related financing activities	<u>(83,479,589)</u>	<u>(177,474,790)</u>
Cash flows from investing activities:		
Interest received	1,560,135	2,216,746
Purchase of investments	(60,213,904)	(1,037,618)
Sale of investments	<u>60,213,904</u>	<u>111,241,993</u>
Net cash provided by investing activities	<u>1,560,135</u>	<u>112,421,121</u>
Net decrease in cash and cash equivalents	(19,491,806)	(10,575,618)
Cash and cash equivalents, beginning of year	<u>283,920,033</u>	<u>294,495,651</u>
Cash and cash equivalents, end of year	<u><u>\$ 264,428,227</u></u>	<u><u>\$ 283,920,033</u></u>
Reconciliation of cash and cash equivalents to Statements of Net Position:		
Cash and investments	\$ 123,387,752	\$ 111,830,389
Restricted cash and investments	53,148,060	64,231,362
Restricted assets	121,129,171	141,126,088
Less: non-cash investing, capital and financing activities	<u>(33,236,756)</u>	<u>(33,267,806)</u>
	<u><u>\$ 264,428,227</u></u>	<u><u>\$ 283,920,033</u></u>

(Continued on page 30)

See accompanying notes to the basic financial statements.

Sacramento County Department of Airports  
 Statements of Cash Flows (continued)  
 For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,600,448	\$ 4,171,574
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	51,673,862	43,847,407
Provision for uncollectible accounts	(358,255)	208,738
Other nonoperating revenue	176,702	64,732
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	421,409	(287,055)
(Increase) decrease in deposits with others	-	8,000
(Increase) decrease in prepaid expense	(10,970)	(205,578)
(Increase) decrease in inventories	(145,752)	(277,235)
Increase (decrease) in accounts payable	(3,006,121)	6,061,886
Increase (decrease) in warrants payable	(564,092)	(1,216,119)
Increase (decrease) in unearned revenue	(243,986)	628,738
Increase (decrease) in other liabilities	-	(38,073)
Increase (decrease) in compensated absences & OPEB liability	(315,571)	(288,346)
Total adjustments	47,627,226	48,507,095
Net cash provided by operating activities	\$ 61,227,674	\$ 52,678,669

Noncash capital and related financing activities:

During the fiscal years ended June 30, 2013 and 2012, the Department of Airports retired assets with a net book value of \$1,940 and \$153,133, respectively.

Capital asset purchases included in accounts payable and warrants payable at June 30, 2013 and 2012 were \$1,196,260 and \$14,807,161, respectively.

The noncash portion of the capital contributions at June 30, 2013 was \$46,256,287 which consisted of \$739,387 grants receivable and \$45,516,900 Mather Airport transfer from the United States Air Force. The noncash portion of the capital contributions at June 30, 2012 was \$830,561 which consisted of grants receivable.

See accompanying notes to the basic financial statements.

## Notes to the Basic Financial Statements

### For the Fiscal Years ended June 30, 2013 and 2012

#### **Note 1 – Summary of Significant Accounting Policies**

##### **Reporting Entity**

The Department of Airports is an enterprise fund of the County of Sacramento. The Department is responsible for the operations, maintenance and development of all four of its airports which include International, Executive Airport, Mather Airport and Franklin Field. The Department is accounted for as a single enterprise fund with no financial accountability for any component units.

The five members of the County's Board of Supervisors serve as the governing body that oversees the operation of the Department of Airports. The Department is operated as a self-sufficient enterprise, and is administered by the Director of Airports who reports to the County Executive and the Board.

##### **Basis of Accounting**

The Department of Airports uses the accounting principles applicable to a similar private business enterprise, where the cost of providing services to the public on a continuing basis is recovered through user fees. The Department uses the flow of economic resources measurement focus applied on a full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Operating revenues and expenses generally result from providing services and delivering goods in connection with airport operations. The principal operating revenues of the Department include charges to tenants and customers for landing fees, terminal rents, parking and concession fees. Primary operating expenses include cost of sales and services including employee wages and benefits, purchases of materials and supplies, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, and then unrestricted resources, as they are needed.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 2009 FASB and AICPA Pronouncements* which superseded GASB Statement No. 20. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and reporting guidance that was included in the FASB and AICPA pronouncements issued on or before November 30, 1989. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011, therefore it was implemented by the Department of Airports in fiscal year 2013. In addition, starting with fiscal year 2013, the Department implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The implementation of GASB Statements No. 62 and No. 63 resulted in change of title for certain items presented in the financial statements for fiscal year 2012.

##### **Budgetary Process**

The Department of Airports prepares an annual operating and capital budget, which is approved and adopted by the County Board of Supervisors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California law does not require formal adoption of appropriated budgets for enterprise funds.

##### **Cash and Investments**

For purposes of the statements of cash flows, the Department of Airports considers all short-term highly liquid investments, including restricted assets and amounts held in the County's investment pools, to be cash and cash

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

equivalents. Amounts held in the County's investment pools are available on demand; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

Restricted Assets as of June 30, 2013 included \$30,489,129 invested in guaranteed investment contracts held outside the County's investment pool that are not considered cash and cash equivalents, and \$2,747,627 held under various trust accounts.

Restricted Assets as of June 30, 2012 included \$30,489,129 invested in guaranteed investment contracts held outside the County's investment pool that are not considered cash and cash equivalents, and \$2,778,677 held under various trust accounts.

Additional information on the Department's restricted assets, including the purpose of restriction, can be found in Note 4 located on page 39 of this report.

#### **Due From Other Governments**

Federal grant funding for non-capital and capital projects is accounted for on a reimbursement basis whereby costs are incurred prior to actual cash receipt of the grant. The amounts due from other governments represent claims to federal and state agencies for non-capital and capital project costs incurred but not reimbursed at year-end.

#### **Inventories**

Inventories consist of ground fuel purchased for resale and various supplies inventory needed on a daily basis to operate the Department of Airports. Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method for fuel and the weighted average cost method for supplies inventory. Inventories are recorded as expenses when consumed rather than when purchased.

#### **Bonds Cost of Issuance**

The bonds cost of issuance consists of the unamortized portion of the costs incurred for the issuance of the Series 2008, 2009 and 2010 Airport System Revenue Bonds. On May 1, 2008, the County issued Series 2008 Airport System Senior Revenue Bonds and Series 2008 Airport System Subordinate and PFC Revenue Refunding Bonds. These Bonds fully refunded all prior outstanding bond series and the deferred charges related to the refunded bonds were written off as part of the refunding transaction. On July 28, 2009, the County issued Series 2009 Airport System Senior Revenue Bonds and Series 2009 Airport System Subordinate and PFC/Grant Revenue Bonds to continue the financing of Terminal Modernization Program at International Airport. On August 25, 2010, the County of Sacramento issued additional Airport System Senior Revenue Bonds in the amount of \$128,300,000 to complete the financing of the Terminal Modernization Program. Amortization of the bond issuance costs is computed using the straight-line method over the life of the debt. Amortization expense was \$703,026 in fiscal year 2013, and \$750,981 in fiscal year 2012.

#### **Capital Assets**

Capital assets are carried at cost except for capital assets contributed to the Department, which are stated at their fair market value on the date contributed. When capital assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues (expenses) for the period. Maintenance and repair costs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. On July 13, 2010, the County Board of Supervisors approved a revised Asset Capitalization Policy consistent with GASB Statement No. 51 provisions, *Accounting and Financial Reporting for Intangible Assets*. The policy was updated to redefine asset minimum

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

capitalization threshold values and to include recognition of intangible assets according to the requirements of the GASB Statement No. 51. The revised policy was implemented retroactively, on July 1, 2009. The Department's policy is to capitalize equipment with a cost greater than \$5,000 and a useful life of more than one year, building and structure improvements with a cost greater than \$25,000, computer and website software with a cost greater than \$100,000, other intangible assets with a cost greater than \$25,000, and all land and permanent easements, regardless of cost.

Depreciation and amortization of capital assets is computed under the straight-line method over the following estimated useful lives:

Buildings	10 – 55 years
Structures and improvements	10 – 40 years
Leasehold improvements	5 – 15 years
Equipment	3 – 15 years

Costs incurred for major improvements are carried in construction in progress until the project is complete, at which time costs related to the project are reclassified in the appropriate capital asset account. Construction in progress includes new construction or improvements to land, buildings, structures or intangible assets that have not been completed or have not had all project costs processed by the fiscal year-end. Construction in progress at June 30, 2013 and 2012 was \$5.3 million and \$83.4 million, respectively.

#### **Capitalization of Interest**

Interest costs relating to the acquisition or construction of capital assets are capitalized as a component of the cost of capital assets. In situations where capital assets are financed with the proceeds of tax-exempt debt, the amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. Total capitalized interest relating to projects completed or in progress during the fiscal years ended June 30, 2013 and 2012 was \$214,752 and \$32,673,772, respectively.

#### **Long-Term Debt Refunding**

The Department periodically refunds its debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the old or new debt, whichever is shorter. The amount deferred is reported as a deduction from the new debt liability.

#### **Compensated Absences**

The Department's employees accrue vacation in varying amounts based on job classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits. It is the policy of the County to not pay accumulated sick leave to employees who terminate their employment prior to retirement.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated absences liability activity for the fiscal years ended June 30, 2013 and June 30, 2012 can be found in Note 6, included in long term liabilities.

#### **Passenger Facility Charge Revenue**

PFCs are fees charged to enplaned passengers by airport operators for the purpose of generating revenue for airport projects that increase capacity, increase safety, enhance airline competition or mitigate noise impact. On April 1, 1993, the Department received approval from the FAA to impose a \$3.00 PFC at International, which along with subsequent approvals, authorized the Department to finance projects totaling approximately \$964.3 million.

On October 31, 2001, as a result of the Department's request to increase the fee, the FAA authorized the Department to increase the \$3.00 fee to \$4.50 per enplaned passenger but only for certain eligible projects. This increase was approved through February 1, 2003 at which time the rate returned to \$3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Department's request to increase the level to \$4.50 on the remaining eligible projects, effective September 1, 2003. As of June 30, 2013 the Department of Airports has cumulatively collected \$337 million in PFC revenue. PFCs, along with related interest income, are recognized and recorded as non-operating revenue in the year collected from the air carriers.

#### **Grant Revenue**

The federal and State governments reimburse the Department for costs incurred on certain capital asset construction projects under capital grant agreements. Amounts claimed under such grants are recorded as capital contributions revenue. Additionally, the Department receives reimbursement from the federal and State governments for non-capital construction projects and these reimbursements are recorded as intergovernmental revenues with the related program costs recorded as expenses.

#### **Risk Management**

The County maintains all-risk blanket property insurance coverage, including earthquake and sabotage and terrorism which provides limits of \$1,730 million per occurrence annually, and \$1,315 million limits for flood. This policy covers real and personal property of the Department of Airports and contains additional boiler and machinery coverage in the amount of \$100 million per accident; \$100 million course of construction, new or existing sites; and \$20 million asbestos removal, limited coverage.

The Department of Airports, through the County, maintains an airport operations and hangarkeepers liability insurance policy which provides limits of liability coverage for up to \$500 million per occurrence. Current premium charges are expensed in the year incurred.

In addition to the above property and airport liability insurance policies, the Department of Airports participates in the County's self-insurance program for crime, pollution, and workers' compensation. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense when paid.

During the past three fiscal years, there were no instances of settlements which exceeded insurance coverage and no significant reductions in insurance coverage.

#### **Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.



## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### Note 2 - Cash and Investments

Cash and Investments as of June 30 are classified in the accompanying financial statements as follows:

Statement of Net Position:	2013	2012
Cash and investments	\$ 123,387,752	\$ 111,830,389
Restricted cash and investments - current	53,148,060	64,231,362
Restricted cash and investments - noncurrent	121,129,171	141,126,088
Total cash and investments	<u>\$ 297,664,983</u>	<u>\$ 317,187,839</u>

Cash and investments as of June 30, consist of the following:		
Deposits with the County's Treasury Pool	\$ 161,838,027	\$ 159,565,933
Specific directed investments with County Treasury	33,903,912	56,950,456
Investments held by trustee	101,923,044	100,671,450
Total cash and investments	<u>\$ 297,664,983</u>	<u>\$ 317,187,839</u>

#### **Investments and GASB 40 Presentation**

The Department of Airports maintains specific cash deposits and investments with the County and involuntarily participates in the County Treasurer's pool which is not rated. The Department's risk disclosures for the cash held by the County Treasurer's pool required by GASB 40, *Deposit and Investment Risk Disclosures*, can be found in detail in the County's Comprehensive Annual Financial Report.

Investments are restricted per Government Code Sections 53601 et. seq.; 53635 et seq.; and 16429.1, and the Bond Master Indenture of Trust dated May 1, 2008 and subsequent supplemental indentures (collectively, the Bond Indenture). The County Treasurer also manages the Fiscal Agent Pool to segregate and invest monies in accordance with the Bond Indenture, as well as California Government Code and the County's own investment policy. Details about the investments allowed per the Government Code and the County's investment policy are included in the County's Comprehensive Annual Financial Report. The Bond Indenture follows the County's investment policy with respect to permitted investments. The Department of Airports was in compliance with the above cited Government Code sections and the Bond Indenture.

**Interest Rate Risk** – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity to changes in interest rates is. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments. The County's policy regarding interest rate risk is as follows: the ultimate maximum maturity of any investment shall be five (5) years and the dollar-weighted average maturity of all securities shall be equal to or less than three (3) years. The weighted average days to maturity for the investments in the County Pool was 301 days. The table on the following page shows the distribution of the Department's investments by maturity.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

		June 30, 2013						
		Maturity						
	Credit Rating	Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Over 5 Years	Fair Value	
Cash in the Treasury Pool	NR						\$ 161,838,027	
FHLB Discount Notes	P-1/A-1+	33,903,912					33,903,912	
Mutual Funds	AAAm	71,433,915					71,433,915	
Guaranteed investment contracts	NR				30,489,129		30,489,129	
		\$ 105,337,827	\$ -	\$ -	\$ 30,489,129	\$ -	\$ 297,664,983	

		June 30, 2012						
		Maturity						
	Credit Rating	Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Over 5 Years	Fair Value	
Cash in the Treasury Pool	NR						\$ 159,565,933	
FHLB Discount Notes	P-1/A-1+	56,950,456					56,950,456	
Mutual Funds	AAAm	70,182,321					70,182,321	
Guaranteed investment contracts	NR				30,489,129		30,489,129	
		\$ 127,132,777	\$ -	\$ -	\$ 30,489,129	\$ -	\$ 317,187,839	

**Credit Risk** – This is the risk that the Department will lose money because of the default of the security of the issuer or investment counterparty. The Department of Airports is permitted to hold investments of issuers with a short term rating of superior capacity and a minimum long term rating of upper medium grade by the top three nationally recognized statistical rating organizations (rating agencies). The issuer's short-term credit ratings, shall be at or above A-1 by Standard & Poor's, P-1 by Moody's, and, if available, F1 by Fitch. The issuer's long-term credit ratings shall be at or above A by Standard & Poor's, A2 by Moody's, and, if available, A by Fitch. In addition, the Department of Airports is permitted to invest in the State's Local Agency Investment Fund, collateralized certificates of deposits and notes issued by the County of Sacramento that are not rated. The list of permitted investments with the minimum legal rating per Government Code and Bond Indenture is presented on the next page.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

Investment Type	Minimum Legal Rating
Treasury Bills	Aaa/AA+
Treasury Strips	Aaa/AA+
Federal Farm Credit Bonds	Aaa/AA+
Federal Home Loan Banks (FHLB)	Aaa/AA+
Federal National Mortgage Association (FNMA)	Aaa/AA+
Government Agency Notes	Aaa/AA+
State and Local Governments (SLG's)	Aaa/AA+
FNMA Discount Notes	P-1/A-1+
FFCB Discount Notes	P-1/A-1+
FHLB Discount Notes	P-1/A-1+
FHLMC Discount Notes	P-1/A-1+
Commercial paper	P-1/A-1+
Negotiable certificates of deposits	P-1/A-1+
Other assets held by Treasurer (primarily Teeter Plan notes)	NR
Local Agency Investment Fund	NR
Mutual funds	Aaa/AAA
Guaranteed investment contracts	NR

**Custodial Credit Risk** – This is the risk that in the event a financial institution or counterparty fails, the Department would not be able to recover the value of its deposits and investments. As of June 30, 2013 and 2012, 100% of the Department's investments are held in the Department or County's name. There are no general policies relating to custodial credit risk.

**Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County Investment Policy requires that no more than 80% of the portfolio may be invested in issues other than United States Treasuries and Government Agencies. In addition, no more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

As of June 30, 2013, approximately 24.0% of the Department's portfolio is invested in money market funds, 11.4% in short-term FHLB discount notes and 10.2% in guaranteed investment contracts. As of June 30, 2013, investments with each of the following issuers represent more than 5% of the Department's total portfolio: guaranteed investment contracts with Trinity (\$30,489,129) and short-term FHLB discount notes (\$33,903,912).

As of June 30, 2012, approximately 22.1% of the Department's portfolio was invested in money market funds, 18.0% in short-term FHLB discount notes and 9.6% in guaranteed investment contracts. As of June 30, 2012, investments with each of the following issuers represent more than 5% of the Department's total portfolio: guaranteed investment contracts with Trinity (\$30,489,129) and short-term FHLB discount notes (\$56,950,456).

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### Note 3 - Receivables and Payables

##### Receivables

The following amounts represent receivables due to the Department of Airports at June 30, 2013 and 2012:

	2013	2012
Receivables:		
Account receivables - trade	\$ 7,006,570	\$ 7,079,436
Account receivables - passenger facility charges	2,929,846	2,087,946
Amounts due from other County funds	-	22,889
Gross receivables	9,936,416	9,190,271
Less allowance for doubtful accounts	(348,651)	(706,906)
Net receivables	<u>\$ 9,587,765</u>	<u>\$ 8,483,365</u>

##### Payables

The following represents payables owed by the Department of Airports at June 30, 2013 and 2012:

	2013	2012
Accounts payable and accrued expenses:		
Vendors	\$ 7,621,676	\$ 11,201,058
Due to other County funds	1,723,352	3,059,943
Deposits from others	828,884	789,340
Payroll taxes and payroll related	1,391,358	1,586,595
Accrued contingencies	46,878	75,449
Due to other governments	5,066	110
Taxes payable other	11,030	6,248
Total payables - unrestricted	<u>11,628,244</u>	<u>16,718,743</u>
Payables from restricted assets:		
Bonds interest payable	29,208,434	29,677,482
Bonds payable - current	23,870,000	22,770,000
Vendors	1,194	11,712,854
Due to other County funds	-	3,608
Due to other governments	68,432	67,418
Total payables from restricted assets	<u>53,148,060</u>	<u>64,231,362</u>
Total accounts payable and accrued expenses	<u>\$ 64,776,304</u>	<u>\$ 80,950,105</u>

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### Note 4 - Restricted Assets

	June 30	
	2013	2012
Revenue Bond Operating Reserve Account reflects revenues equal to three months' budgeted operating expenses restricted for contingencies related to operations. This is cash held by the County Treasurer's pool.	\$ 25,730,502	\$ 26,679,122
Revenue Bond Reserve and Contingency Account reflects Department's revenues which are restricted for unanticipated or emergency repairs and emergency replacements. This is cash held by the County Treasurer's pool.	2,000,000	2,000,000
Revenue Bond Construction Account reflects monies restricted for acquisition and construction of projects under the Series 2008, 2009 A & B and 2010 Senior Revenue Bonds and Series 2009 C and D Airport System Subordinate and PFC/Grant Revenue Bonds. This is cash held by the County as part of the County's Treasurer's Pool.	33,911,511	57,123,469
Revenue Bond Debt Service Reserve Account reflects monies restricted for the purpose of making up any deficiency in the Revenue Bond Debt Service Account to the extent money on deposit in such funds is insufficient to pay interest and principal on the bonds as they become due and payable. This is cash held by a trustee outside the County of Sacramento.	41,030,842	40,548,976
Revenue Bond Debt Service Account reflects monies restricted for the purpose of payment of principal and interest of the Series 2008, 2009 and 2010 Senior Revenue Bonds and 2008 and 2009 Subordinate and PFC/LOI Revenue Bonds. This is cash held by the County as part of the County's Treasurer's Pool and by the trustee outside the County of Sacramento.	61,718,726	47,024,543
Available Grant Revenue and Available PFC Revenue Accounts reflect money restricted for the purpose of payment of principal and interest of the Series 2009 Subordinate and PFC/LOI Revenue Bonds. This is cash held by a trustee outside the County of Sacramento.	-	13,962,948
Passenger Facility Charges reflect PFC revenues received which are restricted for specified asset acquisitions. This is cash held by the County Treasurer's pool.	7,789,508	15,923,071
Trust Accounts - Nonexpendable. This is cash held by the County Treasurer's pool in perpetuity to fund the Art in Public Places Program at International Airport and other legal requirements.	2,026,551	2,026,551
Trust Account earnings held in County Treasurer's pool.	69,591	68,770
Total restricted assets	174,277,231	205,357,450
Less: Restricted current assets reserved to repay current liabilities	(53,148,060)	(64,231,362)
Noncurrent restricted assets	\$ 121,129,171	\$ 141,126,088

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### Note 5 - Capital Assets

Capital asset activity for the fiscal years ended June 30, 2013 and June 30, 2012 was as follows:

	Balance July 1, 2012	Increase	Decrease	<sup>1</sup> Transfers	Balance June 30, 2013
<b>Capital assets not being depreciated</b>					
<sup>2</sup> Land	\$ 40,245,470	\$ 45,516,900	\$ -	\$ -	\$ 85,762,370
Construction in progress	83,354,191	13,043,443	(91,109,910)	-	5,287,724
Total capital assets not being depreciated	123,599,661	58,560,343	(91,109,910)	-	91,050,094
<b>Capital assets being depreciated</b>					
Structures and improvements	1,491,709,767	102,418,976	(1,739,002)	35,817,420	1,628,207,161
Leasehold improvements	62,283,072	23,218	(1,177,765)	(35,817,420)	25,311,105
Equipment	27,804,694	436,682	(468,757)	-	27,772,619
Total capital assets being depreciated	1,581,797,533	102,878,876	(3,385,524)	-	1,681,290,885
<b>Less accumulated depreciation for:</b>					
Structures and improvements	(253,716,636)	(47,009,404)	1,739,002	(15,053,317)	(314,040,355)
Leasehold improvements	(29,895,365)	(3,090,805)	1,177,765	15,053,317	(16,755,088)
Equipment	(20,649,292)	(1,554,073)	466,816	-	(21,736,549)
Total accumulated depreciation	(304,261,293)	(51,654,282)	3,383,583	-	(352,531,992)
Total capital assets being depreciated, net	1,277,536,240	51,224,594	(1,941)	-	1,328,758,893
Net capital assets	\$ 1,401,135,901	\$ 109,784,937	\$ (91,111,851)	\$ -	\$ 1,419,808,987

	Balance July 1, 2011	Increase	Decrease	Transfers	Balance June 30, 2012
<b>Capital assets not being depreciated</b>					
Land	\$ 40,245,470	\$ -	\$ -	\$ -	\$ 40,245,470
Construction in progress	905,927,487	102,011,251	(924,584,547)	-	\$ 83,354,191
Total capital assets not being depreciated	946,172,957	102,011,251	(924,584,547)	-	123,599,661
<b>Capital assets being depreciated</b>					
Structures and improvements	593,018,809	951,065,679	(52,374,721)	-	1,491,709,767
Leasehold improvements	57,024,144	5,258,928	-	-	62,283,072
Equipment	27,457,259	1,069,599	(722,164)	-	27,804,694
Total capital assets being depreciated	677,500,212	957,394,206	(53,096,885)	-	1,581,797,533
<b>Less accumulated depreciation for:</b>					
Structures and improvements	(266,473,922)	(39,464,302)	52,221,588	-	(253,716,636)
Leasehold improvements	(27,184,776)	(2,710,589)	-	-	(29,895,365)
Equipment	(19,698,940)	(1,672,516)	722,164	-	(20,649,292)
Total accumulated depreciation	(313,357,638)	(43,847,407)	52,943,752	-	(304,261,293)
Total capital assets being depreciated, net	364,142,574	913,546,799	(153,133)	-	1,277,536,240
Net capital assets	\$ 1,310,315,531	\$ 1,015,558,050	\$ (924,737,680)	\$ -	\$ 1,401,135,901

<sup>1,2</sup> In November 2012, Mather Airport's ownership was transferred from the United States Air Force to the Department of Airports. As a result, the Department recorded land contributions valued at \$45.5 million and reclassified the Leasehold improvements at Mather to Structures.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### Note 6 – Long Term Liabilities

	June 30	
	2013	2012
<b>Revenue Bonds:</b>		
2008 series A, 4.85% to 5.0% due 2028-2041	\$ 154,185,000	\$ 157,430,000
Less unamortized premium and deferred amount on refunding	(6,424,552)	(6,887,916)
	147,760,448	150,542,084
2008 series B, 4.25% to 5.75%, due 2013-2039	\$ 305,480,000	\$ 307,580,000
Less unamortized discount and deferred amount on refunding	(4,610,603)	(4,905,336)
	300,869,397	302,674,664
2008 series C, 5.20% due 2012	\$ -	\$ 3,305,000
	-	3,305,000
2009 series A, 5.50% due 2041	\$ 31,115,000	\$ 31,115,000
Less unamortized discount	(839,101)	(869,069)
	30,275,899	30,245,931
2009 series B, 5.50% to 5.75%, due 2034-2039	\$ 168,940,000	\$ 170,685,000
Less unamortized discount	(148,343)	(154,049)
	168,791,657	170,530,951
2010 series, 5.00%, due 2030-2040	\$ 127,300,000	\$ 128,300,000
Add unamortized premium	2,737,787	2,839,187
	130,037,787	131,139,187
<b>PFC and Subordinate Revenue Bonds:</b>		
2008 series D, 5.00% due 2026	\$ 39,535,000	\$ 41,665,000
Less unamortized premium and deferred amount on refunding	(1,604,962)	(1,728,421)
	37,930,038	39,936,579
2008 series E, 4.25% to 5.75 % due 2013-2024	\$ 32,450,000	\$ 34,965,000
Less unamortized premium and deferred amount on refunding	(1,621,639)	(1,771,940)
	30,828,361	33,193,060
2009 series C, 5.75% to 6.00% due 2039-2041	\$ 112,860,000	\$ 112,860,000
Less unamortized discount	(2,884,585)	(2,987,606)
	109,975,415	109,872,394
2009 series D, 6.00% due 2035	\$ 143,660,000	\$ 150,390,000
Less unamortized discount	(333,362)	(348,514)
	143,326,638	150,041,486
Total revenue bonds payable	<u>\$ 1,099,795,640</u>	<u>\$ 1,121,481,336</u>

On May 1, 2008, the County issued \$496,195,000 of Airport System Senior Revenue Bonds, Series 2008 A, B and C, and \$89,430,000 of Airport System Subordinate and PFC Revenue Refunding Bonds, Series 2008 D and E.

Series 2008A fully refunded Series 1992B Bonds, Series 1998A Bonds and advance refunded Series 2002A Bonds. Series 2008A also provided \$56.5 million to finance a portion of the costs of TMP at International. Series 2008B refunded 45.4% of the Series 2006A Bonds and provided \$266.5 million to finance a portion of the costs of TMP at International. Series 2008C advance refunded Series 2002B Bonds. Series 2008D fully refunded Series 1998B Bonds. Series 2008E refunded 54.6% of the Series 2006A Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$15,225,318. This amount was being netted against the new debt and amortized over the remaining life of the refunded debt, which was shorter than the life of the new debt issued. This current and



## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

advance refunding was undertaken in part to adopt a new Bond Indenture that was approved by the County Board of Supervisors. The Series 2008C Bonds have been paid in entirety as of July 1, 2012. The Series 2008A and 2008B Bonds are payable from, and secured by, future Net Revenues of the Department. The Series 2008 D and E Bonds are payable from, and secured by, a pledge of the net proceeds of the PFC imposed by the Department. The bonds are additionally payable from, and secured by, the Net Revenues of the Department, subordinate and junior to the lien of the Series 2008 A and 2008B Bonds, and any additional parity revenue bonds.

On July 28, 2009, the County issued additional bonds in the amount of \$480,050,000 to continue the financing of the TMP as follows:

Airport System Senior Revenue Bonds	Airport System Subordinate and PFC/Grant Revenue Bonds
Series 2009 A    \$ 31,115,000	Series 2009C    \$112,860,000
Series 2009 B    \$ 170,685,000	Series 2009D    \$165,390,000

The County issued the Series 2009 Senior Bonds as Senior Obligations pursuant to the Bond Indenture approved on May 1, 2008 and the Third Supplemental Indenture, approved on July 1, 2009. The Series 2009 Senior Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the Series 2008 Senior Bonds.

The County issued the Series 2009 Subordinate Bonds as Subordinate Obligations under the Bond Indenture and the Fourth Supplemental Indenture approved on July 1, 2009. The Series 2009 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the 2008 Subordinate Bonds. The principal and interest on the 2009C Bonds and 2009D Bonds are additionally payable from and secured by Available PFC Revenues which consist of a portion of the PFCs approved by the FAA and imposed and collected with respect to International, and by Available Grant Revenues which consist of a portion of the Letter of Intent grant awards approved by the FAA on March 6, 2009.

On August 25, 2010, the County issued additional Airport System Senior Revenue Bonds in the amount of \$128,300,000 to complete the financing of the TMP. The Series 2010 Senior Bonds were issued pursuant to the Bond Indenture as supplemented and amended by a Fifth Supplemental Indenture of Trust, dated August 1, 2010. The Series 2010 Senior Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the Series 2009 and 2008 Senior Bonds.

