



Item 2

# San Diego County Regional Airport Authority

## Review of the Unaudited Financial Statements for the Four Months Ended October 31, 2010

**Revised 11/19/10**

Presented by:

Vernon D. Evans, CPA

Vice-President-Finance/Treasurer and CFO

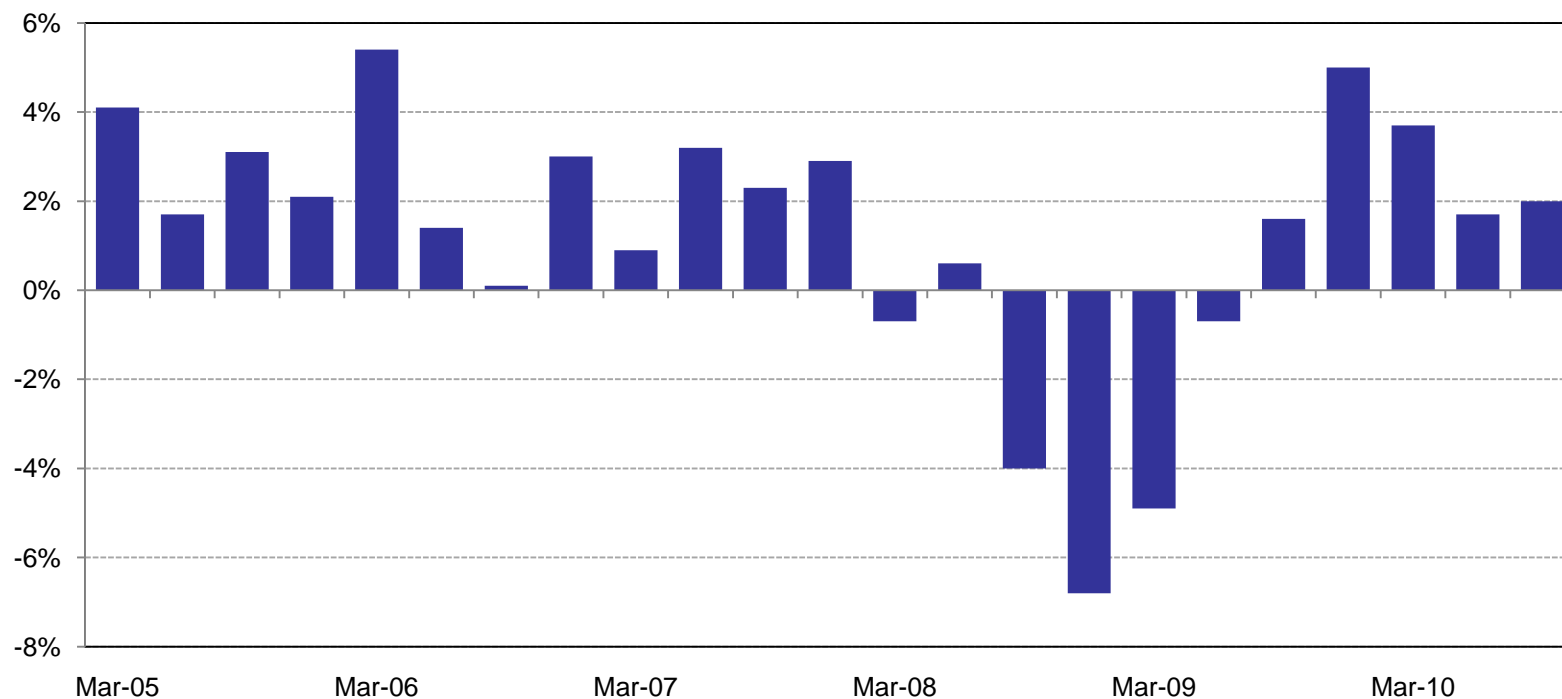
November 22, 2010

# Gross Domestic Product (GDP)



- The advance estimate of third quarter GDP came in at 2.0% up slightly from 1.7% in the second quarter.
- Although most economist do not expect the economy to fall back into recession, continued high unemployment, the weak housing market and weak consumer demand continue to drag on the economic recovery.

**U.S. Gross Domestic Product**  
First Quarter 2005 – Third Quarter 2010



Source: Bloomberg

# Housing Shows Little Improvement



- The housing market collapse was a key factor in the downturn that began in 2007.
- Existing home sales plunged due to expiration of tax credit.
- The Federal Reserve's program to purchase mortgage backed securities, which helped reduce mortgage rates to historic lows.

## New Home Sales

September 30, 2005 – September 30, 2010



## Existing Home Sales

September 30, 2005 – September 30, 2010



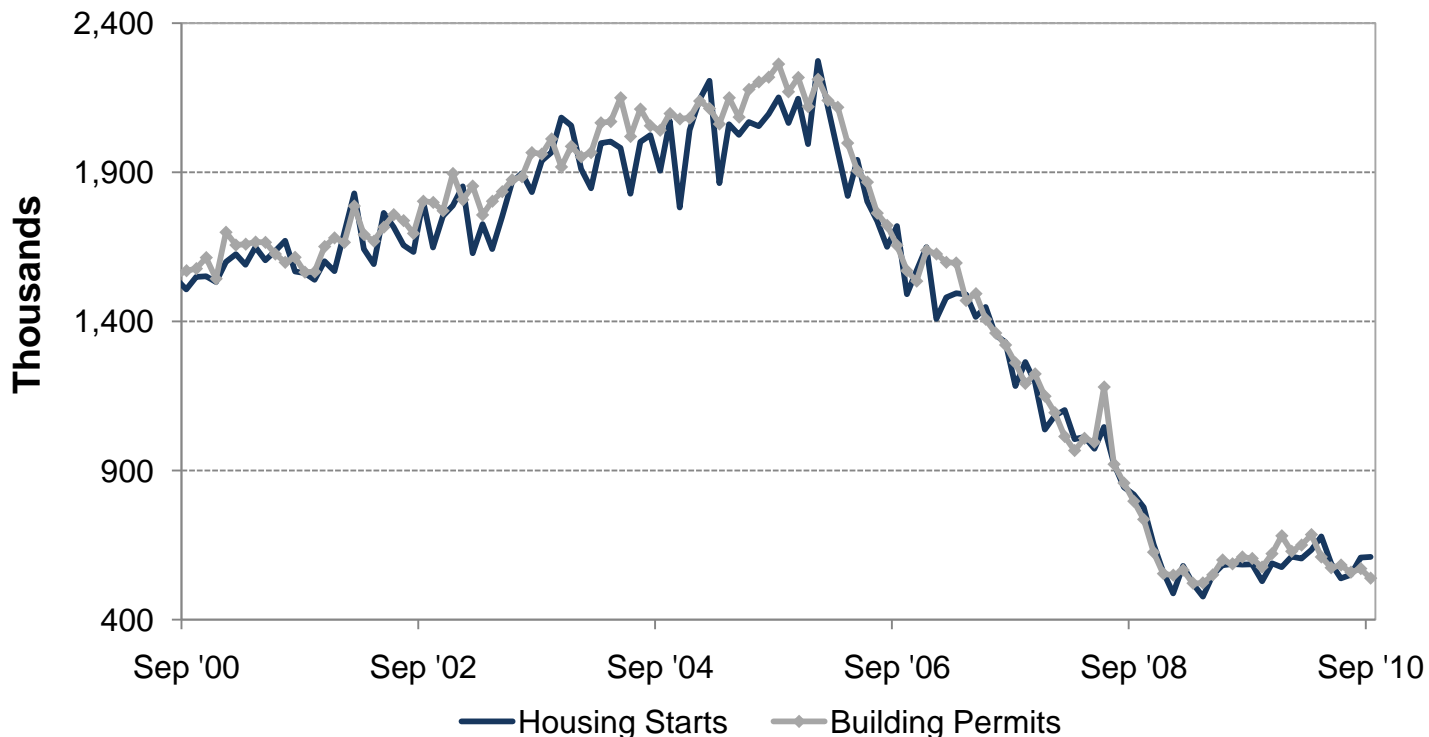
Source: Bloomberg

# Housing Expected To Continue To Struggle



- A 4.4% rise in single-family starts helped boost housing starts higher by 0.3%. Multifamily starts, which had risen by 42.3% in August, fell back 9.7% in September, keeping the headline number subdued. It seems that supply has met demand for multifamily units, as multifamily permits fell 20.2%. The good news is that there is still demand for single-family units, as single-family permits moved higher by 0.5% in September. Housing starts are expected to decline by 10,000 in October.

