

REMARKETING MEMORANDUM DATED SEPTEMBER 23, 2011

RATINGS: See "RATINGS" herein

On the date of original issuance of the Series 2008 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission, delivered its opinion that based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. It was the further opinion of Bond Counsel that interest on the Series 2008 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds. In connection with the substitutions of Alternate Liquidity Facilities supporting the 2008 Series C Bonds and 2008 Series D Bonds, Bond Counsel will deliver its opinion that the respective substitutions will not, in and of themselves, adversely affect the Tax-Exempt status of interest on the Series 2008 Series C Bonds and the 2008 Series D Bonds, as applicable. Bond Counsel is not rendering any opinion on the current tax status of the Series 2008 Bonds. See "TAX MATTERS."

\$566,100,000

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
SALES TAX REVENUE BONDS (LIMITED TAX BONDS)**

Variable Rate Demand Bonds Variable Rate Demand Bonds Variable Rate Demand Bonds Variable Rate Demand Bonds
2008 Series A 2008 Series B 2008 Series C 2008 Series D

This cover page contains general information only. Investors must read the entire Remarketing Memorandum to obtain information essential to making an informed investment decision. This Remarketing Memorandum supersedes the Official Statement relating to the Series 2008 Bonds dated March 21, 2008.

On March 27, 2008, the San Diego County Regional Transportation Commission (the "Commission") issued the Bonds described herein (the "2008 Series A Bonds," the "2008 Series B Bonds," the "2008 Series C Bonds" and the "2008 Series D Bonds," which shall collectively be referred to herein as the "Series 2008 Bonds") pursuant to an Indenture, dated as of March 1, 2008 (as amended and supplemented, including by a First Supplemental Indenture, dated as of March 1, 2008, and a Second Supplemental Indenture, dated as of July 1, 2008, and a Third Supplemental Indenture, dated as of October 1, 2010, the "Indenture"), between the Commission and U.S. Bank National Association, as trustee. Each of the Series 2008 Bonds were originally issued in the principal amount of \$150,000,000; as of June 30, 2011 \$141,525,000 of each of the Series 2008 Bonds are outstanding such that as of June 30, 2011, \$566,100,000 aggregate principal amount of the Series 2008 Bonds are outstanding.

The Series 2008 Bonds are limited obligations of the Commission payable from the receipts of a one-half of one percent (0.5%) retail transactions and use tax (the "Sales Tax") imposed in the County of San Diego (the "County") for transportation and related purposes. Collection of the Sales Tax commenced April 1, 1988; the Sales Tax is scheduled to expire on March 31, 2048. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS" herein.

Proceeds from the sale of the 2008 Bonds were used by the Commission for several purposes authorized under the San Diego County Regional Transportation Commission Act (Public Utilities Code Section 132000 et seq.), including to fund a deposit to the reserve fund securing the Series 2008 Bonds.

The series designations, principal amounts, interest rate determination methods, interest payment dates, maturity dates, authorized denominations, credit enhancement and other information relating to the Series 2008 Bonds are summarized in the Summary of Series 2008 Bonds on the inside cover page. Investors may purchase Series 2008 Bonds in book-entry form only.

Series 2008 Bonds are subject to mandatory sinking fund redemption by the Commission prior to maturity as described in this Remarketing Memorandum. Series 2008 Bonds also are subject to optional redemption or purchase by the Commission prior to maturity as described in this Remarketing Memorandum. The Series 2008 Bonds also are subject to mandatory tender for purchase and remarketing at the option of the Commission or if their Interest Rate Determination Method is changed by the Commission.

The Series 2008 Bonds may be tendered at any time by Series 2008 Bondowners for purchase and remarketing. In order to provide for the payment of the purchase price of the 2008 Series A Bonds and the 2008 Series B Bonds that are not remarketed, the Commission entered into a standby bond purchase agreement dated March 27, 2008, as amended (the "JPMorgan Liquidity Facility") with JPMorgan Chase Bank, National Association ("JPMorgan"). In order to provide for the payment of the purchase price of the 2008 Series C Bonds that are not remarketed, the Commission will enter into a standby bond purchase agreement dated as of September 1, 2011 (the "Mizuho Liquidity Facility") with Mizuho Corporate Bank, Ltd., acting through its New York Branch ("Mizuho"). In order to provide for the payment of the purchase price of the 2008 Series D Bonds that are not remarketed, the Commission will enter into a standby bond purchase agreement dated as of September 28, 2011 ("the State Street/CalSTRS Liquidity Facility") with State Street Bank and Trust Company ("State Street Bank") and the California State Teachers Retirement System ("CalSTRS"). JP Morgan, Mizuho, State Street Bank and CalSTRS are collectively referred to at times herein as the "Liquidity Providers," and the JPMorgan Liquidity Facility, the Mizuho Liquidity Facility and the State Street/CalSTRS Liquidity Facility are collectively referred to at times herein as a "Liquidity Facility." Pursuant to the terms and conditions of the applicable Liquidity Facilities, with respect to all Series 2008 Bonds that are tendered for purchase and not remarketed, JPMorgan will be obligated to purchase the 2008 Series A Bonds and the 2008 Series B Bonds, Mizuho will be obligated to purchase the 2008 Series C Bonds and State Street Bank and CalSTRS, as a several obligation in an amount equal to the percentage of their commitment under the State Street/CalSTRS Liquidity Facility, will be obligated to purchase the 2008 Series D Bonds, all subject to the occurrence of certain suspension and termination events specified therein. The obligation of the Facility Providers to purchase the Series 2008 Bonds terminates if there is a change in the Interest Rate Determination Method from a Weekly Rate or a Daily Rate. Under the terms of the applicable Liquidity Facilities, each Liquidity Provider's obligation to purchase the applicable Series 2008 Bonds is several and not joint and none of the Liquidity Providers will be liable for the failure of any other Liquidity Provider to purchase the respective Series 2008 Bonds pursuant to the applicable Liquidity Facility. See "THE LIQUIDITY FACILITIES." Unless otherwise terminated or extended pursuant to its terms, the JPMorgan Liquidity Facility will expire on March 23, 2012 and the Mizuho Liquidity Facility will expire on September 26, 2014 and the State Street/CalSTRS Liquidity Facility will expire on September 28, 2015. The Liquidity Facilities do not provide security or support for the payment of the principal of, premium, if any, or interest on the Series 2008 Bonds.

J.P.Morgan

(Liquidity Provider for 2008 Series A and 2008 Series B)

MIZUHO

(Liquidity Provider for 2008 Series C)



STATE STREET

(Liquidity Providers for 2008 Series D)

CALSTRS

THE SERIES 2008 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE COMMISSION TO THE EXTENT OF THE PLEDGE OF REVENUES DESCRIBED HEREIN, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. TO THE EXTENT THEY EXIST, THE GENERAL FUNDS OF THE COMMISSION ARE NOT LIABLE, AND THE CREDIT OR TAXING POWER (OTHER THAN AS DESCRIBED IN THE INDENTURE) OF THE COMMISSION IS NOT PLEDGED, FOR THE PAYMENT OF THE SERIES 2008 BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE SERIES 2008 BONDS. THE SERIES 2008 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE COMMISSION OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE SALES TAX REVENUES AND THE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE

Barclays Capital Inc. Remarketing Agent 2008 Series A Bonds	Goldman, Sachs & Co. Remarketing Agent 2008 Series B Bonds	J.P. Morgan Securities LLC Remarketing Agent 2008 Series C Bonds	De La Rosa & Co. Remarketing Agent 2008 Series D Bonds
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SUMMARY OF 2008 SERIES BONDS

\$566,100,000

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
SALES TAX REVENUE BONDS (LIMITED TAX BONDS) 2008 SERIES A-D**

	\$141,525,000 2008 Series A Bonds	\$141,525,000 2008 Series B Bonds	\$141,525,000 2008 Series C Bonds	\$141,525,000 2008 Series D Bonds
Maturity Date:	April 1, 2038	April 1, 2038	April 1, 2038	April 1, 2038
Price:	100%	100%	100%	100%
Authorized Denominations:	\$100,000 or any integral multiple of \$5,000 in excess thereof	\$100,000 or any integral multiple of \$5,000 in excess thereof	\$100,000 or any integral multiple of \$5,000 in excess thereof	\$100,000 or any integral multiple of \$5,000 in excess thereof
Initial Interest Rate Determination Method¹:	Weekly Rate	Weekly Rate	Weekly Rate	Weekly Rate
Interest Payment Dates:	First Business Day of each calendar month	First Business Day of each calendar month	First Business Day of each calendar month	First Business Day of each calendar month
Record Date for Interest Payments:	Business Day prior to Interest Payment Date	Business Day prior to Interest Payment Date	Business Day prior to Interest Payment Date	Business Day prior to Interest Payment Date
Liquidity Provider:	JPMorgan Chase Bank, National Association	JPMorgan Chase Bank, National Association	Mizuho Corporate Bank, Ltd., New York Branch	State Street Bank and Trust/California State Teachers Retirement System
Scheduled Expiration Date of Liquidity Facility²	March 23, 2012	March 23, 2012	September 26, 2014	September 28, 2015
Remarketing Agent:	Barclays Capital Inc.	Goldman, Sachs & Co.	I.P. Morgan Securities LLC	De La Rosa & Co.
CUSIP No³	797400 FFO	797400 FG8	797400 FH6	797400 FI2

¹ Upon satisfaction of certain conditions set forth in the Indenture, the Series 2008 Bonds of each Series may bear interest calculated pursuant to a different Interest Rate Determination Method (which may be the Daily Rate, the Weekly Rate, the Commercial Paper Rate, the Auction Period Rate, the Index Rate, the Term Rate or the Fixed Rate), provided however, that all Series 2008 Bonds of the same Series must be in the same Interest Rate Determination Method. See "DESCRIPTION OF THE SERIES 2008 BONDS."

This Remarketing Memorandum is not intended to provide information about the Series 2008 Bonds after conversion to an Interest Rate Period other than a Daily Rate Period or a Weekly Rate Period.
While in a Daily Rate Period or a Weekly Rate Period, the Series 2008 Bonds are subject to optional and mandatory tender for purchase in authorized denominations at a purchase price equal to the principal amount thereof, without premium, plus accrued interest to the Purchase Date (the "Purchase Price"). See "DESCRIPTION OF THE SERIES 2008 BONDS."

² Subject to extension by agreement between the Commission and the respective Liquidity Providers.

³ CUSIP numbers have been assigned by an organization not affiliated with the Commission and are included solely for the convenience of the public. Neither the Commission nor the Remarketing Agents take any responsibility for the accuracy of such numbers.

This Remarketing Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by the Commission, the Remarketing Agents, the Liquidity Providers (only with respect to the information provided in Appendix F) and other sources that are believed by the Commission to be reliable. The Remarketing Agents have provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agents have reviewed the information in this Remarketing Memorandum in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Remarketing Memorandum. If given or made, such other information or representations must not be relied upon as having been authorized by the Commission, the Liquidity Providers or the Remarketing Agents.

This Remarketing Memorandum is not to be construed as a contract with the purchasers of the Series 2008 Bonds.

This Remarketing Memorandum speaks only as of its date. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Remarketing Memorandum nor any sale made in conjunction herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Commission or other matters described herein since the date hereof. This Remarketing Memorandum is submitted with respect to the sale of the Series 2008 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Commission.

All descriptions and summaries of documents and statutes hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document and statute for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and statute. Certain capitalized terms used but not defined herein are defined in APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE-Definitions.”

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS REMARKETING MEMORANDUM

Certain statements included or incorporated by reference in this Remarketing Memorandum constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Commission in any way, regardless of the level of optimism communicated in the information. The Commission is not obligated to issue nor does it plan to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

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Southwest Division Naval Facilities
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Marney P. Cox

***TransNet* AND LEGISLATIVE
AFFAIRS PROGRAM DIRECTOR**
Kim Kawada

FINANCIAL ADVISOR

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BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

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REMARKETING MEMORANDUM

\$566,100,000

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION SALES TAX REVENUE BONDS (LIMITED TAX BONDS) 2008 SERIES A-D

INTRODUCTION AND PURPOSE OF THE SERIES 2008 BONDS

This Remarketing Memorandum, including the cover page and all appendices hereto (the "Remarketing Memorandum"), provides certain information concerning the San Diego County Regional Transportation Commission (the "Commission") San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A through D (the "Series 2008 Bonds"), comprised of:

<u>Outstanding Principal Amount</u>	<u>Series</u>	<u>Interest Rate Mode</u>
\$141,525,000	2008 Series A Bonds	Weekly Rate
141,525,000	2008 Series B Bonds	Weekly Rate
141,525,000	2008 Series C Bonds	Weekly Rate
141,525,000	2008 Series D Bonds	Weekly Rate

The Series 2008 Bonds were issued pursuant to the Indenture, dated as of March 1, 2008, between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of March 1, 2008 (the "First Supplemental Indenture"), between the Commission and the Trustee. The Indenture has been further supplemented by a Second Supplemental Indenture, dated as of July 1, 2008, and a Third Supplemental Indenture, dated as of October 1, 2010, and, as so supplemented and as further supplemented from time to time pursuant to its terms, is hereinafter referred to as the "Indenture." All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," or, if not defined therein, in the Indenture.

Pursuant to the San Diego County Regional Transportation Commission Act, Chapter 2 of Division 12.7 (Sections 132000 and following) of the Public Utilities Code of the State of California, (the "Act"), the Commission is authorized to issue indebtedness payable in whole or in part from Sales Tax Revenues (defined below). The Commission's debt issuing capacity and authority are separate and distinct from both the City of San Diego and the County of San Diego (the "County").

The Series 2008 Bonds are limited obligations of the Commission secured by a pledge of sales tax revenues (herein called the "Sales Tax Revenues") derived from a one-half of one percent (0.5%) retail transactions and use tax (the "Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 and following), net of an administrative fee paid to the California State Board of Equalization (the "BOE") in connection with the collection and disbursement of the Sales Tax. On November 3, 1987, a majority of the voters approved the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (as amended, the "1987 Ordinance") which imposed the Sales Tax in the County for a twenty-year period.

Under the 1987 Ordinance, the Sales Tax was scheduled to expire on April 1, 2008. On November 2, 2004, more than two-thirds of the voters approved San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (the "Sales Tax Extension Ordinance," and, together with the 1987 Ordinance, hereinafter collectively referred to as the "Ordinance") which provided for an extension of the Sales Tax through March 31, 2048. The Series 2008 Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Pledge of Sales Tax Revenues" herein.

On October 28, 2010, the Commission issued its Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2010 (the "Series 2010 Bonds") in the aggregate principal amount of \$350,000,000. The Series 2010 Bonds are secured by a pledge of Sales Tax Revenues on a parity with the Series 2008 Bonds and are currently Outstanding in the aggregate principal amount of \$349,540,000.

A Reserve Fund (the "2008 Bonds Reserve Fund") for the Series 2008 Bonds and other 2008 Reserve Fund Eligible Bonds (as defined below) was funded from the proceeds of the Series 2008 Bonds as described below, but does not serve as security for the Series 2010 Bonds. Additional Bonds and other obligations secured by a pledge of the Sales Tax Revenues on a parity with the Series 2008 Bonds and the Series 2010 Bonds may be issued or incurred and, subject to certain conditions, such additional Bonds may be designated as 2008 Reserve Fund Eligible Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Additional Bonds and Parity Obligations" and "2008 Bonds Reserve Fund" herein. The Series 2008 Bonds, the Series 2010 Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under the Indenture, are referred to collectively herein as the "Bonds."

In 2005, the Commission authorized the issuance from time to time of San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) (the "Subordinate Commercial Paper Notes") that are secured by a lien on the Sales Tax Revenues that is subordinate to the lien of the Bonds and Parity Obligations. The Subordinate Commercial Paper Notes are currently authorized to be issued in an aggregate principal amount of up to \$100,000,000 outstanding at any one time, and, as of June 30, 2011, were outstanding in the aggregate principal amount of \$34,000,000.

In November, 2005, the Commission entered into three interest rate swap agreements in an initial aggregate notional amount of \$600,000,000 (the "Initial Swaps") pursuant to which the Commission agrees to pay to the counterparties a fixed rate of interest and the counterparties agree to pay the Commission a floating rate of interest. The Initial Swaps were effective as of April 1, 2008, and the notional amounts amortize in tandem with the amortization of the Series 2008 Bonds. Regularly scheduled payments on the Initial Swaps are payable on a parity with the Series 2008 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Interest Rate Swaps" for additional information regarding the Initial Swaps.

In March, 2009, the Commission entered into two Securities Industry and Financial Markets Association ("SIFMA") versus London Interbank Offered Rate ("LIBOR") floating-to-floating swaps (the "Basis Rate Swap Overlays"), with initial notional amounts of \$156,600,000 each. Under two of the Initial Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. Pursuant to the terms of the Basis Rate Swap Overlays of two of the Initial Swaps, the Commission agreed to pay to the counterparties a payment of the SIFMA index and the counterparties agreed to pay the Commission 107.4 percent of LIBOR, on the first day of each month, commencing May 1, 2018, for the last 20 years of two of the Initial Swaps. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010

BONDS –Basis Rate Swap Overlays to the Interest Rate Swaps” for additional information regarding the Basis Rate Swap Overlays.

The regular payments on the Initial Swaps and the Basis Rate Swap Overlays are payable on a parity with the Bonds.

The Commission applied the proceeds of the Series 2008 Bonds for several purposes, including the funding of a pooled Reserve Fund for the 2008 Reserve Fund Eligible Bonds. See “SUMMARY OF FINANCING PLAN” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – 2008 Bonds Reserve Fund.”

Pursuant to the Indenture, the Series 2008 Bonds will be subject to optional and mandatory tender for purchase at a purchase price equal to the principal thereof without premium, plus accrued interest thereon to the date of purchase, as provided in the Indenture (the “Purchase Price”). See “ADDITIONAL TERMS OF THE SERIES 2008 BONDS – Optional Tender Provisions” and “- Mandatory Tender Provisions.” In order to provide for the payment of the Purchase Price of the 2008 Series A Bonds and the 2008 Series B Bonds that are not remarketed, the Commission entered into a standby bond purchase agreement dated March 27, 2008, as amended (the “JPMorgan Liquidity Facility”) with JPMorgan Chase Bank, National Association (“JPMorgan”). In order to provide for the payment of the Purchase Price of the 2008 Series C Bonds that are not remarketed, the Commission will enter into a standby bond purchase agreement dated as of September 1, 2011 (the “Mizuho Liquidity Facility”) with Mizuho Corporate Bank, Ltd., acting through its New York Branch (“Mizuho”) and the Trustee. In order to provide for the payment of the Purchase Price of the 2008 Series D Bonds that are not remarketed, the Commission will enter into a standby bond purchase agreement dated as of September 28, 2011 (“the State Street/CalSTRS Liquidity Facility”) with State Street Bank and Trust Company (“State Street Bank”) and the California State Teachers Retirement System (“CalSTRS”). JPMorgan, Mizuho, State Street Bank and CalSTRS are collectively referred to at times herein as the “Liquidity Providers,” and the JPMorgan Liquidity Facility, the Mizuho Liquidity Facility and the State Street/CalSTRS Liquidity Facility are collectively referred to at times herein as a “Liquidity Facility.” Pursuant to the terms and conditions of the applicable Liquidity Facilities, with respect to all Series 2008 Bonds that are tendered for purchase and not remarketed, JPMorgan will be obligated to purchase the 2008 Series A Bonds and the 2008 Series B Bonds, Mizuho will be obligated to purchase the 2008 Series C Bonds and State Street Bank and CalSTRS, as a several obligation in an amount equal to the percentage of their commitment under the State Street/CalSTRS Liquidity Facility, will be obligated to purchase the 2008 Series D Bonds, all subject to the occurrence of certain suspension and termination events specified therein. The obligation of the Liquidity Providers to purchase the Series 2008 Bonds terminates following a mandatory tender if the Commission changes the Interest Rate Determination Method from a Weekly Rate or a Daily Rate. Under the terms of the applicable Liquidity Facilities, each Liquidity Provider’s obligation to purchase the applicable Series 2008 Bonds is several and not joint and none of the Liquidity Providers will be liable for the failure of any other Liquidity Provider to purchase the applicable Series 2008 Bonds pursuant to the applicable Liquidity Facility. Unless otherwise terminated or extended pursuant to its terms, the JPMorgan Liquidity Facility will expire on March 23, 2012, and the Mizuho Liquidity Facility will expire on September 26, 2014 and the State Street/CalSTRS Liquidity Facility will expire on September 28, 2015. See “THE LIQUIDITY FACILITIES” and Appendix F – “LIQUIDITY PROVIDERS”. The Liquidity Facilities do not provide security or support for the payment of the principal of, premium, if any, or interest on the Series 2008 Bonds.

The Remarketing Agent for the 2008 Series A Bonds is Barclays Capital Inc., for the 2008 Series B Bonds is Goldman, Sachs & Co., for the 2008 Series C Bonds is J.P. Morgan Securities LLC and for the 2008 Series D Bonds is De La Rosa & Co. (each a “Remarketing Agent” and collectively the “Remarketing Agents”). The Commission has entered into a Remarketing Agreement covering each

Series of the Series 2008 Bonds with the Remarketing Agent for such Series as shown in the Summary of Series 2008 Bonds on the inside cover page. Each Remarketing Agent undertakes, among other things, to use its best efforts to remarket Series 2008 Bonds for which it is the Remarketing Agent that are tendered for purchase. Each Remarketing Agent also undertakes to set the interest rate on the Series 2008 Bonds for which it is the Remarketing Agent. The Commission or the Remarketing Agent may terminate the Remarketing Agreement under the circumstances and in the manner described in the Remarketing Agreement, in which case the Commission expects to appoint a replacement remarketing agent in accordance with the Indenture.

DESCRIPTION OF THE SERIES 2008 BONDS

General

The Series 2008 Bonds have been issued in book-entry form only and are registered in the name of a nominee of The Depository Trust Company ("DTC"), which acts as securities depository for the Series 2008 Bonds. Investors may purchase Series 2008 Bonds in book-entry form only. Beneficial Owners of the Series 2008 Bonds will not receive certificates representing their ownership interests in the Series 2008 Bonds purchased. Payments of principal, Purchase Price and interest on the Series 2008 Bonds will be made to DTC, and DTC is to distribute such payments to its Direct Participants. Disbursement of such payments to Beneficial Owners of the Series 2008 Bonds is the responsibility of DTC's Direct and Indirect Participants and not the Commission. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

See "ADDITIONAL TERMS OF SERIES 2008 BONDS" for further information, including Interest Rate Determination Methods, conversion from one Interest Rate Determination Method to another, optional tender provisions, mandatory tender provisions, and cross-references to other important information about practices and procedures of the Commission and the Remarketing Agents for the Series 2008 Bonds.