The bonds are issued under the terms of supplemental indentures adopted by the Board and are subject to call and redemption at the option of the Department prior to their respective maturity dates. The bonds are redeemable based on the following terms and the redemption may occur from any source.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

<u>Series</u>	<u>Maturing After:</u>	<u>Prices Decreasing From:</u>
2008A	July 1, 2019	100% in FY2019 at 100% and thereafter
2008B	July 1, 2019	100% in FY2019 at 100% and thereafter
2008D	July 1, 2019	100% in FY2019 at 100% and thereafter
2008E	July 1, 2019	100% in FY2019 at 100% and thereafter
2009A	July 1, 2019	100% in FY2019 at 100% and thereafter
2009B	July 1, 2019	100% in FY2019 at 100% and thereafter
2009C	July 1, 2019	100% in FY2019 at 100% and thereafter
2009D	July 1, 2019	100% in FY2019 at 100% and thereafter
2010	July 1, 2021	100% in FY2021 at 100% and thereafter

Future debt service requirements at June 30, 2013 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 23,870,000	\$ 57,908,378	\$ 81,778,378
2015	22,240,000	56,918,205	79,158,205
2016	27,400,000	55,816,960	83,216,960
2017	20,310,000	54,758,120	75,068,120
2018	21,190,000	53,843,561	75,033,561
2019-2023	121,945,000	252,577,681	374,522,681
2024-2028	155,850,000	217,650,002	373,500,002
2029-2033	201,730,000	170,354,907	372,084,907
2034-2038	262,820,000	107,533,453	370,353,453
2039-2043	258,170,000	28,226,903	286,396,903
Total	\$ 1,115,525,000	\$ 1,055,588,169	\$ 2,171,113,169

The Bond Indenture constitutes a contract between the County and the bondholders, under which the County has irrevocably pledged the Net Revenues of the Department of Airports for payment of the revenue bonds. Net Revenues, as defined by the Bond Indenture, are Revenues less Operating Expenses. Certain expenses are specifically excluded from the calculation. The County has covenanted that it will establish rates and charges for the use of Department's services and facilities so that for each fiscal year the Net Revenues for such fiscal year plus any Transfer will equal at least 125% of the accrued debt service on all the outstanding senior obligations for such fiscal year.

The subordinate lien bonds are additionally secured by PFC revenues that have been irrevocably pledged through 2016 as well as FAA LOI grant funds through 2015. Pursuant to the Second and the Fourth Supplemental Indentures the Department has pledged PFCs and grant funds in the amounts identified in Note 7, Pledged Revenues on page 45 as Available Revenues for the payment of debt service on Series 2008D, 2008E, 2009C and 2009D bonds.

The interest paid on most debt issued by state and local governments is exempt from federal income tax. As a result, purchasers of state and municipal debt are willing to accept lower interest rates than they would on taxable debt. State and local governments sometimes temporarily reinvest the proceeds of such debt in higher-yielding

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

taxable securities. The federal tax code refers to this practice as arbitrage. In general, with a few exceptions, any excess earnings resulting from arbitrage must be rebated to the federal government. As of June 30 of fiscal years 2012 and 2013, the arbitrage liability of the Department of Airports was zero.

The Bond Indenture also requires that certain funds be established and certain accounting procedures be followed. For fiscal years 2013 and 2012, the Department of Airports was in compliance with these covenants.

Long-term liability activity for the fiscal years ended June 30, 2013 and June 30, 2012, was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Bonds payable:					
Senior revenue bonds	\$ 798,415,000	\$ -	\$ 11,395,000	\$ 787,020,000	\$11,940,000
PFC and Subordinate revenue bonds	339,880,000	-	11,375,000	328,505,000	11,930,000
Unamortized amounts:					
For issuance premiums	6,224,194	-	277,214	5,946,980	-
For issuance discounts	(6,869,978)	-	(246,838)	(6,623,140)	-
On refunding	(16,167,880)	-	(1,114,680)	(15,053,200)	-
Total bonds payable	1,121,481,336	-	21,685,696	1,099,795,640	23,870,000
Compensated absences	3,543,857	1,929,374	2,508,195	2,965,036	181,209
OPEB liability	552,636	127,268	-	679,904	-
Total long term liabilities	<u>\$1,125,577,829</u>	<u>\$ 2,056,642</u>	<u>\$ 24,193,891</u>	<u>\$ 1,103,440,580</u>	<u>\$24,051,209</u>

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Bonds payable:					
Senior revenue bonds	\$ 806,810,000	\$ -	\$ 8,395,000	\$ 798,415,000	\$11,395,000
PFC and Subordinate revenue bonds	351,745,000	-	11,865,000	339,880,000	11,375,000
Unamortized amounts:					
For issuance premiums	6,501,408	-	277,214	6,224,194	-
For issuance discounts	(7,116,816)	-	(246,838)	(6,869,978)	-
On refunding	(18,000,276)	-	(1,832,396)	(16,167,880)	-
Total bonds payable	1,139,939,316	-	18,457,980	1,121,481,336	22,770,000
Compensated absences	3,737,112	2,410,499	2,603,754	3,543,857	317,191
OPEB liability	465,680	86,956	-	552,636	-
Other long-term liabilities	54,195	-	54,195	-	-
Total long term liabilities	<u>\$1,144,196,303</u>	<u>\$ 2,497,455</u>	<u>\$ 21,115,929</u>	<u>\$ 1,125,577,829</u>	<u>\$23,087,191</u>

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### Note 7 – Pledged Revenue

The County has pledged certain future revenues, net of specified operating expenses, to repay \$496,195,000 in Airport System Senior Revenue Bonds issued in May 2008, \$201,800,000 in Airport System Senior Revenue Bonds issued in July 2009 and \$128,300,000 in Airport System Senior Revenue Bonds issued in August 2010. Proceeds from the 2008 Senior Revenue Bonds refunded Series 1992B, Series 1998A, Series 2002A, and 45.4% of Series 2006A bonds; and provided \$323.0 million in financing for the TMP. Proceeds from the 2009 and 2010 Senior Revenue Bonds provided \$163.8 million and \$128.3 million, respectively, to complete the financing of the TMP. The bonds are payable solely from Net Revenues of the Department and are payable through 2041. The total principal and interest remaining to be paid on senior bonds is \$1,519,061,762. Principal and interest paid for the current year was \$51,797,479, and the total Net Revenues were \$68,816,600. Net Revenues, as defined by the Master Indenture, represent the revenues available for debt service minus operating expenses (excluding the depreciation of capital assets).

The County has pledged PFC proceeds to repay \$89,430,000 in Airport System Subordinate and PFC Revenue Refunding Bonds issued in May 2008 and \$278,250,000 in Airport System Subordinate and PFC/Grant Revenue Bonds issued in July 2009. Proceeds from the 2008 Subordinate and PFC Bonds refunded Series 1996C, Series 1998B and 54.6% of Series 2006A bonds. Proceeds from 2009 Subordinate and PFC/Grant Revenue Bonds provided \$251 million to complete the financing of the TMP. The 2008 Subordinate and PFC Bonds are payable through 2026 and the 2009 Subordinate and PFC/Grant Revenue Bonds are payable through 2041.

Total principal and interest remaining to be paid on the subordinate bonds is \$652,051,407. Principal and interest paid for the current year was \$29,858,437, the Available PFC revenue was \$21,939,794 and the Available Grant Revenues, \$8,220,000. The PFC cash generated in fiscal year 2013 was \$17,604,328. The table below identifies the Available PFC and Available Grant Revenues pledged for the payment of debt service on the Series 2008D, 2008E, 2009C and 2009D bonds:

<u>Fiscal Year Ending June 30</u>	<u>Passenger Facility Charges</u>	<u>Grant Revenues</u>
2014	21,940,816	8,271,000
2015	21,942,737	8,328,884
2016	21,944,846	-
	<u>\$ 65,828,400</u>	<u>\$ 16,599,884</u>

#### Note 8 - Rentals and Operating Leases

The Department of Airports derives a substantial portion of its revenues from charges to airlines and concessionaires. Substantially all of the assets classified under capital assets in the statements of net position are held by the Department for the purpose of rental or related use.

The Department of Airports, as lessor, leases land, buildings and terminal space to airlines, concessionaires, and other tenants, on a fixed fee as well as a contingent basis. All leases of the Department are treated as operating leases for accounting purposes. Most of the leases provide for an annual review and re-determination of the rental amounts.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

In fiscal years 2013 and 2012, the Department of Airports received approximately \$6,015,148 and \$5,895,238, respectively, for contingent rental payments in excess of stated minimums. The following is a schedule of future minimum rentals receivable on non-cancelable operating leases as of June 30, 2013.

Fiscal years ending June 30	
2014	\$ 19,250,063
2015	9,353,689
2016	6,559,045
2017	6,080,259
2018	5,591,757
2019-2023	13,281,284
2024-2028	3,133,916
2029-2033	1,005,029
2034-2038	433,271
2039-2043	410,872
Total future minimum rentals receivable	<u>\$ 65,099,185</u>

#### **Note 9 – Restricted Net Position**

Restricted net position consists of assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provision or enabling legislation.

On March 25, 2008, the County Board of Supervisors approved a total TMP art budget of \$8 million which included a \$2 million endowment designated to support the airport public art in perpetuity. The interest earnings of the endowment fund will be used for: a comprehensive conservation/maintenance and repair program, the creation and maintenance of an ongoing exhibition program and the commissioning of new and permanent artworks. On September 9, 2008, the Board of Supervisors approved a Resolution which directed the Department to deposit \$2 million into the Airport Art Endowment Fund, which is currently held in trust with the County Treasury. In addition, pursuant to the Biological Opinion issued by the U.S. Fish and Wildlife Service on February 27, 2008, the Department of Airports has deposited \$26,551 in a trust account held by the County for the "Upland Mitigation and Management Plan for 59-acre Giant Garter Snake Habitat".

Net position restricted by enabling legislation totaling \$12,815,495 and \$19,086,115 is included in statements of net position at June 30, 2013 and 2012, respectively.

#### **Note 10 - Related Party Transactions**

The Department of Airports reimburses the County for the cost of providing the Department with law enforcement, engineering, administrative and certain maintenance services. Amounts charged by other County departments are reported as operating expenses during the period incurred or capitalized as capital assets. Accrued expenses for County services were \$1,723,352 and \$3,063,551 at June 30, 2013 and 2012, respectively.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

Amounts charged by other County departments for fiscal years 2013 and 2012 were as follows:

	2013	2012
Charged to operations	\$19,839,862	\$19,320,158
Capitalized as capital assets	818,860	5,915,627
Total charged by other County departments	<u>\$20,658,722</u>	<u>\$25,235,785</u>

#### **Note 11 - Defined Benefit Pension Plan**

All permanent full-time and part-time employees of the Department of Airports participate in the Sacramento County Employees' Retirement System (SCERS), a cost-sharing multiple-employer defined benefit public employee retirement system. A stand-alone report is issued for SCERS and may be obtained from the County Department of Finance located at 700 H Street, Sacramento, California 95814. The payroll for the Department's employees covered by SCERS for the fiscal years ended June 30, 2013 and 2012 was \$20,938,417 and \$21,766,794, respectively. The Department's total payroll for the fiscal years ended June 30, 2013 and 2012 was \$21,714,266 and \$22,794,484, respectively. Retirement benefits are based on members' years of service and compensation. Additionally, SCERS provides for benefits upon death or disability of eligible members. Upon reaching five years of service, members have earned the right to receive a retirement benefit. Members are eligible for retirement at age 50 or after 30 years of service for miscellaneous members and 20 years of service for safety members.

Under the actuarial funding method used by SCERS, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market fluctuations on investments during the five-year period after they occur rather than upon disposition of the investment.

Member contributions are required by law and are based on age of entry into SCERS. County contributions are actuarially determined to provide for the balance of contributions needed. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Act of 1937. The contribution requirement for the Department's employees for the year ended June 30, 2013 was \$5,738,410 which consisted of \$4,438,133 from the Department and \$1,300,277 from employees; these contributions represented 21.2 percent and 6.2 percent, respectively, of covered payroll. The contribution requirement for the Department's employees for the year ended June 30, 2012 was \$5,926,457 which consisted of \$4,358,095 from the Department and \$1,568,362 from employees; these contributions represented 20.0 percent and 7.2 percent, respectively, of covered payroll. For fiscal years 2013, 2012 and 2011, the Department's annual pension cost of \$4,438,133, \$4,358,095 and \$4,275,255, respectively, was equal to its required contributions.

#### **Note 12 – Post-Employment Health Care Benefits (OPEB)**

##### **Plan Description**

The Department of Airports is a department of the County, which provides medical and dental insurance, and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. The Board of Supervisors must approve the benefit annually or it is terminated. All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

period with a coverage date effective January of the given calendar year (continuous coverage). During calendar year 2013, the Board approved (a) access to medical insurance for retirees; and (b) retiree medical offset payments for eligible County retirees who retired prior to June 1, 2007 and subsidies approved via the recent Public Employees Relations Board (PERB) settlement. Eligible retirees included (a) non-PERB participants who retired on or prior to June 1, 2007 and received a SCERS benefit of less than \$2,000 per month, and (b) participants included in the PERB settlement. The amount of any medical and dental subsidy/offset payments made available to annuitants is approved by the Board on an annual basis. The amount of medical subsidy payments for the calendar year 2013 for retirees who retired on or prior to June 1, 2007 and received a SCERS benefit less than \$2,000 per month was \$40 per month regardless of the retirees' years of service credit. The monthly County medical subsidy for retirees who retired after June 1, 2007 and were covered by the PERB agreement ranged from \$122 to \$244 for the same period, depending upon the years of service credit. The County dental subsidy for the employees who retired after June 1, 2007 and were covered by the PERB agreement was \$25 per month. Under the Retiree Medical and Dental Insurance Program Administration Policy approved for calendar year 2013, retirees not receiving a subsidy continued to have access to the County's group insurance program on a retiree-pay-all basis.

Neither SCERS nor the County guarantees that a subsidy or offset payment will be made available to annuitants for the purchase of County-sponsored medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of County employment or SCERS membership.

#### Funding Policy

The County currently pays for post-employment health care benefits of annuitants on a pay-as-you-go basis; these financial statements assume that the pay-as-you-go will continue. Additional details, actuarial assumptions, funded status of the plan and required supplementary information can be found in the County's Comprehensive Annual Financial Report.

#### Annual OPEB Cost and Net OPEB Obligation

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2013, 2012 and 2011, are shown in the tables below.

	June 30		
	2013	2012	2011
Annual required contribution	\$ 400,313	\$ 348,396	\$ 491,522
Interest on net OPEB obligation	26,059	20,172	9,388
Adjustment to annual required contribution	(41,702)	(22,057)	(13,502)
Annual OPEB cost	384,670	346,511	487,408
Contributions made	(257,402)	(259,555)	(191,313)
Increase in net OPEB obligation	127,268	86,956	296,095
Net OPEB obligation - beginning of year	552,636	465,680	169,585
Net OPEB obligation - end of year	\$ 679,904	\$ 552,636	\$ 465,680



## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 487,408	\$ 191,313	39%	\$ 465,680
6/30/2012	\$ 346,511	\$ 259,555	75%	\$ 552,636
6/30/2013	\$ 384,670	\$ 257,402	67%	\$ 679,904

#### **Note 13 - Commitments and Contingencies**

##### **Construction Projects**

The Department of Airports had approximately \$2,482,859 in outstanding construction contract commitments at June 30, 2013.