**Housing Starts and Building Permits**  
September 2000 – September 2010

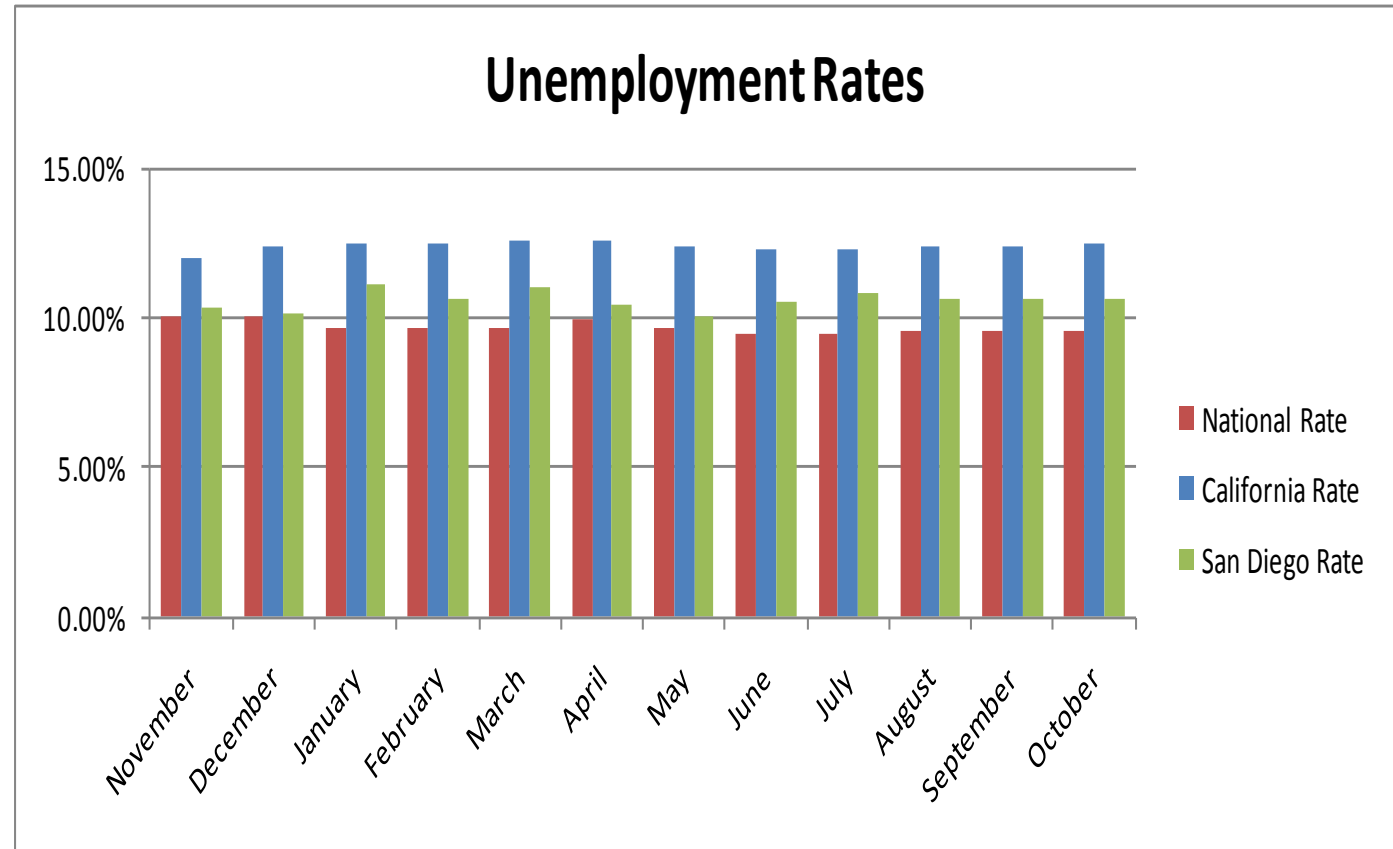


Source: Bloomberg

# Unemployment Rate This Fiscal Year

The California unemployment rate of 12.5% remains much higher than the National average, and remains for the third straight month at 9.6%. The U-6 rate slightly decreased from 17.1% to 17% in October.

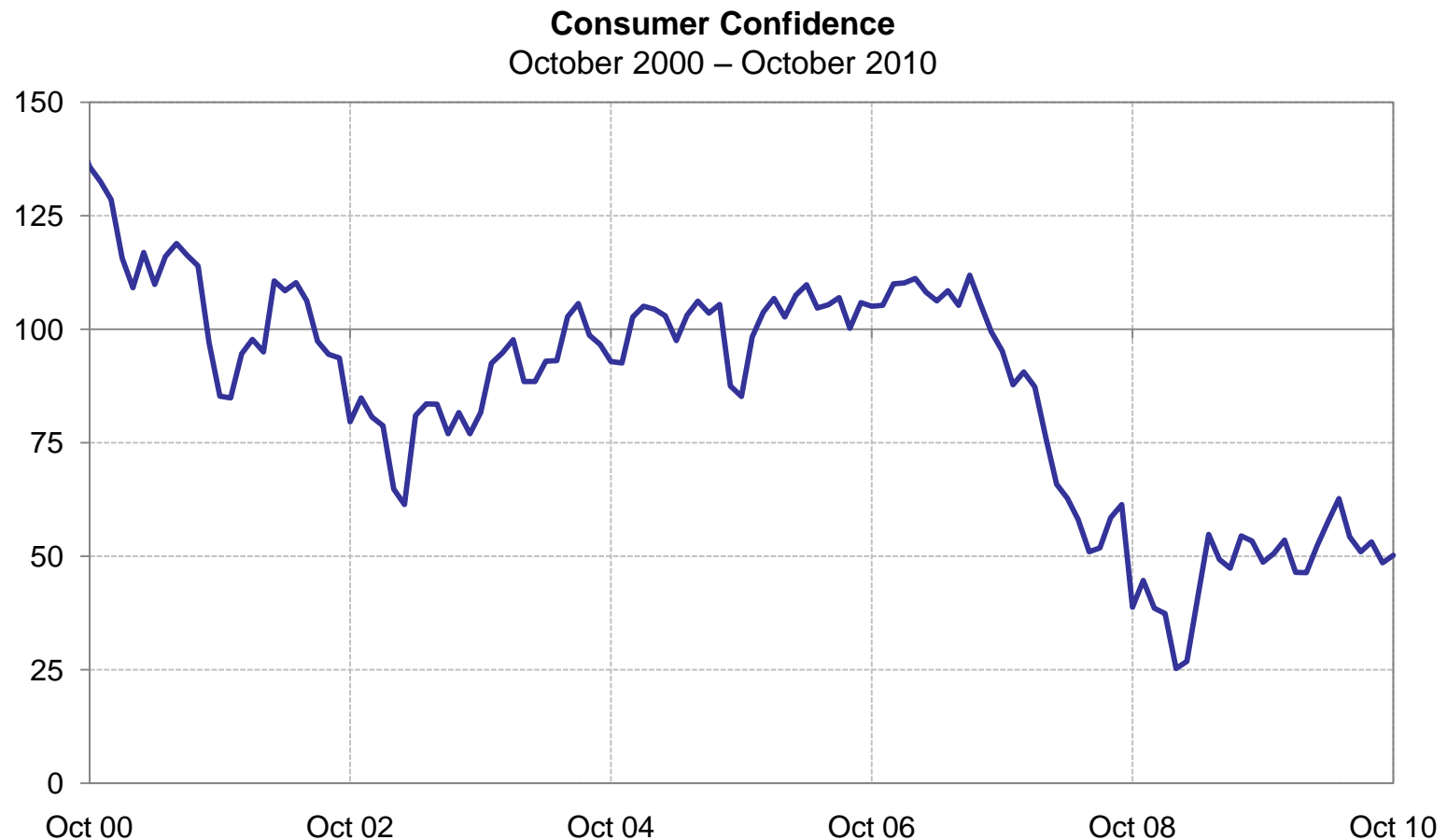
San Diego unemployment rate is 10.6%.



# Consumer Confidence Remains Low



- Although consumer confidence moved up slightly in October, the overall number remains low given continue uncertainty regarding the state of the economy.