Series 2008 Bonds

The Series 2008 Bonds initially bear interest at the Weekly Rate, with such rates determined as described below under "ADDITIONAL TERMS OF SERIES 2008 BONDS — Interest Rate Determination Methods." Interest on Series 2008 Bonds bearing interest at a Weekly Rate or a Daily Rate is payable on the first Business Day of each calendar month. Interest on Series 2008 Bonds bearing a Weekly Rate or a Daily Rate is computed on the basis of a 365/366-day year and actual days elapsed. The record date for Series 2008 Bonds bearing interest at the Weekly Rate or the Daily Rate will be the Business Day immediately preceding the Interest Payment Date. The Series 2008 Bonds will be issued in fully registered form in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

Conversion of Series 2008 Bonds

Upon satisfaction of conditions set forth in the Indenture, the Series 2008 Bonds of any Series may be changed at the election of the Commission to bear interest calculated pursuant to a different Interest Rate Determination Method (which may be the Daily Rate, the Weekly Rate, the Commercial Paper Rate, the Auction Period Rate, the Index Rate, the Term Rate or the Fixed Rate), *provided however*, that all Series 2008 Bonds of the same Series must have the same Interest Rate Determination Method and (except for any Liquidity Facility Bonds and Series 2008 Bonds bearing interest at a Commercial Paper Rate or, in certain circumstances, at a Fixed Rate) will bear interest at the same interest rate.

This Remarketing Memorandum is not intended to provide information about the Series 2008 Bonds after conversion to another Interest Rate Determination Method (except with respect to the conversion of any Series 2008 Bonds to a Weekly Rate or a Daily Rate).

Redemption Terms of the Series 2008 Bonds

Optional Redemption. The Series 2008 Bonds bearing interest at a Daily Rate or a Weekly Rate are subject to redemption at the option of the Commission, in whole or in part, in Authorized Denominations on any Business Day, at a Redemption Price equal to the principal amount thereof, plus accrued interest, if any, without premium.

Mandatory Redemption. The 2008 Series A Bonds, the 2008 Series B Bonds, the 2008 Series C Bonds and the 2008 Series D Bonds are subject to mandatory redemption from Mandatory Sinking Account Payments on each date a Mandatory Sinking Account Payment for such Series is due, in the principal amount equal to the Mandatory Sinking Account Payment due on such date, at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

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2008 Series A Bonds

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2012	\$3,075,000	2026	\$5,250,000
2013	\$3,150,000	2027	\$5,325,000
2014	\$3,300,000	2028	\$5,625,000
2015	\$3,450,000	2029	\$5,850,000
2016	\$3,600,000	2030	\$6,075,000
2017	\$3,675,000	2031	\$6,300,000
2018	\$3,825,000	2032	\$6,525,000
2019	\$3,975,000	2033	\$6,825,000
2020	\$4,125,000	2034	\$7,050,000
2021	\$4,275,000	2035	\$7,350,000
2022	\$4,500,000	2036	\$7,650,000
2023	\$4,650,000	2037	\$7,950,000
2024	\$4,800,000	2038 [†]	\$8,325,000
2025	\$5,025,000		

[†] Final Maturity

2008 Series B Bonds

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2012	\$3,075,000	2026	\$5,250,000
2013	\$3,150,000	2027	\$5,325,000
2014	\$3,300,000	2028	\$5,625,000
2015	\$3,450,000	2029	\$5,850,000
2016	\$3,600,000	2030	\$6,075,000
2017	\$3,675,000	2031	\$6,300,000
2018	\$3,825,000	2032	\$6,525,000
2019	\$3,975,000	2033	\$6,825,000
2020	\$4,125,000	2034	\$7,050,000
2021	\$4,275,000	2035	\$7,350,000
2022	\$4,500,000	2036	\$7,650,000
2023	\$4,650,000	2037	\$7,950,000
2024	\$4,800,000	2038 [†]	\$8,325,000
2025	\$5,025,000		

[†] Final Maturity

2008 Series C Bonds

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2012	\$3,075,000	2026	\$5,250,000
2013	\$3,150,000	2027	\$5,325,000
2014	\$3,300,000	2028	\$5,625,000
2015	\$3,450,000	2029	\$5,850,000
2016	\$3,600,000	2030	\$6,075,000
2017	\$3,675,000	2031	\$6,300,000
2018	\$3,825,000	2032	\$6,525,000
2019	\$3,975,000	2033	\$6,825,000
2020	\$4,125,000	2034	\$7,050,000
2021	\$4,275,000	2035	\$7,350,000
2022	\$4,500,000	2036	\$7,650,000
2023	\$4,650,000	2037	\$7,950,000
2024	\$4,800,000	2038 [†]	\$8,325,000
2025	\$5,025,000		

[†] Final Maturity

2008 Series D Bonds

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2012	\$3,075,000	2026	\$5,250,000
2013	\$3,150,000	2027	\$5,325,000
2014	\$3,300,000	2028	\$5,625,000
2015	\$3,450,000	2029	\$5,850,000
2016	\$3,600,000	2030	\$6,075,000
2017	\$3,675,000	2031	\$6,300,000
2018	\$3,825,000	2032	\$6,525,000
2019	\$3,975,000	2033	\$6,825,000
2020	\$4,125,000	2034	\$7,050,000
2021	\$4,275,000	2035	\$7,350,000
2022	\$4,500,000	2036	\$7,650,000
2023	\$4,650,000	2037	\$7,950,000
2024	\$4,800,000	2038 [†]	\$8,325,000
2025	\$5,025,000		

[†] Final Maturity

Purchase In Lieu of Redemption

The Commission reserves the right at all times to purchase any of its 2008 Bonds on the open market. In lieu of mandatory redemption, the Commission may surrender to the Trustee for cancellation Series 2008 Bonds purchased on the open market, and such Series 2008 Bonds shall be cancelled by the Trustee. If any Series 2008 Bonds are so cancelled, the Commission may designate the Mandatory Sinking Account Payments or portions thereof within such Series of the Series 2008 Bonds so purchased that are to be reduced as a result of such cancellation.

General Redemption Provisions

Selection for Redemption. The Commission will designate which Series and which maturities of any Series of Series 2008 Bonds are to be called for optional redemption; *provided* that Series 2008 Bonds of such Series registered in the name of a Liquidity Provider must be redeemed prior to redeeming any other Series 2008 Bonds of such Series bearing interest at a Daily Rate or a Weekly Rate. If less than all Series 2008 Bonds of a Series maturing on any one date are to be redeemed at any one time, DTC's practice is to determine by lot the amount of the interest of each DTC Direct Participant in the Series to be redeemed. For purposes of such selection, the Series 2008 Bonds of such Series shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately redeemed. The Commission may designate the Mandatory Sinking Account Payments, or portions thereof, that are to be reduced as a result of such redemption.

Notice of Redemption. The Trustee will send each notice of redemption by first class mail not less than 10 nor more than 90 days prior to the redemption date, to the Remarketing Agents, the Liquidity Providers and DTC. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners of Series 2008 Bonds will be governed by arrangements among them, and the Commission and the Trustee will not have any responsibility or obligation to send a notice of redemption except to DTC. Failure of DTC to receive any notice of redemption or any defect therein will not affect the sufficiency of any proceedings for redemption.

Conditional Notice of Redemption; Rescission. With respect to any notice of optional redemption of Series 2008 Bonds, unless, upon the giving of such notice, such Series 2008 Bonds shall be deemed to have been paid pursuant to the terms of the Indenture, such notice is to state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such Series 2008 Bonds to be redeemed, and that if such amounts shall not have been so received said notice will be of no force and effect and the Commission will not be required to redeem such Series 2008 Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given.

In addition, the Commission may, at its option, on or prior to the date fixed for redemption in any notice of redemption, rescind and cancel such notice of redemption by Written Request of the Commission to the Trustee, and the Trustee is to mail notice of such cancellation to the recipients of the notice of redemption as described herein under "DESCRIPTION OF THE SERIES 2008 BONDS—General Redemption Provisions."

Any optional redemption of the Series 2008 Bonds and notice thereof will be rescinded and cancelled pursuant to the provisions of the Indenture if for any reason on the date fixed for redemption moneys are not available in the Redemption Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal, interest and premium due on the Series 2008 Bonds called for redemption.

Effect of Redemption. Notice of redemption having been duly given pursuant to the Indenture and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2008 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice the Series 2008 Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption. Interest on such Series 2008 Bonds so called for redemption shall cease to accrue, and said Series 2008 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of such Series 2008 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price and interest accrued to the date fixed for redemption from funds held by the Trustee for such payment.

All Series 2008 Bonds redeemed pursuant to the provisions described herein shall be cancelled upon surrender.

See "ADDITIONAL TERMS OF SERIES 2008 BONDS" for information concerning interest rate determination methods, conversion of interest rate determination methods, and optional and mandatory tender provisions.

COMBINED DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the Series 2008 Bonds and the Series 2010 Bonds.

Fiscal Year Ending June 30	Principal Amount ⁽¹⁾		Interest Amount ⁽²⁾		Subsidy Payments Applicable to Series 2010 Bonds	Combined Net Annual Debt Service
	Series 2008 Bonds	Series 2010 Bonds	Series 2008 Bonds	Series 2010 Bonds		
2012	12,300,000.00	560,000.00	20,762,680.62	20,452,675.60	(7,012,573.96)	47,062,782.26
2013	12,600,000.00	580,000.00	20,308,077.12	20,435,875.60	(7,012,573.96)	46,911,378.76
2014	13,200,000.00	590,000.00	19,840,590.10	20,418,475.60	(7,012,573.96)	47,036,491.74
2015	13,800,000.00	620,000.00	19,351,017.00	20,394,875.60	(7,012,573.96)	47,153,318.64
2016	14,400,000.00	640,000.00	18,839,358.00	20,370,075.60	(7,012,573.96)	47,236,859.64
2017	14,700,000.00	665,000.00	18,307,453.50	20,344,475.60	(7,012,573.96)	47,004,355.14
2018	15,300,000.00	690,000.00	17,762,662.52	20,317,875.60	(7,012,573.96)	47,057,967.16
2019	15,900,000.00	720,000.00	17,195,791.60	20,290,275.60	(7,012,573.96)	47,093,493.24
2020	16,500,000.00	750,000.00	16,606,831.50	20,261,475.60	(7,012,573.96)	47,105,733.14
2021	17,100,000.00	395,000.00	15,995,785.50	20,231,475.60	(7,012,573.96)	46,709,687.14
2022	18,000,000.00	410,000.00	15,360,813.02	20,215,675.60	(7,012,573.96)	46,973,914.66
2023	18,600,000.00	430,000.00	14,694,552.12	20,199,275.60	(7,012,573.96)	46,911,253.76
2024	19,200,000.00	445,000.00	14,006,205.12	20,182,075.60	(7,012,573.96)	46,820,706.76
2025	20,100,000.00	460,000.00	13,293,931.62	20,168,725.60	(7,012,573.96)	47,010,083.26
2026	21,000,000.00	480,000.00	12,548,529.12	20,145,725.60	(7,012,573.96)	47,161,680.76
2027	21,300,000.00	505,000.00	11,773,678.62	20,121,725.60	(7,012,573.96)	46,687,830.26
2028	22,500,000.00	525,000.00	10,982,263.62	20,101,525.60	(7,012,573.96)	47,096,215.26
2029	23,400,000.00	545,000.00	10,148,517.12	20,080,525.60	(7,012,573.96)	47,161,468.76
2030	24,300,000.00	570,000.00	9,281,641.62	20,058,725.60	(7,012,573.96)	47,197,793.26
2031	25,200,000.00	-	8,381,637.10	20,035,925.60	(7,012,573.96)	46,604,988.74
2032	26,100,000.00	-	7,448,503.50	20,035,925.60	(7,012,573.96)	46,571,855.14
2033	27,300,000.00	-	6,480,400.52	20,035,925.60	(7,012,573.96)	46,803,752.16
2034	28,200,000.00	-	5,469,966.10	20,035,925.60	(7,012,573.96)	46,693,317.74
2035	29,400,000.00	-	4,424,562.02	20,035,925.60	(7,012,573.96)	46,847,913.66
2036	30,600,000.00	-	3,334,986.10	20,035,925.60	(7,012,573.96)	46,958,337.74
2037	31,800,000.00	-	2,201,238.02	20,035,925.60	(7,012,573.96)	47,024,589.66
2038	33,300,000.00	-	1,021,477.60	20,035,925.60	(7,012,573.96)	47,344,829.24
2039	-	28,440,000.00	-	20,035,925.60	(7,012,573.96)	41,463,351.64
2040	-	29,535,000.00	-	18,354,837.20	(6,424,193.02)	41,465,644.18
2041	-	30,665,000.00	-	16,609,023.36	(5,813,158.18)	41,460,865.18
2042	-	31,845,000.00	-	14,796,415.20	(5,178,745.32)	41,462,669.88
2043	-	33,070,000.00	-	12,914,057.26	(4,519,920.04)	41,464,137.22
2044	-	34,340,000.00	-	10,959,289.56	(3,835,751.34)	41,463,538.22
2045	-	35,660,000.00	-	8,929,452.16	(3,125,308.26)	41,464,143.90
2046	-	37,030,000.00	-	6,821,589.56	(2,387,556.34)	41,464,033.22
2047	-	38,450,000.00	-	4,632,746.26	(1,621,461.18)	41,461,285.08
2048	-	39,925,000.00	-	2,359,966.76	(825,988.36)	41,458,978.40
Total	\$566,100,000.00	\$349,500,000.00	\$335,823,153.40	\$660,992,244.12	\$(230,074,152.92)	\$1,682,871,244.60

(1) Includes Mandatory Sinking Account Payments.

(2) Interest on the Series 2008 Bonds is calculated based on the fixed interest rates payable by the Commission to the swap counterparties pursuant to the Initial Swaps; the fixed interest rates payable under the Initial Swaps range from 3.41% to 3.8165%.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS

Pledge of Sales Tax Revenues

The Bonds are limited obligations of the Commission and are payable as to principal and interest exclusively from Revenues, consisting of Sales Tax Revenues and Swap Revenues, and from all amounts, including proceeds of the Bonds, held in the funds and accounts established under the Indenture (other than amounts held in the Rebate Fund, any Letter of Credit Account and any Purchase Fund established for Bonds subject to purchase), subject to certain provisions of the Indenture. "Sales Tax Revenues" means the amounts available for distribution to the Commission on and after July 1, 1988, on account of the Sales Tax after deducting amounts payable by the Commission to the BOE for costs and expenses for its services in connection with the Sales Tax. For a general discussion of the Sales Tax, see "THE SALES TAX." For a discussion of the historical and forecasted Sales Tax Revenues, see "THE SALES TAX—Historical Sales Tax Revenues."

The Indenture provides that the pledge of Revenues for the payment of the Bonds, and any debt or other obligations of the Commission payable from Sales Tax Revenues on a parity with the Bonds (such debt or other obligations being hereinafter referred to as "Parity Obligations"), will constitute a first lien on and security interest in the Revenues and such other amounts and will immediately attach thereto and will be effective, binding and enforceable from and after initial delivery by the Trustee of the Bonds or Parity Obligations, without the need for any physical delivery, recordation, filing or further act.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE, THE COUNTY OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN THE COMMISSION TO THE EXTENT OF THE PLEDGE OF REVENUES DESCRIBED HEREIN, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. TO THE EXTENT THEY EXIST, THE GENERAL FUNDS OF THE COMMISSION ARE NOT LIABLE, AND THE CREDIT OR TAXING POWER (OTHER THAN AS DESCRIBED IN THE INDENTURE) OF THE COMMISSION IS NOT PLEDGED, FOR THE PAYMENT OF THE BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE BONDS. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE COMMISSION OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE SALES TAX REVENUES AND THE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.

Revenue Fund; Allocation of Sales Tax Revenues

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Commission has assigned the Sales Tax Revenues to the Trustee and shall cause the BOE to transmit the same directly to the Trustee each month, net of the BOE administrative fee which is deducted quarterly. The Trustee will forthwith deposit all Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such Sales Tax Revenues are received by the Trustee. See APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of Sales Tax Revenues." The Sales Tax Revenues are to be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and Parity Obligations and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. Investment income on amounts held by the Trustee (other than amounts held in the Interest Fund, the 2008 Bonds Reserve Fund to the extent of any deficiency therein, the Rebate Fund, a Letter of Credit Account or any Purchase Fund or Project Fund or for which particular instructions are provided) will also be deposited in the Revenue Fund.

So long as any Bonds remain Outstanding and Parity Obligations, Subordinate Obligations, and all other amounts payable under the Indenture remain unpaid, in each month following receipt and deposit of the Sales Tax Revenues in the Revenue Fund, the Trustee is required to set aside the moneys in the Revenue Fund in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit may be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding Parity Obligations shall be made on a parity basis each month, as provided in the Indenture):

1. Interest Fund. The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to (a) one-sixth of the aggregate semiannual amount of interest becoming due and payable on Outstanding fixed interest rate bonds during the next ensuing six-months until the requisite semiannual amount of interest on all such bonds is on deposit, provided that the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the first Interest Payment Date with respect to such fixed interest rate Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness calculated, if the actual rate of interest is not known, at the interest rate specified by the Commission, or if the Commission has not specified an interest rate, at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus one percent (1%); subject to such adjustments as are provided pursuant to the provisions of the Indenture. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of Sales Tax Revenues.” All Subsidy Payments received with respect to the Series 2010 Bonds and all Swap Revenues received with respect to the Interest Rate Swap Agreements that are Parity Obligations are to be deposited in the Interest Fund and credited toward the above-described deposits.

2. Principal Fund; Sinking Accounts. The Indenture also requires the Trustee to make monthly deposits in the Principal Fund in an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid.

In the event that the Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts will be made on a proportionate basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the

Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there is in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of Sales Tax Revenues.”

3. Bond Reserve Funds. The Indenture also requires the Trustee to make deposits to any of the Bond Reserve Funds established pursuant to the provisions of the Indenture as soon as possible in each month in which any deficiency in any Bond Reserve Fund occurs, until the balance in such Bond Reserve Fund is at least equal to the applicable Bond Reserve Requirement. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of Sales Tax Revenues.”

4. Subordinate Obligations Fund. The Indenture also requires the Trustee to establish a Subordinate Obligations Fund. The Trustee shall deposit in the Subordinate Obligations Fund any Sales Tax Revenues remaining in the Revenue Fund after the transfers described in (1), (2) and (3) above and will transfer such Sales Tax Revenues to the Subordinate Trustee. After the Subordinate Trustee has made the required deposit of Sales Tax Revenues under any Subordinate Indenture, the Subordinate Trustee will transfer any remaining Sales Tax Revenues back to the Trustee.

5. Fees and Expenses Fund. The Indenture also requires the Trustee to establish a Fees and Expenses Fund. At the direction of the Commission, after the transfers described above have been made, the Trustee will deposit as soon as practicable in each month in the Fees and Expenses Fund amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Commission in connection with the Bonds or any Parity Obligation and amounts necessary for payment of fees, expenses, and similar charges owing in such month or the following month by the Commission in connection with Subordinate Obligations.

See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of Sales Tax Revenues” for a more complete discussion.

After making the foregoing allocations, all Sales Tax Revenues will be transferred to the Commission and may be applied by the Commission for all lawful purposes of the Commission.

2008 Bonds Reserve Fund

Pursuant to the Indenture, there has been established the 2008 Bonds Reserve Fund to be maintained by the Trustee as a pooled reserve fund to provide for a reserve fund for the 2008 Reserve Fund Eligible Bonds. The “2008 Reserve Fund Eligible Bonds” are the 2008 Bonds and any other Series

of additional Bonds or Refunding Bonds or portions thereof (in each case, payable on a parity with the 2008 Bonds from, and secured as to payment on a parity with the 2008 Bonds by, the Revenues and other funds) issued and designated, by a Supplemental Indenture, to be secured by and entitled to the pledge and benefit of the 2008 Bonds Reserve Fund. The Commission has not designated the Series 2010 Bonds as 2008 Reserve Fund Eligible Bonds and no separate Bond Reserve Fund was established for the Series 2010 Bonds.

All amounts in the 2008 Bonds Reserve Fund (including all amounts that may be obtained from any Reserve Facility on deposit in the 2008 Bonds Reserve Fund) shall be used and withdrawn by the Trustee solely: (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the 2008 Reserve Fund Eligible Bonds; or (ii) together with any other moneys available therefore, (x) for the payment of all of the 2008 Reserve Fund Eligible Bonds then Outstanding, (y) for the defeasance or redemption of all or a portion of the 2008 Reserve Fund Eligible Bonds then Outstanding, provided, however, that if funds on deposit in the 2008 Bonds Reserve Fund are applied to the defeasance or redemption of a portion of the 2008 Reserve Fund Eligible Bonds, the amount on deposit in the 2008 Bonds Reserve Fund immediately subsequent to a partial defeasance or redemption shall equal the 2008 Bonds Reserve Requirement applicable to all 2008 Reserve Fund Eligible Bonds Outstanding immediately subsequent to such partial defeasance or redemption, or, (z) for the payment of the final principal and interest payment of the 2008 Reserve Fund Eligible Bonds.

“Reserve Requirement” means, with respect to the 2008 Bonds Reserve Fund Eligible as of any date of calculation, an amount equal to the lesser of: (i) 50% of Maximum Annual Debt Service on all 2008 Reserve Fund Eligible Bonds then Outstanding; (ii) 125% of average Annual Debt Service on all 2008 Reserve Fund Eligible Bonds then Outstanding; or (iii) 10% of the principal amount of the 2008 Reserve Fund Eligible Bonds. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions” and DEBT SERVICE SCHEDULE.” The Reserve Requirement with respect to the 2008 Reserve Fund Eligible Bonds was initially satisfied by a cash deposit of a portion of the proceeds from the sale of the Series 2008 Bonds; the Indenture provides for funding of the 2008 Bonds Reserve Fund with a surety bond or an insurance policy or letter of credit (“Reserve Facilities”) upon satisfaction of the requirements set forth in the Indenture.

The Trustee is to draw on the 2008 Bonds Reserve Fund to the extent necessary to fund any deficiency in the Interest Fund or the Principal Fund with respect to the 2008 Reserve Fund Eligible Bonds, including the Series 2008 Bonds. Draws on any Reserve Facilities on which there is available coverage are to be made on a pro-rata basis after applying all available cash and investments in the 2008 Bonds Reserve Fund; provided that if a Reserve Facility is available only with respect to a specified Series of Bonds and not all Bonds, such Reserve Facility will be drawn upon to pay the principal and interest attributable to such Series before cash and investments in the 2008 Bonds Reserve Fund are applied to fund such deficiency. The Commission is to repay, solely from Revenue, any draws under the 2008 Bonds Reserve Fund, including any draws on Reserve Facilities, as well as any Reserve Facility Costs related thereto. Interest will accrue and be payable on such draws and expenses from the date of payment by the Reserve Facility provider at the rate specified in the agreement with respect to such Reserve Facility. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Establishment of Funds and Accounts – Funding and Application of the Bond Reserve Funds” and “– Funding of the Reserve Fund.”

Additional Bonds and Parity Obligations

The only outstanding obligations secured by Sales Tax Revenues are the Series 2008 Bonds, the Series 2010 Bonds, the Initial Swaps, the Basis Rate Swap Overlay, the Liquidity Facilities, the Subordinate Commercial Paper Notes and the credit facility for the Subordinate Commercial Paper Notes.

The Commission may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of Sales Tax Revenues on a parity with the Bonds and the regularly scheduled payments on the Initial Swaps and any other Interest Rate Swap Agreements, subject to compliance with the terms and provisions set forth in the Indenture. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations.”