##### **Federal Grant Awards**

As of June 30, 2013, the Department of Airports had outstanding federal grant awards totaling approximately \$2.8 million for various construction projects. Such funds are not available to the Department until related approved expenses are incurred and, until such time, are not accrued as receivables.

On March 6, 2009, the FAA approved the County's LOI application to fund \$59.9 million of the eligible costs of the TMP. The LOI grant awards will span between fiscal years 2009 and 2015. Federal grant funds received or receivable are subject to audit and adjustment by the funding agency or their representative. If grant funds are received for expenses which are subsequently disallowed, the Department may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenses, if any, will not be material to the accompanying financial statements at June 30, 2013.

##### **Environmental Matters**

In recent years the Planning and Environment (P&E) section of the Department of Airports identified several projects that involve hazardous material (hazmat) activities that may entail fiscal obligations according to the Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Based on the status of the environmental issues presented below, as of June 30, 2013, the Department of Airports has accrued an amount of \$46,878 for pollution remediation contingencies which is included in current accounts payable.

##### **Sacramento International Airport**

###### **1. Yuki Farms Hazmat Spill and Related Issues**

This 90+/- acre parcel was acquired in 1989 as an operational buffer for International Airport. It was subsequently leased to a tenant farmer who most recently cultivated a pear orchard and occupied a home on the property. The property is located at 7800 Garden Highway (south of the intersection with Elverta Road).

In October 1997 an approximately 2,000-gallon gasoline spill occurred at the property while a fuel supplier filled an above ground storage tank (AST). Anecdotal information indicates the tenant removed the contaminated soil and dispersed it to an undisclosed location before the County of Sacramento Environmental Management Department

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

(EMD) initiated an investigation in 1998. It was determined that remaining soil was contaminated up to ten feet below ground surface and that the gasoline additive MTBE had probably reached groundwater. EMD ceased enforcement action in 2001 when the tenant and the fuel supplier each retained legal counsel after failing to agree on clean-up responsibility. The fuel supplier reportedly declared bankruptcy to avoid liability.

In late 2004 the tenant vacated the property and notified the County that he wished to terminate his lease, which was accepted by the Board of Supervisors (Board) on April 5, 2005 (Resolution no. 2005-0411). In a "Letter of Correction" issued on November 17, 2005, the FAA asserted that the abandoned orchard was a hazardous wildlife attractant, and instructed the Department to implement a more compatible land use. The potential environmental impact associated with removing the orchard and farm structures were addressed in a Final Environmental Impact Report (FEIR) issued in November 2006, pursuant to the California Environmental Quality Act (CEQA). The FEIR addressed issues such as abatement of structural asbestos and lead-based paint. It also mentioned that herbicides and pesticides may be present in soil due to the property's long term agricultural use, but unfortunately did not report the presence of hazmat monitoring wells on the property.

On May 8, 2007, the Board approved removal of the orchard and structures, which was completed during the fourth quarter of 2007. During grading and leveling of the site several unknown hazmat monitoring wells were inadvertently destroyed, resulting in civil penalties assessed against the Department by EMD in the amount of \$16,080 during 2009 and 2010. Enforcement action by EMD resumed in 2008 and 2009 after the Sacramento Area Flood Control Agency (SAFCA) reported the results of environmental baseline studies conducted on the Department's land for the Natomas Levee Improvement Program (NLIP). SAFCA contracted with a qualified environmental engineering firm, Kleinfelder, to collect and analyze groundwater samples at the Yuki site. The firm's Phase 2 site investigations determined that "...groundwater impacted with petroleum (and associated constituents) remains at concentrations greater than water quality goals used by the Central Valley Regional Water Quality Control Board..." but also stated that at "...the current apparent rate of natural attenuation observed...it appears that concentrations in groundwater should reach water quality goals within a few years."

In 2011 the Department successfully proposed to EMD that the County execute an Agreement (contract) with Kleinfelder for additional groundwater sampling and analysis to determine if naturally occurring attenuation had indeed enabled groundwater contamination levels to reach water quality goals. The Agreement was executed on November 16, 2011 in the amount of \$40,000 by the County's Municipal Services Agency (MSA) on behalf of Airports, with an additional \$2,500 for MSA contract administration. Kleinfelder submitted a "No Further Action" application to EMD on May 14, 2012. In response, EMD requested that Kleinfelder prepare a human health risk exposure assessment (HHRA), which was also submitted to EMD. A public hearing held by EMD's Site Closure Review Committee on August 17, 2012 resulted in issuance of a preliminary "No-Further-Action-Required" (NFA) letter on August 22, 2012. The final NFA letter was contingent upon EMD-permitted destruction of the site monitoring wells, proper and legal disposal of all investigation-derived wastes and completion of all legally required uploads to the GeoTracker database. Kleinfelder submitted a Well Destruction Work Plan to EMD on September 4, 2012, followed by a Well Destruction Report on October 2, 2012. The final NFA letter was issued by EMD on January 4, 2013.

The gasoline remediation project is now complete and no further fiscal liabilities are probable. It is expected that the site will be left permanently idle exclusively for the protection of aircraft approach, departure and circling airspace. Of note, however, are the following statements by EMD in the final NFA letter:

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

- The Department of Airports is not relieved of any liability under the California Health and Safety Code or State Water Code for past, present or future operations at the site.
- The Department of Airports is not relieved of the responsibility to remediate existing, additional or previously unidentified conditions at the site which cause or threaten to cause pollution or nuisance or otherwise pose a threat to water quality or public health.
- The Department of Airports must notify EMD of any changes in the site's land use.

#### 2. Pesticide Soil Contamination – Master Agreement with SAFCA

Phase II environmental assessments published by SAFCA's hazmat consultant in November 2010 found residues of various pesticides (DDE, DDT, chlordane and dieldren) above regulatory screening levels in the soil of four International Airport parcels "up-river" from the intersection of Power Line Road and Garden Highway. These pesticides were widely used in farming for many decades, and are persistent in soil and groundwater. The pesticides were discovered on property on which the new NLIP levee was to be constructed. The impacted soil was excavated and transported at SAFCA's cost to a disposal facility in September 2011.

In February 2009, the Board of Supervisors and the SAFCA Board of Directors approved a "Master Agreement," defining roles and responsibilities related to use of Airports property for components of the NLIP. Section 6.3 of the Master Agreement requires that any remediation and/or subsequent monitoring for environmental contamination on the Yuki site will be shared equally by the Department of Airports and SAFCA. The Master Agreement provides that after completion of the NLIP on airport property, a financial reconciliation will determine whether SAFCA owes funds to the Department or vice versa. The cost of the environmental remediation will be included in the reconciliation. Among other provisions of the Master Agreement is a contemplated exchange of five or more parcels SAFCA has acquired adjacent to the western boundary of International Airport for several parcels of the Department's land in Sutter County no longer needed for noise mitigation. Due to unexpected delays in completing property appraisals, it is anticipated that the Master Agreement reconciliation will not be completed until at least December 2015.

#### 3. International Airport Waste Water Treatment Ponds

In April 2009, the Board authorized an arrangement with Metro Air Park (MAP) and the Sacramento Area Sewer District (SASD) whereby the Department would build a sewer connection to the new regional sewage interceptor in the Natomas Basin. It was acknowledged that after the connection became operational, the Department of Airports would empty the existing waste water treatment ("oxidation") ponds and conduct hazmat studies to determine the degree of contamination and remediation needed, if any. Construction of the sewer line commenced July 5, 2011 and was completed in mid-September 2011. On September 27, 2011 the Sacramento County Regional Sanitation District (SRCSD) issued a letter of authorization to the Department of Airports to begin discharging liquid waste to the SRCSD system. On September 23, 2011, the Department submitted a Waste Water Treatment Decommissioning Report to the Central Valley Regional Water Quality Control Board (Regional Board) for approval. The report outlined the proposed method for testing and disposing of the remaining sludge in the bottom of the five treatment ponds. The Department reported to the Regional Board on September 30, 2012 that analysis of sludge samples detected no hazardous materials. The next steps will include removing and disposing of the sludge in an appropriate sanitary landfill, breaching the dikes surrounding the ponds for drainage, and filling and grading of the former ponds for redevelopment in accordance with the 2007 International Airport master plan and the Airport Layout Plan. Project completion will occur by December 31, 2014.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

#### 4. Remediation of Former Chevron Fuel Storage/Dispensing Facility

Between the opening of International Airport in 1967 and 2006, Chevron Corporation (Chevron) operated a jet fuel and aviation gas storage and dispensing facility (fuel farm) pursuant to a ground lease. Fuel was stored in nine above ground storage tanks (ASTs). Two underground storage tanks (USTs) were also used, evidently for temporary storage of substandard fuel. The site was west of the current Aircraft Rescue and Firefighting (ARFF) station, north of Cy Homer Road, and south of the new FAA Air Traffic Control Tower for which construction is expected to commence in 2015. Jet fuel (Jet A) and aviation gas (Av gas) was delivered by Chevron tank trucks. Construction of a new International Airport fuel farm owned and operated by an airline consortium was completed in 2006, after which Chevron removed the storage tanks and piping and vacated the site.

Indications of contaminated soil and groundwater contamination were found in the 1980s during removal of the two USTs for replacement by a single tank. Subsequent evaluations conducted by Chevron between 1987 and 1989 resulted in enforcement action against the firm by the Regional Board and EMD in the early 1990s. As ordered by Water Board, a succession of Chevron consultants installed and operated a network of soil and groundwater contamination monitoring wells, the results of which have been reported since 1994 in quarterly reports to the Water Board. Contamination above environmental screening levels has been found at depths exceeding 8, 14 and 20 feet below ground surface.

Since the former fuel farm site was vacated in late 2006, Chevron and its consultants have evaluated several alternative methodologies for remediating the site in accordance with federal, State and County standards. Although Chevron has consistently acknowledged its responsibility to remediate the site, by early 2013 the Department of Airports and the Office of the County Counsel (County Counsel) determined that additional resources were needed to accelerate the site investigation and cleanup. In early 2013, County Counsel executed a Retainer Agreement with a consulting attorney possessing a strong track record in obtaining favorable responsible party remediation results for municipal governments in California. Simultaneously, the Department requested that MSA solicit a proposal from one of its "on call" hazmat consulting firms to provide technical assistance. Due to Kleinfelder's familiarity with the Department and prior excellent work facilitating hazmat remediation at International and Executive Airports, in December 2012 MSA executed a contract with the firm in the amount of \$45,250. As of August 2013 the consulting attorney and Kleinfelder were nearing completion of a draft remediation strategy for presentation to the Regional Board and Chevron. It is evident that the extent of soil and groundwater contamination at the site will no doubt require continued geotechnical and legal assistance for at least five more years. Additional funding will therefore be required to continue this work.

#### Sacramento Executive Airport

##### Executive Rental Car Site:

The rental car site clean-up effort at Executive Airport is the result of petroleum products that evidently leaked from two USTs and a waste oil UST prior to removal of the tanks in 1990 (leaks in the tanks were initially detected during tests conducted in 1986 and 1989). Regulatory oversight was initially vested with the Regional Board, but was later transferred to EMD. Site characterization work by a geotechnical consultant began in 1994, followed by a remediation program. By late 2010 it was expected that remediation would soon be completed, but EMD notified the Department on January 25, 2011 that the site could not be closed without additional information because the calculated hazard index in the HHRA submitted by the consultant was 1.53. To exhibit an acceptable risk, the hazard index cannot exceed 1.0.

## Notes to the Basic Financial Statements (continued)

### For the Fiscal Years ended June 30, 2013 and 2012

The EMD therefore directed that either an HHRA be conducted by a risk assessor, or alternatively soil vapor samples be collected and the results compared to screening levels. In February 2011, Kleinfelder, the consultant engaged since the early 1990s on this project, submitted a scope of work to Airports for production of a soil vapor sampling report and human health screening evaluation. Kleinfelder's "Additional Site Investigation Report" was submitted to EMD on October 24, 2012. On May 7, 2013 EMD notified Airports that both EMD and the Regional Water Board concurred that a conditional "Finding of No Further Action" (NFA) is appropriate. Issuance of the final NFA is conditioned upon properly destroying the 21 extraction and monitoring wells at the site and properly removing any investigation-related waste (drummed soil or purge water). Removal of the wells is expected by December 2014.

#### Mather Airport

The federal Department of Defense has completed transfer of the parcels comprising the former Mather Air Force Base to the County of Sacramento. Long-term environmental contamination and remediation will remain the responsibility of the United States Air Force or Air Force Real Property Agency, as stated in the transfer documents.

#### **Special Facilities Revenue Bonds**

Variable Rate Demand Special Facilities Airport Revenue Bonds, Series 1998 (Special Facility Bonds) totaling \$9,900,000 were issued on November 3, 1998 to finance the demolition of an existing facility and construction and installation of a replacement aircraft maintenance hangar and associated facilities at International for Cessna. Although taking the legal form of a financing lease between the County and Cessna, the substance of these arrangements is that the Special Facility Bonds constitute a special obligation of the Airports payable from and secured by certain revenues under its lease with Cessna and certain proceeds pledged therefore under the Indenture. The bonds do not constitute a debt, liability or general obligation of the Department of Airports or a pledge of the faith and credit of the Department. The Department of Airports will not be obligated to levy any taxes or expend any funds for the repayment of the bonds. As of June 30, 2013 and 2012, the outstanding balance of the debt was \$8,800,000. The Special Facility Bonds will mature on November 1, 2028.

#### **Annual Settlement of Rates and Charges**

On May 1, 2008, the County terminated the Scheduled Airline Operating Agreement and Terminal Building Lease (Prior Agreement) and effective July 1, 2008, the County adopted a new airline Rate Ordinance pursuant to which airline rates and charges were calculated for fiscal years 2009 through 2013. Under the Rate Ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rentals are calculated according to a commercial compensatory methodology. As a result of this calculation, the Department refunded \$2.8 million to the airlines operating at International and Mather Airport in fiscal year 2012. A similar true-up calculation was performed in fiscal year 2013 and resulted in a refund of \$1.3 million to the airlines. Due to the complexity of this calculation, the amounts due to the Department or the amounts that the Department may owe to the airlines for any given fiscal year cannot be reasonably determined until the following fiscal year. A true-up analysis will be performed every fiscal year going forward and the amount of the true-up will be recorded in the period it becomes estimable.