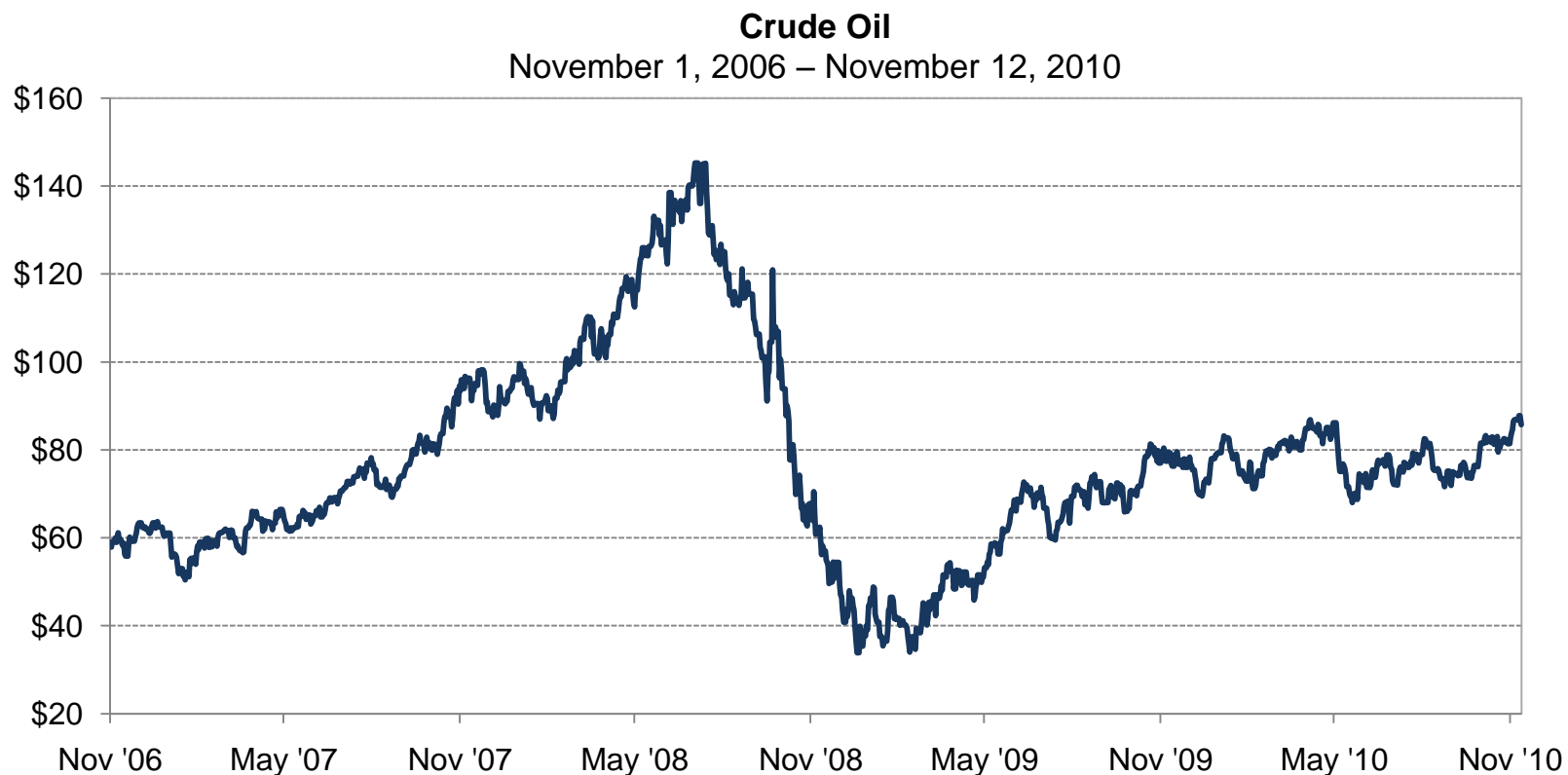


Source: Bloomberg, the Conference Board

# Oil Prices Slowly Climbing In Recent Months



- Oil hit \$88 per barrel recently, which is its highest level since October 2008. We have seen significantly less volatility in the past year, compared to large swings between late 2007 and 2009. Oil prices have lost about 40% from their highs in mid 2008, however many analysts are setting a target of \$100 per barrel by the end of the first quarter of 2011. Oil prices are rising due to a projected increase in emerging market demand, despite a strengthening dollar in recent weeks. (A weakening dollar represents the longer-term trend.)

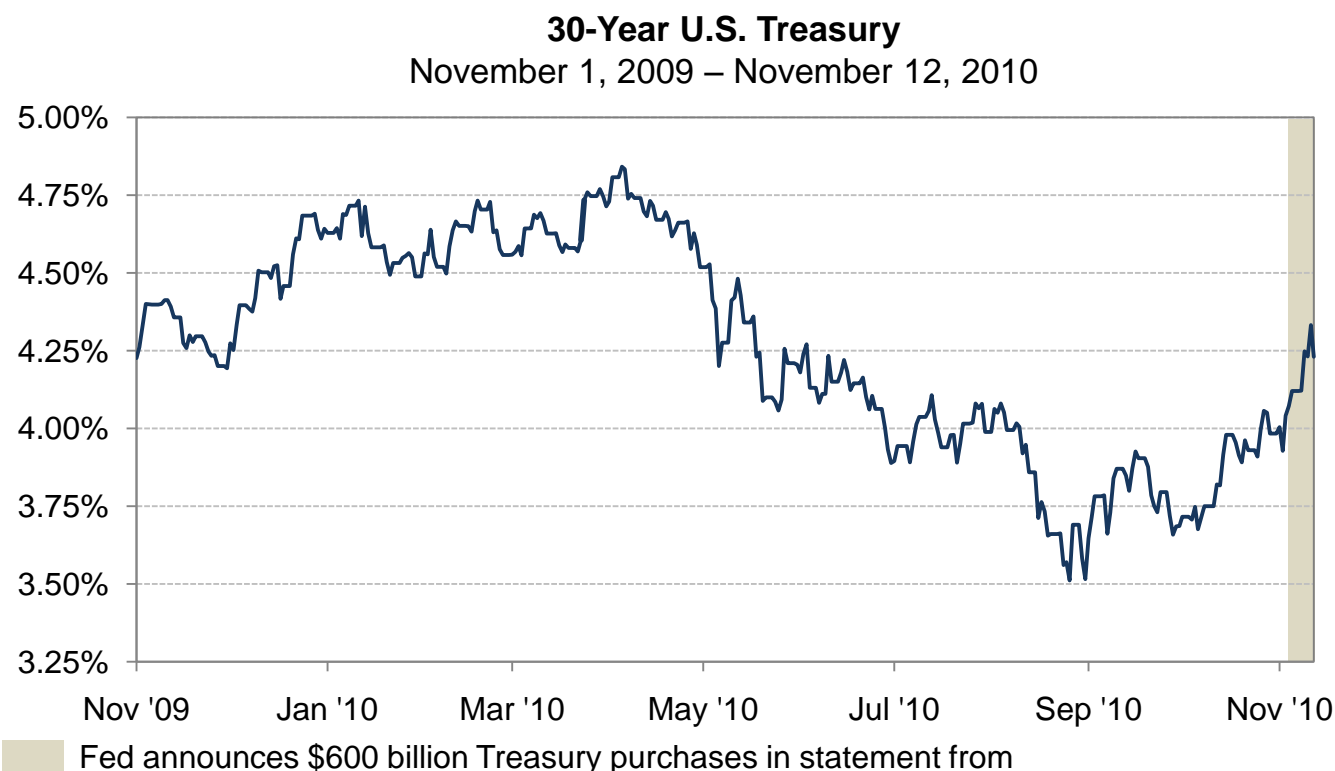


Source: Bloomberg

# Long-term Rates Move Up, Despite QE II



- In order to bolster the slow economic recovery and keep subdued inflation from becoming deflation, the Fed implemented a second round of quantitative easing (QE II), in which it would purchase \$600 billion of long-term Treasuries aimed at keeping longer-term rates low and encouraging business investment. Since the announcement from the FOMC's November 3rd meeting, the 30-year Treasury has risen instead of fallen.



Source: Bloomberg



# 2-Year U. S. Treasury Yields Jump Higher



- 2-year U.S. Treasury yields closed about 0.10% higher this week than last week. The recent increase in yields can be attributed in part to concerns over the large Treasury supply and uncertainty over the effects of QE II on the global economy. Expectations that the added stimulus could contribute to inflation have a part in leading yields higher. In addition, yields moved higher on expectations that the European Union will aid the region's most troubled countries.

## 2-Year U.S. Treasury Yields

November 1, 2009 – November 12, 2010

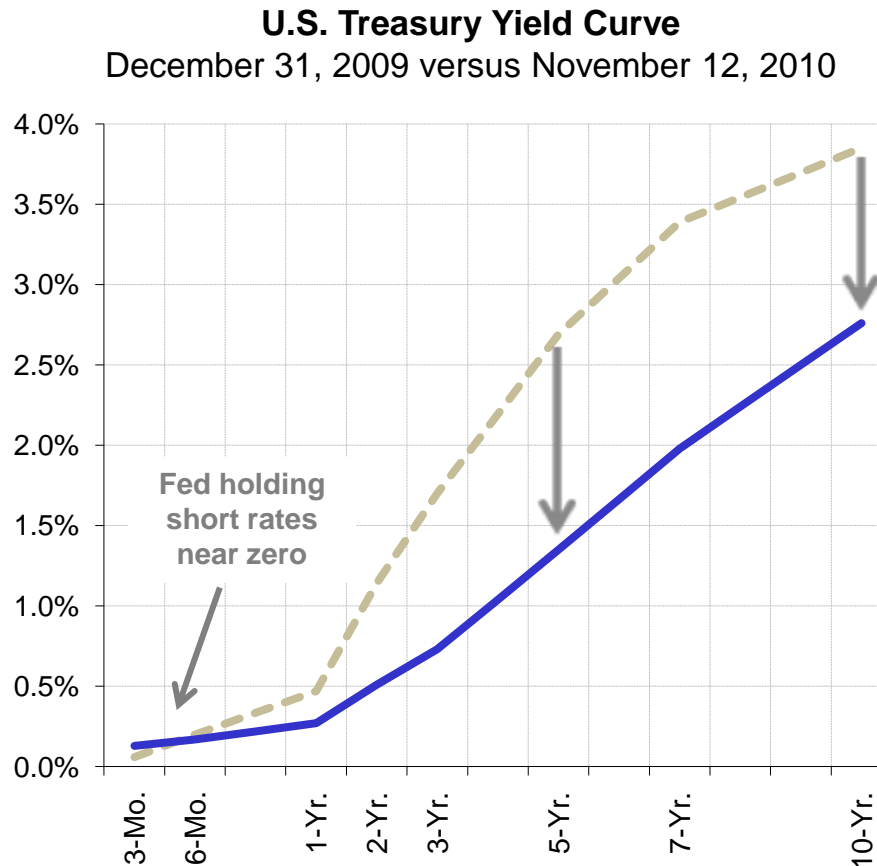


Source: Bloomberg

# Yield Curve Flattens on Economic Concerns



- The yield curve has flattened since the beginning of the year due to: (i) disappointing economic news, (ii) expectations that the Federal Reserve will be on hold for one to two years, (iii) continued low inflation expectations, and (iv) a second round of quantitative easing by the Federal Reserve.