Issuance of Additional Series of Bonds. The Commission may by Supplemental Indenture establish one or more Series of Bonds payable from Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with the Series 2010 Bonds and Series 2008 Bonds, but only upon compliance by the Commission with certain provisions of the Indenture. Some applicable provisions of the Indenture are described below:

(a) No Event of Default shall have occurred and then be continuing.

(b) If the Supplemental Indenture providing for the issuance of such Series of additional Bonds requires either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the supplemental indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Commission or from both such sources or in the form of a Reserve Facility as described under APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions” and “Establishment and Application of Funds and Accounts- Funding and Application of Bond Reserve Funds.”

(c) The Commission shall have placed on file with the Trustee a Certificate of the Commission, certifying that the amount of Sales Tax Revenues collected during the Fiscal Year for which audited financial statements are available preceding the date on which such additional Series of Bonds will become outstanding was equal to at least 1.3 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued. For purposes of calculating Maximum Annual Debt Service, principal and interest payments on Obligations are excluded to the extent such payments are to be paid from Revenues then held on deposit by the Trustee or from other amounts on deposit, including Investment Securities and interest to be payable thereon, with the Trustee or other fiduciary in escrow specifically therefor and interest payments are excluded to the extent that such interest payments are to be paid from the proceeds of Obligations, including Investment Securities and interest to be payable thereon, held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or from pledged Subsidy Payments the Commission expects to receive.

Nothing in the Indenture will prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Commission without compliance with the provisions of the Indenture summarized above under paragraph (c) of the caption "Issuance of Additional Series of Bonds;" provided that the Trustee shall have been provided with a Certificate of the Commission to the effect that the Commission has determined one of the following: (i) that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds, or (ii) that the Commission expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds.

Parity Obligations. As defined in the Indenture, "Parity Obligations" means any indebtedness, installment sale obligation, lease obligation or other obligation of the Commission for borrowed money or the Initial Swaps, the Basis Rate Swap Overlays, or any other Interest Rate Swap Agreement (excluding, in each case, fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon the Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the provisions of the Indenture described herein and having an equal lien and charge upon the Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). The Commission may issue or incur additional Parity Obligations which will have, when issued, an equal lien and charge upon the Sales Tax Revenues, provided that the conditions to the issuance of such Parity Obligations set forth in the Indenture are satisfied, including satisfaction of the coverage test described in subsection (c) above under the caption "Issuance of Additional Series of Bonds," unless such Parity Obligations are being issued for refunding purposes, in which case the coverage test shall not apply.

Interest Rate Swaps. In November 2005, the Commission entered into three interest rate swap agreements (the "Initial Swaps") in an initial aggregate notional amount of \$600,000,000 or \$200,000,000 each. The Initial Swaps became effective as of April 1, 2008 and the notional amounts amortize in tandem with the amortization of the Series 2008 Bonds. Pursuant to the terms of the Initial Swaps, the Commission agreed to pay to the counterparties a fixed rate of interest and the counterparties agreed to pay the Commission a floating rate of interest on the first day of each month, commencing May 1, 2008. The Commission's obligation to make regularly scheduled payments of interest to the counterparties under the Initial Swaps is payable from and secured by Sales Tax Revenues on a parity basis with the Series 2008 Bonds and the Series 2010 Bonds. Under certain circumstances, the Initial Swaps may be terminated, at which time the Commission may be required to make a termination payment to the applicable counterparty. Termination payments payable in accordance with the provisions of the Initial Swaps are secured by a lien on the Sales Tax Revenues subordinate to the lien which secures the Series 2008 Bonds and the Series 2010 Bonds, Parity Obligations and Subordinate Obligations, including the Subordinate Commercial Paper Notes. As of September 16, 2011, if the initial swaps were terminated, the Commission would owe termination payments totaling approximately \$113 million.

The names of the swap counterparties under the Initial Swaps, the fixed rate of interest paid by the Commission, and the floating rate of interest paid by the swap counterparties are as follows:

<u>Name of Counterparty</u>	<u>Fixed Rate of Interest</u>	<u>Floating Rate of Interest</u>
Bank of America, N.A.	3.4100%	65% of USD One-Month LIBOR
Goldman Sachs Mitsui Marine Derivative Projects, L.P.	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD SIFMA Swap Index thereafter
Bank of America, N.A.	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD BMA Swap Index thereafter

Basis Rate Swap Overlays to the Interest Rate Swaps.

In March 2009, the Commission entered into two SIFMA versus LIBOR floating-to-floating or “basis” swaps with Barclays Bank PLC, with initial notional amounts of \$156,600,000 each. Under two of the Initial Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. Pursuant to the terms of the Basis Rate Swap Overlays of two of the Initial Swaps, the Commission agreed to pay to the counterparties a payment of the SIFMA index and the counterparties agreed to pay the Commission 107.4 percent of LIBOR, on the first day of each month, commencing May 1, 2018, for the last 20 years of two of the Initial Swaps. The Commission’s obligation to make regularly scheduled payments of interest to the counterparties under the Basis Rate Swap Overlays is payable from and secured by Sales Tax Revenues on a parity basis with the Bonds. Under certain circumstances, the Basis Rate Swap Overlays may be terminated, at which time the Commission may be required to make a termination payment to the applicable counterparty; as of September 16, 2011, if the Basis Rate Swap Overlays were terminated, the Commission would receive approximately \$13 million in termination payments. Under the terms of the Basis Rate Swap Overlays, the Commission may terminate the agreement and cash settle with prior written notice. Termination payments payable in accordance with the provisions of the Basis Rate Swap Overlays are secured by a lien on the Sales Tax Revenues subordinate to the lien that secures the Series 2008 Bonds, the Series 2010 Bonds, Parity Obligations and Subordinate Obligations, including the Subordinate Commercial Paper Notes.

Subordinate Obligations

Except to the extent restricted by the Indenture, the Commission may issue or incur obligations (“Subordinate Obligations”) payable out of Sales Tax Revenues on a basis junior and subordinate to the payment of the principal, interest and reserve fund requirements for the Bonds and Parity Obligations, as the same become due and payable and at the times and in the manner as required by the Indenture or as required by the instrument pursuant to which such Parity Obligations were issued or incurred, as applicable. The Commission’s outstanding Subordinate Obligations currently consist of the Subordinate Commercial Paper Notes, in the authorized amount of \$100,000,000 and the credit facility for the Subordinate Commercial Paper Notes. Any termination payments under the Commission’s Initial Swaps or the Basis Rate Swap Overlays and fees and expenses due under the Liquidity Facilities are payable on a basis subordinate to the Subordinate Obligations.

THE LIQUIDITY FACILITIES

The following is a summary of certain provisions of the Liquidity Facilities. This summary does not purport to be a complete description or restatement of the material provisions of any Liquidity Facility. The Liquidity Facilities provide liquidity support for the Series 2008 Bonds. Reference should be made to each Liquidity Facility for the complete text thereof, and the discussion herein is qualified by such reference. Investors should obtain and review a copy of the respective Liquidity Facility in order to understand all of the terms of that document. Unless otherwise noted in this Remarketing Memorandum, all defined terms in this summary of the Liquidity Facilities shall have the meaning ascribed to such terms in the respective Liquidity Facility. For information regarding the Liquidity Providers, see APPENDIX F – “LIQUIDITY PROVIDERS.”

General

The 2008 Series A Bonds and the 2008 Series B Bonds are supported by a Standby Bond Purchase Agreement by and among JPMorgan, the Commission and the Trustee, (the "JPMorgan Liquidity Facility"). The JPMorgan Liquidity Facility was renewed for three one-year terms in March 2009, March 2010, and March 2011 and will expire on March 23, 2012, prior to the final maturity of the 2008 Series A Bonds and 2008 Series B Bonds, unless extended or terminated in accordance with the terms of the JPMorgan Liquidity Facility.

The 2008 Series C Bonds were initially supported by a Standby Purchase Agreement by and among Dexia Credit Local, acting by and through its New York Bank ("Dexia Liquidity Facility"), the Commission and the Trustee. Commencing September 28, 2011, the 2008 Series C Bonds will be supported by a Standby Bond Purchase Agreement dated as of September 1, 2011 by and among Mizuho, the Commission and the Trustee, (the "Mizuho Liquidity Facility") that will expire on September 26, 2014, prior to the final maturity of the 2008 Series C Bonds, unless extended or terminated in accordance with the terms of the Mizuho Liquidity Facility.

The 2008 Series D Bonds were initially supported by the Dexia Credit Facility. Commencing September 28, 2011, the 2008 Series D Bonds will be supported by a Standby Bond Purchase Agreement by and among State Street/CalSTRS, the Commission and the Trustee, (the State Street/CalSTRS Liquidity Facility") that will expire on September 28, 2015, prior to the final maturity of the 2008 Series C Bonds, unless extended or terminated in accordance with the terms of the State Street/CalSTRS Liquidity Facility.

During its term, and subject to the terms and conditions set forth therein, each Liquidity Facility will provide funds for the purchase of the respective Series 2008 Bonds to which it relates, that are delivered to the Trustee but not remarketed by the applicable Remarketing Agent. In addition, each Liquidity Facility will provide funds for the mandatory purchase of tendered bonds (i) upon certain changes in interest rate periods, (ii) upon the expiration (without extension) of such Liquidity Facility, (iii) except as otherwise provided in the Indenture, upon the replacement of such Liquidity Facility with an Alternate Liquidity Facility and (iv) at the direction of the applicable Liquidity Provider following the occurrence of certain Events of Termination. Subject to the terms and conditions of the respective Liquidity Facility, the Commission has the right and may elect to terminate a Liquidity Facility in its discretion.

UNDER CERTAIN CIRCUMSTANCES THE OBLIGATION OF A LIQUIDITY PROVIDER TO PURCHASE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY TENDER MAY BE TERMINATED OR SUSPENDED AUTOMATICALLY AND IMMEDIATELY WITHOUT NOTICE BY THE APPLICABLE LIQUIDITY PROVIDER. IN SUCH EVENT, NO FUNDS WILL BE AVAILABLE UNDER THE LIQUIDITY FACILITY TO PURCHASE THE RESPECTIVE SERIES 2008 BONDS THAT ARE TENDERED AND NOT REMARKETED, AND SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE LIQUIDITY FACILITIES DO NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OR INTEREST OR PREMIUM, IF ANY, ON THE SERIES 2008 BONDS. THE LIQUIDITY FACILITIES PROVIDE FOR THE PURCHASE OF TENDERED BONDS ONLY.

Purchase of Tendered Bonds by Liquidity Providers

Each Liquidity Provider has agreed to purchase, during the Purchase Period, Eligible Bonds which have been tendered for optional purchase or which are tendered for mandatory purchase and which are not remarketed as provided in the Indenture. The Purchase Period begins on the date the Liquidity Facility becomes effective and ends on the earliest of (a) the respective dates set forth in the first, second and third paragraphs under "General" above or the last day of any extension of such date pursuant to the terms of the applicable Liquidity Facility; (b) the date of receipt by the Liquidity Provider of a certificate signed by the Trustee stating that the Liquidity Facility has been terminated because (i) an Alternate Liquidity Facility has been provided and become effective in accordance with the terms of the Indenture; (ii) none of the respective Series 2008 Bonds are outstanding under the Indenture; (iii) the respective Series 2008 Bonds have been converted to a Non-Covered Interest Rate; (c) the date specified in a written notice delivered by the Commission to the applicable Liquidity Provider that the Commission has elected to terminate the applicable Liquidity Facility pursuant to the terms of such Liquidity Facility; or (d) the date on which the applicable Liquidity Provider's commitment has been terminated in its entirety and is no longer obligated to purchase Series 2008 Bonds. The price to be paid by the applicable Liquidity Provider for such Bonds will be equal to the aggregate principal amount on such Series 2008 Bonds without premium, plus interest accrued thereon from and including the Interest Payment Date next preceding the Purchase Date thereof to the Purchase Date, unless, in the case of interest, the Purchase Date is an Interest Payment Date in which case the Purchase Price shall not include accrued and unpaid interest. As described below, under certain circumstances the obligation of the Liquidity Provider to purchase tendered bonds will be automatically suspended or terminated, without prior notice or demand, and the Trustee will be unable to require the purchase of the respective Series 2008 Bonds under the applicable Liquidity Facility.

Events of Termination

JP Morgan Liquidity Facility. Each of the following is an "Event of Termination" under the JPMorgan Liquidity Facility:

(a) Any failure to pay principal of or interest on any 2008 Series A Bonds or 2008 Series B Bonds when due (including any payments on Purchased Bonds other than payments on Purchased Bonds due solely as a result of acceleration caused by JPMorgan under the JPMorgan 2008 Liquidity Facility) or on any payments required by the express terms of any of the Parity Obligations when due; or

(b) The Commission shall (i) commence a voluntary case or other proceeding seeking liquidation, reorganization, arrangement, adjustment, winding up, dissolution, composition or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, reorganization or other similar law for the relief of debtors now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or a substantial part of its property, (ii) consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (iii) make a general assignment for the benefit of creditors, (iv) fail generally to pay its debts as they become due, or (v) take any official action to authorize any of the foregoing; or

(c) Any of the following shall occur with respect to the Commission: (i) if applicable law permits the institution of such proceeding, an involuntary case or other proceeding shall be commenced against the Commission seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar

official of it or any substantial part of its property and such case shall not be dismissed within 90 days, (ii) an order for relief shall be entered against the Commission under the federal bankruptcy laws as now or hereafter in effect or pursuant to any other State or federal laws concerning insolvency or of similar purpose or (iii) a debt moratorium, debt adjustment, debt restructuring or comparable restriction with respect to the payment of principal or interest or any debts of the Commission shall be declared or imposed by the Commission, the United States of America, the State, or any instrumentality thereof, having jurisdiction over the Commission or its debts; or

(d) The occurrence of (x) an Incipient Invalidation Event, which means (i) the validity or enforceability of any provision of the Law or the Ordinance that impacts the Commission's ability to levy its one half of one cent retail transactions and use tax in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or to collect Revenues or to pay the Revenues directly to the Trustee is contested by duly authorized action of the Commission or the State or any instrumentality of the State with appropriate jurisdiction or is determined by a court or the State or any instrumentality of the State with appropriate jurisdiction in a proceeding subject to further appeals to be invalid or unenforceable, or (ii) the validity or enforceability of any Payment and Collateral Obligation, or of any 2008 Series A or B Bond or any provision of any Related Document providing for the payment of principal and interest on any 2008 Series A or B Bond (including Purchased Bonds) is contested by duly authorized action of the Commission or is declared invalid or unenforceable by duly authorized action in a proceeding subject to further appeals by the State or any instrumentality of the State with appropriate jurisdiction or (iii) any provision of the Law or the Ordinance is supplemented, modified or amended in a manner that materially adversely impairs the Commission's ability to (A) levy its one half of one cent retail transactions and use tax in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or (B) collect Revenues and/or pay the Revenues directly to the Trustee, or (y) an Invalidation Event, which means (i) the Law or the Ordinance is repealed, (ii) a court or the State or any instrumentality of the State with appropriate jurisdiction determines in a final nonappealable order or judgment, as the case may be, that a provision or provisions of the Law or the Ordinance that have been supplemented, modified and/or amended by the Commission materially adversely impairs the Commission's ability to (A) levy its one half of one cent retail transactions and use tax (which has been pledged to pay principal and interest on the 2008 Series A or B Bonds) in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or (B) collect Revenues (which are pledged to pay principal and interest on the 2008 Series A or B Bonds) or to pay the Revenues (which are pledged to pay principal and interest on the 2008 Series A or B Bonds) directly to the Trustee, (iii) the Law or the Ordinance is ruled to be null and void by a court or the State or any instrumentality of the State with appropriate jurisdiction, (iv) any provision of the 2008 Liquidity Facility, any 2008 Series A or B Bond or any Related Document relating to the Commission's obligation with respect to the payment of monies for principal and interest on the 2008 Series A or B Bonds (including Purchased Bonds) under the Related Documents or the pledge of the Revenues to secure the payment of principal and interest on the 2008 Series A or B Bonds (each such provision, a "Payment and Collateral Obligation") is ruled to be null and void by a court or the State or any instrumentality of the State with appropriate jurisdiction in a final nonappealable order or judgment by such court or the State or any instrumentality of the State, as applicable, or (v) the Commission by duly authorized action denies that the Commission has any or further liability or obligation with respect to payments of monies for principal and interest on the 2008 Series A or B Bonds under the Law or the Ordinance or any Payment and Collateral Obligation; or

(e) Each of Moody's and S&P either (i) withdraw or suspend the underlying rating of the 2008 Series A or B Bonds or any Additional Bonds ranking on a parity with the 2008 Series A or B Bonds for credit related reasons or (ii) reduce such rating, in the case of S&P, below BBB- and in the case of Moody's, below Baa3; or

(f) A final non-appealable judgment by any court of competent jurisdiction in a principal amount of \$10,000,000 is entered against the Commission and payable from the Revenues ranking on a parity with the 2008 Series A or B Bonds and such judgment is not satisfied or stayed for a period of 60 days; or

(g) There is a default on any payment obligation (but not including administrative expenses, such as Credit or JPMorgan Liquidity Facility Fees) of the Commission under the Related Documents; or

(h) Any material representation or warranty made by the Commission under or in connection with the JPMorgan Liquidity Facility (including without limitation representations and warranties incorporated therein by reference) shall prove to be untrue in any material respect on the date as of which it was made or deemed made; or

(i) Non-payment of certain fees under the JPMorgan Liquidity Facility (together with interest thereon at the Default Rate) within 10 days after the Trustee and the Commission have received written notice from JPMorgan that the same were not paid when due; or

(j) Non-payment of certain other fees or amounts payable under the JPMorgan Liquidity Facility (together with interest thereon at the Default Rate) within 20 days after written notice thereof to the Commission and the Trustee by JPMorgan; or

(k) The breach by the Commission of certain covenants under the JPMorgan Liquidity Facility; or

(l) The breach by the Commission of certain terms or provisions of the JPMorgan Liquidity Facility which is not remedied within 20 days after written notice thereof shall have been received by the Commission and the Trustee from JPMorgan; or

(m) The occurrence of any "event of default" as defined in any of the Related Documents (which is not waived pursuant to the terms thereof) which is not otherwise described above, other than the failure of JPMorgan to provide funds for the purchase of Tendered Bonds when required by the terms and conditions of the JPMorgan Liquidity Facility.

Mizuho Liquidity Facility. Each of the following is an "Event of Termination" under the Mizuho Liquidity Facility:

(a) Any failure to pay principal of or interest on the 2008 Series C Bonds when due (including any payments on Purchased Bonds other than payments on Purchased Bonds due solely as a result of acceleration effected by Mizuho under the Mizuho Liquidity Facility) or on any payments required by the express terms of any Parity Debt when due; or

(b) The Commission shall (i) commence a voluntary case or other proceeding seeking liquidation, reorganization, arrangement, adjustment, winding up, dissolution, composition or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, reorganization or other similar law for the relief of debtors now or hereafter in effect

or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or a substantial part of its property, (ii) consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (iii) make a general assignment for the benefit of creditors, (iv) become insolvent within the meaning of Section 101(32) of the United States Bankruptcy Code, or (v) take any official action to authorize any of the foregoing; or

(c) Any of the following shall occur with respect to the Commission: (i) if applicable law permits the institution of such proceeding, an involuntary case or other proceeding shall be commenced against the Commission seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such case shall not be dismissed within ninety (90) days, (ii) an order for relief shall be entered against the Commission under the federal bankruptcy laws as now or hereafter in effect or pursuant to any other State or federal laws concerning insolvency or of similar purpose, (iii) a debt moratorium, debt adjustment, debt restructuring or comparable extraordinary restriction with respect to the payment of any Parity Debt (as defined in the respective Liquidity Facility) shall be declared or imposed by the Commission, or (iv) any Governmental Authority having appropriate jurisdiction over the Commission shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of all Parity Debt; or

(d) The occurrence of (x) an Incipient Invalidity Event, which means (i) the validity or enforceability of any provision of the Law or the Ordinance that impacts the Commission's ability or obligation to levy or impose its one half of one cent retail transactions and use tax in the incorporated and unincorporated territory of the County of San Diego (the "Sales Tax") in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or to collect Revenues or to pay the Revenues directly to the Trustee or the State Board of Equalization's ability or obligation to collect the Sales Tax or to pay the Sales Tax Revenues to the Trustee is contested by duly authorized action of the Commission or the State or any instrumentality of the State with appropriate jurisdiction or is determined by a court or the State or any instrumentality of the State with appropriate jurisdiction in a proceeding subject to further appeals to be invalid or unenforceable, or (ii) the validity or enforceability of any Payment and Collateral Obligation, or of any 2008 Series C Bond or any provision of any Related Document (as defined in the respective Liquidity Facility) related to the payment of principal and interest on any of the 2008 Series C Bonds (including Purchased Bonds) or the pledge of Revenues securing the payment of principal or interest on any 2008 Series C Bond (including Purchased Bonds) is contested by duly authorized action of the Commission or is declared invalid or unenforceable by duly authorized action in a proceeding subject to further appeals by the State or any instrumentality of the State with appropriate jurisdiction; or (y) an Invalidity Event, which means (i) the Law or the Ordinance is repealed, (ii) a court or the State or any instrumentality of the State with appropriate jurisdiction determines in a final non-appealable order or judgment, as the case may be, that a provision or provisions of the Law or the Ordinance regarding (A) the Commission's ability or obligation to levy or impose the Sales Tax or collect Revenues (which are pledged to pay principal and interest on the 2008 Series C Bonds) or to pay the Revenues (which are pledged to pay principal and interest on the 2008 Series C Bonds) or to pay the Revenues (which are pledged to pay principal and interest on the 2008 Series C Bonds) directly to the Trustee or (B) the State Board of Equalization's ability or obligation to collect the Sales Tax or make payment of the Sales Tax directly to the Trustee, or the pledge of and lien on

Revenues securing the payment of the principal of or interest on the 2008 Series C Bonds, is null and void, (iii) the Law or the Ordinance is ruled to be null and void by a court or the State or any instrumentality of the State with appropriate jurisdiction, (iv) any provision of the Mizuho Liquidity Facility, any 2008 Series C Bond or any other Related Document relating to the Commission's obligation with respect to the payment of monies for principal and interest on the 2008 Series C Bonds (including Purchased Bonds) under the Related Documents or the pledge of the Revenues to secure the payment of principal and interest on the 2008 Series C Bonds (each such provision, a "Payment and Collateral Obligation") is ruled to be null and void by a court or the State or any instrumentality of the State with appropriate jurisdiction in a final nonappealable order or judgment by such court or the State or any instrumentality of the State, as applicable, or (v) the Commission by duly authorized action denies that the Commission has any or further liability or obligation with respect to payments of monies for principal and interest on the 2008 Series C Bonds under the Law or the Ordinance or any Payment and Collateral Obligation; or

(e) Each of Moody's and S&P either (i) withdraw or suspend the underlying rating of the 2008 Series C Bonds or any Additional Bonds ranking on a parity with the 2008 Series C Bonds for credit related reasons or (ii) reduce such rating, in the case of S&P, below BBB- and in the case of Moody's, below Baa3; or

(f) A final non-appealable judgment by any court of competent jurisdiction in a principal amount of \$10,000,000 is entered against the Commission and payable from the Revenues ranking on a parity with the 2008 Series C Bonds and such judgment is not satisfied or stayed for a period of 60 days; or

(g) There is a default on any payment obligation (other than as described in paragraphs (a) or (i) under this subheading "Events of Termination") of the Commission under the Related Documents; or

(h) Any material representation or warranty made by the Commission under or in connection with the Mizuho Liquidity Facility (including without limitation representations and warranties incorporated therein by reference) shall prove to be untrue in any material respect on the date as of which it was made or deemed made; or

(i) Non-payment of any fees or certain other amounts payable under the Mizuho Liquidity Facility or the fee letter relating to the Mizuho Liquidity Facility (the "Mizuho Fee Letter") (together with interest thereon at the Default Rate) within 10 days after the Trustee and the Commission have received written notice from Mizuho that the same were not paid when due; or

(j) Non-payment of any other fees or amounts payable under the Mizuho Liquidity Facility or the Mizuho Fee Letter (together with interest thereon at the Default Rate) within 20 days after written notice thereof to the Commission and the Trustee by Mizuho; or

(k) The breach by the Commission of certain covenants under the Mizuho Liquidity Facility; or

(l) The breach by the Commission of any terms or provisions of the Mizuho Liquidity Facility or the Mizuho Fee Letter which is not remedied within 20 days after written notice thereof shall have been received by the Commission and the Trustee from Mizuho; or

(m) The occurrence of any "event of default" as defined in the 2008 Series C Bonds or the Indenture (which is not waived pursuant to the terms thereof) which is not otherwise described under this subheading "Events of Termination", other than the failure of Mizuho to provide funds for the purchase of Tendered Bonds when required by the terms and conditions of the Mizuho Liquidity Facility; or

(n) Any provision of the Law or the Ordinance is supplemented, modified or amended in a manner that materially adversely impairs (A) the Commission's ability or obligation to impose or levy the Sales Tax in the incorporated and unincorporated territory of the County of San Diego or collect Revenues and/or pay the Revenues directly to the Trustee or (B) the State Board of Equalization's obligation to collect of the sales Tax or the State Board of Equalization's ability or obligation to make payment of the Sales Tax Revenues to the Trustee.