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## Statistical Section

This section contains the following subsections:

### Financial Trends

- Net Position
- Changes in Net Position

### Revenue Capacity

- Total Annual Revenues
- Total Annual Expenses
- Airline Rates and Charges
- Airline and Nonairline Revenues

### Debt Capacity

- Debt Service Coverage
- Ratio of Annual Debt Service to Total Expenses
- Debt per Enplaned Passenger
- Outstanding Debt

### Demographic and Economic

- Service Area Population
- Population/Personal Income
- Principal Employers

### Operating Information

- Activity Statistics
- Scheduled Airline Service
- Principal Customers/Department of Airports Employees/Capital Assets



## Statistical Section

The information contained in this section is not covered by the Independent Auditors' Report, but is presented as supplemental data for the benefit of the Comprehensive Annual Financial Report. The objectives of the statistical section are to provide financial users with additional historical perspective, context, and detail to assist in using information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the government's economic condition.

The following sub-sections are included in the Statistical Section:

- A. Financial Trends - These schedules contain trend information to help the reader understand how the Department of Airports financial performance has changed over time. **Refer to pages 57-59.**
- B. Revenue Capacity - These schedules contain trend information to help the reader assess the Department of Airports ability to generate its airline and non-airline revenues. Also included in this section are total annual expenses. **Refer to pages 60-63.**
- C. Debt Capacity - These schedules present information to help the reader assess the affordability of the Department of Airports current levels of outstanding debt and the ability to issue additional debt in the future. **Refer to pages 64-67.**
- D. Demographic and Economic Information - These schedules offer demographic and economic indicators to help the reader understand the environment within which the Department of Airports financial activities take place. **Refer to pages 68-69.**
- E. Operating Information - These schedules contain information about the Department of Airports operations and resources to help the reader understand how its financial information relates to the services the Department of Airports provides and the activities it performs. **Refer to pages 70-73.**

## Financial Trends

### Net Position

	2013	2012	2011	2010	2009
Net investment in capital assets	\$ 418,826,022	\$ 385,766,170	\$ 330,395,927	\$ 308,869,302	\$ 175,059,316
Restricted for:					
Revenue bond operating reserve	25,730,502	26,679,122	24,644,732	24,028,109	27,260,013
Revenue bond reserve and contingency	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Debt service	37,848,404	52,548,331	87,076,141	102,952,183	72,066,304
Passenger facility charges	10,719,354	16,990,794	26,065,608	45,353,413	103,733,132
Trust accounts	2,096,142	2,095,321	2,086,230	2,085,347	2,062,811
Total restricted	78,394,402	100,313,568	141,872,711	176,419,052	207,122,260
Unrestricted	101,721,002	83,040,741	85,403,913	48,379,211	119,895,679
Total net position	\$ 598,941,426	\$ 569,120,479	\$ 557,672,551	\$ 533,667,565	\$ 502,077,255

	2008	2007	2006	2005	2004
Net investment in capital assets	\$ 156,199,147	\$ 211,869,303	\$ 190,642,485	\$ 164,627,362	\$ 126,762,388
Restricted for:					
Revenue bond operating reserve	21,730,250	21,460,250	19,393,000	17,175,000	17,953,000
Revenue bond reserve and contingency	1,333,333	1,000,000	1,000,000	1,000,000	1,000,000
Debt service	56,161,338	4,449,505	4,982,064	4,356,237	4,399,696
Passenger facility charges	123,802,107	103,826,206	81,920,131	66,390,568	52,398,305
Total restricted	203,027,028	130,735,961	107,295,195	88,921,805	75,751,001
Unrestricted	117,486,984	97,616,600	101,482,119	104,777,188	104,009,224
Total net position	\$ 476,713,159	\$ 440,221,864	\$ 399,419,799	\$ 358,326,355	\$ 306,522,613

Source: Department of Airports audited financial statements.

## Financial Trends (cont.)

### Changes in Net Position

	2013	2012	2011	2010
Operating revenue:				
Concessions	\$ 68,752,509	\$ 66,002,772	\$ 63,341,578	\$ 63,442,108
Building rents	61,114,151	47,204,495	30,697,623	35,885,350
Airfield charges	21,849,813	23,395,617	20,931,781	26,044,373
Ground leases	1,900,740	1,874,055	1,987,622	2,749,183
Sale of fuel	809,600	755,877	653,673	532,032
Airport services	4,819,705	4,136,078	920,930	898,153
Other	146,116	379,768	85,366	165,604
Total operating revenue	<u>\$ 159,392,634</u>	<u>\$ 143,748,662</u>	<u>\$ 118,618,573</u>	<u>\$ 129,716,803</u>
Operating expense:				
Salaries and benefits	\$ 36,149,138	\$ 37,081,912	\$ 35,989,114	\$ 33,084,803
Services and supplies	57,088,926	58,008,301	46,369,353	48,995,957
Cost of goods sold	641,268	628,838	542,657	431,389
Depreciation	51,673,862	43,847,407	29,750,690	26,928,736
Other	238,992	10,630	983,348	872,816
Total operating expense	<u>\$ 145,792,186</u>	<u>\$ 139,577,088</u>	<u>\$ 113,635,162</u>	<u>\$ 110,313,701</u>
Operating income (loss)	<u>13,600,448</u>	<u>4,171,574</u>	<u>4,983,411</u>	<u>19,403,102</u>
Nonoperating revenue (expense):				
Interest income	\$ 1,836,288	\$ 915,635	\$ 411,537	\$ 1,886,860
Passenger facility charges revenue	17,604,328	18,022,076	18,348,304	19,618,136
Intergovernmental revenue	1,578,104	1,637,600	622,320	954,695
Gain (loss) on disposal of assets	44,886	(77,140)	10,020	(65,452)
Other nonoperating revenue (expense)	176,702	42,425	1,291,437	237,958
Amortization of bond issuance cost	(703,026)	(750,981)	(744,688)	(700,471)
Interest expense	(59,286,319)	(26,906,214)	(15,473,662)	(17,105,647)
Net nonoperating revenue (expense)	<u>\$ (38,749,037)</u>	<u>\$ (7,116,599)</u>	<u>\$ 4,465,268</u>	<u>\$ 4,826,079</u>
Income (loss) before capital contributions and transfers	(25,148,589)	(2,945,025)	9,448,679	24,229,181
Capital contributions	<u>54,969,536</u>	<u>14,392,953</u>	<u>14,556,307</u>	<u>7,361,129</u>
Changes in net position	29,820,947	11,447,928	24,004,986	31,590,310
Total net position, beginning of year	<u>569,120,479</u>	<u>557,672,551</u>	<u>533,667,565</u>	<u>502,077,255</u>
Total net position, end of year	<u><u>\$ 598,941,426</u></u>	<u><u>\$ 569,120,479</u></u>	<u><u>\$ 557,672,551</u></u>	<u><u>\$ 533,667,565</u></u>

<sup>1</sup> Certain amounts in the financial statements for fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

Source: Department of Airports audited financial statements.

2009	2008 <sup>1</sup>	2007	2006	2005	2004
\$ 68,600,549	\$ 66,416,283	\$ 64,892,106	\$ 60,367,151	\$ 54,307,418	\$ 47,623,267
35,384,002	17,152,979	16,644,929	16,087,912	14,170,114	13,803,071
10,710,482	22,352,752	15,680,196	17,779,295	17,107,966	12,353,198
2,314,441	3,641,980	4,723,344	4,403,407	3,607,645	3,110,659
580,904	808,229	652,942	1,339,214	1,332,966	2,662,833
1,100,127	911,360	1,015,551	900,536	636,999	137,513
299,511	101,491	39,528	102,681	1,386,070	39,986
<u>\$ 118,990,016</u>	<u>\$ 111,385,074</u>	<u>\$ 103,648,596</u>	<u>\$ 100,980,196</u>	<u>\$ 92,549,178</u>	<u>\$ 79,730,527</u>
\$ 33,640,076	\$ 32,174,897	\$ 30,274,323	\$ 28,897,193	\$ 27,313,968	\$ 25,280,428
49,870,807	54,266,378	46,452,761	41,462,233	37,688,533	38,792,551
497,815	665,627	573,187	1,081,550	914,185	712,784
25,750,395	23,707,907	21,062,790	20,162,706	16,103,705	15,597,039
881,876	837,710	769,160	670,162	909,682	1,218,467
<u>\$ 110,640,969</u>	<u>\$ 111,652,519</u>	<u>\$ 99,132,221</u>	<u>\$ 91,814,508</u>	<u>\$ 82,930,073</u>	<u>\$ 81,601,269</u>
8,349,047	(267,445)	4,516,375	9,165,688	9,619,105	(1,870,742)
\$ 6,155,861	\$ 7,519,233	\$ 7,915,789	\$ 6,623,389	\$ 4,303,953	\$ 2,888,108
21,489,873	26,653,518	27,182,405	24,511,950	24,454,819	18,498,324
978,992	1,620,376	686,586	849,340	880,166	702,098
64,262	(17,151)	84,711	993	503,692	3,988
157,388	(40,754)	82,107	223,468	247,124	140,157
(563,240)	(257,068)	(271,965)	(175,358)	(171,740)	(171,740)
(18,203,544)	(12,651,944)	(12,057,704)	(10,536,254)	(12,631,716)	(10,315,087)
<u>\$ 10,079,592</u>	<u>\$ 22,826,210</u>	<u>\$ 23,621,929</u>	<u>\$ 21,497,528</u>	<u>\$ 17,586,298</u>	<u>\$ 11,745,848</u>
18,428,639	22,558,765	28,138,304	30,663,216	27,205,403	9,875,106
6,935,457	13,932,530	12,663,761	10,889,564	24,598,339	9,808,493
25,364,096	36,491,295	40,802,065	41,093,444	51,803,742	19,683,599
476,713,159	440,221,864	399,419,799	358,326,355	306,522,613	286,839,014
<u>\$ 502,077,255</u>	<u>\$ 476,713,159</u>	<u>\$ 440,221,864</u>	<u>\$ 399,419,799</u>	<u>\$ 358,326,355</u>	<u>\$ 306,522,613</u>

## Revenue Capacity

### Total Annual Revenues

#### LAST TEN FISCAL YEARS

	2013	2012	2011	2010	2009
<b>OPERATING REVENUE</b>					
Concessions	\$ 68,752,509	\$ 66,002,772	\$ 63,341,578	\$ 63,442,108	\$ 68,600,549
Building rents	61,114,151	47,204,495	30,697,623	35,885,350	35,384,002
Airfield charges	21,849,813	23,395,617	20,931,781	26,044,373	10,710,482
Ground leases	1,900,740	1,874,055	1,987,622	2,749,183	2,314,441
Sale of fuel	809,600	755,877	653,673	532,032	580,904
Airport services	4,819,705	4,136,078	920,930	898,153	1,100,127
Other	146,116	379,768	85,366	165,604	299,511
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 159,392,634</b>	<b>\$ 143,748,662</b>	<b>\$ 118,618,573</b>	<b>\$ 129,716,803</b>	<b>\$ 118,990,016</b>
<b>NONOPERATING REVENUE</b>					
Interest income	1,836,288	915,635	411,537	1,886,860	6,155,861
PFC revenue	17,604,328	18,022,076	18,348,304	19,618,136	21,489,873
Capital contributions	54,969,536	14,392,953	14,556,307	7,361,129	6,935,457
Intergovernmental revenue	1,578,104	1,637,600	622,320	954,695	978,992
Other nonoperating revenue	222,390	98,370	1,301,620	251,679	157,388
<b>TOTAL REVENUE</b>	<b>\$ 235,603,280</b>	<b>\$ 178,815,296</b>	<b>\$ 153,858,661</b>	<b>\$ 159,789,302</b>	<b>\$ 154,707,587</b>

	2008	2007	2006	2005	2004
<b>OPERATING REVENUE</b>					
Concessions	\$ 66,416,283	\$ 64,892,106	\$ 60,367,151	\$ 54,307,418	\$ 47,623,267
Building rents	17,152,979	16,644,929	16,087,912	14,170,114	13,803,071
Airfield charges	22,352,752	15,680,196	17,779,295	17,107,966	12,353,198
Ground leases	3,641,980	4,723,344	4,403,407	3,607,645	3,110,659
Sale of fuel	808,229	652,942	1,339,214	1,332,966	2,662,833
Airport services	911,360	1,015,551	900,536	636,999	137,513
Other	101,491	39,528	102,681	1,386,070	39,986
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 111,385,074</b>	<b>\$ 103,648,596</b>	<b>\$ 100,980,196</b>	<b>\$ 92,549,178</b>	<b>\$ 79,730,527</b>
<b>NONOPERATING REVENUE</b>					
Interest income	7,519,233	7,915,789	6,623,389	4,303,953	2,888,108
PFC revenue	26,653,518	27,182,405	24,511,950	24,454,819	18,498,324
Capital contributions	13,932,530	12,663,761	10,889,564	24,598,339	9,808,493
Intergovernmental revenue	1,620,376	686,586	849,340	880,166	702,098
Other nonoperating revenue (exp.)	(40,754)	82,107	223,468	205,563	140,157
<b>TOTAL REVENUE</b>	<b>\$ 161,069,977</b>	<b>\$ 152,179,244</b>	<b>\$ 144,077,908</b>	<b>\$ 146,992,018</b>	<b>\$ 111,767,707</b>

Source: Department of Airports audited financial statements.

## Revenue Capacity (cont.)

### Total Annual Expenses

#### LAST TEN FISCAL YEARS

	2013	2012	2011	2010	2009
OPERATING EXPENSE					
Salaries and benefits	\$ 36,149,138	\$ 37,081,912	\$ 35,989,114	\$ 33,084,803	\$ 33,640,076
Services and supplies	57,088,926	58,008,301	46,369,353	48,995,957	49,870,807
Cost of goods sold	641,268	628,838	542,657	431,389	497,815
Depreciation and amortization	51,673,862	43,847,407	29,750,690	26,928,736	25,750,395
Other	238,992	10,630	983,348	872,816	881,876
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 145,792,186</b>	<b>\$ 139,577,088</b>	<b>\$ 113,635,162</b>	<b>\$ 110,313,701</b>	<b>\$ 110,640,969</b>
NONOPERATING EXPENSE					
Interest expense	59,286,319	26,906,214	15,473,662	17,105,647	18,203,544
Loss (gain) on disposal of assets	802	133,085	163	79,173	(64,262)
Amortization of bond issuance costs	703,026	750,981	744,688	700,471	563,240
<b>TOTAL EXPENSE</b>	<b>\$ 205,782,333</b>	<b>\$ 167,367,368</b>	<b>\$ 129,853,675</b>	<b>\$ 128,198,992</b>	<b>\$ 129,343,491</b>
	2008 <sup>1</sup>	2007	2006	2005	2004
OPERATING EXPENSE					
Salaries and benefits	\$ 32,174,897	\$ 30,274,323	\$ 28,897,193	\$ 27,313,968	\$ 25,280,428
Services and supplies	54,266,378	46,452,761	41,462,233	37,688,533	38,792,551
Cost of goods sold	665,627	573,187	1,081,550	914,185	712,784
Depreciation and amortization	23,707,907	21,062,790	20,162,706	16,103,705	15,597,039
Other	837,710	769,160	670,162	868,211	1,218,467
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 111,652,519</b>	<b>\$ 99,132,221</b>	<b>\$ 92,273,844</b>	<b>\$ 82,888,602</b>	<b>\$ 81,601,269</b>
NONOPERATING EXPENSE					
Interest expense	12,651,944	12,057,704	10,536,254	12,631,716	10,315,087
Loss (gain) on disposal of assets	17,151	(84,711)	(993)	(503,692)	(3,988)
Amortization of bond issuance costs	257,068	271,965	175,358	171,740	171,740
<b>TOTAL EXPENSE</b>	<b>\$ 124,578,682</b>	<b>\$ 111,377,179</b>	<b>\$ 102,984,463</b>	<b>\$ 95,188,366</b>	<b>\$ 92,084,108</b>

Source: Department of Airports audited financial statements.