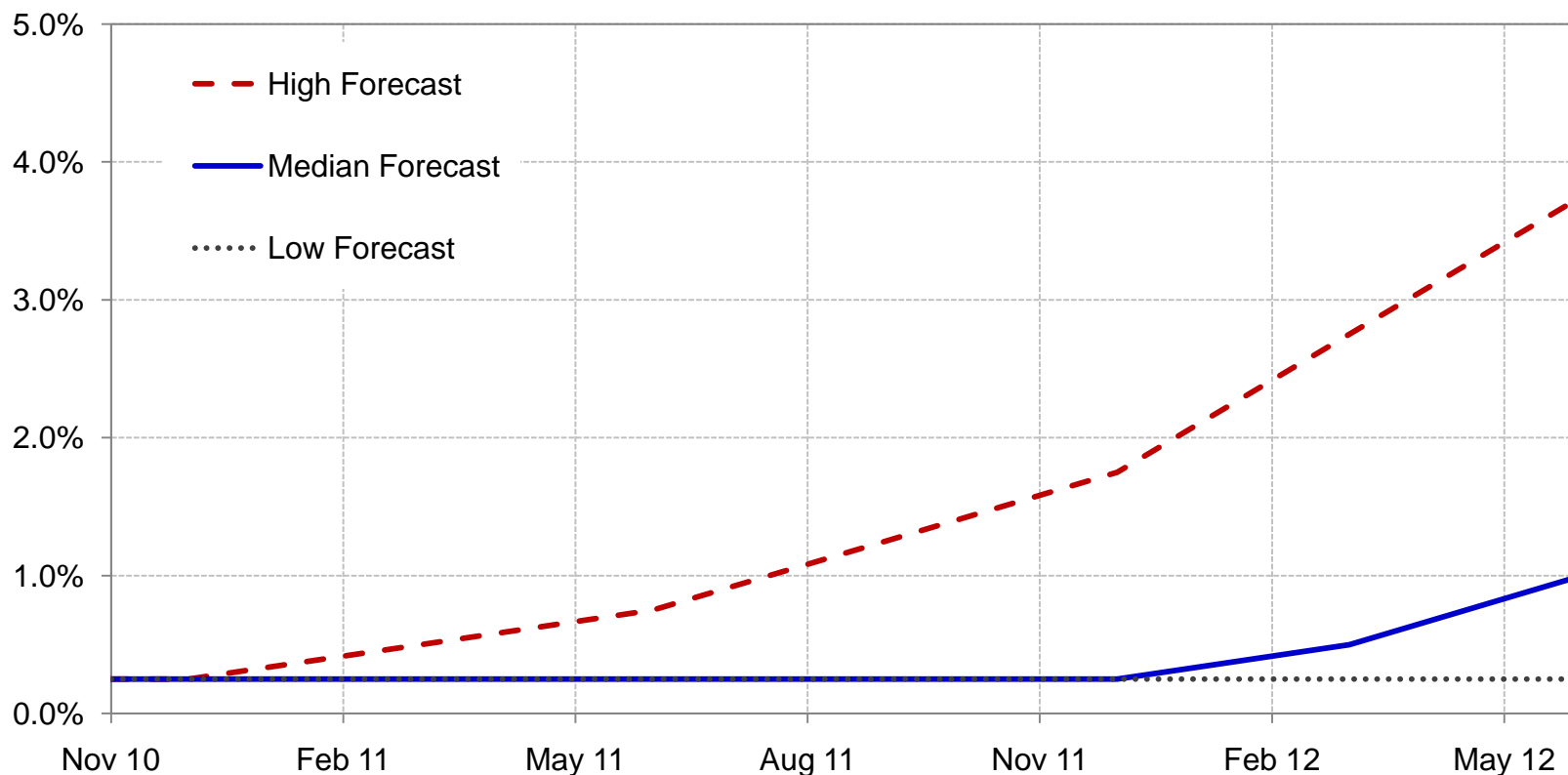
	12/31/09	11/12/10	Change
3-Mo.	0.06%	0.13%	0.07%
6-Mo.	0.20%	0.17%	(0.03%)
1-Yr.	0.47%	0.27%	(0.20%)
2-Yr.	1.14%	0.51%	(0.63%)
3-Yr.	1.70%	0.73%	(0.97%)
5-Yr.	2.69%	1.35%	(1.34%)
10-Yr.	3.85%	2.76%	(1.09%)

Source: Bloomberg

# Federal Funds Target Rate Forecasts



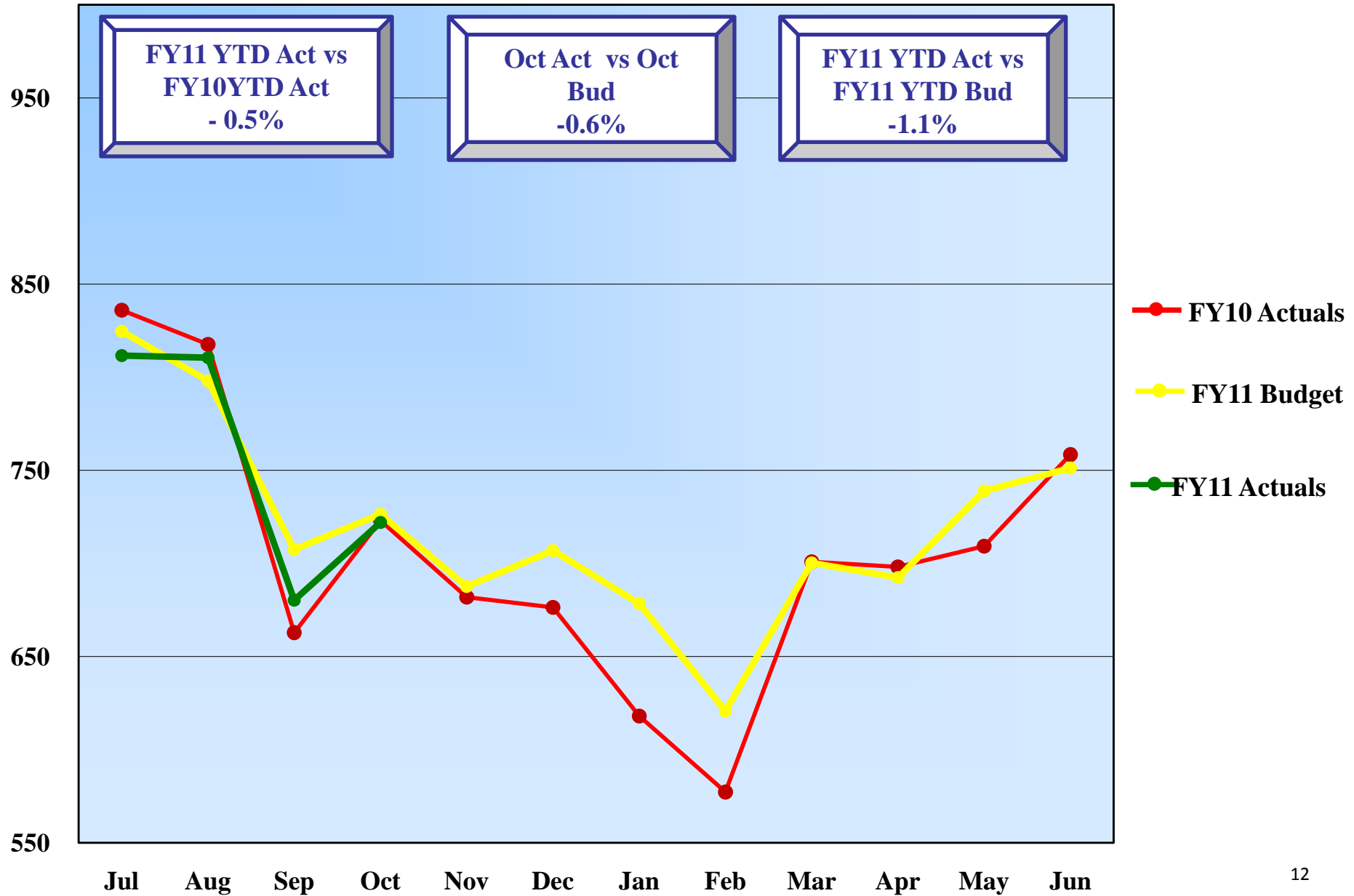
**Bloomberg November Economist Forecast Survey**  
November 2010



	11/9/2010	12/30/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
High Forecast	0.25%	0.25%	0.50%	0.75%	1.25%	1.75%	2.75%	3.75%
Median Forecast	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	1.00%
Low Forecast	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