State Street/CalSTRS Liquidity Facility. Each of the following is an "Event of Termination" under the 2008 Series D Liquidity Facility:

(a) Any failure to pay principal of or interest on any 2008 Series D Bonds when due (including any payments on Purchased Bonds other than payments on Purchased Bonds due solely as a result of acceleration caused by State Street or CalSTRS under the State Street/CalSTRS Liquidity Facility) or on any payments required by the express terms of any Debt when due ("*Debt*" means (i) any bonds, notes or similar obligations having an equal lien and charge upon the Sales Tax Revenues and therefore being payable on a parity with the 2008 Series D Bonds and any Purchased Bonds and (ii) any regularly scheduled payments on any interest rate swap agreement relating to the items listed in (i) of this definition or entered into in connection with a Series of Bonds having an equal lien and charge upon the Sales Tax Revenues and therefore being payable on a parity with the Bonds); or

(b) The Commission shall (i) commence a voluntary case or other proceeding seeking liquidation, reorganization, arrangement, adjustment, winding up, dissolution, composition or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, reorganization or other similar law for the relief of debtors now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or a substantial part of its property, (ii) consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (iii) make a general assignment for the benefit of creditors, (iv) fail generally to pay its debts within the meaning of the Bankruptcy Code of the United States as they become due or is insolvent, or (v) take any official action to authorize any of the foregoing; or

(c) Any of the following shall occur with respect to the Commission: (i) if applicable law permits the institution of such proceeding, an involuntary case or other proceeding shall be commenced against the Commission seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such case shall not be dismissed within 90 days, (ii) an order for relief shall be entered against the Commission under the federal bankruptcy laws as now or hereafter in effect or pursuant to any other State or federal laws concerning insolvency or of similar purpose or (iii) a debt moratorium, debt adjustment, debt restructuring or comparable restriction with respect to the payment of principal or interest on any debts of the Commission shall be declared by or imposed on the Commission, as a result of a finding or ruling of the United States of America, the State, or any instrumentality thereof, with jurisdiction over the Commission or its debts; or

(d) The occurrence of (x) an Incipient Invalidity Event, which means (i) the validity or enforceability of any provision of the Law or the Ordinance that impacts the Commission's ability to levy its one-half of one cent retail transactions and use tax in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or to collect Revenues or to pay the Revenues directly to the Trustee is contested by duly authorized action of the Commission or the State or any instrumentality of the State with appropriate jurisdiction or is determined by a court or the State or any instrumentality of the State with appropriate jurisdiction in a proceeding subject to further appeals to be invalid or unenforceable, or (ii) the validity or enforceability of any Payment and Collateral Obligation, or of any 2008 Series D Bond or any provision of any Related Document providing for the payment of principal and interest on any 2008 Series D Bond (including Purchased Bonds) is contested by duly authorized action of the Commission or is declared invalid or unenforceable by duly authorized action in a proceeding subject to further appeals by the State or any instrumentality of the State with appropriate jurisdiction or (y) an Invalidity Event, which means (i) the Law or the Ordinance is repealed, (ii) the Law or the Ordinance is ruled to be null and void by a court or the State or any instrumentality of the State with appropriate jurisdiction, (iii) any provision of the 2008 Series D Liquidity Facility, any 2008 Series D Bond or any Related Document relating to the Commission's obligation with respect to the payment of monies for principal and interest on the 2008 Series D Bonds (including Purchased Bonds) under the Related Documents or the pledge of the Revenues to secure the payment of principal and interest on the 2008 Series D Bonds (each such provision, a "Payment and Collateral Obligation") is ruled to be null and void by a court or the State or any instrumentality of the State with appropriate jurisdiction in a final nonappealable order or judgment by such court or the State or any instrumentality of the State, as applicable, or (iv) the Commission by duly authorized action denies that the Commission has any or further liability or obligation with respect to payments of monies for principal and interest on the 2008 Series D Bonds under the Law or the Ordinance or any Payment and Collateral Obligation; or

(e) Each of Moody's and S&P either (i) withdraw or suspend the underlying rating of the 2008 Series D Bonds or any Additional Bonds ranking on a parity with the 2008 Series D Bonds for credit related reasons or (ii) reduce such rating, in the case of S&P, below BBB- and in the case of Moody's, below Baa3; or

(f) A final non-appealable judgment by any court of competent jurisdiction in a principal amount of \$10,000,000 is entered against the Commission and payable from the Revenues ranking on a parity with the 2008 Series D Bonds and such judgment is not satisfied or stayed for a period of 60 days; or

(g) There is a default on any payment obligation (but not including administrative expenses, such as Credit or Liquidity Facility Fees) of the Commission under the Related Documents; or

(h) Any material representation or warranty made by the Commission under or in connection with the State Street/CalSTRS Liquidity Facility (including without limitation representations and warranties incorporated therein by reference) shall prove to be untrue in any material respect on the date as of which it was made or deemed made; or

(i) Non-payment of any amounts payable under the State Street/CalSTRS Liquidity Facility and the Fee Letter Agreement (together with interest thereon at the Default Rate) within 10 days after the Trustee and the Commission have received written notice from State Street or CalSTRS that the same were not paid when due; or

(j) Non-payment of certain other fees or amounts payable under the State Street/CalSTRS Liquidity Facility (together with interest thereon at the Default Rate) within 20 days after written notice thereof to the Commission and the Trustee by State Street or CalSTRS; or

(k) The breach by the Commission of certain covenants under the State Street/CalSTRS Liquidity Facility; or

(l) The breach by the Commission of certain terms or provisions of the State Street/CalSTRS Liquidity Facility which is not remedied within 20 days after written notice thereof shall have been received by the Commission and the Trustee from State Street or CalSTRS; or

(m) The occurrence of any "event of default" as defined in any of the Related Documents (which is not waived pursuant to the terms thereof) which is not otherwise described above, other than the failure of State Street or CalSTRS to provide funds for the purchase of Tendered Bonds when required by the terms and conditions of the State Street/CalSTRS Liquidity Facility; or

(n) Any provision of the Law or the Ordinance is supplemented, modified or amended in a manner that materially adversely impairs the Commission's ability to (A) levy its one-half of one cent retail transactions and use tax in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or (B) collect Revenues and/or pay the Revenues directly to the Trustee; or

(o) A court or the State or any instrumentality of the State with appropriate jurisdiction determines in a final nonappealable order or judgment, as the case may be, that a provision or provisions of the Law or the Ordinance that have been supplemented, modified and/or amended by the Commission materially adversely impairs the Commission's ability to (A) levy its one-half of one cent retail transactions and use tax (which has been pledged to pay principal and interest on the 2008 Series D Bonds) in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or (B) collect Revenues (which are pledged to pay principal and interest on the 2008 Series D Bonds) or to pay the Revenues (which are pledged to pay principal and interest on the 2008 Series D Bonds) directly to the Trustee.

Remedies upon an Event of Termination

JPMorgan Liquidity Facility. If any Event of Termination under the JPMorgan Liquidity Facility shall have occurred and be continuing, JPMorgan has the following remedies under the JPMorgan Liquidity Facility:

JPMorgan Immediate Termination. In the case of an Event of Termination specified in paragraphs (a), (b), (c), (d)(y), (e) or (f) under the subheading "Events of Termination—JPMorgan Liquidity Facility", the Available Commitment and Purchase Period and the obligation of JPMorgan to purchase 2008 Series A or B Bonds shall immediately terminate without notice or demand, and thereafter JPMorgan shall be under no obligation to purchase 2008 Series A or B Bonds. Promptly upon JPMorgan obtaining knowledge of any such Event of Termination, JPMorgan shall give written notice of the same to the Trustee, the applicable Remarketing Agent and the Commission; provided that, JPMorgan shall incur no liability or responsibility whatsoever by reason of its failure to give such notice, and such failure shall

in no manner affect the termination of JPMorgan's Available Commitment and of its obligation to purchase 2008 Series A or B Bonds pursuant to the JPMorgan Liquidity Facility.

JPMorgan Termination with Notice. In the case of an Event of Termination specified in any of paragraphs (g), (h), (i), (j), (k), (l) or (m) under the subheading "Events of Termination—JPMorgan Liquidity Facility", JPMorgan may terminate the Available Commitment and Purchase Period by giving written notice (a "Notice of Termination") to the Trustee, Commission and the applicable Remarketing Agent, specifying the date on which the Available Commitment and Purchase Period shall terminate, which shall be not less than 30 days from the date of receipt of such notice by the Trustee and on and after the Purchase Termination Date, JPMorgan shall be under no further obligation to purchase 2008 Series A or B Bonds under the JP Morgan Liquidity Facility.

JPMorgan Suspensions. During the pendency of an Event of Termination pursuant to paragraph (c)(i) under the subheading "Events of Termination—JPMorgan Liquidity Facility" (prior to the expiration of the 90 day grace period specified in paragraph (c)(i)) or (d)(x) under the subheading "Events of Termination—JPMorgan Liquidity Facility" (each a "Potential Event of Termination"), JPMorgan's obligations to purchase 2008 Series A or B Bonds shall be immediately suspended without notice or demand and thereafter JPMorgan shall be under no obligation to purchase 2008 Series A or B Bonds until the Available Commitment is reinstated as described in this paragraph. Promptly upon JPMorgan obtaining knowledge of any such Potential Event of Termination, JPMorgan shall give written notice of the same to the Commission, the Trustee, and the applicable Remarketing Agent of such suspension; provided, however, that JPMorgan shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of JPMorgan's obligations under the JPMorgan Liquidity Facility. In the event such Potential Event of Termination is cured, JPMorgan's obligations shall be automatically reinstated and the terms of the JPMorgan Liquidity Facility will continue in full force and effect (unless the JPMorgan Liquidity Facility shall otherwise have terminated or been suspended by its terms). If such Potential Termination Event becomes an Event of Termination (through Expiration of the 90 day grace period specified above or otherwise) the provisions under the caption "Immediate Termination" above shall apply.

JPMorgan Other Remedies. In addition to the rights and remedies described in the above three paragraphs, in the case of any Event of Termination specified in paragraphs (a)-(m) under the subheading "Events of Termination—JPMorgan Liquidity Facility", upon the election of JPMorgan: (i) all amounts payable under the JPMorgan Liquidity Facility (including but not limited to principal of and interest on any Purchased Bonds and payments of Excess Bond Interest), shall, upon notice to the Commission, become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Commission; and (ii) JPMorgan shall have all the rights and remedies available to it under the JPMorgan Liquidity Facility, the Related Documents or otherwise pursuant to law or equity; provided, however, that JPMorgan shall not have the right to terminate its obligation to purchase 2008 Series A or B Bonds or to declare any amount due under the JPMorgan Liquidity Facility due and payable except as expressly provided therein.

Mizuho Liquidity Facility. If any Event of Termination under the Mizuho Liquidity Facility shall have occurred and be continuing, Mizuho has the following remedies under the Mizuho Liquidity Facility:

Mizuho Immediate Termination. In the case of an Event of Termination specified in paragraphs (a), (b), (c), (d)(y), (e) or (f) under the subheading "—Events of Termination—Mizuho Liquidity Facility" above, the Available Commitment and Purchase Period and the obligation of Mizuho to purchase 2008 Series C Bonds under the Mizuho Liquidity Facility shall immediately terminate without notice or demand, and thereafter Mizuho shall be under no obligation to purchase 2008 Series C Bonds. Promptly

upon Mizuho obtaining knowledge of any such Event of Termination, Mizuho shall give written notice of the same to the Trustee, the applicable Remarketing Agent and the Commission; provided that, Mizuho shall incur no liability or responsibility whatsoever by reason of its failure to give such notice, and such failure shall in no manner affect the termination of Mizuho's Available Commitment and of its obligation to purchase 2008 Series C Bonds pursuant to the Mizuho Liquidity Facility.

Mizuho Termination with Notice. In the case of an Event of Termination specified in any of paragraphs (g), (h), (i), (j), (k), (l) or (m) under the subheading “—Events of Termination—Mizuho Liquidity Facility” above, Mizuho may terminate the Available Commitment and Purchase Period by giving written notice (a “Notice of Termination”) to the Trustee, Commission and the applicable Remarketing Agent, specifying the date on which the Available Commitment and Purchase Period shall terminate, which shall be not less than 30 days from the date of receipt of such notice by the Trustee and on and after the Purchase Termination Date, Mizuho shall be under no further obligation to purchase 2008 Series C Bonds under the Mizuho Liquidity Facility.

Mizuho Suspensions. During the pendency of an Event of Termination pursuant to paragraph (c)(i) under the subheading “—Events of Termination—Mizuho Liquidity Facility” above (prior to the expiration of the 90 day grace period specified in paragraph (c)(i) or (d)(x) under the subheading “—Events of Termination—Mizuho Liquidity Facility” above (each a “Suspension Event”), Mizuho's obligations to purchase 2008 Series C Bonds shall be immediately suspended without notice or demand and thereafter Mizuho shall be under no obligation to purchase 2008 Series C Bonds until the Available Commitment is reinstated as described in this paragraph. Promptly upon Mizuho obtaining knowledge of any such Suspension Event, Mizuho shall give written notice of the same to the Commission, the Trustee, and the applicable Remarketing Agent of such suspension; provided, however, that Mizuho shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of Mizuho's obligations under the Mizuho Liquidity Facility. In the event such Suspension Event is cured, Mizuho's obligations shall be automatically reinstated and the terms of the Mizuho Liquidity Facility will continue in full force and effect (unless the Mizuho Liquidity Facility shall otherwise have terminated or been suspended by its terms). If such Suspension Event becomes an Event of Termination (through Expiration of the 90 day grace period specified above or otherwise) the provisions under the caption “Mizuho Immediate Termination” above shall apply.

Mizuho Other Remedies. In addition to the rights and remedies described in the above three paragraphs, in the case of any Event of Termination specified in paragraphs (a)-(m) under the subheading “—Events of Termination—Mizuho Liquidity Facility” above, upon the election of Mizuho: (i) all amounts payable under the Mizuho Liquidity Facility (including but not limited to principal of and interest on any Purchased Bonds and payments of Excess Bond Interest), shall, upon notice to the Commission, become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Commission; and (ii) Mizuho shall have all the rights and remedies available to it under the Mizuho Liquidity Facility, the Related Documents or otherwise pursuant to law or equity; provided, however, that Mizuho shall not have the right to terminate its obligation to purchase 2008 Series C Bonds or to declare any amount due under the Mizuho Liquidity Facility due and payable except as expressly provided therein.

State Street/CalSTRS Liquidity Facility. If any Event of Termination shall have occurred and be continuing under the State Street/CalSTRS Liquidity Facility, State Street/CalSTRS has the following remedies under the State Street/CalSTRS Liquidity Facility:

State Street/CalSTRS Immediate Termination. In the case of an Event of Termination specified in paragraphs (a), (b), (c), (d)(y), (e), or (f) above under the subheading “Events of Termination—State

Street/CalSTRS Liquidity Facility, the Available Commitment and Purchase Period and the obligation of State Street/CalSTRS to purchase 2008 Series D Bonds shall immediately terminate without notice or demand, and thereafter State Street/CalSTRS shall be under no obligation to purchase 2008 Series D Bonds. Promptly upon State Street/CalSTRS obtaining knowledge of any such Event of Termination, State Street/CalSTRS shall give written notice of the same to the Trustee, the applicable Remarketing Agent and the Commission; provided that, State Street/CalSTRS shall incur no liability or responsibility whatsoever by reason of its failure to give such notice, and such failure shall in no manner affect the termination of State Street/CalSTRS' Available Commitment and of their obligation to purchase 2008 Series D Bonds pursuant to the State Street/CalSTRS Liquidity Facility.

State Street/CalSTRS Termination with Notice. In the case of an Event of Termination specified in any of paragraphs (g), (h), (i), (j), (k), (l), (m), (n) or (o) under the subheading "Events of Termination—State Street/CalSTRS Liquidity Facility, the Liquidity Facility Providers may terminate the Available Commitment and Purchase Period by giving written notice (a "Notice of Termination") to the Trustee, Commission and the applicable Remarketing Agent, specifying the date on which the Available Commitment and Purchase Period shall terminate, which shall be not less than 30 days from the date of receipt of such notice by the Trustee, and on and after the Purchase Termination Date, State Street/CalSTRS shall be under no further obligation to purchase 2008 Series D Bonds under the State Street/CalSTRS Liquidity Facility.

State Street/CalSTRS Suspensions. During the pendency of an Event of Termination pursuant to paragraph (c)(i) under the subheading "Events of Termination—State Street/CalSTRS Liquidity Facility (prior to the expiration of the 90 day grace period specified in paragraph (c)(i)) or (d)(x) under the subheading "Events of Termination—State Street/CalSTRS Liquidity Facility (each a "Potential Event of Termination"), State Street/CalSTRS' obligations to purchase 2008 Series D Bonds shall be immediately suspended without notice or demand and thereafter State Street/CalSTRS shall be under no obligation to purchase 2008 Series D Bonds until the Available Commitment is reinstated as described in this paragraph. Promptly upon State Street/CalSTRS obtaining knowledge of any such Potential Event of Termination, State Street/CalSTRS shall give written notice of the same to the Commission, the Trustee, and the applicable Remarketing Agent of such suspension; provided, however, that State Street/CalSTRS shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of State Street/CalSTRS obligations under the State Street/CalSTRS Liquidity Facility. In the event such Potential Event of Termination is cured, State Street/CalSTRS' obligations shall be automatically reinstated and the terms of the State Street/CalSTRS Liquidity Facility will continue in full force and effect (unless the State Street/CalSTRS Liquidity Facility shall otherwise have terminated or been suspended by its terms). If such Potential Event of Termination becomes an Event of Termination (through Expiration of the 90 day grace period specified above or otherwise) the provisions under the caption "Immediate Termination" above shall apply.

State Street/CalSTRS Other Remedies. In addition to the rights and remedies described in the above three paragraphs, in the case of any Event of Termination specified in paragraphs (a)-(o) under the subheading "Events of Termination—State Street/CalSTRS Liquidity Facility, upon the election of the Liquidity Facility Provider: (i) all amounts payable under the State Street/CalSTRS Liquidity Facility (including but not limited to principal of and interest on any Purchased Bonds and payments of Excess Bond Interest), shall, upon notice to the Commission, become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Commission; and (ii) State Street/CalSTRS shall have all the rights and remedies available to them under the State Street/CalSTRS Liquidity Facility, the Related Documents or otherwise pursuant to law or equity; provided, however, that State Street/CalSTRS shall not have the right to terminate their obligation to purchase 2008 Series D Bonds or to declare any amount due under the State Street/CalSTRS Liquidity Facility due and payable except as expressly provided therein.

Extension, Reduction, Adjustment or Termination of each Liquidity Facility

Each Liquidity Facility will expire on the respective dates set forth under the subheading "General" above unless earlier terminated or, with the consent of the applicable Liquidity Provider in its sole and absolute discretion, extended for an additional period or periods, in each case in accordance with the provisions of its Liquidity Facility.

Upon (i) any redemption, defeasance or other payment of all or any portion of the principal amount of the Series 2008 Bonds or (ii) any purchase by the applicable Liquidity Provider of Series 2008 Bonds tendered or deemed tendered in accordance with the terms of the Indenture, the applicable Liquidity Provider's purchase commitment under its Liquidity Facility with respect to principal of Series 2008 Bonds shall automatically be reduced by the principal amount of the Series 2008 Bonds so redeemed, defeased or otherwise paid or purchased, as the case may be. Each Liquidity Provider's commitment with respect to interest shall be equal to 35 days' interest on the principal amount of the applicable series of Series 2008 Bonds (assuming an interest rate of 12% per annum). The commitment with respect to interest will be adjusted downward by an amount in proportion to the reduction of the commitment as to principal because of the redemption, defeasance or other payment of such Series 2008 Bonds or the purchase by the applicable Liquidity Provider of Series 2008 Bonds tendered or deemed tendered in accordance with the terms of the Indenture.

Limitations of Each Liquidity Facility

The ability to obtain funds under each Liquidity Facility in accordance with its terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions or any issuer of a standby bond purchase agreement may prevent or restrict payment under the Liquidity Facility. To the extent the short-term rating on the Series 2008 Bonds depends on the rating of the applicable Liquidity Provider, the short-term ratings on the Series 2008 Bonds could be downgraded or withdrawn if such Liquidity Provider were to be downgraded, placed on credit watch or have its ratings suspended or withdrawn or were to refuse to perform under its Liquidity Facility.

The obligation of the applicable Liquidity Provider to purchase unremarketed Bonds pursuant to its Liquidity Facility is subject to the conditions and limitations set forth therein, and is also subject to all rights and defenses available to contracting parties generally. Each Liquidity Facility is not a guaranty to pay the Purchase Price of Series 2008 Bonds tendered for purchase. Each Liquidity Facility is a general contract, subject to certain conditions and limitations, and is not a letter of credit. Purchasers of the Series 2008 Bonds should consult their legal counsel for an explanation of the differences between a general contract and a letter of credit or guaranty. See "RISK FACTORS - Limitations of Liquidity Facility and Related Risks."

Substitution of Alternate Liquidity Facility

Pursuant to the provisions of the Indenture, the Commission may, at any time, deliver a replacement for the Liquidity Facility (such replacement being hereinafter referred to as an "Alternate Liquidity Facility") upon satisfaction of certain conditions set forth in the Indenture. The Commission shall provide written notice to the Trustee of any proposed substitution of an Alternate Liquidity Facility, and the Trustee shall mail notice of such proposed substitution to each Bond owner at least 10 calendar days prior to the effective date of such substitution.