<sup>1</sup>Certain amounts in the financial statements for fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

## Revenue Capacity (cont.)

### Airline Rates and Charges

#### LAST TEN FISCAL YEARS

	2013	2012	2011	2010	2009
Landing fee rate (per 1,000 lbs.) <sup>1</sup>	\$ 4.01	\$ 4.27	\$ 4.19	\$ 3.92	\$ 3.30
Terminal building rental rates (per Sq. Ft.)					
Enclosed	\$ 171.88	\$ 144.56	\$ 147.68	\$ 155.07	\$ 140.48
Unenclosed <sup>2</sup>	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00

	2008	2007	2006	2005	2004
Landing fee rate (per 1,000 lbs.) <sup>1</sup>	\$ 2.77	\$ 1.99	\$ 2.44	\$ 2.37	\$ 1.79
Terminal building rental rates (per Sq. Ft.)					
Enclosed	\$ 65.48	\$ 65.52	\$ 73.11	\$ 64.56	\$ 48.00
Unenclosed <sup>2</sup>	\$ 12.00	\$ 12.00	\$ 12.00	N/A	N/A

Source: Department of Airports records.

#### Note:

In October 2000, an airline agreement was executed and rates and fees were calculated in accordance with the agreement until it was terminated on May 1, 2008. Effective July 1, 2008, the County adopted a Rate Ordinance which governs the current calculation of rates and fees.

<sup>1</sup> Signatory rate shown for years in which an airline agreement was effective.

<sup>2</sup> Effective July 2005, unenclosed space at \$1.00 per square foot per month implemented as an additional category of terminal rental rates.



## Revenue Capacity (cont.)

### Airline and Nonairline Revenues

#### LAST TEN FISCAL YEARS

	2013	2012 <sup>3</sup>	2011 <sup>3</sup>	2010 <sup>3</sup>	2009 <sup>3</sup>
<b>AIRLINE REVENUE:</b>					
Terminal building rents	\$ 49,713,163	\$ 35,095,244	\$ 21,244,966	\$ 26,554,722	\$ 23,502,148
Airline services <sup>1</sup>	3,838,646	3,194,457	-	-	-
Gate use fees	5,168,616	6,222,491	4,147,087	3,486,765	6,234,017
Landing fees <sup>2</sup>	21,723,306	23,248,445	20,811,439	25,823,533	10,471,032
Total	\$ 80,443,731	\$ 67,760,637	\$ 46,203,492	\$ 55,865,020	\$ 40,207,197
Percent of total revenue	34.2%	37.9%	30.0%	35.0%	26.0%
NONAIRLINE REVENUE	78,948,903	75,988,025	72,415,081	73,851,783	78,782,819
Percent of total revenue	33.5%	42.5%	47.1%	46.2%	50.9%
NONOPERATING REVENUE	76,210,646	35,066,634	35,240,088	30,072,499	35,717,571
Percent of total revenue	32.3%	19.6%	22.9%	18.8%	23.1%
<b>TOTAL REVENUE</b>	<b>\$ 235,603,280</b>	<b>\$ 178,815,296</b>	<b>\$ 153,858,661</b>	<b>\$ 159,789,302</b>	<b>\$ 154,707,587</b>
Enplaned passengers	4,420,268	4,480,003	4,479,741	4,549,909	4,704,858
<b>REVENUE PER ENPLANED PASSENGER</b>	<b>\$ 53.30</b>	<b>\$ 39.91</b>	<b>\$ 34.35</b>	<b>\$ 35.12</b>	<b>\$ 32.88</b>
<b>AIRLINE REVENUE PER ENPLANED PASSENGER</b>	<b>\$ 18.20</b>	<b>\$ 15.13</b>	<b>\$ 10.31</b>	<b>\$ 12.28</b>	<b>\$ 8.55</b>
<b>PASSENGER AIRLINE (CPE)</b>	<b>\$ 17.61</b>	<b>\$ 14.56</b>	<b>\$ 9.84</b>	<b>\$ 11.69</b>	<b>\$ 8.07</b>

	2008	2007	2006	2005	2004
<b>AIRLINE REVENUE:</b>					
Terminal building rents	\$ 10,463,692	\$ 11,906,988	\$ 11,355,467	\$ 9,840,172	\$ 9,249,285
Gate use fees	1,847,839	1,478,640	1,465,139	628,401	924,016
Landing fees <sup>2</sup>	22,108,669	15,477,727	17,250,215	16,861,922	12,016,265
Total	\$ 34,420,200	\$ 28,863,355	\$ 30,070,821	\$ 27,330,495	\$ 22,189,566
Percent of total revenue	21.4%	19.0%	20.9%	18.6%	19.8%
NONAIRLINE REVENUE	76,964,874	74,785,241	70,766,531	65,052,631	57,540,961
Percent of total revenue	47.8%	49.1%	49.2%	44.3%	51.5%
NONOPERATING REVENUE	49,684,903	48,530,648	43,097,712	54,442,840	32,037,180
Percent of total revenue	30.8%	31.9%	29.9%	37.1%	28.7%
<b>TOTAL REVENUE</b>	<b>\$ 161,069,977</b>	<b>\$ 152,179,244</b>	<b>\$ 143,935,064</b>	<b>\$ 146,825,966</b>	<b>\$ 111,767,707</b>
Enplaned passengers	5,294,737	5,307,289	5,150,229	4,986,171	4,563,607
<b>REVENUE PER ENPLANED PASSENGER</b>	<b>\$ 30.42</b>	<b>\$ 28.67</b>	<b>\$ 27.95</b>	<b>\$ 29.45</b>	<b>\$ 24.49</b>
<b>AIRLINE REVENUE PER ENPLANED PASSENGER</b>	<b>\$ 6.50</b>	<b>\$ 5.44</b>	<b>\$ 5.84</b>	<b>\$ 5.48</b>	<b>\$ 4.86</b>
<b>PASSENGER AIRLINE (CPE)</b>	<b>\$ 5.98</b>	<b>\$ 5.08</b>	<b>\$ 5.55</b>	<b>\$ 5.12</b>	<b>\$ 4.57</b>

Source: Audited financial statements and the Department's statistical reports.

<sup>1</sup> New fee starting fiscal year 2012

<sup>2</sup> Includes air cargo landing fees

<sup>3</sup> Fiscal year 2012-2009 enplaned passenger figures have been revised.

## Debt Capacity

### Debt Service Coverage

#### FISCAL YEARS 2009 THROUGH 2013

	2013	2012	2011	2010	2009
<b>Rate Covenant - per Section 6.04 (b)(i)</b>					
Revenues <sup>1</sup>	\$ 162,934,925	\$ 146,057,155	\$ 128,179,835	\$ 132,007,161	\$ 134,667,273
Operating Expenses <sup>2</sup>	<u>(94,118,325)</u>	<u>(95,729,680)</u>	<u>(83,884,472)</u>	<u>(83,384,965)</u>	<u>(84,890,322)</u>
Net Revenues	\$ 68,816,600	\$ 50,327,475	\$ 44,295,363	\$ 48,622,196	\$ 49,776,951
Transfer (limited to 25%)	<u>13,031,769</u>	<u>8,995,140</u>	<u>4,321,838</u>	<u>4,301,661</u>	<u>3,992,960</u>
Net Revenues + Transfer	\$ 81,848,369	\$ 59,322,615	\$ 48,617,201	\$ 52,923,857	\$ 53,769,911
Accrued Debt Service on Senior Obligations <sup>3</sup>	\$ 52,127,074	\$ 35,980,560	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
<b>Debt Service Coverage (&gt;1.25)</b>	<u>1.57</u>	<u>1.65</u>	<u>2.81</u>	<u>3.08</u>	<u>3.37</u>
<b>Rate Covenant - per Section 6.04 (b)(ii)</b>					
Net Revenues	\$ 68,816,600	\$ 50,327,475	\$ 44,295,363	\$ 48,622,196	\$ 49,776,951
Transfer (limited to 10%)	<u>5,212,707</u>	<u>3,598,056</u>	<u>1,728,735</u>	<u>1,720,665</u>	<u>1,597,184</u>
Net Revenues + Transfer	\$ 74,029,307	\$ 53,925,531	\$ 46,024,098	\$ 50,342,861	\$ 51,374,135
Accrued Debt Service on Senior Obligations	\$ 52,127,074	\$ 35,980,560	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
Debt Service on Subordinate Obligations <sup>4</sup>	30,159,794	30,112,081	31,129,931	30,130,833	6,939,856
LESS: Available PFC Revenues	(21,939,794)	(21,941,081)	(22,005,931)	(20,448,833)	(6,939,856)
LESS: Available Grant Revenues	<u>(8,220,000)</u>	<u>(8,171,000)</u>	<u>(9,124,000)</u>	<u>(9,682,000)</u>	-
Accrued Debt Service on Sr. & Sub. Obligations	\$ 52,127,074	\$ 35,980,560	\$ 17,287,350	\$ 17,206,645	\$ 15,971,841
<b>Debt Service Coverage (&gt;1.10)</b>	<u>1.42</u>	<u>1.50</u>	<u>2.66</u>	<u>2.93</u>	<u>3.22</u>

Note: The information presented in the above table reflects the definitions, conventions and debt service coverage calculation methodology set forth in the Master Indenture of Trust, approved by the Board of Supervisors and dated May 1, 2008, and under the terms of supplemental indentures. The debt service coverage table presented on the following page includes the debt service coverage calculation for fiscal years 2004 through 2008, for Senior Bonds outstanding prior to 2008, and according to the documents pursuant to which these bonds were issued.

<sup>1</sup>Per Bond Indenture, Revenues include the Department's revenues excluding certain interest earnings and restricted revenues.

<sup>2</sup>Per Bond Indenture, Operating Expenses include the Department's operating expenses and other non-operating expenses. Operating Expenses exclude depreciation, amortization and debt service.

<sup>3</sup>The Accrued Debt Service includes the principal payment due on July 1, 2013, 2012, 2011, 2010, and 2009, respectively.

<sup>4</sup>Per the Fourth Supplemental Indenture, PFC and LOI Subordinate Revenue Bonds are payable from and secured by pledged Available PFC Revenues, Available Grant Revenues and Net Revenues, subordinate and junior to the lien on Senior Revenue Bonds.

## Debt Capacity (cont.)

## Debt Service Coverage (cont.)

### FISCAL YEARS 2004 THROUGH 2008

#### PRIOR BONDS <sup>1</sup>

	2008	2007	2006	2005	2004
Total Operating Revenues	\$ 113,986,425	\$ 103,648,596	\$ 100,980,196	\$ 92,549,178	\$ 79,730,527
Certain Non-Operating Revenues <sup>2</sup>	<u>4,953,832</u>	<u>12,961,598</u>	<u>10,486,622</u>	<u>12,220,192</u>	<u>10,593,301</u>
Revenues	\$ 118,940,257	\$ 116,610,194	\$ 111,466,818	\$ 104,769,370	\$ 90,323,828
Operating Expenses <sup>3</sup>	<u>(87,769,525)</u>	<u>(78,636,521)</u>	<u>(72,668,987)</u>	<u>(67,524,525)</u>	<u>(66,842,925)</u>
Net Revenues	\$ 31,170,732	\$ 37,973,673	\$ 38,797,831	\$ 37,244,845	\$ 23,480,903
Debt Service Requirement <sup>4</sup>	\$ 15,507,142	\$ 12,458,165	\$ 14,721,391	\$ 16,835,805	\$ 16,840,105
<b>Debt Service Coverage (&gt;1.25)</b>	<u>2.0</u>	<u>3.0</u>	<u>2.6</u>	<u>2.2</u>	<u>1.4</u>

<sup>1</sup> Prior Bonds represent bonds which were previously issued to finance the Department's capital improvements but are no longer outstanding.

<sup>2</sup> Includes certain interest income, PFC revenues used to pay debt service with respect to Prior Bonds which constituted Senior Bonds under the documents pursuant to which the Prior Bonds were issued, and prepaid revenues.

<sup>3</sup> Operating Expenses include the Department's operating costs and certain capital.

<sup>4</sup> Represents the debt service requirement only with respect to Prior Bonds. The Prior Bonds outstanding as of May 2008 were refunded with a portion of the proceeds of the Series 2008 Bonds.

## Debt Capacity (cont.)

## Ratio of Annual Debt Service to Total Expenses

## LAST TEN FISCAL YEARS

	2013	2012	2011	2010	2009
Principal	\$ 22,770,000	\$ 20,260,000	\$ 19,740,000	\$ 10,710,000	\$ 4,970,000
Interest <sup>1</sup>	59,286,319	26,906,214	15,473,662	17,105,647	18,203,544
Total debt service	<u>\$ 82,056,319</u>	<u>\$ 47,166,214</u>	<u>\$ 35,213,662</u>	<u>\$ 27,815,647</u>	<u>\$ 23,173,544</u>
Total expenses	<u>\$ 205,782,333</u>	<u>\$ 167,367,368</u>	<u>\$ 129,853,675</u>	<u>\$ 128,198,992</u>	<u>\$ 129,364,269</u>
RATIO OF DEBT SERVICE TO TOTAL EXPENSE	<u>39.9%</u>	<u>28.2%</u>	<u>27.1%</u>	<u>21.7%</u>	<u>17.9%</u>

	2008	2007	2006	2005	2004
Principal	\$ 4,705,000	\$ 7,660,000	\$ 6,705,000	\$ 6,425,000	\$ 4,845,000
Interest <sup>1</sup>	11,516,327	11,800,681	11,881,872	14,082,421	14,366,581
Total debt service	<u>\$ 16,221,327</u>	<u>\$ 19,460,681</u>	<u>\$ 18,586,872</u>	<u>\$ 20,507,421</u>	<u>\$ 19,211,581</u>
Total expenses	<u>\$ 124,769,226</u>	<u>\$ 111,488,714</u>	<u>\$ 102,984,463</u>	<u>\$ 95,188,366</u>	<u>\$ 92,084,108</u>
RATIO OF DEBT SERVICE TO TOTAL EXPENSE	<u>13.0%</u>	<u>17.5%</u>	<u>18.1%</u>	<u>21.8%</u>	<u>22.6%</u>

<sup>1</sup>Does not include capitalized interest.