# Enplanements

000s



# Gross Landing Weight Units (000 lbs)

000s

1,350

1,150

950

750

**FY11 YTD Act vs  
FY10 YTD Act  
- 3.2%**

**Oct Act vs Oct  
Bud  
-0.9%**

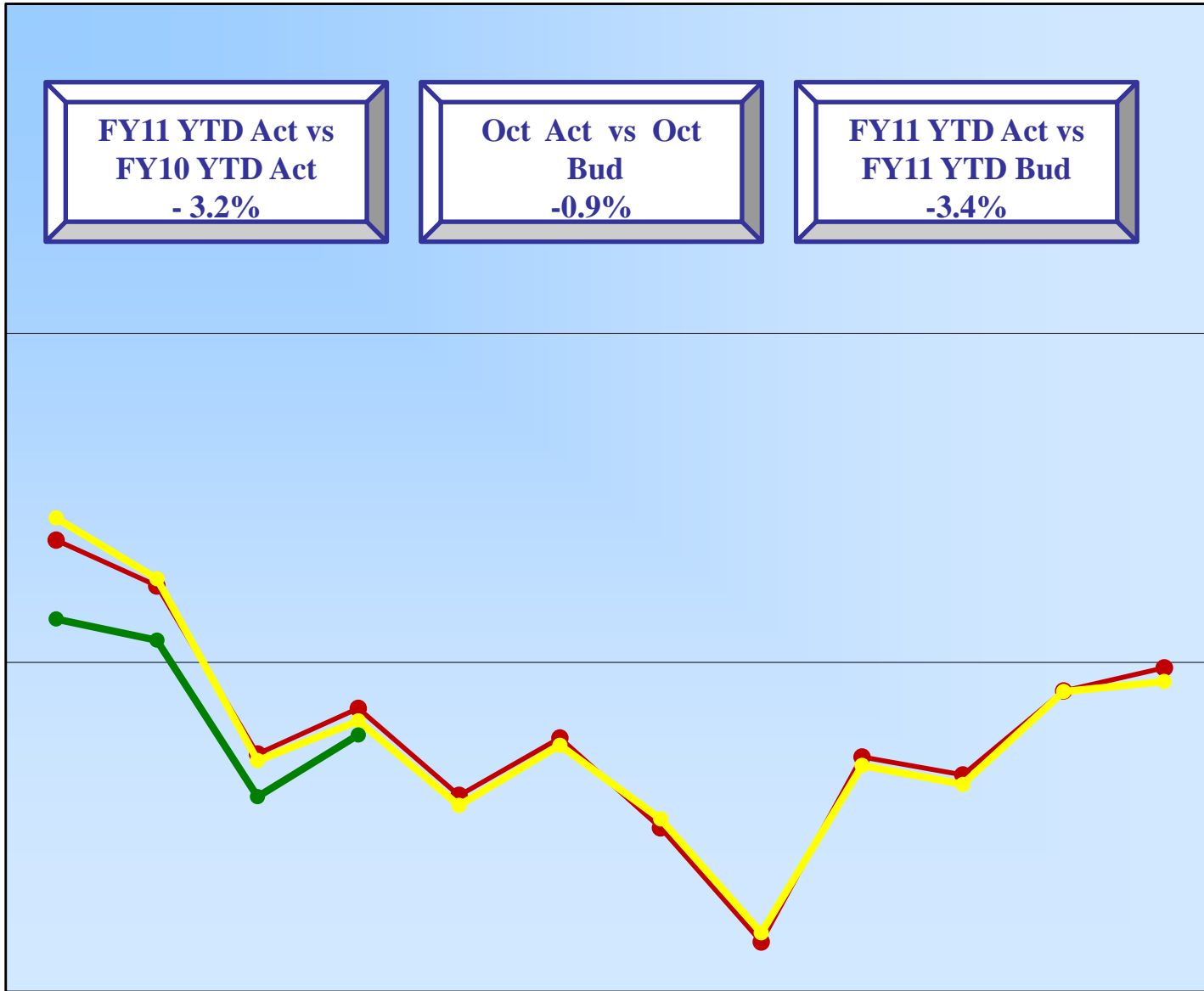
**FY11 YTD Act vs  
FY11 YTD Bud  
-3.4%**