Pursuant to the provisions of the Indenture, the Series 2008 Bonds are subject to mandatory purchase on the date such Alternate Liquidity Facility shall take effect; provided there shall be no mandatory purchase of the Series 2008 Bonds on the effective date of the provision of the Alternate

Liquidity Facility if the Commission has received confirmation of the ratings on the Series 2008 Bonds by each rating agency then providing a rating with respect to the Series 2008 Bonds. The Commission is not required to maintain the Liquidity Facility with respect to any Series of the Series 2008 Bonds in an Auction Rate Period, an Index Rate Period, a Term Rate Period for which there is no Liquidity Facility, or a Fixed Rate Period. In the event that the Commission allows the Liquidity Facility or any Alternate Liquidity Facility provided in the form of a standby bond purchase agreement to terminate, the affected Series 2008 Bonds shall be subject to the mandatory tender provisions of the Indenture.

ADDITIONAL TERMS OF THE SERIES 2008 BONDS

Interest Rate Determination Methods

General. Each Series of the Series 2008 Bonds will initially bear interest at a Weekly Rate. The Commission has the right to change the Interest Rate Determination Method for any Series of the Series 2008 Bonds to a different Interest Rate Determination Method (which may be a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Auction Period Rate, an Index Rate, a Term Rate or a Fixed Rate). See "Conversion of Interest Rate Determination Method for Certain Series 2008 Bonds" below.

Each Series of Series 2008 Bonds will initially have a Remarketing Agent, each of which is referred to herein as "Remarketing Agent." See "CERTAIN CONSIDERATIONS AFFECTING THE SERIES 2008 BONDS."

No Daily Rate or Weekly Rate on the Series 2008 Bonds will exceed 12% per annum.

Daily Rate. Upon a successful conversion of a Series of Series 2008 Bonds to the Daily Rate Period, the Series 2008 Bonds of such Series will bear interest at a Daily Rate. During each Daily Rate Period, the Remarketing Agent for such Series is to set a Daily Rate for the Series by 9:30 a.m., New York City time, on each Business Day, which Daily Rate is to be the rate of interest that, if borne by the Series 2008 Bonds in the Daily Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities that are of the same general nature as the Series 2008 Bonds or Tax-Exempt Securities that are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of the Series 2008 Bonds for which the Daily Rate is to be determined, be the lowest interest rate that would enable the Remarketing Agent to place the Series 2008 Bonds at a price equal to 100% of the aggregate principal amount of such Series 2008 Bonds (plus accrued interest, if any) on such Business Day. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

Weekly Rate. So long as a Series of Series 2008 Bonds is in the Weekly Rate Period, the Series 2008 Bonds of such Series will bear interest at a Weekly Rate. During each Weekly Rate Period, the Remarketing Agent for such Series is to set a Weekly Rate for the Series, by 5:00 P.M., New York City time, on each Wednesday (or the immediately succeeding Business Day, if such Wednesday is not a Business Day) for the next period of seven (7) days from and including Thursday of any week to and including Wednesday of the next following week (a "Calendar Week"); *provided*, that, the Weekly Rate for the first Calendar Week (or portion thereof) following a Conversion Date resulting in a change in the Interest Rate Determination Method to a Weekly Rate is to be set by the Remarketing Agent on the Business Day immediately preceding such Conversion Date. Each Weekly Rate is to be the rate of interest that, if borne by the Series 2008 Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities that are of the same general nature as the Series 2008 Bonds for which the Weekly Rate is to be determined, or Tax-Exempt Securities that are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of the Series 2008 Bonds for which the Weekly Rate is

to be determined, be the lowest interest rate that would enable the Remarketing Agent to place the Series 2008 Bonds of each Series at a price equal to 100% of the aggregate principal amount of such Series 2008 Bonds (plus accrued interest, if any) on the first day of such Weekly Rate Period.

Failure to Determine Rate for Certain Rate Periods. If, for any reason, the Daily Rate or the Weekly Rate on any of the Series 2008 Bonds is not established as described above, or there is no Remarketing Agent for those Series 2008 Bonds, or any Daily Rate or Weekly Rate so established is held to be invalid or unenforceable with respect to such rate period, then the interest rate for such Rate Period will be 100% of the SIFMA Swap Index on the date such Daily Rate or Weekly Rate was (or would have been) determined, as provided pursuant to the provisions of the Indenture described above. "SIFMA Swap Index" is an index published or made available by the Securities Industry and Financial Markets Association (formerly the Bond Market Association) and is defined in APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Conversion of Interest Rate Determination Method for Series 2008 Bonds

Right of Conversion. The Interest Rate Determination Method for any Series of Series 2008 Bonds is subject to conversion from one Interest Rate Determination Method to another from time to time by the Commission, with such right to be exercised by delivery of a Conversion Notice to the Notice Parties for the Series 2008 Bonds of such Series to be converted as follows: (1) at least four Business Days prior to the fifteenth day preceding the effective date of such proposed Conversion, in the event of a Conversion to a Daily Rate, Weekly Rate, Commercial Paper Rate, Index Rate or Auction Period Rate; and (2) at least five Business Days prior to the fifteenth day preceding the effective date of such proposed Conversion, in the event of a Conversion to a Term Rate or a Fixed Rate.

The Conversion Notice must be accompanied by (i) a Favorable Opinion of Bond Counsel stating that the Conversion is authorized and permitted under the Indenture and will not, in and of itself, adversely affect the Tax-Exempt status of the interest on any of the Series 2008 Bonds to be converted, and (ii) a notice of the new Liquidity Provider or Credit Provider, if applicable, and the new Liquidity Facility or Credit Enhancement, if at the same time as such Series 2008 Bonds are being converted there will be a change of Liquidity Provider or Liquidity Facility, or the Commission enters into an agreement with a Credit Provider to provide Credit Enhancement with respect to such Series 2008 Bonds.

See APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Conversion to a different Interest Rate Determination Method means that all Bonds of the Series being converted must be tendered for purchase on the Conversion Date. See "Mandatory Tender Provisions" below.

Notice of Conversion. Upon receipt of a Conversion Notice, as soon as possible, but in any event not less than 15 days prior to the proposed Conversion Date, the Trustee is to give DTC notice by first-class mail. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners of Series 2008 Bonds will be governed by arrangements among them, and the Commission and the Trustee will not have any responsibility or obligation to send a Conversion Notice to Beneficial Owners of Series 2008 Bonds.

Failure to Convert. The Indenture includes provisions setting forth the procedures and conditions for the exercise by the Commission of its right of conversion of Series 2008 Bonds from one Interest Rate Determination Method to another. Under certain circumstances, a planned conversion may

not be completed. However, once a notice of conversion is provided to DTC as described in the preceding paragraph, all Series 2008 Bonds covered by that notice, must be tendered for purchase (whether or not the planned conversion is completed). See "Funding Optional and Mandatory Tenders of Series 2008 Bonds" concerning payment for Series 2008 Bonds so tendered for purchase.

The Indenture provides that a failed conversion of a Series of 2008 Bonds to another Interest Rate Determination Method means that the 2008 Bonds of that Series will continue to bear interest at the Interest Rate Determination Method in effect prior to the proposed Conversion Date (as if no proceedings for Conversion had taken place) and the rate of interest thereon shall be determined on the proposed Conversion Date. If the failed conversion is due to insufficient funds, that interest rate is required by the Indenture to be the lesser of the SIFMA Swap Index plus 3% and the Maximum Interest Rate of 12% from the date of such failed purchase until all such Series 2008 Bonds are purchased as required in accordance with the Indenture, and all tendered Series 2008 Bonds will be returned to their respective owners. See "Funding Optional and Mandatory Tenders of Series 2008 Bonds" below.

Optional Tender Provisions

The Series 2008 Bonds (other than Series 2008 Bonds registered in the name of a Liquidity Provider) bearing interest at a Daily Rate or a Weekly Rate are subject to tender for purchase and remarketing at the option of the Beneficial Owner thereof, who may elect to have such Series 2008 Bonds (or portions thereof in Authorized Denominations) purchased at the Purchase Price.

Series 2008 Bonds bearing interest at a Daily Rate may be tendered for purchase on any Business Day at the applicable Purchase Price, payable in immediately available funds, upon (A) delivery by the Holder or the Beneficial Owner of such Series 2008 Bonds to the Remarketing Agent and to the Trustee at its Principal Office of an irrevocable written or electronic notice by 11:00 A.M. (New York City time) on the Purchase Date, that states the principal amount to be tendered for purchase and the Purchase Date, and (B) delivery of such Series 2008 Bonds to the Trustee on the Purchase Date in accordance with the Indenture.

Series 2008 Bonds bearing interest at a Weekly Rate may be tendered for purchase on any Business Day at the applicable Purchase Price, payable in immediately available funds, upon (A) delivery by the Holder or the Beneficial Owner of such Series 2008 Bonds to the Remarketing Agent and to the Trustee at its Principal Office of an irrevocable written or electronic notice by 5:00 P.M. (New York City time) on any Business Day at least seven days prior to the Purchase Date, which states the principal amount of such Series 2008 Bond to be tendered for purchase and the Purchase Date, and (B) delivery of such Series 2008 Bonds to the Trustee on the Purchase Date in accordance with the Indenture.

Any instrument delivered to the Trustee in accordance with the provisions of the Indenture described above shall be irrevocable with respect to the purchase for which such instrument was delivered and shall be binding upon DTC and any subsequent Holder or Beneficial Owner of the Series 2008 Bonds to which it relates, including any Series 2008 Bond issued in exchange therefore or upon the registration or transfer thereof, and as of the date of such instrument, DTC or the Beneficial Owner shall not have any right to optionally tender for purchase such Series 2008 Bonds prior to the date of purchase specified in such notice. The Commission, the Remarketing Agent and the Trustee may conclusively assume that any person (other than DTC) providing notice of optional tender pursuant to the Indenture is the Beneficial Owner of the Series 2008 Bonds to which such notice relates, and none of the Commission, the Remarketing Agent or the Trustee shall assume any liability in accepting such notice from any person whom it reasonably believes to be a Beneficial Owner of Series 2008 Bonds.

See "Funding Optional and Mandatory Tenders of Series 2008 Bonds" concerning possible failure to complete the purchase of Series 2008 Bonds tendered for purchase for lack of funds.

Mandatory Tender Provisions

The Series 2008 Bonds of each Series bearing interest at a Daily Rate or a Weekly Rate will be subject to mandatory tender for purchase at the applicable Purchase Price on the Conversion Date (or on the proposed Conversion Date if the conversion fails to occur) of Bonds of that Series to a new Interest Rate Determination Method specified in a Conversion Notice as described above under "Conversion of Interest Rate Determination Method for Series 2008 Bonds."

The Liquidity Facility is available to provide funds for the purchase of Series 2008 Bonds that are not successfully remarketed upon optional tender by Bond owners for purchase and remarketing, and for the purchase of Series 2008 Bonds that are not successfully remarketed upon mandatory tender. The Series 2008 Bonds will be subject to mandatory tender for purchase at the applicable Purchase Price (i) on the fifth Business Day preceding the scheduled expiration or the termination of the Liquidity Facility by the Commission, and (ii) on the date of provision of an Alternate Liquidity Facility and resultant termination of the Liquidity Facility. No such mandatory tender is required if an Alternate Liquidity Facility is provided to the Trustee and a Rating Confirmation is delivered by each Rating Agency then rating the Series of Series 2008 Bonds with respect to which the Alternate Liquidity Facility is being provided. The Trustee is to mail notice to DTC not later than 15 days prior to any such termination, substitution or expiration.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners of Series 2008 Bonds will be governed by arrangements among them, and the Commission will not have any responsibility or obligation to send any notice to Beneficial Owners of Series 2008 Bonds.

The Commission will designate which Series and which maturities of such Series of Series 2008 Bonds bearing interest at a Daily Rate or a Weekly Rate are to be tendered. If less than all of the Series 2008 Bonds of a Series maturing by their terms on any one date are to be tendered at any one time, DTC's practice is to determine by lot the amount of the interest of each DTC Direct Participant in the Series to be tendered. For purposes of such selection, the Series 2008 Bonds of such Series shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately tendered.

Funding Optional and Mandatory Tenders of Series 2008 Bonds

The Commission expects funds to be made available to purchase Series 2008 Bonds tendered for purchase pursuant to the optional and mandatory tender provisions described above by having Remarketing Agents remarket the tendered Series 2008 Bonds and having the proceeds applied to purchase the tendered Series 2008 Bonds. See "CERTAIN CONSIDERATIONS AFFECTING THE SERIES 2008 BONDS."

Funds for payment of the Purchase Price for any Series 2008 Bonds tendered for purchase and not successfully remarketed are expected to be provided under the Liquidity Facility as described under "THE LIQUIDITY FACILITIES." If insufficient funds are available under the Liquidity Facility, the Commission has the option, but no obligation under the Indenture, to pay the shortfall to the Trustee.

The Indenture provides that if sufficient funds are not available for the purchase of all Series 2008 Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, all Outstanding

Bonds of such Series shall bear interest at the lesser of the SIFMA Swap Index plus 3% and the Maximum Interest Rate from the date of such failed purchase until all such Bonds are purchased as required in accordance with the Indenture, and all tendered Series 2008 Bonds of such Series are returned to their respective Owners. Thereafter, the Trustee is to continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Providers for such Series 2008 Bonds. The Indenture provides that such failed purchase and return shall not constitute an Event of Default.

Mechanics and Timing of Optional and Mandatory Tenders

The mechanics and timing of delivery and payment for Series 2008 Bonds tendered for purchase are addressed in the Indenture. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Mandatory Tender for Commission Purchase of Series 2008 Bonds at Election of Commission

The Series 2008 Bonds of each Series bearing interest at a Daily Rate or a Weekly Rate are also subject to mandatory tender for purchase by the Commission, in whole or in part (in Authorized Denominations), on any date such Series of Series 2008 Bonds would be subject to optional redemption (each, an “Optional Purchase Date”) at a purchase price equal to the principal amount of such Series of Series 2008 Bonds to be purchased on the Optional Purchase Date, plus accrued interest to the Optional Purchase Date, at the option of the Commission exercised on such Optional Purchase Date, of the Series 2008 Bonds to be purchased (the “Optional Purchase Price”). In the event that the Commission determines to purchase any Series 2008 Bonds of a Series on any Optional Purchase Date, the Commission will provide the Trustee with written notice of such determination at least 15 days prior to the Optional Purchase Date, which notice will specify the Series of Series 2008 Bonds and the principal amount of the Series 2008 Bonds of such Series of each maturity which are to be purchased and the Optional Purchase Date on which such purchase is to occur.

When the Trustee receives notice from the Commission of its determination to purchase Series 2008 Bonds of a Series pursuant to the provisions described above, the Trustee shall give notice to DTC, the Remarketing Agent and the Liquidity Provider, in the name of the Commission, of the mandatory tender for purchase of such Series 2008 Bonds, which notice shall be mailed, by first class mail, postage prepaid, not more than 90 nor less than 10 days before the Optional Purchase Date. Receipt of such notice of mandatory tender for purchase shall not be a condition precedent to the mandatory tender for purchase of the Series 2008 Bonds and failure of DTC to receive any such notice or any defect in such notice shall not affect the validity of the proceedings for the mandatory tender for purchase of such Series 2008 Bonds pursuant to the provisions of the Indenture described herein. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners of Series 2008 Bonds will be governed by arrangements among them, and the Commission and the Trustee will not have any responsibility or obligation to send any notice to Beneficial Owners of Series 2008 Bonds.

If at the time the Trustee sends any notice of mandatory tender for purchase of the 2008 Bonds at the election of the Commission, the Commission has not deposited with the Trustee an amount sufficient to pay the full Optional Purchase Price of the 2008 Bonds, or the portions thereof, to be purchased, such notice will state that the mandatory tender for purchase is conditional upon the receipt by the Trustee on or prior to the Optional Purchase Date fixed for such purchase of moneys sufficient to pay the Optional Purchase Price of such 2008 Bonds, or the portions thereof to be purchased, and that if such moneys are not so received such notice shall be of no force and effect and the Commission will not be required to purchase such 2008 Bonds. In the event that the notice of mandatory tender for purchase contains such a

condition and such moneys are not so received, no purchase of the 2008 Bonds identified in the notice of mandatory tender for purchase shall be made and the Trustee shall, within a reasonable time thereafter, give notice to the Remarketing Agent and to the persons and in the manner in which the notice of tender was given, that such moneys were not so received and that there will be no purchase of 2008 Bonds pursuant to the notice of mandatory tender for purchase.

If less than all of the Series 2008 Bonds of a Series maturing by their terms on any one date are to be tendered at any one time, DTC's practice is to determine by lot the amount of the interest of each DTC Direct Participant in the Series to be tendered. For purposes of such selection, the Series 2008 Bonds of such Series shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately tendered. If at the time the Trustee sends any notice of mandatory tender for purchase of any Series 2008 Bonds as described in the preceding paragraph, the Commission has not deposited with the Trustee an amount sufficient to pay the full Optional Purchase Price of such Series 2008 Bonds, or the portions thereof, to be purchased, such notice shall state that such mandatory tender for purchase is conditional upon the receipt by the Trustee on or prior to the Optional Purchase Date fixed for such purchase of moneys sufficient to pay the Optional Purchase Price of such Series 2008 Bonds, or the portions thereof to be purchased, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Commission shall not be required to purchase such Series 2008 Bonds.

Funding for purchases of Series 2008 Bonds pursuant to the mandatory tender at the election of the Commission as described under this heading is not supported by the Liquidity Facilities described under "THE LIQUIDITY FACILITIES" nor is it addressed in the Commission's agreements with Remarketing Agents for Series 2008 Bonds.

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

General

The Commission was organized pursuant to the San Diego County Regional Transportation Commission Act, Chapter 2 of Division 12.7 (Sections 132000 and following) of the Public Utilities Code of the State of California (the "Act"). Pursuant to the provisions of the Act, the Board of Directors of the Commission is composed of the Board of Directors (the "Board") of the San Diego Association of Governments ("SANDAG"). On January 1, 2003, State legislation (Senate Bill 1703) took effect, which changed the structure of SANDAG from a Joint Powers Authority to a State-created regional government agency with a Board of Directors consisting of voting representatives from the County, and the eighteen cities within the County. The effect of this legislation was to make SANDAG a permanent rather than voluntary association of local governments and to increase SANDAG's responsibilities and powers. Senate Bill 1703 also required the consolidation of the planning, programming, project development, and construction functions of the agencies currently known as San Diego Metropolitan Transit System ("MTS") and North County Transit District ("NCTD") into SANDAG. This consolidation was substantially completed in October 2003.

The Ordinance

As set forth in the Act, the Commission is responsible for providing improvements to the transportation system and other public infrastructure systems in San Diego County. To carry out this responsibility, the Commission adopted in 1987 the initial San Diego County Transportation Improvement Program *TransNet* Ordinance (Commission Ordinance 87-1 – Proposition A, 1987) (referred to herein as the "1987 Ordinance"). In 2004, the Commission adopted the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (Commission Ordinance

04-01), referred to herein as the "Sales Tax Extension Ordinance," which provides for an extension of the retail transactions and use tax implemented by the initial 1987 Ordinance for a 40-year period commencing on April 1, 2008. The 1987 Ordinance and the Extension Ordinance each outline a series of projects (herein referred to as the "Expenditure Plan") to be implemented during the term of the sales tax measure. In connection with implementing the Expenditure Plan, the Commission has adopted and updated a series of plans of finance (the "Plan of Finance"), which describe the types of projects that are to be cash financed and the types of projects that are to be debt financed and the projected timing and amounts of such financing. On July 23, 2010, the Commission approved the 2010 *TransNet* Plan of Finance update which incorporates a "robust" financial scenario that continues to advance to construction several projects in the Commission's *TransNet* Early Action Program (the "*TransNet* EAP"). The *TransNet* EAP (depicted in the map on page i) includes various highway and transit improvements in the Interstates 5, 15, and 805 corridors; completion of the State Route 52 and 76 projects; implementation of the Mid-Coast Corridor, SuperLoop, and Mid-City Rapid transit projects; Trolley vehicle and station upgrades along the Blue and Orange Lines; and double tracking improvements in the coastal rail corridor.

Executive Staff

The SANDAG staff serves as staff to the Commission. Key staff members, the position held by each and a brief statement of the background of each staff member is set forth below.

Gary L. Gallegos, Executive Director. Mr. Gallegos serves as SANDAG's chief executive officer and the secretary of the Board of Directors of both SANDAG and the Commission. He is responsible for the overall management of SANDAG and the Commission, including execution of its operational policies and procedures, the Board approved budget, and all personnel decisions. Mr. Gallegos was appointed by the SANDAG Board to his present position in 2001. Prior to joining SANDAG, Mr. Gallegos held the position of District Director for Caltrans District 11, encompassing San Diego and Imperial Counties. Mr. Gallegos holds a B.S. degree in Civil Engineering from the University of New Mexico and is a registered civil engineer.

Renée Wasmund, Chief Deputy Executive Director. Ms. Wasmund's major responsibilities include managing the ongoing operations of SANDAG, as well as overseeing the operations of the Administration, Finance, Land Use and Transportation Planning, Mobility Management and Project Implementation, and Technical Services Departments. Ms. Wasmund also works with other local, regional, State, and federal agencies on regional planning, programming and implementation issues and works with local, State and federal elected officials to implement public policy. Ms. Wasmund transferred to SANDAG from MTS in 2003 as a result of the consolidation of certain regional transportation functions into SANDAG. Before being named Chief Deputy Executive Director, Ms. Wasmund served as the Director of Finance for SANDAG and the Commission. She was at MTS for 13 years, serving as the Director of Finance and Administration for ten of those years. Ms. Wasmund is a graduate of the University of Central Florida and is a Certified Public Accountant.

Julie Wiley, General Counsel. Julie Wiley was appointed General Counsel for SANDAG and the Commission in September 2005. Ms. Wiley was originally hired by SANDAG as Deputy General Counsel in January 2001. Between 1995 and 2001, Ms. Wiley worked for private sector law firms in Colorado and California as a litigator and advisor for corporations and public sector clients. Ms. Wiley holds a Bachelors degree from the University of California, San Diego and a Juris Doctorate from the University of Denver.

Lauren Warrem, Director of Finance. Ms. Warrem serves as the chief financial officer and directs all financial and programming functions for SANDAG and the Commission. Ms. Warrem transferred to SANDAG from MTS in 2003 as a result of the consolidation of certain regional

transportation functions into SANDAG. Before being named Director of Finance, Ms. Warrem served as the Finance Manager for SANDAG for six years. She was at MTS for two years, serving as the Finance Manager and previously worked for KPMG, LLP, a certified public accounting firm. Ms. Warrem holds a B.S. degree in Accounting from Baker University and is a Certified Public Accountant.