## Debt per Enplaned Passenger

## LAST TEN FISCAL YEARS

	2013	2012 <sup>1</sup>	2011 <sup>1</sup>	2010 <sup>1</sup>	2009 <sup>1</sup>
Bonds payable	\$ 1,099,795,640	\$ 1,121,481,336	\$ 1,139,939,316	\$ 1,026,535,309	\$ 559,630,572
Enplaned passengers	<u>4,420,268</u>	<u>4,480,003</u>	<u>4,479,741</u>	<u>4,549,909</u>	<u>4,704,858</u>
DEBT PER ENPLANED PASSENGER	<u>\$ 248.81</u>	<u>\$ 250.33</u>	<u>\$ 254.47</u>	<u>\$ 225.62</u>	<u>\$ 118.95</u>

	2008	2007	2006	2005	2004
Bonds payable	\$ 562,376,271	\$ 244,133,860	\$ 248,835,292	\$ 261,578,571	\$ 267,519,013
Enplaned passengers	<u>5,294,737</u>	<u>5,307,289</u>	<u>5,150,229</u>	<u>4,986,171</u>	<u>4,563,607</u>
DEBT PER ENPLANED PASSENGER	<u>\$ 106.21</u>	<u>\$ 46.00</u>	<u>\$ 48.32</u>	<u>\$ 52.46</u>	<u>\$ 58.62</u>

<sup>1</sup> Fiscal year 2012-2009 enplaned passenger figures have been revised.

## Debt Capacity (cont.)

### Outstanding Debt

#### LAST TEN FISCAL YEARS

Senior Revenue Bonds	2013	2012 <sup>1</sup>	2011 <sup>1</sup>	2010 <sup>1</sup>	2009 <sup>1</sup>	2008 <sup>1</sup>	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>	2004 <sup>1</sup>
1989 series (6.97% to 7.0%, due 2003-2020)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1992 series (5.8% to 6.0% , due 2006-2024)	-	-	-	-	-	-	6,137,975	6,128,632	6,119,667	6,110,702
1996 series A (5.3% to 6%, due 2006-2024)	-	-	-	-	-	-	-	-	81,999,571	84,125,265
1998 refunding series A (4.1% to 5.0%, due 2006-2026)	-	-	-	-	-	-	35,655,975	36,374,621	37,111,575	37,274,055
2002 series A (3.0% to 5.25%, due 2006-2032)	-	-	-	-	-	-	70,879,121	72,344,686	73,770,251	75,150,816
2002 refunding series B (3.0% to 5.25%, due 2006-2020)	-	-	-	-	-	-	13,610,830	14,338,586	15,046,342	16,264,098
2006 series A (variable interest rate per auction, due 2007 - 2024)	-	-	-	-	-	-	70,468,430	73,245,515	-	-
2008 series A (4.85% to 5.0%, due 2028-2041)	147,760,448	150,542,084	152,969,958	155,322,832	157,560,707	159,718,581	-	-	-	-
2008 series B (4.25% to 5.75%, due 2013-2039)	300,869,397	302,674,664	304,459,930	306,235,196	307,970,462	308,255,728	-	-	-	-
2008 refunding series C (5.20%, due 2012)	-	3,305,000	6,011,045	8,562,090	10,963,135	10,524,180	-	-	-	-
2009 series A (5.5%, due 2041)	30,275,899	30,245,931	30,215,963	30,185,995	-	-	-	-	-	-
2009 series B (5.50% to 5.75%, due 2034-2039)	168,791,657	170,530,951	170,525,246	170,519,540	-	-	-	-	-	-
2010 series (5.00%, due 2030-2040)	130,037,787	131,139,187	131,240,587	-	-	-	-	-	-	-
<b>Total Senior Revenue Bonds</b>	<b>\$ 777,735,188</b>	<b>\$ 788,437,816</b>	<b>\$ 795,422,728</b>	<b>\$ 670,825,654</b>	<b>\$ 476,494,303</b>	<b>\$ 478,498,489</b>	<b>\$ 196,752,331</b>	<b>\$ 202,432,040</b>	<b>\$ 214,047,406</b>	<b>\$ 218,924,936</b>
<b>Subordinate and PFC/Grant Revenue Bonds</b>										
1996 series C (5.3% to 5.9%, due 2006-2010)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,775,562	\$ 5,880,178	\$ 7,081,686	\$ 8,223,195
1998 refunding series B (4.1% to 5.0%, due 2006-2026)	-	-	-	-	-	-	42,605,967	40,523,074	40,449,479	40,370,882
2008 refunding series D (5.0%, due 2026)	37,930,038	39,936,579	41,888,121	43,179,662	43,104,535	43,384,407	-	-	-	-
2008 refunding series E (4.25% to 5.75%, due 2013-2024)	30,828,361	33,193,061	35,537,761	37,852,461	40,031,734	40,493,375	-	-	-	-
2009 series C (5.75% to 6.0%, due 2039-2041)	109,975,415	109,872,394	109,769,373	109,666,352	-	-	-	-	-	-
2009 series D (6.0%, due 2035)	143,326,639	150,041,486	157,321,333	165,011,180	-	-	-	-	-	-
<b>Total Subordinate and PFC/Grant Revenue Bonds</b>	<b>\$ 322,060,452</b>	<b>\$ 333,043,520</b>	<b>\$ 344,516,587</b>	<b>\$ 355,709,655</b>	<b>\$ 83,136,269</b>	<b>\$ 83,877,783</b>	<b>\$ 47,381,529</b>	<b>\$ 46,403,252</b>	<b>\$ 47,531,165</b>	<b>\$ 48,594,077</b>
<b>Total bonds payable</b>	<b>\$ 1,099,795,640</b>	<b>\$ 1,121,481,336</b>	<b>\$ 1,139,939,316</b>	<b>\$ 1,026,535,309</b>	<b>\$ 559,630,572</b>	<b>\$ 562,376,271</b>	<b>\$ 244,133,860</b>	<b>\$ 248,835,292</b>	<b>\$ 261,578,571</b>	<b>\$ 267,519,013</b>

<sup>1</sup> Fiscal year 2012-2004 total bonds payable amounts have been revised to match the net presentation on the bonds note disclosure.

## Demographic and Economic Service Area Population

### LAST TEN FISCAL YEARS

	2013	2012	2011	2010	2009
PRIMARY AREA					
Sacramento County <sup>1</sup>	1,445,806	1,433,525	1,427,961	1,409,000	1,394,000
Placer County	357,463	355,455	351,463	347,102	339,577
Yolo County	205,999	204,349	201,071	202,953	200,709
San Joaquin County	698,414	692,997	689,160	694,293	689,480
El Dorado County	182,286	181,711	180,483	182,019	180,185
Sutter County	95,851	95,119	94,620	99,154	96,554
Yuba County	73,439	72,642	72,316	73,380	72,900
TOTAL PRIMARY AREA	3,059,258	3,035,798	3,024,440	2,999,901	2,965,405
SECONDARY AREA	1,148,998	1,145,228	1,149,772	945,140	942,379
TOTAL POPULATION	4,208,256	4,181,026	4,174,212	3,945,041	3,907,784

	2008	2007	2006	2005	2004
PRIMARY AREA					
Sacramento County <sup>1</sup>	1,381,000	1,370,000	1,361,000	1,349,000	1,329,000
Placer County	333,401	324,495	316,508	305,675	292,100
Yolo County	199,066	193,983	190,344	187,743	184,500
San Joaquin County	685,660	675,463	670,159	659,885	644,513
El Dorado County	179,722	178,674	176,204	173,407	168,100
Sutter County	95,878	93,919	91,450	88,945	85,500
Yuba County	71,929	70,745	69,827	66,734	64,800
TOTAL PRIMARY AREA	2,939,656	2,907,279	2,875,492	2,831,389	2,768,513
SECONDARY AREA	942,002	938,650	935,164	926,661	912,425
TOTAL POPULATION	3,881,658	3,845,929	3,810,656	3,758,050	3,680,938

Source: California Department of Finance.

<sup>1</sup> Bureau of Economic Analysis revised population to reflect Census Bureau midyear population estimates available as of April 2013.

Secondary area population is estimated at 81% of total population for counties included in this category. The secondary area includes Alpine, Amador, Butte, Calaveras, Colusa, Glenn, Napa, Nevada, Plumas, Sierra, Solano, Tehama, and Tuolumne Counties.

## Demographic and Economic (cont.)

### Population/Personal Income of Sacramento County

	2013	2012 <sup>3</sup>	2011 <sup>3</sup>	2010 <sup>3</sup>	2009 <sup>3</sup>
Population <sup>1</sup>	1,445,806	1,433,525	1,427,961	1,409,000	1,394,000
Personal Income <sup>1</sup>	N/A <sup>4</sup>	\$ 54,861,602	\$ 52,811,960	\$ 52,150,896	\$ 54,078,812
Per capita personal income	N/A <sup>4</sup>	\$ 38,202	\$ 37,137	\$ 37,023	\$ 38,782
Unemployment rate <sup>2</sup>	8.7%	11.0%	12.6%	12.7%	11.5%

	2008 <sup>3</sup>	2007 <sup>3</sup>	2006 <sup>3</sup>	2005 <sup>3</sup>	2004 <sup>3</sup>
Population	1,381,000	1,370,000	1,361,000	1,349,000	1,329,000
Personal income	\$ 52,572,684	\$ 50,165,916	\$ 47,563,421	\$ 45,282,367	\$ 42,564,972
Per capita personal income	\$ 38,064	\$ 36,629	\$ 34,952	\$ 33,569	\$ 32,039
Unemployment rate <sup>2</sup>	6.9%	5.4%	4.9%	5.1%	5.9%

<sup>1</sup> Bureau of Economic Analysis revised population, personal income, and per capita income to reflect Census Bureau midyear estimates available as of April 2013.

<sup>2</sup> State of California Employment Development Department unemployment figures.

<sup>3</sup> 2012-2004 unemployment figures have been revised.

<sup>4</sup> Figures not available until April 2014.

## Principal Employers in the County of Sacramento

Employer	June 30, 2013			June 30, 2004		
	Employees <sup>2</sup>	Rank	Percentage of Total County Employment	Employees <sup>3</sup>	Rank	Percentage of Total County Employment
Kaiser Permanente	10,140	1	1.67%	7,694	1	1.24%
Sutter / California Health Services	9,112	2	1.50	6,405	4	1.04
Raley's Inc. / Bel Air	7,283	3	1.20	6,632	3	1.07
CHW / Mercy Health Care	7,054	4	1.16	6,002	5	0.97
Intel Corporation	6,500	5	1.07	7,000	2	1.13
Hewlett-Packard	3,200	6	0.53	4,500	7	0.73
Wells Fargo & Co.	3,188	7	0.52			
Health Net of California	2,552	8	0.42	2,000	10	0.32
Cache Creek Casino	2,400	9	0.39			
Pacific Gas and Electric Co.	2,247	10	0.37			
SBC Communications <sup>1</sup>				5,180	6	0.84
Wal-Mart				3,220	8	0.52
EDS				2,870	9	0.46
Total	53,676		8.83%	51,503		8.32%

<sup>1</sup> SBC Communications merged with AT&T in November 2005

<sup>2</sup> Source: Sacramento Business Journal Annual Book of Lists

<sup>3</sup> Source: Sacramento Area Commerce and Trade Organization



## Operating Information

### Activity Statistics

#### LAST TEN FISCAL YEARS

	2013	2012 <sup>1</sup>	2011 <sup>1</sup>	2010 <sup>1</sup>	2009 <sup>1</sup>
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>					
Passengers					
Enplanements	4,420,268	4,480,003	4,479,741	4,549,909	4,704,858
Deplanements	4,400,833	4,458,820	4,467,446	4,540,877	4,703,288
Total passengers	8,821,101	8,938,823	8,947,187	9,090,786	9,408,146
Air mail (lbs.)					
Inbound	3,084,621	2,408,845	1,466,193	2,159,140	2,135,099
Outbound	2,310,941	1,051,658	177,481	66,376	1,416,269
Total air mail	5,395,562	3,460,503	1,643,674	2,225,516	3,551,368
Air freight (lbs.)					
Inbound	69,790,633	68,064,134	65,850,612	68,941,239	68,613,761
Outbound	77,372,625	75,614,167	78,323,454	83,443,888	74,711,461
Total air freight	147,163,258	143,678,301	144,174,066	152,385,127	143,325,222
Aircraft operations	110,694	119,054	117,614	133,040	140,179
<u>SACRAMENTO EXECUTIVE AIRPORT</u>					
Air freight (lbs.)					
Inbound	340,724	443,170	-	-	-
Outbound	152,986	235,426	-	-	-
Total air freight	493,710	678,596	-	-	-
Aircraft operations	83,478	91,827	78,112	89,384	94,035
<u>SACRAMENTO MATHER AIRPORT</u>					
Air freight (lbs.)					
Inbound	46,300,902	47,715,594	37,834,087	42,714,172	58,191,158
Outbound	59,294,143	56,338,843	46,538,314	46,521,727	59,841,017
Total air freight	105,595,045	104,054,437	84,372,401	89,235,899	118,032,175
Aircraft operations	75,252	79,882	144,326	83,051	91,014

	2008	2007	2006	2005	2004
<u>SACRAMENTO INTERNATIONAL AIRPORT</u>					
Passengers					
Enplanements	5,294,737	5,307,289	5,150,229	4,986,171	4,563,607
Deplanements	5,303,596	5,307,799	5,144,838	4,974,239	4,551,895
Total passengers	10,598,333	10,615,088	10,295,067	9,960,410	9,115,502
Air mail (lbs.)					
Inbound	420,402	2,356,604	8,488,572	10,955,369	8,230,789
Outbound	2,828,593	1,320,976	7,018,259	10,373,197	14,043,719
Total air mail	3,248,995	3,677,580	15,506,831	21,328,566	22,274,508
Air freight (lbs.)					
Inbound	89,168,308	79,697,218	75,706,041	76,002,268	71,737,037
Outbound	82,452,491	74,955,862	61,030,139	55,446,447	58,015,622
Total air freight	171,620,799	154,653,080	136,736,180	131,448,715	129,752,659
Aircraft operations	167,725	173,903	172,902	162,397	162,416
<u>SACRAMENTO EXECUTIVE AIRPORT</u>					
Aircraft operations	98,130	122,271	118,405	109,765	140,935
<u>SACRAMENTO MATHER AIRPORT</u>					
Air freight (lbs.)					
Inbound	81,703,461	72,609,458	68,851,888	67,014,010	67,511,356
Outbound	87,841,564	82,530,228	60,115,274	58,295,663	60,536,105
Total air freight	169,545,025	155,139,686	128,967,162	125,309,673	128,047,461
Aircraft operations	88,245	94,886	98,099	80,532	75,110

Source: Sacramento County Department of Airports activity reports.

<sup>1</sup> Fiscal year 2012-2009 enplaned and deplaned passengers, airmail, air freight, and operations figures have been revised.