**FY10 Actuals**

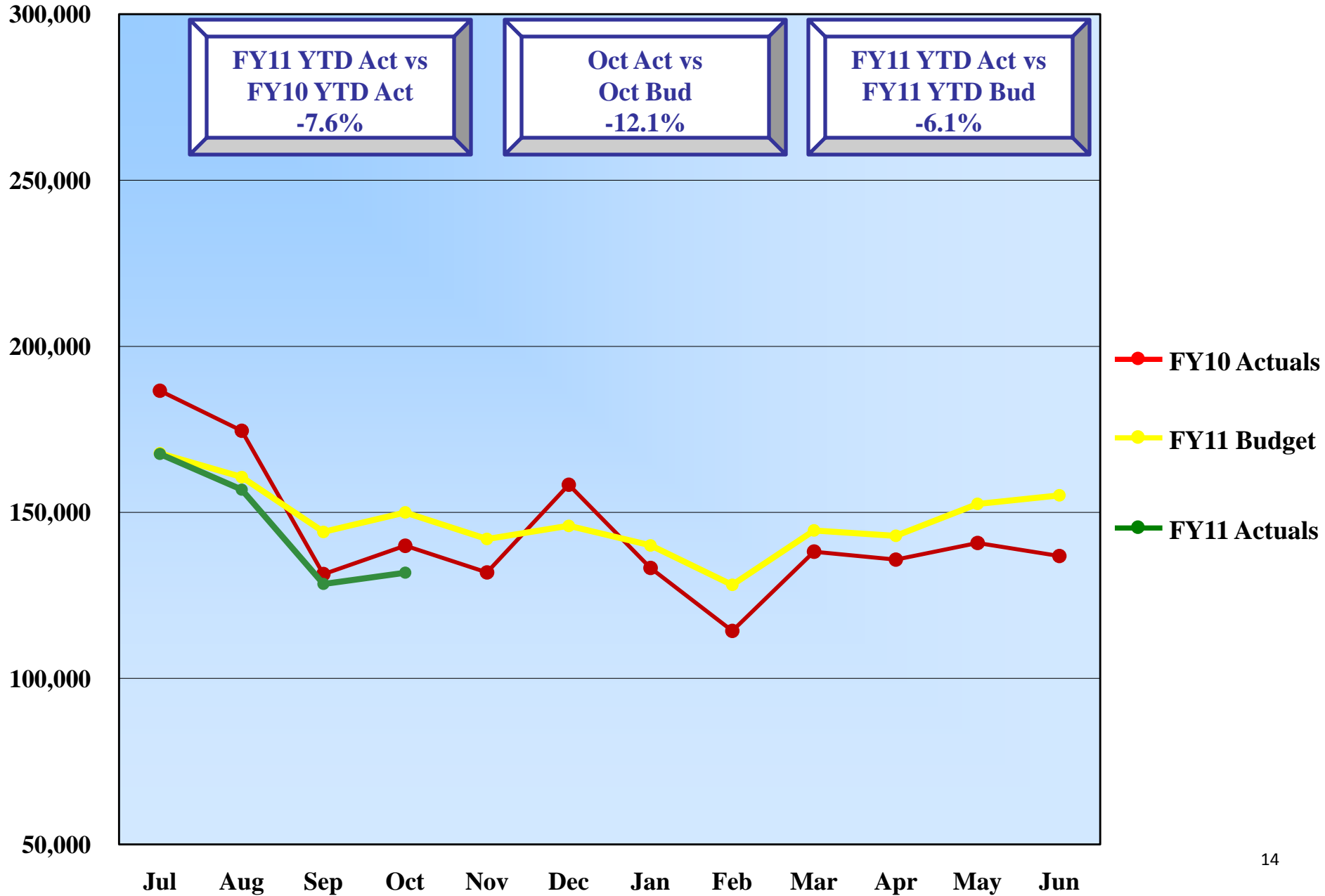
**FY11 Budget**

**FY 11Actuals**

**Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun**

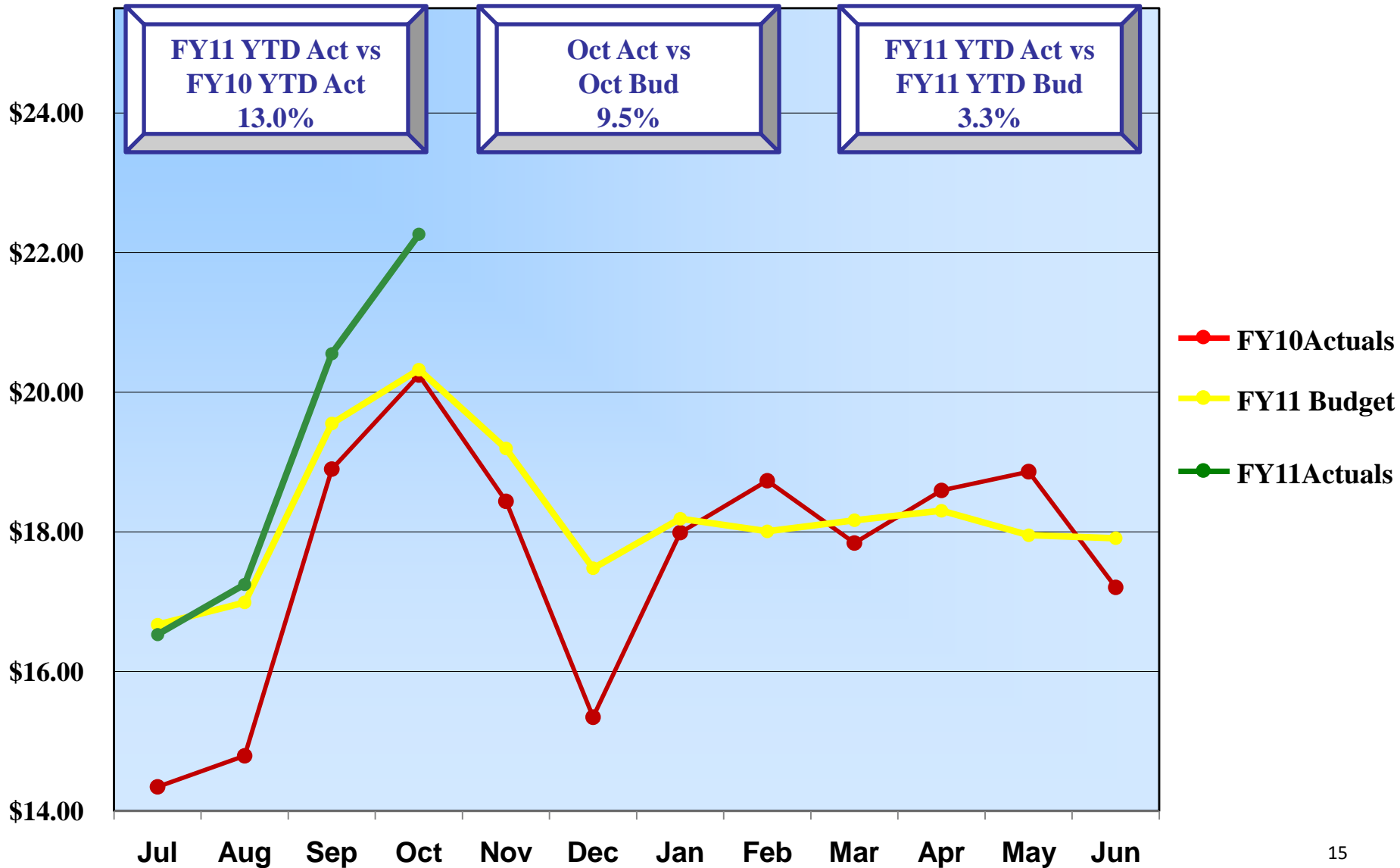


# Airport Parking Transactions

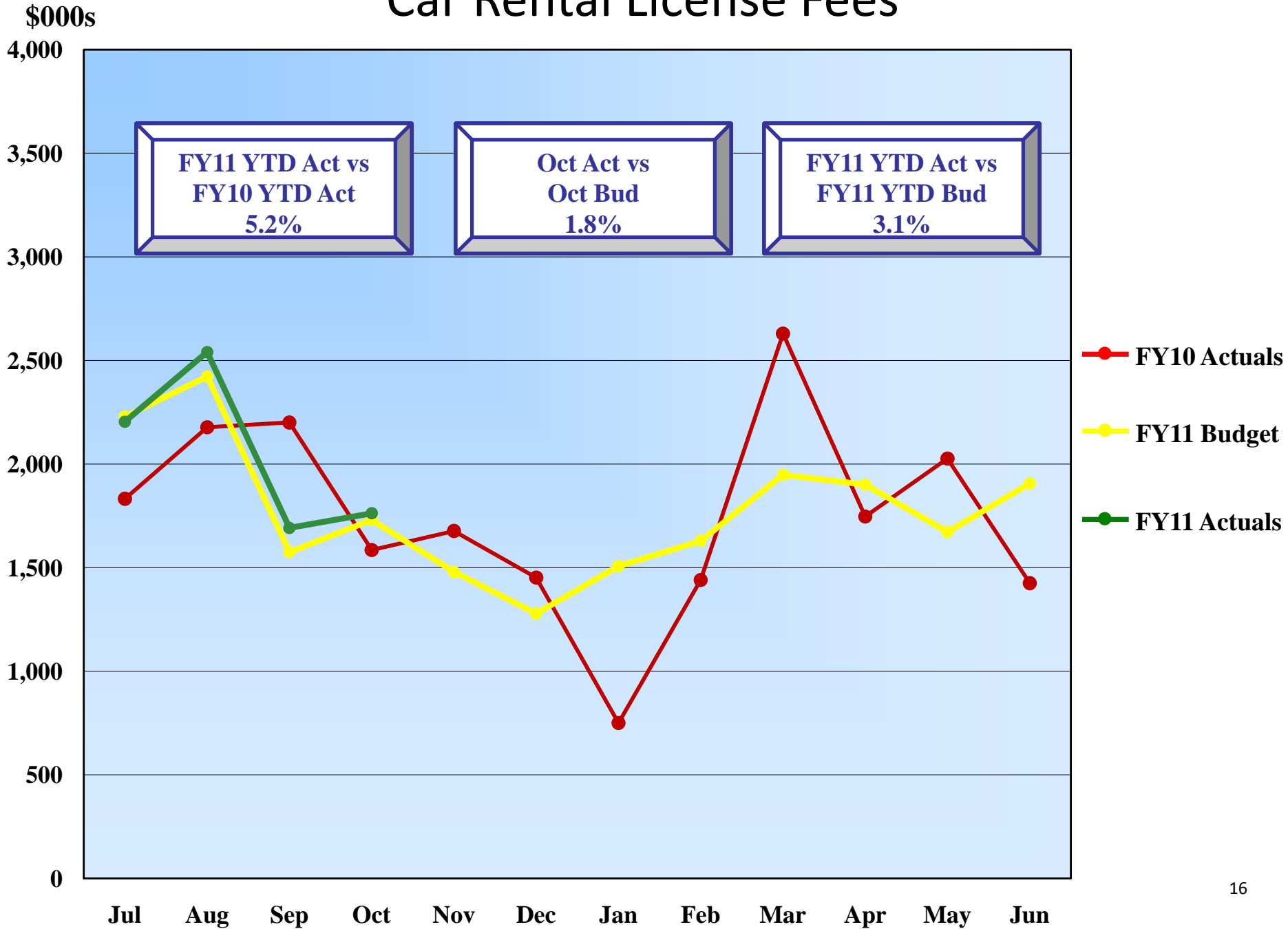


# Airport Parking

Revenue (\$) / Transaction



# Car Rental License Fees





# **Unaudited Financial Statements For the Four Months Ended October 31, 2010**



# **Revenues and Expenses (Unaudited)**

## **For the month ended October 31, 2010**



# Operating Revenues

## For the Month Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Aviation revenue:</b>					
Landing fees	\$ 1,597	\$ 1,607	\$ 10	1%	\$ 1,634
Aircraft parking fees	236	245	9	4%	286
Building rentals	2,319	2,324	5	-	2,140
Security surcharge	1,232	1,232	(0)	-	1,005
Other aviation revenue	133	136	3	2%	133
<b>Total aviation revenue</b>	<b>\$ 5,517</b>	<b>\$ 5,544</b>	<b>\$ 27</b>	<b>-</b>	<b>\$ 5,198</b>



# Operating Revenues

## For the Month Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
Terminal rent non-airline	\$ 72	\$ 67	\$ (5)	(7)%	\$ 65
<b>Concession revenue:</b>					
<b>Terminal concession revenue:</b>					
Food and beverage	525	526	1	-	491
Gifts and news	334	333	(1)	-	295
Other	239	243	4	2%	189
<b>Total terminal concession revenue</b>	<u>1,098</u>	<u>1,102</u>	<u>4</u>	-	<u>975</u>
<b>Car rental and license fee revenue:</b>					
Rental car and license fees	1,731	1,763	32	2%	1,585
License fees-other	258	216	(42)	(16)%	220
Total rental car and license fees	<u>1,989</u>	<u>1,979</u>	<u>(10)</u>	<u>(1)%</u>	<u>1,805</u>
<b>Total concession revenue</b>	<u>\$ 3,087</u>	<u>\$ 3,081</u>	<u>\$ (6)</u>	-	<u>\$ 2,780</u>

# Operating Revenues

## For the Month Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Parking revenue:</b>					
On-airport parking revenue	\$ 1,963	\$ 1,907	\$ (56)	(3)%	\$ 1,776
Off-airport parking revenue	1,085	1,028	(57)	(5)%	1,057
<b>Total parking revenue</b>	<b>3,048</b>	<b>2,935</b>	<b>(113)</b>	<b>(4)%</b>	<b>2,833</b>
Ground transportation permits and citations	35	93	58	166%	6
Ground rentals	502	479	(23)	(5)%	573
Grant reimbursement	90	34	(56)	(62)%	165
Other operating revenue	60	35	(25)	(42)%	44
Subtotal	3,735	3,576	(159)	(4)%	3,621
<b>Total operating revenues</b>	<b>\$ 12,411</b>	<b>\$ 12,268</b>	<b>\$ (143)</b>	<b>(1)%</b>	<b>\$ 11,664</b>

# Operating Expenses

## For the Month Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Operating expenses:</b>					
Salaries and benefits	\$ 2,954	\$ 2,881	\$ 73	2%	\$ 2,611
Contractual services	2,528	2,276	252	10%	2,063
Safety and security	1,752	1,524	228	13%	1,485
Space rental	909	910	(1)	-	909
Utilities	601	429	172	29%	696
Maintenance	499	818	(319)	(64)%	771
Equipment and systems	37	45	(8)	(22)%	27
Materials and supplies	30	8	21	73%	30
Insurance	102	90	12	12%	100
Employee development and support	120	71	49	41%	63
Business development	197	137	61	30%	44
Equipment rental and repairs	110	93	17	15%	139
<b>Total operating expenses</b>	<b>\$ 9,839</b>	<b>\$ 9,282</b>	<b>\$ 557</b>	<b>6%</b>	<b>\$ 8,938</b>



# Financial Summary

## For the Month Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
Total operating revenues	\$ 12,411	\$12,268	\$ (143)	(1)%	\$ 11,664
Total operating expenses	9,839	9,282	557	6%	8,938
<b>Income from operations</b>	<b>2,572</b>	<b>2,986</b>	<b>414</b>	<b>16%</b>	<b>2,726</b>
Depreciation	4,440	4,151	289	7%	3,292
<b>Operating income (loss)</b>	<b>\$ (1,868)</b>	<b>\$ (1,165)</b>	<b>\$ 703</b>	<b>38%</b>	<b>\$ (566)</b>