Jim Linthicum, Director of Mobility Management and Project Implementation. Mr. Linthicum is directly responsible for the implementation of all *TransNet* and capital improvement projects under the control of the Commission. He is accountable for the scope, schedule, and cost of regional transportation projects and coordinates these efforts with federal, State, and local transportation agencies. Mr. Linthicum transferred to SANDAG from MTS in 2003 as a result of the consolidation of project development and construction functions into SANDAG. Prior to his employment at MTS Mr. Linthicum worked for the California Department of Transportation for 24 years. Mr. Linthicum holds a B.S. degree in Civil Engineering from Pennsylvania State University.

Charles "Muggs" Stoll, Director of Land Use and Transportation Planning. Mr. Stoll is responsible for development and implementation of SANDAG's Regional Comprehensive Plan and Regional Transportation Plan and oversees planning and project development activities in the areas of transportation, public transit, land use, public facilities, environmental management, and interregional and binational collaboration. Mr. Stoll joined SANDAG in April 2007 after spending more than 20 years with the California Department of Transportation at its San Diego District Office where he gained experience in many functional units. His career involved primarily project development functions, including assignments in construction as a Resident Engineer, Project Director with responsibility for all phases of development of the proposed tollway portion of future State Route 125 (South Bay Expressway), Deputy District Director of the Environmental Division, the District's Capital Program Chair Deputy, and an eight-week acting assignment as the Chief of Staff to the Director in Sacramento, CA. Mr. Stoll received a Bachelor of Science (B.S.) degree in Civil Engineering in 1983 and a Master's degree in Business Administration (M.B.A.) in 1985. Both degrees were earned at San Diego State University. He has been a Registered Engineer in the State since 1988.

Marney P. Cox, Chief Economist. Mr. Cox specializes in regional economies and works with a team of professionals to produce SANDAG's regional growth forecasts. These forecasts are adopted by each jurisdiction in the San Diego region and used widely for planning purposes. Mr. Cox's additional responsibilities include maintaining the San Diego region's Economic Prosperity Strategy, performing financial and risk analysis for transportation and other public infrastructure projects, and evaluating the fiscal consequences of alternative regional growth management policies. Mr. Cox joined SANDAG in 1979 as a Research Analyst responsible for SANDAG econometric and statistical growth allocation models and served as Municipal Finance Specialist and Senior Regional Planner before being promoted to his current position in 1986. Mr. Cox holds both graduate and undergraduate degrees in economics from San Diego State University, with an emphasis in public finance, urban economics and econometrics.

Kim Kawada, *TransNet* and Legislative Affairs Program Director. Ms. Kawada manages and directs the operations of the SANDAG *TransNet* program and federal and state legislative affairs, and oversees the Board of Directors and Policy Advisory Committee agendas. She has been involved in a number of significant transportation and planning initiatives in the San Diego region. She spearheaded the development of several of the agency's Regional Transportation Plans. She also worked with local, State, and federal officials to launch the first-ever high occupancy toll lanes that charge solo drivers a fee to use carpool lanes. She was responsible for the team that developed the first Regional Comprehensive Plan, a long-range planning framework for the San Diego region. She has worked at SANDAG for 16 years and previously worked for the City of Laguna Niguel. She is a graduate of Brown University with a Bachelors of Arts in American History.

Potential Acquisition of Southbay Expressway Toll Concession

On July 29, 2011, the SANDAG Board authorized staff and consultants to proceed with "due diligence" investigation and further negotiations relating to the potential acquisition by SANDAG of the private owner/operator's rights and the assumption of obligations under a franchise agreement with the California Department of Transportation ("Caltrans") to operate, maintain and collect tolls from the Southbay Expressway. The Southbay Expressway is a 9.3 mile, 4 lane tollroad located near the City of Chula Vista in the southeastern portion of the County that was developed under the rights granted under the franchise agreement. The private owner/operator of the Southbay Expressway recently emerged from federal bankruptcy protection. The purchase and sale of the rights and obligations under the franchise agreement is conditioned, among other matters, on a successful completion of "due diligence" review and final negotiations of a purchase and sale agreement which could occur by the end of 2011.

The parties have conditionally agreed on a purchase price of \$344.5 million which could be payable by SANDAG from cash on hand either as a loan of *TransNet* funds or Sales Tax Revenues, by amending the *TransNet* Ordinance's Expenditure Plan to include the Southbay Expressway in place of another project currently in the Expenditure Plan, or a combination thereof. The SANDAG Board will be reviewing financing options between September and November 2011. If the sale is completed, toll revenues collected from users of the Southbay Expressway would be the sole source of funding to satisfy SANDAG's obligations under one or more new agreements between it and Caltrans, including the payment of operation, maintenance and third party debt service costs; in no event will Sales Tax Revenues be pledged or otherwise used for these purposes.

The Commission is of the opinion that the potential purchase of the franchise rights relating to the Southbay Expressway will not have a material adverse effect on its ability to pay debt service on the Series 2008 Bonds or otherwise meet its obligations under the Indenture or the Liquidity Facilities.

THE SALES TAX

Authorization, Application and Collection of the Sales Tax

The Commission is authorized by the Act to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County in accordance with California's Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 et seq.), upon authorization by a majority of the electors voting on the issue. On November 3, 1987, the voters approved the 1987 Ordinance which imposed the Sales Tax in the County for a twenty-year period. On November 2, 2004, more than two-thirds of the voters approved the Sales Tax Extension Ordinance which, among other things, extended the collection of the tax to March 31, 2048. The Ordinance imposes the Sales Tax on the gross receipts of retailers from the sale of tangible personal property sold in the County and upon the storage, use or other consumption in the County of such property purchased from any retailer for storage use or other consumption in the County, subject to certain limited exceptions described below.

Collection of the Sales Tax is administered by the BOE. The BOE, after deducting a fee for administering the Sales Tax, remits the remaining Sales Tax Revenues to the Trustee which are then applied to satisfy the Commission's obligations with respect to the Bonds and Parity Obligations. The remaining Sales Tax Revenues are then remitted to the Trustee for the Commission's Subordinate Obligations, including the Subordinate Commercial Paper Notes. After payment of debt service requirements on the Subordinate Obligations, any remaining unapplied Sales Tax Revenues are then remitted to the Trustee for payment of certain fees and expenses and thereafter to the Commission. The fee charged by the BOE is determined by the BOE pursuant to statute. The fee charged by the BOE to the Commission for Fiscal Year 2011 for collection of the Sales Tax was \$2,501,240. The fee that the BOE

is authorized to charge for collection of the Sales Tax is determined by State legislation and may be increased or decreased by legislative action. There can be no assurances that the amount of this fee or the method for determining the amount of the fee will remain the same.

The Sales Tax is imposed in addition to a seven and one quarter percent sales and use tax levied statewide by the State. In general, the statewide sales tax applies to the gross receipts of retailers from the sale of tangible personal property. The statewide use tax is imposed on the storage, use or other consumption in the State of property purchased from a retailer for such storage, use or other consumption. Since the use tax does not apply to cases where the sale of the property is subject to the sales tax, the application of the use tax generally is to purchases made outside of the State for use within the State, subject to certain exceptions.

Many categories of transactions are exempt from the statewide sales and use tax and from the Sales Tax. The most important are: sales of food products for home consumption; prescription medicine; edible livestock and their feed; seed and fertilizer used in raising food for human consumption; and gas, electricity and water when delivered to consumers through mains, lines, and pipes. In addition, "Occasional Sales" (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the statewide sales and use tax and from the Sales Tax. Action by the State legislature or by voter initiative could change the transactions and items upon which the statewide sales and use tax and the Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial impact on the Sales Tax Revenues. The Commission is not currently aware of any proposed legislative change, which would have a material adverse effect on Sales Tax Revenues. See also "Proposition 218" below.

Historical Taxable Sales

For information concerning historical taxable sales in the County, see the table entitled "County of San Diego, Taxable Sales Transactions" in Appendix B - "INFORMATION REGARDING THE COUNTY OF SAN DIEGO."

Historical Sales Tax Revenues

The Commission began receiving distributions of the Sales Tax from the BOE in June, 1988. The following table shows the Sales Tax remitted to the Commission during the fiscal years ended June 30, 1989 through June 30, 2011.

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
HISTORICAL SALES TAX REVENUES**

<u>Fiscal Year Ended June 30</u>	<u>Actual ½% Sales Tax Revenues⁽¹⁾</u>	<u>% Change From Prior Fiscal Year</u>
1989	\$ 95,691,042	
1990	113,758,624	18.9%
1991	109,806,529	(3.5)
1992	106,105,958	(3.4)
1993	111,783,116	5.4
1994	111,461,846	(0.3) ⁽²⁾
1995	114,303,387	2.5
1996	123,511,934	8.1
1997	131,592,528	6.5
1998	145,754,155	10.8
1999	156,909,677	7.7
2000	172,274,619	9.8
2001	189,795,888	10.2
2002	192,836,199	1.6
2003	200,600,386	4.0
2004	213,230,634	6.3
2005	228,562,785	7.2
2006	243,317,789	6.5
2007	247,924,394	1.9
2008	244,406,219	(1.4)
2009	221,991,360	(9.2)
2010	204,191,747	(8.0)
2011	221,304,014	8.4 ⁽³⁾

(1) Cash basis, net of BOE administrative fee.

(2) Reflects, in part, effect of increase in BOE administration fee in 1994.

(3) Unaudited

Source: San Diego County Regional Transportation Commission.

Annual Sales Tax Revenues received for the Fiscal Year ended June 30, 2011 ("Fiscal Year 2011") totaled \$221,304,014 (unaudited). These Sales Tax Revenues are anticipated to equal at least 4.67 times Maximum Annual Debt Service on the Series 2008 Bonds and the Series 2010 Bonds (net of the Subsidy Payments) assuming such Maximum Annual Debt Service amounts as shown in the table "COMBINED DEBT SERVICE SCHEDULE" herein and Maximum Annual Debt Service with respect to the Series 2010 Bonds in the amount of \$47,236,859.24.

Following declines in Sales Tax Revenue which began in Fiscal Year 2008, the first increase in Sales Tax Revenue occurred in Fiscal Year 2011 (year ended June 30, 2011); Sales Tax Revenues grew 8.4 percent over the prior Fiscal Year (year ended June 30, 2010). To account for a possible slow-down in the economic growth rate, SANDAG has forecast a modest increase of four percent in Sales Tax Revenue for Fiscal Year 2012 (year ending June 30, 2012). This increase is consistent with what was experienced at the state and national level with regard to Sales Tax Revenues for the fourth quarter of Fiscal Year 2011. Although there can be no assurances that Sales Tax Revenues will continue to increase, this trend of slow growth has continued into the first quarter of Fiscal Year 2012.

OUTSTANDING DEBT

In March, 2008 the Commission issued the Series 2008 Bonds in the aggregate principal amount of \$600,000,000. A portion of the proceeds of the issuance of the Series 2008 Bonds were used to retire all Subordinate Commercial Paper Notes outstanding at the time of the issuance of the Series 2008 Bonds. Since the issuance of the Series 2008 Bonds, the Commission has issued the Subordinate Commercial Paper Notes, which, as of June 30, 2011, are outstanding in the aggregate principal amount of \$34,000,000. The total principal amount of Subordinate Commercial Paper Notes that are authorized to be issued may not exceed \$100,000,000.

In November, 2005, the Commission entered into three interest rate swap agreements in an initial aggregate notional amount of \$600,000,000 (the "Initial Swaps") pursuant to which the Commission agrees to pay to the counterparties a fixed rate of interest and the counterparties agree to pay the Commission a floating rate of interest. The Initial Swaps were effective as of April 1, 2008, and the notional amounts amortize in tandem with the amortization of the Series 2008 Bonds. Regularly scheduled payments on the Initial Swaps are payable on a parity with the Series 2008 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Initial Swap Agreements."

In March, 2009, the Commission entered into two Securities Industry and Financial Markets Association ("SIFMA") versus London Interbank Offered Rate ("LIBOR") floating-to-floating swaps (the "Basis Rate Swap Overlays"), with initial notional amounts of \$156,600,000 each. Under two of the Initial Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. Pursuant to the terms of the Basis Rate Swap Overlays of two of the Initial Swaps, the Commission agreed to pay to the counterparties a payment of the SIFMA index and the counterparties agreed to pay the Commission 107.4 percent of LIBOR, on the first day of each month, commencing May 1, 2018, for the last 20 years of two of the Initial Swaps. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS –Basis Rate Swap Overlays to the Interest Rate Swaps" for additional information regarding the Basis Rate Swap Overlays.

On October 28, 2010, the Commission issued the Series 2010 Bonds in the aggregate principal amount of \$350,000,000. The Series 2010 Bonds are secured by a pledge of Sales Tax Revenues on a parity with the Series 2008 Bonds and are currently Outstanding in the aggregate principal amount of \$349,540,000. The Commission has designated the 2010 Series A Bonds as "Build America Bonds" which entitles the Commission to receive an interest subsidy from the U.S. Treasury equal to 35% of the interest payments on the 2010 Series A Bonds subject to the Commission's compliance with certain requirements under the Code. See "RISK FACTORS—Risks Relating to Build America Bonds."

In 2005, the Commission authorized the issuance from time to time of San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) (the "Subordinate Commercial Paper Notes") that are secured by a lien on the Sales Tax Revenues that is subordinate to the lien of the Bonds and Parity Obligations. The Subordinate Commercial Paper Notes are currently authorized to be issued in an aggregate principal amount of up to \$100,000,000 outstanding at any one time, and, as of June 30, 2011, were outstanding in the aggregate principal amount of \$34,000,000.

Anticipated Issuances of Additional Bonds

The Commission anticipates issuing additional Bonds, in addition to the Series 2008 Bonds and the Series 2010 Bonds, to fund transportation projects authorized under the Expenditure Plan. Furthermore, the Commission is authorized to issue up to \$100,000,000 of Subordinate Commercial Paper Notes.

The principal amount of additional Bonds or other financing instruments to be subsequently issued by the Commission and the timing of any such issuance or issuances will be determined by the Commission based on a variety of factors including the costs and timing of design and construction of the transportation projects to be financed and the resources then available. The issuance of additional Bonds is subject to the requirements of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Additional Bonds and Parity Obligations."

COMMISSION INVESTMENT PORTFOLIO

Funds of the Commission are invested pursuant to an investment policy adopted by the Board, which permits the Commission to invest in some (but not all) of the types of securities authorized by State law for the investment of funds of local agencies (California Government Code Section 53600 et seq.) The securities in which the Commission currently is authorized to invest include United States treasury notes, bonds and bills, bonds, notes, bills, warrants and obligations issued by certain agencies of the United States, certain bankers acceptances, certain corporate commercial paper of prime quality, certificates of deposit, certain medium term corporate notes, certain shares of beneficial interest in diversified management companies (mutual funds), the State's local agency investment fund, the San Diego County local agency investment fund, certain collateralized repurchase agreements, and other securities authorized under State law as appropriate for public fund investments and not specifically prohibited by the investment policy. The investment policy (which is subject to change in the future) does not allow investment in reverse repurchase agreements, financial futures, option contracts, mortgage interest strips, inverse floaters or securities lending or any investment that fails to meet the credit or portfolio limits of the investment policy at the time of investment.

Funds held by the Trustee under the Indenture are invested in Investment Securities (as defined in Appendix C) by the Trustee in accordance with instructions from the Commission. The instructions from the Commission currently restrict those investments to investments permitted by the investment policy adopted by the Board described above (except that the Trustee is permitted to invest a greater percentage of funds in mutual funds and a single mutual fund than the investment policy would otherwise permit).

The Commission's primary investment strategy is to purchase investments with the intent to hold them to maturity. However, the Commission may sell an investment prior to maturity to avoid losses to the Commission resulting from further erosion of the market value of such investment or to meet operation or project liquidity needs.

The value of the various investments in the portfolio will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Further, such values may vary based on credit quality, ratings, or other factors. Therefore, there can be no assurance that the values of the various investments in the portfolio will not vary significantly from the values described below. Further, the values specified in the following tables were based upon estimates of market values provided to the Commission by a third party as of June 30, 2011. Accordingly, there can be no assurance that if these securities had been sold on June 30, 2011, the portfolio would have received the values specified. In addition, under certain provisions of the Indenture, funds and accounts

held under the Indenture must be invested in certain specified Investment Securities that include investment agreements and other investments not described above.

As of June 30, 2011, the average maturity of the Commission's portfolio was 346 days, with an average yield of approximately 0.69%.

COMMISSION INVESTMENT PORTFOLIO INFORMATION
as of June 30, 2011⁽¹⁾

<u>Investments</u>	<u>Percent of Portfolio</u>	<u>Par Value</u>	<u>Market Value</u>
Cash or Cash Equivalents	40%	\$325,453,511	\$325,724,511
State of California Local Agency Investment Fund	6%	\$48,881,487	\$48,958,547
U.S. Agencies	44%	\$353,056,777	\$351,676,893
Corporate Medium Term Notes	6%	\$50,622,974	\$50,372,779
Commercial Paper	4%	\$34,000,000	\$34,000,000
TOTAL SECURITIES	100%	\$812,014,749	\$810,732,730

(1) Unaudited
Source: The Commission.

CERTAIN CONSIDERATIONS AFFECTING THE SERIES 2008 BONDS

The Remarketing Agent for the 2008 Series A Bonds is Barclays Capital Inc., for the 2008 Series B Bonds is Goldman, Sachs & Co., for the 2008 Series C Bonds is J.P. Morgan Securities LLC and for the 2008 Series D Bonds is De La Rosa & Co. (each a "Remarketing Agent" and collectively the "Remarketing Agents").

Each of the Remarketing Agents has agreed to comply with the Commission's Variable Rate Demand Bond procedures, which are included in the Indenture. See APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

The Remarketing Agents also have internal practices and procedures pertaining to variable rate demand securities. The resale of Series 2008 Bonds and the rates of interest thereon may be affected by those practices and procedures.

Remarketing Agent Practices and Procedures

The remaining information under this caption "Remarketing Agent Practices and Procedures" has been provided by the Remarketing Agents for inclusion in this Remarketing Memorandum and the Commission makes no representation regarding its completeness or accuracy. See APPENDIX C –

“DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The Remarketing Agents are paid by the Commission.

The Remarketing Agents' responsibilities include determining the interest rate from time to time and remarketing Series 2008 Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Remarketing Memorandum. The Remarketing Agents are appointed by the Commission and are paid by the Commission for their services. As a result, the interests of the Remarketing Agents may differ from those of existing holders and potential purchasers of Series 2008 Bonds.

Under Certain Circumstances, the Remarketing Agents May Be Removed, Resign or Cease Remarketing the Series 2008 Bonds, Without a Successor Being Named

Under certain circumstances each Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

The Remarketing Agents Routinely Purchase Series 2008 Bonds for Their Own Accounts

Each Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. Each Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2008 Bonds for its own account and, if it does so, it may cease doing so at any time without notice. Each Remarketing Agent may also make a market in the Series 2008 Bonds by routinely purchasing and selling Series 2008 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents are not required to make a market in the Series 2008 Bonds. Each Remarketing Agent may also sell any Series 2008 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008 Bonds. The purchase of Series 2008 Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the Series 2008 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008 Bonds being tendered in a remarketing.

Series 2008 Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreement, each Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2008 Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Series 2008 Bonds (including whether the Remarketing Agent is willing to purchase Series 2008 Bonds for its own account). There may or may not be Bonds tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any Series 2008 Bonds tendered for purchase on such date at par and the Remarketing Agents may sell Series 2008 Bonds at varying prices to different investors on such date or any other date. The Remarketing Agents are not obligated to advise purchasers in a remarketing if they do not have third party buyers for all of the Series 2008 Bonds at the remarketing price. In the event a Remarketing Agent owns any Series 2008 Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside

the tender process, offer such Series 2008 Bonds on any date, including the rate determination date, at a discount to par to some investors.

The Ability to Sell the Series 2008 Bonds other than through Tender Process May Be Limited

The Remarketing Agent may buy and sell Series 2008 Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2008 Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Series 2008 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008 Bonds other than by tendering the Series 2008 Bonds in accordance with the tender process.

RISK FACTORS

Economy of the County and the State

The Series 2008 Bonds are secured by a pledge of Sales Tax Revenues, which consist of the Sales Tax less an administrative fee paid to the BOE. The level of Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. The economy of the County, along with the rest of the country, recently experienced a recession as evidenced by a decrease in Sales Tax Revenues, an increased unemployment rate, a probable decrease in total personal income and taxable sales, a drop in residential building permits, a decline in the rate of home sales and the median price of single-family homes and condominiums, an increase in notices of default on mortgage loans secured by homes and condominiums and an increase in foreclosures resulting from such defaults. This recession ended in July 2009 and the national, state and local economies have exhibited signs of stabilizations and slow growth. During the most recent fiscal year, FY 2010-11, Sales Tax Revenue received by the Commission increased by 8.36%. However, the domestic and international recession had and may continue to have negative repercussions upon the County, State, national and global economies, including reduced revenues for government, increased unemployment, a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, reduced business activity, increased consumer bankruptcies, and increased business failures and bankruptcies. On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 ("ARRA"). This \$787 billion economic stimulus measure consisted of a combination of tax cuts and government spending on public works projects, education, health care, energy and technology. Congress, the Federal Reserve Board and other agencies of the federal government and foreign governments have taken various actions that are designed to enhance liquidity, improve the performance and efficiency of credit markets and generally stabilize securities markets and stimulate spending. There can be no assurance these actions will be effective. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of Sales Tax Revenues and therefore upon the ability of the Commission to pay principal of and interest on the Series 2008 Bonds. For information relating to economic conditions within the County and the State see APPENDIX B - "INFORMATION REGARDING THE COUNTY OF SAN DIEGO."

The Sales Tax

With limited exceptions, the Sales Tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State. The State Legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the Sales Tax are imposed. Any such change or limitation could have an adverse impact on the Sales Tax Revenues collected. For a further description of the Sales Tax, see "THE SALES TAX."

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIIC and XIID to the California Constitution. Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Commission. In 2004, the Sales Tax Extension Ordinance received the approval of more than 2/3 of the voters as required by Article XIIC. However, Article XIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Commission, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the Sales Tax in a manner which would prevent the payment of debt service on the Series 2008 Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

Proposition 218 was adopted as a measure that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, which may affect the Commission's ability to levy and collect the Sales Tax.

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the Series 2008 Bonds in the event of a default in the payment of principal and interest on the Series 2008 Bonds when due. In the event of a default by the Commission, each Holder of a Series 2008 Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture." See APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The amortization period applicable to the Liquidity Facility Bonds, however, may be accelerated under certain circumstances. The Commission's obligation to reimburse the Liquidity Providers on account of the purchase of any of the Commission's Series 2008 Bonds that are tendered for purchase and not successfully remarketed may, under specified circumstances, be paid over a period of five years or, if earlier, by no later than the last day of the Purchase Period, and may, under certain circumstances, become immediately due and payable on the one hundred eightieth (180th) day following the date on which any Series 2008 Bond became a Liquidity Facility Bond. See "THE LIQUIDITY FACILITIES—Purchase of Tendered Bonds by Liquidity Providers." The Liquidity Facilities are not a source of funds for the payment of the principal of or interest on the Series 2008 Bonds.