## Operating Information (cont.)

### Scheduled Airline Service

As of June 30, 2013

#### MAJOR AIRLINE SERVICE

Airline	Nonstop Service
Aeromexico	Guadalajara, Mexico (GDL)
Alaska	Boise, ID (BOI) Maui (Kahului), HI (OGG) Palm Springs, CA (PSP) Portland, OR (PDX) Seattle, WA (SEA)
American	Dallas/Ft. Worth, TX (DFW) Los Angeles, CA (LAX)
Delta	Atlanta, GA (ATL) Los Angeles, CA (LAX) Minneapolis/St. Paul, MN (MSP) Salt Lake City, UT (SLC)
Hawaiian	Honolulu, HI (HNL)
JetBlue	Long Beach, CA (LGB) New York, NY (JFK)
Southwest	Burbank, CA (BUR) Chicago, IL (MDW) Denver, CO (DEN) Las Vegas, NV (LAS) Los Angeles, CA (LAX) Ontario, CA (ONT) Orange County, CA (SNA) Phoenix, AZ (PHX) Portland, OR (PDX) San Diego, CA (SAN) Seattle, WA (SEA)
United	Chicago, IL (ORD) Denver, CO (DEN) Houston, TX (IAH) Washington, D.C. (IAD)
US Airways	Charlotte, NC (CLT) Philadelphia, PA (PHL) Phoenix, AZ (PHX)
Volaris	Guadalajara, Mexico (GDL)

#### REGIONAL AIRLINE SERVICE

Airline	Nonstop Service
Horizon	Boise, ID (BOI) Portland, OR (PDX)
United Express	Denver, CO (DEN) Eureka/Arcata, CA (ACV) Los Angeles, CA (LAX) San Francisco, CA (SFO)

## Operating Information (cont.)

## Principal Customers/Department of Airports Employees/Capital Assets

FOR FISCAL YEARS 2013 AND 2004

## Principal Customers

	2013		2004	
	Customer Revenue	% Total Customer Revenue	Customer Revenue	% Total Customer Revenue
Southwest Airlines	\$ 36,905,729	23.2%	\$ 9,787,233	12.3%
United Airlines	9,460,739	5.9	3,804,744	4.8
Delta Air Lines	7,520,622	4.7	2,115,156	2.7
Alaska Airlines	6,633,954	4.2	969,802	1.2
US Airways	4,739,662	3.0		
American Airlines	4,391,562	2.8	1,624,586	2.0
Hertz Rent A Car	3,490,183	2.2	3,158,415	4.0
Jet Blue	2,729,919	1.7		
Avis Rent A Car	2,291,628	1.4	2,071,033	2.6
Enterprise	2,230,768	1.4		
HMS Host			2,335,997	2.9
America West Airlines			1,842,838	2.3
Budget Rent A Car			1,525,514	1.9
	<u>\$ 80,394,766</u>	<u>50.4%</u>	<u>\$ 29,235,318</u>	<u>36.7%</u>

## LAST TEN FISCAL YEARS

## Department of Airports Employees

	2013	2012	2011	2010	2009
Full time employees	398	420	411	412	406
	2008	2007	2006	2005	2004
Full time employees	406	417	414	442	434

## Capital Assets

	2013	2012	2011	2010	2009
Aiports	4	4	4	4	4
Licensed vehicles:					
Cars and light trucks	154	151	147	148	149
Buses	32	32	33	33	47
	2008	2007	2006	2005	2004
Aiports	4	4	4	4	4
Licensed vehicles:					
Cars and light trucks	148	120	112	108	120
Buses	41	35	44	47	55

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## Bond Disclosure Section

This section contains the following subsections:

Annual Report

Historical Enplaned Passengers

Historical Aircraft Landed Weights

Airline Market Shares of Enplaned Passengers

Airline and Nonairline Operating Revenues

## Annual Report

In accordance with the requirements of the Continuing Disclosure Certificates for the County of Sacramento Airport System Senior Revenue Bonds, Series 2008, 2009 and 2010 and the County of Sacramento Airport System Subordinate and PFC/Grant Revenue Bonds, Series 2008 and 2009 (collectively, the "Certificate") the Sacramento County Department of Airports is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5)(the Rule).

Beginning with the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2007-2008, and each CAFR thereafter, the Bond Disclosure Section provides the required information consistent with Section 4 of the Certificate. The CAFR is filed with each National and State Repository specified in the Rule, and with any other repository that shall be identified in the future.

### ANNUAL REPORT

The following items are required by the Certificate to be included in the Annual Report:

- A. The audited financial statements of the Department of Airports for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. **Refer to the Financial Section, pages 27-30 of this report.**
- B. An annual updating, to reflect results of the most recently completed fiscal year, of the following tables:
  1. Historical Enplaned Passengers. Refer to EXHIBIT 1, page 76 of this report.
  2. Historical Aircraft Landed Weights. Refer to EXHIBIT 2, page 77 of this report.
  3. Airlines' Market Shares of Enplaned Passengers. Refer to EXHIBIT 3, page 78 of this report.
  4. Statement of Revenues, Expenses and Changes in Net Position. Refer to the Statistical Section, Financial Trends, pages 58-59 of this report.
  5. Nonairline Revenues. Refer to EXHIBIT 4, page 79 of this report.
  6. Summary of Historical Revenues, Expenses and Debt Service Coverage. Refer to the Statistical Section, Debt Capacity, pages 64-67 of this report.

### REPORTING OF SIGNIFICANT EVENTS

On December 19, 2012, Moody's Investors Service downgraded the Airport System Senior Lien Revenue Bonds from "A2" to "A3", and downgraded the Airport System Subordinate Lien Revenue Bonds from "A3" to "Baa1", both with a Stable Outlook. This event was disclosed as a material event when announced.

On October 1, 2013, Standard & Poor's Ratings Services affirmed the Airport System Senior Lien Revenue Bonds at "A" and the Airport System Subordinate Lien Revenue Bonds at "A-", both with a Stable Outlook.

No additional significant events, as identified in Section 5 of the Certificate, have occurred for any of the outstanding bonds issued by the Department of Airports, and there is no knowledge on the part of the County of any impending significant events that would require disclosure under the provisions of the Certificate.

## Historical Enplaned Passengers

### EXHIBIT 1

#### FISCAL YEARS ENDED JUNE 30

ENPLANEMENTS	2013	2012 <sup>2</sup>	2011 <sup>2</sup>	2010 <sup>2</sup>	2009 <sup>2</sup>
Major and other airlines <sup>1</sup>	4,118,672	4,203,561	4,223,908	4,319,759	4,468,169
Regional airlines	301,596	276,442	255,833	230,150	236,689
TOTAL	4,420,268	4,480,003	4,479,741	4,549,909	4,704,858
Percent change from prior year	(1.3%)	0.01%	(1.5%)	(3.3%)	(11.1%)

ENPLANEMENTS	2008	2007	2006	2005	2004
Major and other airlines <sup>1</sup>	4,741,650	5,075,849	4,897,981	4,763,946	4,336,932
Regional airlines	553,087	231,440	252,248	222,225	226,675
TOTAL	5,294,737	5,307,289	5,150,229	4,986,171	4,563,607
Percent change from prior year	(0.2%)	3.1%	3.3%	9.3%	5.8%

Source: Department of Airports statistics reports.

<sup>1</sup> Fiscal year 2012-2009 figures have been revised.

<sup>2</sup> Major airlines are defined for this analysis as scheduled airlines operating aircraft with 60 or more seats; other airlines are nonscheduled.



## Historical Aircraft Landed Weight (in 1,000 lb. units)

### EXHIBIT 2

#### FISCAL YEARS ENDED JUNE 30

#### HISTORICAL AIRCRAFT LANDED WEIGHT (in 1,000 lb. units)

	2013	2012 <sup>2</sup>	2011 <sup>2</sup>	2010 <sup>2</sup>	2009 <sup>2</sup>
Passenger airlines					
Major and other airlines <sup>1</sup>	4,812,941	5,033,896	5,077,596	5,449,118	5,743,444
Regionals	334,318	245,753	285,754	476,023	329,445
SUBTOTAL	5,147,259	5,279,649	5,363,350	5,925,141	6,072,889
All cargo airlines	652,846	619,274	581,081	610,385	800,830
TOTAL	5,800,105	5,898,923	5,944,431	6,535,526	6,873,718
Percent change from prior year	(1.7%)	(0.8%)	(9.0%)	(4.9%)	(11.1%)

	2008	2007	2006	2005	2004
Passenger airlines					
Major and other airlines <sup>1</sup>	6,293,924	6,489,593	6,185,453	6,037,113	5,661,830
Regionals	456,937	304,247	288,094	255,984	273,734
SUBTOTAL	6,750,861	6,793,840	6,473,547	6,293,097	5,935,564
All cargo airlines	982,234	949,579	728,999	771,423	764,687
TOTAL	7,733,095	7,743,419	7,202,546	7,064,520	6,700,251
Percent change from prior year	(0.1%)	7.5%	2.0%	5.4%	2.4%

Source: Department of Airports records

<sup>1</sup> Fiscal year 2012-2009 figures have been revised.

<sup>2</sup> Major airlines are defined for this analysis as scheduled airlines operating aircraft with 60 or more seats; other airlines are nonscheduled.

## Airlines' Market Shares of Enplaned Passengers

### EXHIBIT 3

FISCAL YEARS ENDED JUNE 30

	2013	2012 <sup>3</sup>	2011 <sup>3</sup>	2010 <sup>3</sup>
PERCENTAGE OF TOTAL ENPLANEMENTS				
Major Airlines <sup>1</sup>				
Southwest Airlines	52.1%	50.1%	51.8%	52.5%
United Airlines	8.3	6.8	6.5	6.8
Delta Air Lines <sup>2</sup>	6.2	6.4	6.7	5.5
American Airlines	5.5	5.3	4.5	4.1
US Airways	5.4	5.2	5.1	5.3
Alaska Airlines	5.2	5.7	5.4	4.3
Jet Blue Airlines	3.2	3.5	2.5	2.4
Hawaiian Airlines	2.0	2.0	1.9	1.9
Frontier Airlines	1.5	2.8	3.0	3.2
Aeromexico	0.7	0.6	-	-
Volaris Airlines	0.3	-	-	-
Virgin America	0.03	-	-	-
Republic Airlines	0.01	-	-	-
Continental Airlines	-	2.7	3.7	3.6
Mexicana Airlines	-	-	0.1	1.3
Northwest Airlines <sup>2</sup>	-	-	-	1.2
Regional Airlines				
Skywest	6.8	6.1	5.7	5.1
Horizon Airlines	2.7	2.7	2.9	2.9
Mesa/Delta Connection	-	-	0.1	-
Express Jet	-	0.03	-	-
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
RANKING				
Major Airlines <sup>1</sup>				
Southwest Airlines	1	1	1	1
United Airlines	2	2	3	2
Delta Air Lines <sup>2</sup>	4	3	2	3
American Airlines	5	6	7	7
US Airways	6	7	6	4
Alaska Airlines	7	5	5	6
Jet Blue Airlines	8	8	11	11
Hawaiian Airlines	10	12	12	12
Frontier Airlines	11	9	9	9
Aeromexico	12	13		
Volaris Airlines	13			
Virgin America	14			
Republic Airlines	15			
Continental Airlines		11	8	8
Mexicana Airlines			14	13
Northwest Airlines <sup>2</sup>				14
Regional Airlines				
Skywest	3	4	4	5
Horizon Airlines	9	10	10	10
Mesa/Delta Connection			13	
Express Jet		14		

Source: Department of Airports statistics reports.

<sup>1</sup> Defined for this analysis as scheduled airlines operating with 60 or more seats.

<sup>2</sup> Delta number includes Northwest beginning 2011.

<sup>3</sup> Fiscal year 2012-2010 figures have been revised.

## Airline and Nonairline Revenues

### EXHIBIT 4

FISCAL YEARS ENDED JUNE 30

### AIRLINE AND NONAIRLINE REVENUE

	2013	2012 <sup>3</sup>	2011 <sup>3</sup>
<b>Airline Revenue</b>			
Terminal building rents and fees	\$ 49,713,163	\$ 35,095,244	\$ 21,444,966
Aircraft parking fees	2,868,612	2,257,476	1,425,065
Loading bridge fees	2,300,004	3,965,015	2,722,022
Landing fees	21,723,306	23,248,445	20,811,439
Airport services	3,838,646	3,194,457	-
<b>TOTAL AIRLINE REVENUE</b>	<b>\$ 80,443,731</b>	<b>\$ 67,760,637</b>	<b>\$ 46,403,492</b>
<b>Nonairline Revenue</b>			
Airfield area			
Commercial fees	\$ 23,290	\$ 16,305	\$ 14,191
Other landing fees	9,071	36,569	16,047
Fuel sales	1,007,915	960,938	860,226
<b>SUBTOTAL</b>	<b>\$ 1,040,276</b>	<b>\$ 1,013,812</b>	<b>\$ 890,464</b>
Terminal building			
Food/beverage	\$ 3,399,419	\$ 3,096,650	\$ 2,945,087
Merchandise	2,037,097	2,184,732	1,855,985
Advertising	795,077	674,849	649,874
Telephones	290,575	134,068	140,684
Vending	350,401	360,901	219,704
Other terminal rents	1,325,656	1,049,515	665,297
<b>SUBTOTAL</b>	<b>\$ 8,198,224</b>	<b>\$ 7,500,715</b>	<b>\$ 6,476,632</b>
Parking	\$ 48,106,292	\$ 46,739,420	\$ 44,966,016
Other areas			
Auto rentals	\$ 10,113,145	\$ 9,391,070	\$ 8,932,954
Auto rental shuttle bus fees	3,081,002	2,854,311	3,069,151
Taxi/shuttle bus fees	565,921	559,758	555,707
Tiedown and hangars	715,789	702,383	692,817
FBO rentals	96,960	94,616	112,310
Aviation ground leases	1,702,425	1,668,994	1,781,069
Other rentals/miscellaneous	4,179,735	4,124,089	3,921,362
<b>SUBTOTAL</b>	<b>\$ 20,454,976</b>	<b>\$ 19,395,221</b>	<b>\$ 19,065,369</b>
Other revenue			
Service fees	\$ 981,059	\$ 941,621	\$ 920,930
Miscellaneous revenue <sup>1</sup>	1,922,882	2,077,263	9,529,216
<b>SUBTOTAL</b>	<b>\$ 2,903,942</b>	<b>\$ 3,018,884</b>	<b>\$ 10,450,146</b>
<b>TOTAL NONAIRLINE REVENUE</b>	<b>\$ 80,703,710</b>	<b>\$ 77,668,051</b>	<b>\$ 81,848,627</b>
Interest income <sup>2</sup>	1,787,484	628,467	127,715
<b>TOTAL NONAIRLINE REVENUE</b>	<b>\$ 82,491,194</b>	<b>\$ 78,296,518</b>	<b>\$ 81,976,342</b>

Source: Department of Airports audited financial statements.

<sup>1</sup>As permitted under the Bond Indenture, FY2011 amount includes transfer from the Capital Improvement Fund to offset settlement of FY 2010 airline rates and charges.

<sup>2</sup>As defined in the Bond Indenture.

<sup>3</sup>2012-2011 figures have been revised.

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