# Nonoperating Revenues and (Expenses) For the Month Ended October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Nonoperating revenues (expenses):</b>					
Passenger facility charges	\$ 2,838	\$ 2,967	\$ 129	5%	\$ 2,958
Customer facility charges (ConRAC Facility)	950	991	41	4%	897
Quieter Home Program	(302)	(137)	165	55%	(615)
Interest income	499	424	(75)	(15)%	554
Interest expense	(559)	(423)	136	24%	(225)
Bond amortization cost	(12)	54	66	550%	(6)
Other nonoperating revenue (expenses)	(3)	35	38	1267%	(104)
<b>Nonoperating revenue, net</b>	<b>3,411</b>	<b>3,911</b>	<b>500</b>	<b>15%</b>	<b>3,459</b>
<b>Income before grant contributions</b>	<b>1,543</b>	<b>2,746</b>	<b>1,203</b>	<b>78%</b>	<b>2,893</b>
Capital grant contributions	1,823	1,644	(179)	(10)%	3,385
<b>Net income</b>	<b>\$ 3,366</b>	<b>\$ 4,390</b>	<b>\$ 1,024</b>	<b>30%</b>	<b>\$ 6,278</b>



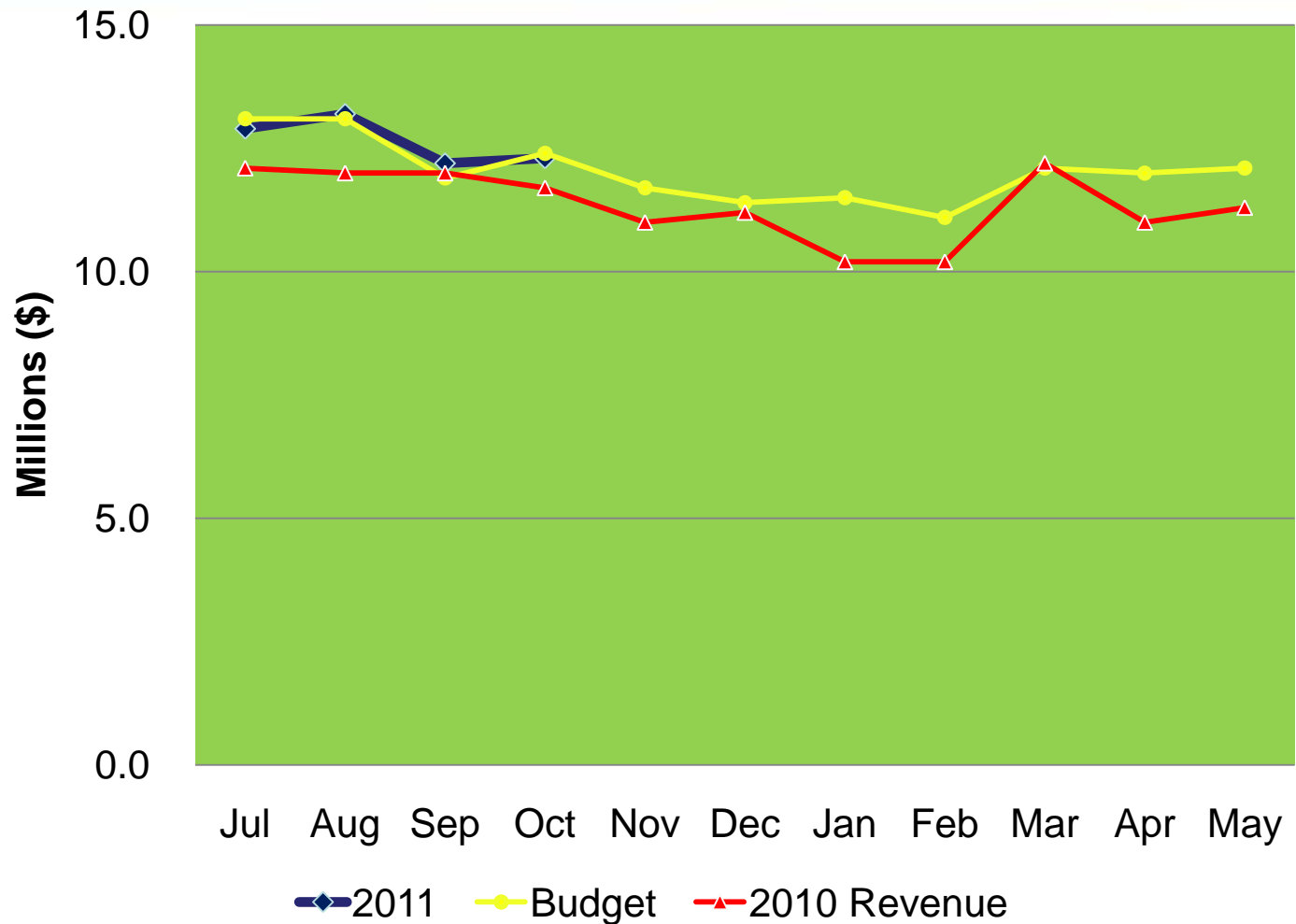
# **Revenues and Expenses (Unaudited)**

## **For the four months ended October 31, 2010**



# Monthly Operating Revenue, FY 2011

(Unaudited)



# Operating Revenues

## For the Four Months Ended October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Aviation revenue:</b>					
Landing fees	\$ 6,741	\$ 6,518	\$ (223)	(3)%	\$ 6,799
Aircraft parking fees	942	1,004	62	7%	1,172
Building rentals	9,261	9,371	110	1%	8,574
Security surcharge	4,929	4,953	24	-	4,020
Other aviation revenue	531	536	5	1%	530
<b>Total aviation revenue</b>	<b>\$ 22,404</b>	<b>\$ 22,382</b>	<b>\$ (22)</b>	<b>-</b>	<b>\$ 21,095</b>

# Operating Revenues

## For the Four Months Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
Terminal rent non-airline	\$ 289	\$ 268	\$ (21)	(7)%	\$ 264
<b>Concession revenue:</b>					
Terminal concession revenue:					
Food and beverage	2,112	2,109	(3)	-	2,126
Gifts and news	1,383	1,379	(4)	-	1,305
Other	996	946	(50)	(5)%	777
<b>Total terminal concession revenue</b>	<b>4,491</b>	<b>4,434</b>	<b>(57)</b>	<b>(1)%</b>	<b>4,208</b>
<b>Car rental and license fee revenue:</b>					
Rental car license fees	7,957	8,200	243	3%	7,796
License fees-other	1,096	956	(140)	(13)%	960
Total rental car and license fees	9,053	9,156	103	1%	8,756
<b>Total concession revenue</b>	<b>\$ 13,544</b>	<b>\$ 13,590</b>	<b>\$ 46</b>	<b>-</b>	<b>\$ 12,964</b>

# Operating Revenues

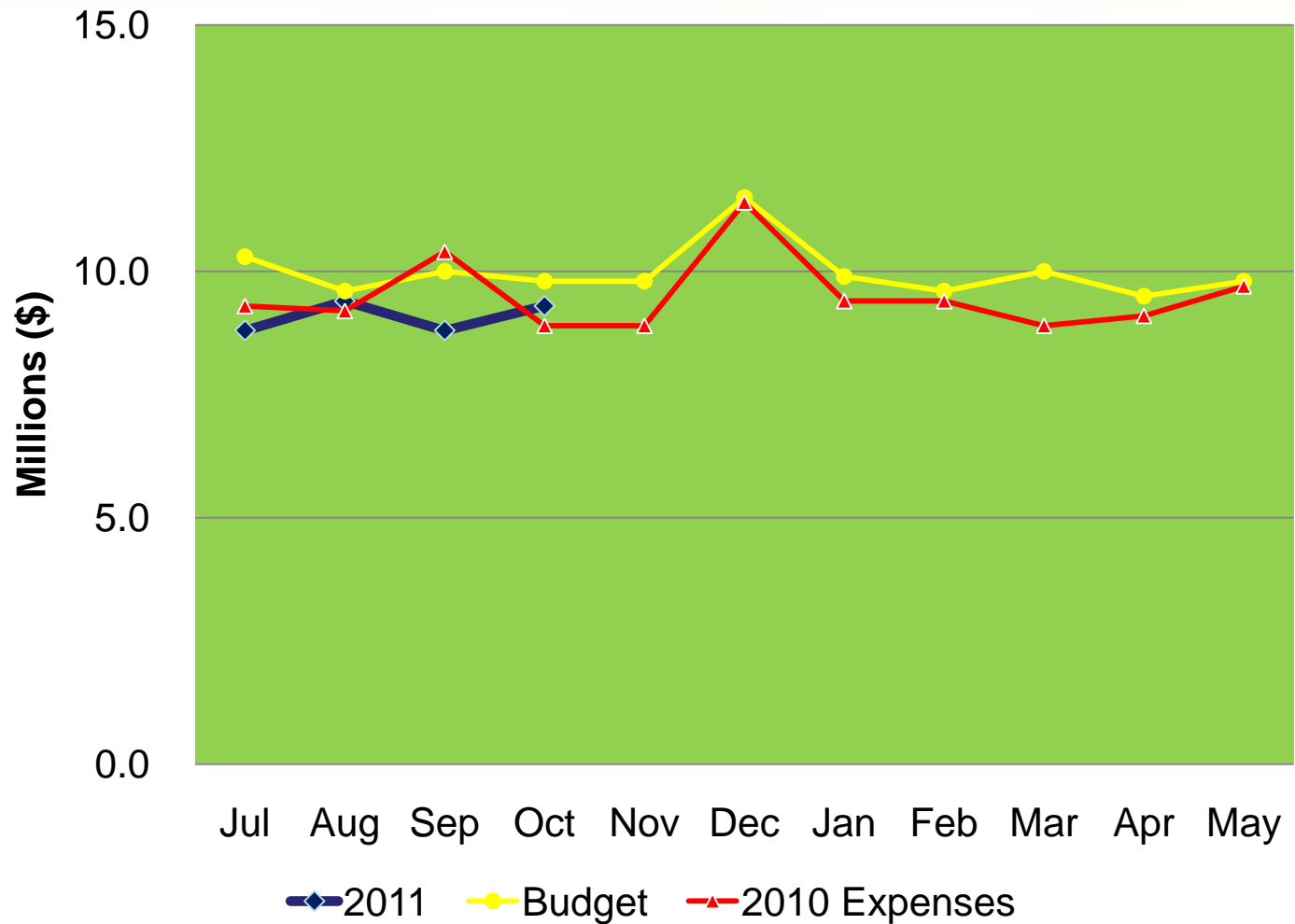
## For the Four Months Ended October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Parking revenue:</b>					
On-airport parking revenue	\$ 7,071	\$ 7,009	\$ (62)	(1)%	\$ 6,619
Off-airport parking revenue	4,321	4,041	(280)	(6)%	3,957
<b>Total parking revenue</b>	<b>11,392</b>	<b>11,050</b>	<b>(342)</b>	<b>(3)%</b>	<b>10,576</b>
Ground transportation permits and citations	215	353	138	64%	147
Ground rentals	2,055	2,375	320	16%	1,999
Grant reimbursement	362	170	(192)	(53)%	510
Other operating revenue	241	287	46	19%	160
Subtotal	14,265	14,235	(30)	-	13,392
<b>Total operating revenues</b>	<b>\$ 50,502</b>	<b>\$ 50,475</b>	<b>\$ (27)</b>	<b>-</b>	<b>\$ 47,715</b>