Loss of Tax Exemption

As discussed under "TAX MATTERS," interest on the Series 2008 Bonds could become includable in federal gross income, possibly from the date of issuance of the Series 2008 Bonds, including as a result of acts or omissions of the Commission subsequent to the issuance of the Series 2008 Bonds or changes in tax law. Should interest become includable in federal gross income, the Series 2008 Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

Limitations of Liquidity Facility and Related Risks

The ability to obtain funds under each Liquidity Facility in accordance with its terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions may prevent or restrict payment under each Liquidity Facility. The ratings on the Series 2008 Bonds depends on the ratings of the Liquidity Providers; accordingly, the ratings on the Series 2008 Bonds could be downgraded or withdrawn if the Liquidity Providers were to be downgraded, placed on credit watch or have their credit suspended or withdrawn or were to refuse to perform under the applicable Liquidity Facility.

The obligation of each of the Liquidity Providers under its Liquidity Facility to purchase unremarketed Series 2008 Bonds is subject to the conditions and limitations set forth therein, and is also subject to all rights and defenses available to contracting parties generally. The Liquidity Facility is not a guaranty to pay the Purchase Price of the Series 2008 Bonds tendered for purchase. The Liquidity Facility is a general contract subject to certain conditions and limitations, and is not a letter of credit. Purchasers of the Series 2008 Bonds should consult their legal counsel for an explanation of the differences between a general contract and a letter of credit or guaranty. The information set forth in this Remarketing Memorandum is included as a summary of selected differences and does not purport to be complete or definitive.

In general, a letter of credit is an independent, special contract by a bank to pay a third party such as a bond trustee holding the letter of credit for the benefit of owners of bonds. Banks are required by law to honor their letters of credit except in specified circumstances. If a dispute were to develop between a bank and its borrower, except in limited circumstances, the dispute should not jeopardize payment under the letter of credit because (a) the letter of credit would be independent of the disputed contract between the borrower and the bank and (b) the beneficiary of the letter of credit (typically, the bond trustee) would have direct rights under the letter of credit. Further, and although there are defenses to payment of letters of credit, such defenses are limited by law to specified circumstances.

In contrast, the Liquidity Facility is a general contract only. No law expressly requires performance of the contract, although the non-breaching party would be entitled to allowable damages if there were a breach of contract. Although the Trustee is authorized to draw funds in accordance with the Liquidity Facility, the Liquidity Providers have no independent obligation to the Trustee. If a dispute were to develop, the Liquidity Providers will have all defenses allowed by law or in equity to their payment under or other performance of the Liquidity Facility, including but not limited to disputes (whether valid or not) regarding the authority of any party to enter into or perform the Liquidity Facility. Laws regarding contracts allow more of such defenses than laws regarding letters of credit do.

Either of the Liquidity Providers or the Commission may seek to have any future dispute resolved in court and appealed to final judgment before such Liquidity Provider performs under the Liquidity Facility. Further, even if the Commission were to prevail against the Liquidity Providers, a court would not necessarily order the Liquidity Providers to perform under the Liquidity Facility; it could instead award damages for breach of contract to the Commission. Any such award would not necessarily be in an amount sufficient to pay the Purchase Price of the Series 2008 Bonds. See "LIQUIDITY FACILITY – Limitations of Each Liquidity Facility."

Impact of Bankruptcy of the Commission

The Commission may be qualified to file a petition under Chapter 9 of the United States Bankruptcy Code ("Chapter 9") under certain circumstances. The Commission has no plans to do so. However, if the Commission were to do so, under Chapter 9, the pledge of the Sales Tax Revenues is

fully enforceable only if a bankruptcy court determines that the Sales Tax Revenues are "Special Revenues" under Chapter 9 and that the pledge is valid and binding under Chapter 9. The Sales Tax Revenues may not constitute "Special Revenues" under Chapter 9 because, among other reasons, the Sales Tax was not levied for a particular project and is available for the general purposes of the Commission. If a bankruptcy court were to hold the pledge of the Sales Tax Revenues to be unenforceable under Chapter 9, then the owners of the Bonds (including the Series 2008 Bonds) would no longer be entitled to any special priority to the Sales Tax Revenues and may be treated as general unsecured creditors of the Commission as to the Sales Tax Revenues. The same issue may be applicable to the pledge of the Subsidy Payments in favor of the Series 2010 Bonds.

Furthermore, since the obligations of the Commission under the Indenture, including its obligation to pay principal of and interest on the Series 2008 Bonds, are limited obligations and are payable solely from Sales Tax Revenues and certain other amounts held by the Trustee under the Indenture, including the Subsidy Payments with respect to the Series 2010 Bonds, if the Commission filed a petition for bankruptcy under Chapter 9, the owners of the Bonds (including the Series 2008 Bonds) would have no recourse to any assets or revenues of the Commission other than Sales Tax Revenues and such other amounts.

Risks Relating to Build America Bonds

The Commission must comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") in order for the 2010 Series A Bonds to be treated as qualified bonds and to continue to be eligible for the Subsidy Payments. The Commission has covenanted to comply with each of these requirements. However, failure by the Commission to comply with these requirements may result in a delay or forfeiture of all or a portion of the Subsidy Payments and may cause the 2010 Series A Bonds to cease to be treated as qualified bonds either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of execution and delivery of the 2010 Series A Bonds. Should such an event occur, the 2010 Series A Bonds are not subject to extraordinary redemption and will remain outstanding until maturity or earlier optional or mandatory sinking fund redemption. No holder of a 2010 Series A Bond will be entitled to a tax credit with respect to the 2010 Series A Bonds. In the event the Commission is not eligible for the Subsidy Payments, under the terms of the Indenture the Commission has pledged Sales Tax Revenues and is obligated to pay principal and interest on the Series 2010 Bonds.

In addition, it is important to note that Build America Bonds are a new product introduced by ARRA. As such, the Commission can provide no assurance that future legislation or clarifications or amendments to the Code, if enacted into law, or future court decisions will not reduce or eliminate the Subsidy Payments with respect to the 2010 Series A Bonds. In such event, the 2010 Series A Bonds would be subject to redemption prior to their maturity. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States government, but are required to be paid by the Treasury under ARRA. Accordingly, no assurance can be given that the Treasury will make payment of the Subsidy Payments in the amounts that the Commission expects to receive, or that such payments will be made in a timely manner. If the Commission is obligated to issue refunding obligations in order to redeem the 2010 Series A Bonds prior to their maturity, the Commission would be subject to the various risks attendant to issuance of refunding obligations, including higher-than-desired interest rates and duplicative transaction costs.

ABSENCE OF MATERIAL LITIGATION

No litigation is pending or, to the best knowledge of the Commission, threatened against the Commission concerning the validity of the Series 2008 Bonds. The Commission is not aware of any

litigation pending or threatened against the Commission questioning the political existence of the Commission or contesting the Commission's ability to impose and collect the Sales Tax.

TAX MATTERS

On the date of original issuance of the Series 2008 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission ("Bond Counsel"), delivered its opinion that based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. It was the further opinion of Bond Counsel that interest on the Series 2008 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds. In connection with the substitutions of Alternate Liquidity Facilities supporting the 2008 Series C Bonds and 2008 Series D Bonds, Bond Counsel will deliver its opinion (the "Substitution Opinion") that the respective substitutions will not, in and of themselves, adversely affect the Tax-Exempt status of interest on the 2008 Series C Bonds and the 2008 Series D Bonds, as applicable. Bond Counsel is not rendering any opinion on the current tax status of the Series 2008 Bonds. Bond Counsel is not rendering any opinion on the current tax status of the Series 2008 Bonds. A complete copy of the opinion Bond Counsel delivered at the original issuance of the Series 2008 Bonds, and a complete copy of the form of the Substitution Opinion, are set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2008 Bonds. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2008 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2008 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2008 Bonds. The opinion of Bond Counsel rendered in connection with the original issuance of the Series 2008 Bonds assumed the accuracy of these representations and compliance with these covenants. With the exception of the matters set forth in its Substitution Opinion, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2008 Bonds may adversely affect or have adversely affected the value of, or the tax status of interest on, the Series 2008 Bonds. Accordingly, the opinion of Bond Counsel was not and is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although the opinion Bond Counsel rendered in connection with the issuance of the Series 2008 Bonds stated that interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2008 Bonds to be subject, directly or indirectly, to federal

income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on September 12, 2011, the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. For tax years beginning on or after January 1, 2013, the American Jobs Act of 2011 generally would limit the exclusion from gross income of interest on obligations like the Series 2008 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2008 Bonds. Prospective purchasers of the Series 2008 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinions of Bond Counsel are based on current legal authority as of their respective date, cover certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2008 Bonds for federal income tax purposes. The opinions of Bond Counsel are not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Commission, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Commission has covenanted, however, to comply with the requirements of the Code.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the Series 2008 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Commission legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2008 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2008 Bonds, and may cause the Commission or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

Certain legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission. A complete copy of the proposed form of opinions of Bond Counsel and a complete copy of the opinion Bond Counsel delivered on the date of the original issuance of the Series 2008 Bonds are contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Remarketing Memorandum. Certain legal matters will be passed upon for the Commission by its general counsel and by Nossaman LLP, as Disclosure Counsel, for Mizuho by its special U.S. counsel, Chapman and Cutler LLP, and its Japanese counsel, Iwata Godo Law Offices, and for State Street/CalSTRS by its counsel, Fulbright & Jaworski L.L.P.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services have assigned long-term ratings on the Series 2008 Bonds of "Aa1" and "AAA," respectively. Moody's Investors Service has assigned a short-term rating on the Series 2008 Bonds of "VMIG1"; Standard & Poor's Ratings Services has assigned a short term rating of "A-1+" on the Series 2008 A Bonds and the Series 2008 B Bonds and

is expected to assign a short-term rating on the Series 2008 C Bonds of "A-1" and on the Series 2008 D Bonds of "A-1+". The ratings on the Series 2008 Bonds are based upon the delivery concurrently with the delivery of the Series 2008 Bonds of the respective Liquidity Facilities by the Liquidity Providers.

The ratings described above reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007; and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of such Series 2008 Bonds.

FINANCIAL ADVISOR

The Commission has retained Public Financial Management Inc., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the provision of the new liquidity facilities for the Series 2008C Bonds and Series 2008D Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Remarketing Memorandum.

RELATIONSHIP OF CERTAIN PARTIES

JPMorgan Chase Bank, National Association is a party to a Standby Bond Purchase Agreement with the Commission. J. P. Morgan Securities Inc. is the remarketing agent with respect to certain of the Series 2008 Bonds. J. P. Morgan Securities Inc. and JPMorgan Chase Bank, National Association are affiliated and are subsidiaries of JPMorgan Chase & Co.

FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS

Financial information relating to the Commission is included in the Commission's Audited Financial Statements For the Fiscal Year Ended June 30, 2010. The Commission's Audited Financial Statements For the Fiscal Year Ended June 30, 2010 are included as part of Appendix A. The financial statements of the Commission as of June 30, 2010 included in Appendix A in this Remarketing Memorandum, have been audited by Mayer Hoffman McCann P.C., Certified Public Accountants, as stated in their report appearing in Appendix A. The Commission represents that there has been no material adverse change in its financial position since June 30, 2010.

MISCELLANEOUS

This Remarketing Memorandum is not to be construed as a contract or agreement between the Commission and holders of any of the Series 2008 Bonds. All quotations from and summaries and explanations of the Indenture, and of other statutes and documents contained herein, do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions.

Any statements in this Remarketing Memorandum involving matters of opinion are intended as such and not as representations of fact.

SAN DIEGO COUNTY REGIONAL
TRANSPORTATION COMMISSION

By: _____
Executive Director

Gary L. Gallegos

APPENDIX A

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

San Diego County
Regional Transportation Commission

Basic Financial Statements

for the fiscal year ended
June 30, 2010

San Diego, CA



**SAN DIEGO COUNTY
REGIONAL TRANSPORTATION
COMMISSION
(A Component Unit of the San Diego
Association of Governments)**

San Diego, California

Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Prepared by:

Finance Department

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**San Diego County Regional Transportation Commission
Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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December 22, 2010

Honorable Chair and Members
of the Board of Directors
San Diego County Regional Transportation Commission

MEMBER AGENCIES

Cities of
Carlsbad
Chula Vista
Coronado
Del Mar
El Cajon
Encinitas
Escondido
Imperial Beach
La Mesa
Lemon Grove
National City
Oceanside
Poway
San Diego
San Marcos
Santee
Solana Beach
Vista
and
County of San Diego

ADVISORY MEMBERS

Imperial County
California Department
of Transportation

Metropolitan
Transit System

North County
Transit District

United States
Department of Defense

San Diego
Unified Port District

San Diego County
Water Authority

Southern California
Tribal Chairmen's Association

Mexico

We are pleased to present the basic financial statements of the San Diego County Regional Transportation Commission (Commission), a component unit of the San Diego Association of Governments (SANDAG), for the fiscal year ended June 30, 2010. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Commission. Also included herein is other supplementary information. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The basic financial statements are presented in two sections: Introductory and Financial. The Introductory section includes this letter of transmittal, a list of the SANDAG Board of Directors, a list of the SANDAG executive staff and the SANDAG organizational chart. The Financial section consists of the independent auditors' report, management's discussion and analysis, basic financial statements, notes to the basic financial statements, required supplementary information, and supplementary information.

Mayer Hoffman McCann, P.C., have issued an unqualified ("clean") opinion on the Commission's financial statements for the year ended June 30, 2010.

Reporting Entity

SANDAG is the region's council of governments (COG). Local elected officials throughout the United States have joined together to form similar COGs to deal cooperatively with issues which go beyond jurisdictional boundaries, such as transportation, growth management, environmental quality, and public facility needs. SANDAG is a statutorily created agency, codified in California State law. Voting among the agency's 18 cities and county government is based upon both membership and the population of each jurisdiction, providing for an equitable representation of the region's residents. The California Department of Transportation (Caltrans), the U.S. Department of Defense, the San Diego Unified Port District, San Diego Metropolitan Transit System (MTS), North County Transit District (NCTD), San Diego County Water Authority, Imperial County, the Southern California Tribal Chairmen's Association, and Mexico (Consulate General of Mexico) are nonvoting advisory members of SANDAG.

SANDAG traces its origins to the 1960s as local planners and decision-makers saw the need for coordinated efforts to solve a growing list of regional issues. In 1972, a Joint Powers Agreement was formalized among local governments, creating a COG, then known as the Comprehensive Planning Organization, with independent staffing and cooperative financing from the local members and project grants from state and federal agencies. In 1980, the name was changed from the Comprehensive Planning Organization to the San Diego Association of Governments to better reflect the agency's purpose. In 2003, Senate Bill 1703, as amended by Assembly Bill 361, called for the consolidation of all the roles and responsibilities of SANDAG with certain transit functions of MTS and NCTD. SANDAG is now responsible for long range transit planning, programming, project development, and construction of transit projects in the region. This structure is intended to streamline regional decision-making to improve the transportation system, protect open space and habitat, bolster our infrastructure, and sustain our quality of life. SANDAG's Board of Directors also serves as the Commission's Board of Directors.

The Commission is responsible for the implementation and administration of transportation improvement programs funded by the San Diego countywide half-percent sales tax. This tax became effective on April 1, 1988, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program. The Proposition A sales tax funds are used for highway, public transit, local street and road improvements, bicycle and pedestrian facilities, and administration. In November 2004, the voters of San Diego County extended the half-cent sales tax another 40 years to 2048. The extension of *TransNet* will help SANDAG continue to implement the region's transportation program as well as provide funding for bicycle, pedestrian, and neighborhood safety projects, major corridor capital projects, environmental mitigation projects, smart growth projects, local street and road projects, transit systems projects, and new major corridor transit operations projects. The 2004 Ordinance includes a mandate that an Independent Taxpayer Oversight Committee (ITOC) for *TransNet* be formed to provide an enhanced level of accountability for the expenditure of funds under the *TransNet* Expenditure Plan. The ITOC will also help ensure that all voter mandates are carried out as required and will develop recommendations for improvements to the financial integrity and performance of the program. The Commission is authorized to issue limited tax bonds payable from the sales tax receipts, the proceeds of which can be used to finance approved *TransNet* projects. The Commission has created a Plan of Finance (POF) for the *TransNet* Program. The POF is updated annually, a summary of the most recent POF is provided near the end of this report.

Geography

The San Diego region is nestled in the most southwest corner of the United States. It is a region filled with beautiful landscapes, a diversified economy, and an unmatched quality of life for its three million residents. About the size of the State of Connecticut, the region encompasses 4,255 square miles, extending 70 miles along the Pacific Coast from the international border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form our region's northern boundary.

The topography of the region varies from broad coastal plains to fertile inland valleys and mountain ranges to the east, rising to an elevation of 6,500 feet. The eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the region. The climate is Mediterranean in the coastal and valley areas where most of the population and resources are located. Average annual rainfall on the coastal plain is approximately ten inches. The San Diego region also is one of the most biologically diverse areas in the nation.

Cultural and Educational Attractiveness

The San Diego region has matured as a center for culture and education. San Diegans now boast about their two Tony Award-winning theaters, The Globe Theatre and La Jolla Playhouse. In addition, with the San Diego Opera, the San Diego Symphony, and more than 90 museums for the enjoyment of both locals and visitors, the region has an abundance of cultural activities. Higher education is provided through numerous colleges and universities. The University of California, San Diego, is internationally recognized for excellence in higher education and scientific research.

San Diego State University is the oldest and largest higher education institution. The University of San Diego, a private institution, is a highly respected law school and the California State University, San Marcos is the region's fastest-growing college both in students and curricula.

The San Diego region continues to be a premier destination for visitors from all over the world. The region's warm climate, proximity to Mexico, and abundant facilities and attractions power the visitor industry. The region has hosted the 1988, 1998, and 2004 Super Bowls, and the 1998 World Series. The San Diego Convention Center's size, bayside location, and proximity to the popular Gaslamp district in Downtown San Diego enable the region to compete with Los Angeles and San Francisco in attracting the nation's largest conventions and trade shows. In addition, San Diego now has a baseball-only ballpark Downtown that is serving as another visitor magnet and is stimulating a billion dollar renaissance in the surrounding area.

Economic Summary and Outlook

The Great Recession

The national recession that began in December 2007 and ended in June 2009 appears, by some measures, to be as deep as any the nation has experienced during the post-World War II period. However, from an employment perspective, the trough of the recession occurred in December 2009; at that point the nation had shed nearly 8.4 million payroll jobs, representing the largest job loss of any peacetime recession since the Great Depression. At the trough of the recession total payroll jobs were about the same level as recorded in January 2002. Since the trough, through October 2010, the nation has added more than 874,000 payroll jobs, a growth rate of approximately 0.6 percent. The turnaround in the national economy has been much weaker than many expected given the depth of the recession, so much so, that there was growing concern of a double dip recession because the growth rate of the economy fell during the summer of 2010, dropping below two percent since the summer slowdown. The national economy has stabilized and started to grow once again removing most of the concern over a possible double dip recession.

Locally, the San Diego economy has followed much the same path as the national economy, although direct comparisons are not possible because the local job numbers are not adjusted to reflect seasonal variations. The local labor market shed 103,300 payroll jobs between December 2007 and December 2009. At the trough, the local economy had lost 7.8 percent of its jobs since the start of the recession, whereas the national economy shed 6.1 percent over the same time period. At the trough of the recession the aggregate number of local jobs was at about the same level as recorded in January 2001. Since January 2010, through October 2010, the local economy has added 12,100 payroll jobs an increase of approximately 1.0 percent, a rate of growth slightly higher than the nation.

The national unemployment rate, which depends both on the rate of job change and on workers' decisions to enter or leave the work force, stood at 9.6 percent during October 2010. The national unemployment rate peaked during 2009 at 10.1 percent, slightly below the 10.8 percent unemployment rate recorded during the 1982 recession. The local unemployment rate for October 2010 is 10.2 percent, slightly above the national rate, although the local rate is not adjusted for seasonal variation. The local unemployment rate peaked in January 2010 at 11.1 percent, which is the highest unemployment rate recorded since the 1974-1975 recession, about 35 years ago.

Although the recession may be behind us technically, a majority of economists are forecasting a modest recovery over the next few years followed by a relatively slow expansion through 2015. In the near term, national gross domestic product (GDP) is expected to expand in the two to three percent range; levels that are historically low for a recovery from a deep recession. For example, following the deep 1981-1982 recession in which GDP shrunk by 2.9 percent from peak to trough, the economy bounced right back – growing 4.5 percent in 1983 and 7.2 percent in 1984. If the nation's GDP increases at the expected two to three percent per year, it would likely be 2015 or beyond before the unemployment rate falls to the prerecession level of about 5.5 percent.

California Budget Outlook

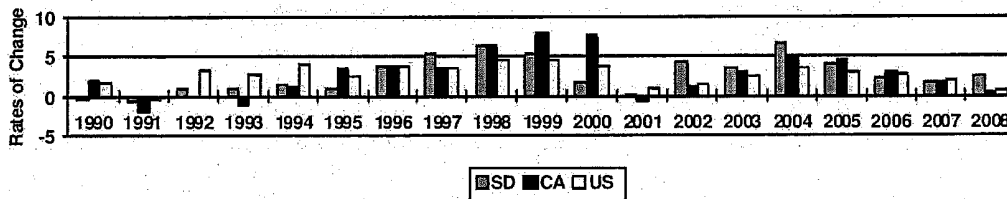
One of the most talked about and written about problems in California over the past few years has been the state's budget deficit. The performance of regional economies in the state, including San Diego's, is linked directly to the State of California's fiscal health. Consequently, the state's budget crisis is likely contributing to the slower rates of economic growth San Diego has recorded over the past few years. During 2003, it was estimated that the state was facing a potential budget shortfall of over \$36 billion made up of \$22 billion in accumulated debt and an estimated \$14 billion operating or structural deficit. Steps were implemented to reduce the deficit, including refinancing the accumulated debt, taking advantage of lower interest rates, and reforming the workers' compensation program. However, the state's already difficult budget situation was made worse by a significant drop in revenues and inability to cut expenditures. For the most part, the "closing the gap solutions" since 2003 have proven to be inadequate. In November 2010, the State Legislative Analyst Office released an update on the state's fiscal outlook (The 2011-2012 Budget: California's Fiscal Outlook) showing the state facing a projected general fund budget deficit of \$25.4 billion (state General Fund revenues are expected to be \$83.5 billion) consisting of a \$6 billion projected deficit for the current fiscal year (2010-2011) and a \$19 billion gap between projected general fund revenues and spending in 2011-2012. The state has not been able to reign in expenditures to match falling tax revenues. Worse, this gap is expected to remain about \$20 billion through 2015-2016 unless something unexpected occurs. The continuing budget gap reflects the consequences of employing one-time and temporary budget fixes, such as the use of federal stimulus funds, shifting funds from local government to the state and one-time revenue accelerations.

San Diego's Economy and Economic Outlook

Historically, the San Diego region has enjoyed strong economic growth, keeping up with, and at times outpacing the State of California and the nation (see Figure 1 below). According to the Department of Commerce's Bureau of Economic Analysis the San Diego Region's Gross Regional Product (GRP), an estimate of the total value of goods and services produced in a region, for 2008, the latest year available, was \$169.3 billion measured in current dollars. After adjusting for the effects of inflation, the local GRP rose 2.6 percent during 2008, substantially more than the state or nation, which grew at rates less than

one percent, reflecting some economic strength emanating from a diverse economy, as well as the lowest rate of inflation recorded in the past ten years.

