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\$725,015,000 City of San Jose, California Airport Revenue Bonds

The post-9/11 era brought considerable challenges to capacity-constrained U.S. commercial airports with large expansion programs in the works. Not only were these airports forced to reassess the timing and cost of their ambitious capital programs in a very uncertain market, but they also had to deal with rigorous new baggage and passenger screening processes that further constrained their facilities. One such airport, the Norman Y. Mineta San Jose International Airport (SJC), faced yet another challenge -- a sudden drop in business activity caused by the dot.com bust. Located in the heart of California's economically vibrant Silicon Valley region, SJC serves one of the wealthiest regions in the country as well as one of the most critical high-tech business markets in the world. The airport is owned and operated by the City of San Jose, a long-standing Ambac client.

While the airport's immediate region has undergone tremendous growth and change, facilities at the San Jose airport had not kept pace with its core market, which Ambac considered notably underserved. The airport prudently delayed its large \$1.6 billion capital expansion program in the post-9/11 period until the market improved. After experiencing a modest but sustainable recovery in activity levels, SJC finally broke ground on its expansion program and recently tapped the capital markets to fund it with a \$725 million bond issue. The bond issuance represents the first issuance of a major facility expansion for the airport. Bond proceeds from this issue will fund the first phase of an ambitious CIP that will virtually rebuild and significantly expand the entire landside of the airport, including rebuilding and expanding terminals, new parking and rental car facilities and refiguring and expanding the road network.

The City assembled a financing team that included Ambac and Lehman Brothers, a distinguished underwriter in the airport sector. In examining this large financing, Ambac took comfort in the superb track record of San Jose's management team, especially on difficult projects like the Ambac-insured City Hall Project. Other important credit factors included the airport's very healthy financial position, strong airline support for the capital program and the financing structure's ability to survive a number of stress cases modeled by Ambac.

Backed by Ambac's triple-A rating and a solid forecast of continued growth for the airport, Norman Y. Mineta San Jose International Airport's \$725 million financing was successfully sold into a very volatile market in August 2007 and officially closed the following month.

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