# Monthly Operating Expenses, FY 2011

(Unaudited)



# Operating Expenses

## For the Four Months Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Operating expenses:</b>					
Salaries and benefits	\$ 12,028	\$ 11,525	\$ 503	4%	\$ 10,751
Contractual services	9,947	8,379	1,568	16%	8,914
Safety and security	6,492	6,249	243	4%	6,273
Space rental	3,636	3,636	0	-	3,635
Utilities	2,628	2,274	354	13%	2,736
Maintenance	2,721	2,524	197	7%	3,521
Equipment and systems	161	107	54	34%	126
Materials and supplies	131	78	53	40%	142
Insurance	408	361	47	12%	392
Employee development and support	395	232	163	41%	237
Business development	642	461	181	28%	582
Equipment rental and repairs	494	401	93	19%	590
<b>Total operating expenses</b>	<b>\$ 39,683</b>	<b>\$ 36,227</b>	<b>\$ 3,456</b>	<b>9%</b>	<b>\$ 37,899</b>



# Financial Summary

## For the Four Months Ended October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
Total operating revenues	\$ 50,502	\$ 50,475	\$ (27)	-	\$ 47,715
Total operating expenses	39,683	36,227	3,456	9%	37,899
<b>Income from operations</b>	<b>10,819</b>	<b>14,248</b>	<b>3,429</b>	<b>32%</b>	<b>9,816</b>
Depreciation	16,756	16,465	291	2%	13,160
<b>Operating income (loss)</b>	<b>\$ (5,937)</b>	<b>\$ (2,217)</b>	<b>\$ 3,720</b>	<b>63%</b>	<b>\$ (3,344)</b>



# Nonoperating Revenues and (Expenses)

## For the Four Months Ended

### October 31, 2010 (Unaudited)

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)	% Change	Prior Year
<b>Nonoperating revenues (expenses):</b>					
Passenger facility charges	\$ 11,943	\$ 11,528	\$ (415)	(3)%	\$ 11,711
Customer facility charges (ConRAC Facility)	3,670	3,843	173	5%	3,752
Quieter Home Program	(1,184)	(1,072)	112	9%	(812)
Interest income	1,994	1,690	(304)	(15)%	2,901
Interest expense	(1,288)	(1,109)	179	14%	(923)
Bond amortization cost	(48)	36	84	175%	(25)
Other nonoperating revenue (expenses)	(13)	78	91	-	(749)
<b>Nonoperating revenue, net</b>	<b>15,074</b>	<b>14,994</b>	<b>(80)</b>	<b>(1)%</b>	<b>15,855</b>
<b>Income before grant contributions</b>	<b>9,137</b>	<b>12,777</b>	<b>3,640</b>	<b>40%</b>	<b>12,511</b>
Capital grant contributions	12,653	10,636	(2,017)	(16)%	4,248
<b>Net income</b>	<b>\$ 21,790</b>	<b>\$ 23,413</b>	<b>\$ 1,623</b>	<b>7%</b>	<b>\$ 16,759</b>

# Balance Sheets (Unaudited)

## ASSETS

	(In thousands)	
	<b>October</b>	
	<b>2010</b>	<b>2009</b>
<b>Current assets:</b>		
Cash and investments	\$ 108,320	\$ 95,733
Tenant lease receivable, net of allowance of 2010: \$20,055 and 2009: \$197,737	5,446	5,146
Grants receivable	4,787	5,847
Notes receivable-current portion	1,613	1,685
Prepaid expenses and other current assets	10,910	15,170
<b>Total current assets</b>	<b>131,076</b>	<b>123,581</b>
<b>Cash designated for capital projects and other</b>	<b>\$ 4,630</b>	<b>\$ 9,122</b>

# Balance Sheets (Unaudited)

## ASSETS

(In thousands)

**October**

**2010**

**2009**

### Restricted assets:

#### Cash and investments:

Bonds reserve

\$ 45,708 \$ 47,303

Passenger facility charges and interest unapplied

64,204 58,977

Customer facility charges and interest applied\*

13,752 4,290

Commercial paper reserve

152 166

SBD bond guarantee

4,000 4,000

Bond proceeds held by trustee

440,083 5,490

Commercial paper interest held by trustee

140 36

Passenger facility charges receivable

5,426 4,934

Customer facility charges receivable\*

959 1,001

OCIP insurance reserve

6,400 1,066

### **Total restricted assets**

**\$ 580,824 \$ 127,263**

\*ConRAC Facility

# Balance Sheets (Unaudited)

## ASSETS

	(In thousands)	
	<b>October</b>	
	<b>2010</b>	<b>2009</b>
<b>Noncurrent assets:</b>		
<b>Capital assets:</b>		
Land and land improvements	\$ 23,454	\$ 23,582
Runways, roads and parking lots	235,559	229,208
Buildings and structures	462,799	417,938
Machinery and equipment	10,078	7,771
Vehicles	5,295	5,620
Office furniture and equipment	30,072	24,137
Works of art	2,411	2,175
Construction-in-progress	218,540	139,525
<b>Total capital assets</b>	<b>988,208</b>	<b>849,956</b>
Less: accumulated depreciation	(475,605)	(437,185)
<b>Total capital assets, net</b>	<b>\$ 512,603</b>	<b>\$ 412,771</b>

# Balance Sheets (Unaudited)

## ASSETS

	(In thousands)	
	<b>October</b>	
	<b>2010</b>	<b>2009</b>
<b>Other assets:</b>		
Notes receivable - long-term portion	\$ 44,092	\$ 45,733
Investments - long-term portion	8,383	13,563
Deferred costs - bonds (net)	4,923	834
Net pension asset	8,132	3,917
<b>Total other assets</b>	<b>65,530</b>	<b>64,047</b>
<b>Total noncurrent assets</b>	<b>578,133</b>	<b>476,818</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,294,663</b>	<b>\$ 736,784</b>

## Balance Sheets (Unaudited)

### LIABILITIES AND NET ASSETS

	(In thousands)	
	<b>October</b>	
	<u><b>2010</b></u>	<u><b>2009</b></u>
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 40,433	\$ 41,970
Deposits and other current liabilities	3,222	3,127
<b>Total current liabilities</b>	<u><b>43,655</b></u>	<u><b>45,097</b></u>
<b>Current liabilities - payable from restricted assets:</b>		
Current portion of long-term debt	4,725	3,105
Accrued interest on bonds and commercial paper	3,379	914
<b>Total liabilities payable from restricted assets</b>	<u><b>\$ 8,104</b></u>	<u><b>\$ 4,019</b></u>



## Balance Sheets (Unaudited)

### LIABILITIES AND NET ASSETS

	(In thousands)	
	<b>October</b>	
	<b>2010</b>	<b>2009</b>
<b>Long-term liabilities - other:</b>		
Commercial paper notes payable	\$ 21,509	\$ 114,430
Deferred rent liability	495	1,033
Other long-term liabilities	1,188	1,089
Long-term debt - bonds net of amortized premium	635,847	41,176
<b>Total long-term liabilities</b>	<b>659,039</b>	<b>157,728</b>
<b>Total liabilities</b>	<b>\$ 710,798</b>	<b>\$ 206,844</b>



## Balance Sheets (Unaudited)

### LIABILITIES AND NET ASSETS

		(In thousands)	
		<b>October</b>	
		<u><b>2010</b></u>	<u><b>2009</b></u>
<b>Authority net assets:</b>			
Invested in capital assets, net of related debt		\$ 290,040	\$ 260,342
Other restricted		585,549	130,368
Unrestricted:			
Designated		16,762	17,040
Undesignated		(308,486)	122,190
<b>Total net assets</b>		<u><b>583,865</b></u>	<u><b>529,940</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><b>\$ 1,294,663</b></u>	<u><b>\$ 736,784</b></u>



# Questions