**Figure 1:
Rates of Change in Gross Products (2000 \$)**



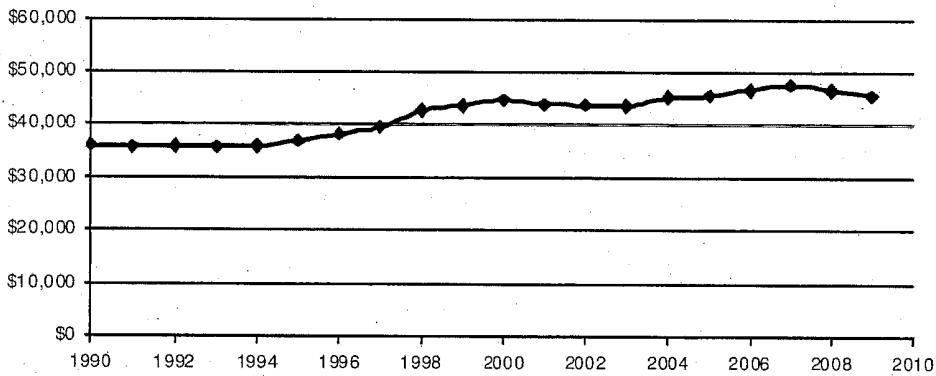
Over the longer term, the strength of the local economy is due, in part, to significant changes that took place during the second half of the decade in the 1990s. The San Diego region underwent a fundamental restructuring process after a period of recession in the early 1990s that increased economic diversity and strengthened local industry. A restructured local economy emerged from the recession, one better able to adapt and compete in the global marketplace. The economy is now centered on nationally and internationally competitive industries and a growing recognition that our region must supply the linkages and infrastructure that support these industries. Today's leading sectors are no longer located solely in the defense and manufacturing industries. As a result, local economic policies have adapted and now focus on a broader range of sectors that drive the local economy – known as traded employment clusters. Traded employment clusters are the engines of economic activity, capable of setting the pace of economic growth, producing high-paying jobs, and producing a rising standard of living for the region. Traded employment clusters are groups of complementary, competing, and interrelated industries that drive wealth creation in a region, primarily through the export of goods and services. These traded clusters have led the local economic resurgence, and some of them contain many of our highest paying job opportunities that are part of the region's emerging growth technology businesses, including biotechnology, biomedical instruments, telecommunications, software, semiconductors and computer networks, defense manufacturing, and environmental technology.

The San Diego region has become a prominent example of an emerging "high-tech" economy in the nation. San Diego now exhibits characteristics which include decreased reliance on traditional durable goods manufacturing and increased reliance on knowledge-based and other wealth-generating activities. Because of the changing and volatile nature of both the state and national economies, traded clusters are likely to continue to be the leaders in economic growth. The region has many of the characteristics and opportunities necessary for these important clusters to succeed: excellent education and training facilities, world class research institutes, mild climate, coastal location, innovative culture, and an increasingly skilled labor force. All of these factors help create synergy between companies and provide the labor and skills necessary for traded clusters to prosper.

Today, business services, skilled trades, research and development, and highly technical sectors (all embodied in the region's traded employment clusters) have become the driving forces behind economic development and provide an opportunity to increase our standard of living, as measured by real per capita income. As Figure 2 shows, local standard of living grew quickly following the end of the local downturn in 1994 and the surge in high-tech employment growth that leveled off in 2000. Job growth since 2000 has been sufficient to keep the region's unemployment rate low (through 2007), however, the growth has not

been well balanced between high- and low-paying jobs, and far more jobs are being created that are low-paying resulting in a much different trend for the standard of living since 2000. Between 1994 and 2000 the local standard of living, measured by the growth in real per capita income, increased 24.7 percent. Between 2000 and 2007 the growth rate slowed to 6.4 percent before falling during the last two years; reducing the 2000 to 2009 increase to 1.8 percent. Over the last 19 years, between 1990 and 2009, real per capita income increased 26.4 percent, from \$36,100 in 1990 to \$45,600 in 2009 (figures in constant 2009 dollars).

Figure 2
SD Real per Capita Income 1990 – 2009 (2009 \$)



Source: Bureau of Economic Analysis, U.S. Census Bureau 1990-2007; compiled by SANDAG.

Employment and Wages

The latest employment data available from the state's Employment Development Department is for October 2010 and shows that 1.4 million San Diego residents were employed, down 107,300 payroll jobs since the start of the recession in December 2007. Since January 2010 there has been a turn around in the number of payroll jobs created this year compared with the same period last year. The number of payroll jobs has increased by 12,100 between January and October, a rise of about one percent. Over the same period last year, payroll jobs declined by 38,500, a decline of 3.4 percent. The sectors contributing most to job growth so far this year are professional and business services, health services, and hospitality and leisure. The largest losses have come from government. Other sectors, such as construction and finance, retail trade have stopped contracting and are holding their own. The longer term growth trends in jobs by industry in Figure 3 shows that some industries employment during 2009 were below levels recorded during 2002.

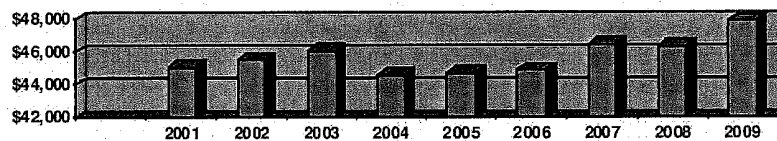
**Figure 3
Industry and Total Employment, 2002-2009
San Diego Region**

Major Industry	2002	2009	Change 2002-2009
Construction	76,400	61,100	-20.0%
Manufacturing	112,300	95,400	-15.0%
Trade, Transportation, Utilities	208,600	198,300	-4.9%
Information	37,700	37,000	-1.9%
Financial Activities	75,000	70,300	-6.3%
Professional Business Services	201,700	197,300	-2.2%
Education & Health Services	119,700	143,000	19.5%
Leisure & Hospitality	133,800	155,200	16.0%
Other Services	45,600	47,000	3.1%
Government	219,700	224,700	2.3%
Total Regional Employment	1,230,500	1,229,300	-0.1%

Source: State of California, Employment Development Department, Industry Employment and Labor Force, March 2010 benchmark; totals include approximately 166,800 self-employed, 9,700 farm, and 300 mining jobs.

The latest wage data for the San Diego region is 2009. As shown in Figure 4, the average wage per employee in current 2009 dollars for the San Diego region is \$47,800. After some weakness between 2004 through 2006, the real average wage per worker in the region began to increase, rising 6.7 percent between 2006 and 2009. The increase during 2009 is due in part to a decline in the consumer price index, which would help raise the real wages above the previous year's level.

**Figure 4:
Average Wage per Worker
San Diego Region (2009\$)**

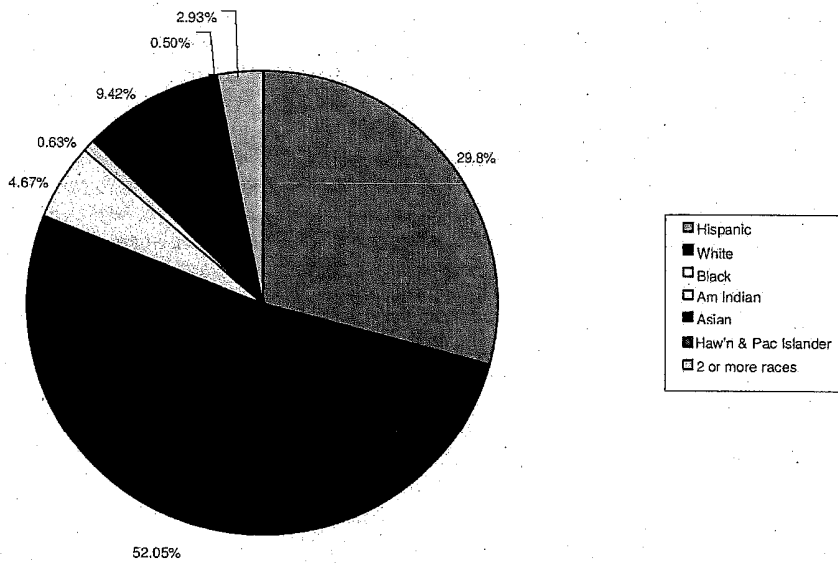


Demographics

According to California State Department of Finance's Population and Housing Estimates for January 1, 2010, the San Diego region is home to more than 3.2 million people and approximately 1.4 million jobs. The latest race and ethnicity data available from the state, displayed in Figure 5, show the majority of the population is non-Hispanic White (52 percent), however, the Hispanic population has been growing rapidly, increasing by nearly 150,000 people from 2000 to 2007, and representing nearly 30 percent of the total population in 2008. Of the 2008 total population, 4.67 percent identify themselves as non-Hispanic Blacks, and the remaining 13 percent of the population identify themselves as non-Hispanic Asian, Native

Hawaiian and Pacific Islander, American Indian, or Multi-race. The median household income in the region is estimated to be slightly more than \$63,200 (in current 2009 dollars); with the median age at 34.2 years old.

Figure 5
Population by Race and Ethnicity



Venture Capital

The high-tech sectors driving the region's economic prosperity rely, in part, on venture capital funds to help them perform research to produce leading edge technologies. San Diego continues to be a favored area for venture capital investment, according to *PricewaterhouseCoopers* quarterly *MoneyTree* survey. In comparison with multicounty and multistate regions, San Diego County posted the ninth highest dollar volume of venture capital investments during the first three quarters of 2010, receiving nearly \$0.688 billion. This is about equal to 2009 and one-half the level received during 2008, placing the region in the position to receive less than \$1.0 billion for only the fourth time out of the previous 12 years. Since 1995, the first year *PricewaterhouseCoopers* began publishing the *MoneyTree* report, the region has received more than \$15.6 billion in venture capital investments, with nearly 40 percent going to biotechnology companies.

International Trade

The total dollar value of international trade moving through the San Diego customs district reached \$54 billion during 2008. Imports represent nearly 70 percent of the total, with exports accounting for the remaining 30 percent. The value of traded goods moving through the region expanded rapidly after the North American Trade Agreement between the United States, Canada, and Mexico passed, rising 134 percent between 1994 and 2000. The rate of growth slowed after September 11, 2001, due to a significant increase in security at all ports of entry. Trade activity picked up between 2003 and 2007, rising nearly 52 percent. More recently, trade has slowed, with the total value of goods moving through the region falling 3.7 percent during 2008. As the national and local economies recover from the effects of the Great Recession, the volume of trade is expected to pick back up, outstripping the overall rate of economic growth.

Expanding trade under the North American Free Trade Agreement (NAFTA) and the Maquiladora industry in the San Diego/Baja California border region largely account for the San Diego region's success in international trade. By providing for a freer exchange of goods with Mexico (and Canada), NAFTA has had significant beneficial impacts on the local economy, during 2008 \$5.7 billion or 36 percent of the goods were exported to NAFTA countries. Mexico is San Diego's principal trading partner, and the ongoing implementation of NAFTA's provisions over the next several years is expected to further enhance trade between the two regions.

In 2008 the San Diego customs district was the nation's 17th largest export market, exporting \$15.9 billion in goods, representing 10 percent of California's merchandise exports. The San Diego region's largest export destination continues to be Mexico, accounting for more than 30 percent or \$4.67 billion of the \$15.98 billion exported goods shipped through the San Diego customs district during 2008. The U.S. Department of Commerce reports that the largest export commodity categories include miscellaneous manufacturing (\$3.9 billion), electronic products (\$3.2 billion), nonelectrical machinery (\$2.9 billion), chemicals (\$1.4 billion), and transportation equipment (\$0.9 billion).

Although Mexico remains San Diego's largest trading partner, the amount of trade with other areas has been changing rapidly. The past several years have recorded changes in the list of San Diego's top trading partners. During 2008, in addition to Mexico, the region's top trading partners include: Israel, Canada, India, Japan, Hong Kong, and the United Kingdom.

Real Estate

The slowdown in the housing market has dominated the economic news in San Diego since early 2006. After more than doubling to nearly \$520,000 between January 2000 and April 2006 the median price for a single-family home in San Diego fell nearly 42 percent by May 2009 and has since begun to show signs of stabilizing. According to the S&P Case-Shiller Home Price Index the median priced home in San Diego rose nearly 12.5 percent from May 2009 through May 2010, but has since slipped falling more than 2 percent through September 2010, the latest information available.

The number of new housing unit permits authorized in the region has declined steadily from a peak of 18,314 units in 2003 to 2,946 units in 2009, a decline of nearly 85 percent. During the first three quarters of 2010, the number of residential permits issued (2,905) is close to the number for all of 2009. It appears that the number of permits issued during 2010 will break the six-year downward trend that began in 2003. During the home price boom time period there had been a shift in the type of units sold, away from single-

family units towards multifamily units. In fact, some of the decline in the median price discussed above has been a shift in sales away from the more expensive single-family units and towards the less expensive attached/condominium units. During 2002, nearly 25 percent of the homes sold were attached units; this proportion has been above 60 percent since 2004, peaking during 2006 at 69 percent. However, this shift has started to go back in the other direction, during 2009 and for the first three quarters of 2010 about 60 percent of the permits issued were for single-family units.

Retail Sales

Consumer expenditures nationwide contracted significantly during 2008 and 2009, as consumers moved away from consumption, paid down debt, increased their savings, and reduced spending supported by equity in their assets. It is normal for consumers to spend less during a recession, but the size of the contraction this time was unusually large, causing some economists to speculate that consumers may hesitate or not return to their past spending habits once the recession ends. There are three reasons cited for this abrupt change, first is the amount of consumer debt outstanding, second is the loss in wealth from falling home and stock prices, and third the expectation that the recovery from the recession will be slow by historical standards keeping the unemployment rate high for a protracted period of time. These concerns seem to be playing out, for example the decline in the rate of growth in GDP during the summer of 2010 to below 2 percent and the ensuing weak rebound that is expected to raise the rate of growth near 2.5 percent as 2010 draws to a close. Some concern over the strength of the national economy has been expressed by the Federal Reserve. Subsequently the Federal Reserve has initiated a program to inject \$600 billion into the economy (increasing excess reserves at banks) over the next six to eight months. In addition to these domestic issues, the European Union is struggling to get its own financial crisis under control.

Locally, the Commissions sales tax receipts declined in each of the last three fiscal years (2008-2010) falling 17.4 percent over the three-year period. Although not all of the problems brought on by the Great Recession are behind us, there are some recent encouraging signs locally. Sales tax receipts received by the Commission have increased measured on a year-over-year basis during the most recent past two quarters, rising 5.6 percent during the second quarter and 7.8 percent during the third quarter of 2010. One of the sectors, new auto sales, hit hardest during the recession has been one of the best performers during the recent turnaround. In light of these encouraging trends in the local economy, SANDAG staff is expecting the three-year decline in taxable sales to come to an end and a modest amount of growth in taxable sales to occur during fiscal year 2010-11.

TransNet Plan of Finance Update

The *TransNet* Plan of Finance (POF) is updated as necessary, but at least on an annual basis as part of the overall SANDAG budgeting process. The updated POF is reviewed by the Independent Taxpayers Oversight Committee (ITOC) and SANDAG's Transportation Committee, and approved by the full SANDAG Board of Directors. The most recent POF was approved by the SANDAG Board of Directors on July 23, 2010. This update of the *TransNet* POF focused on the major changes in the last year and emphasized the substantial adjustments in recent costs and revenues and their effects on the long-term financial projections for the program. The POF update confirmed that the action taken last year to keep all of the active *TransNet* projects on their current schedules can be maintained with very similar results. While the downturn in sales tax receipts is cause of concern, the decrease in construction costs over the past several years has resulted in a counter-balancing development that has helped to maintain the balance of the POF and points to the advantages of completing projects sooner rather than later. To

that end, the SANDAG Board of Directors approved funding through construction for many projects that had already been approved through environmental or design. Other projects were added to begin the environmental phase, ensuring the development of future "shovel ready" projects to take advantage of low construction costs and future funding opportunities.

Financial Highlights

TransNet sales tax collections decreased by \$17,799,613, or 8.02 percent, over the prior fiscal year.

Through the use of timely and prudent debt financing, the Commission was able to provide the financial resources necessary to fund the programmed projects and accumulate a Sales Tax Projects Fund unreserved fund balance for future project expenditures of \$283.3 million.

This past year alone, the Commission funded approximately \$1.0 million in bicycle facilities, \$54.0 million in public transit projects and operations, and \$27.5 million in local street and road improvements. In addition, the Commission funded projects of approximately \$127.6 million in major corridors (Interstate 5 [I-5], I-15, I-805, State Route [SR] 52, and SR 76); and approximately \$19.4 million of the environmental mitigation program. In total, \$234.7 million in public transportation infrastructure improvements were funded this past year.

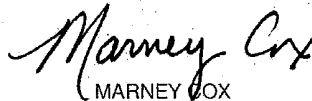
Acknowledgments

The preparation of this report was accomplished with the cooperation of SANDAG's management, financial staff, and SANDAG's independent auditors, Mayer Hoffman McCann P.C. We express our appreciation to the staff members and the auditors who contributed to the preparation of this report.

Respectfully submitted,



LAUREN WARREM
Director of Finance



MARNEY COX
Chief Economist

LWA/LKO/adi



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The 18 cities and county government are SANDAG serving as the forum for regional decision-making. SANDAG builds consensus; plans, engineers, and builds public transit; makes strategic plans; obtains and allocates resources; and provides information on a broad range of topics pertinent to the region's quality of life.

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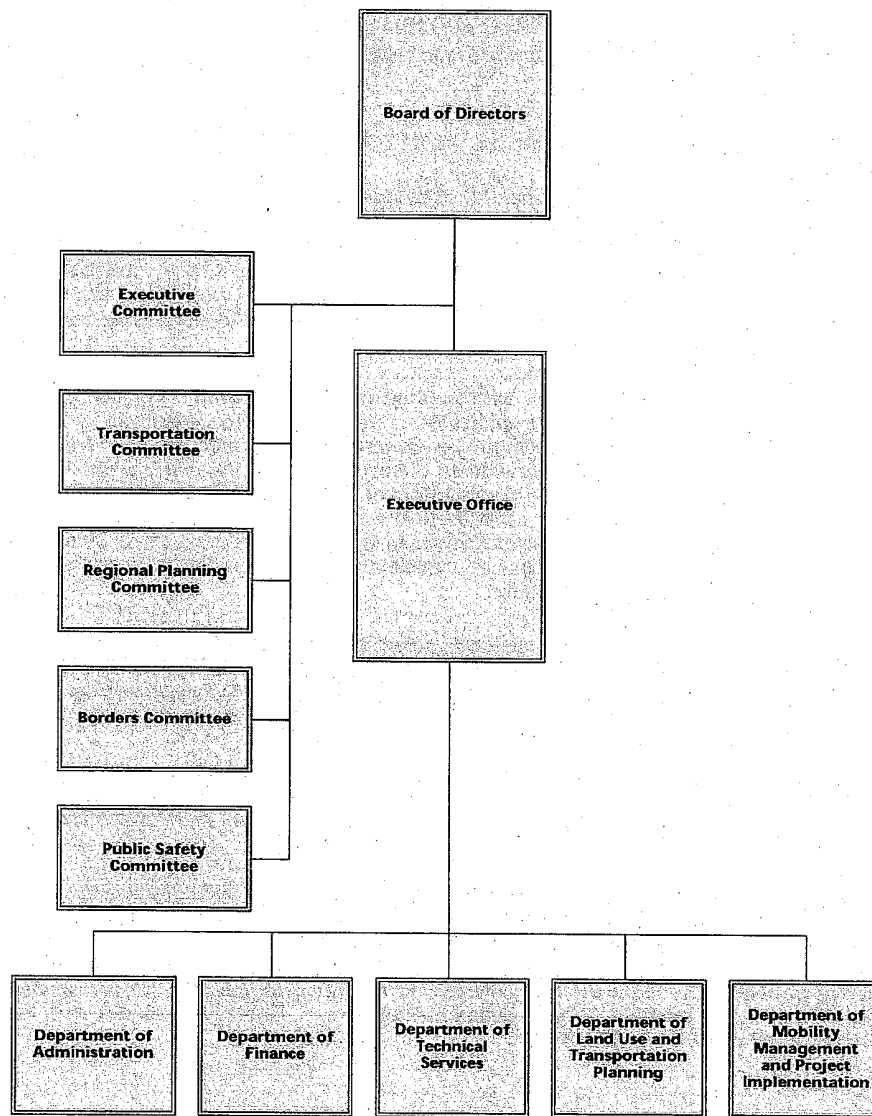
SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
(A Component Unit of the San Diego Association of Governments)

SANDAG Executive Staff

As of June 30, 2010

Executive Director	Gary Gallegos
Chief Deputy Executive Director	Renée Wasmund
General Counsel	Julie Wiley
Director of Administration	Laura Côté
Director of Finance	Lauren Warren
Director of Land Use and Transportation Planning	Charles “Muggs” Stoll
Director of Mobility Management and Project Implementation	Jim Linthicum
Director of Technical Services	Kurt Kroninger
Director of <i>TransNet</i> and Legislative Affairs Program	Kim Kawada

San Diego Association of Governments Organization Chart





Mayer Hoffman McCann P.C.

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Honorable Chair and Members of the Board of Directors
San Diego County Regional Transportation Commission
San Diego, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego County Regional Transportation Commission (Commission), a component unit of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Commission, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States of America.

During the year ended June 30, 2010, the Commission changed the manner in which it accounts for certain financial instruments as a result of the implementation of GASB Statement No. 53, as described further in notes 6 and 11 to the financial statements.

The information identified in the accompanying table of contents as *management's discussion and analysis and required supplementary information* are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires with management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Honorable Chair and Members of the Board of Directors
San Diego County Regional Transportation Commission
San Diego, California

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, supplementary information, and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the introductory section.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 22, 2010

Management's Discussion and Analysis

This section of the San Diego County Regional Transportation Commission's (Commission) basic financial statements presents the analysis of the Commission's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

- The liabilities of the Commission exceeded its assets at the close of the most recent fiscal year, resulting in a current year net assets deficit of \$79,885,764. A significant factor related to the net assets deficit is the issuance of \$600,000,000 in bonds issued in March 2008.
- The Commission's total net assets decreased in the current fiscal year by \$44,605,977. The decrease is mostly due to *TransNet* program payments to agency recipients utilizing proceeds from the 2008 bond issuance and *TransNet* debt-service payments.
- As of the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$497,996,212, a decrease of \$54,375,597 in comparison with the prior year. Approximately 89 percent of this total amount, \$441,480,831, is available for spending at the Commission's discretion (unreserved fund balance).
- The Commission's total debt decreased by \$6,512,000 due to the \$11,400,000 variable rate demand bond principal repayment offset by the net issuance/payment of \$4,888,000 in commercial paper.
- In June 2008, the GASB issued Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Commission adopted GASB Statement 53 in fiscal year 2010. The cumulative effect of applying this statement was reported as a restatement of beginning net assets resulting in an increase of \$12,363,018.

Overview of the Financial Statements

The management's discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances in a manner similar to a private-sector business.

The *statement of net assets* includes all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information to show changes in the Commission's net assets during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise

to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both funds of the Commission are governmental-type funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the sales tax projects special revenue fund (special revenue fund) and the commercial paper and sales tax revenue bonds debt-service fund (debt-service fund), both of which are considered to be major funds. The Commission does not have any other funds considered to be nonmajor governmental funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, liabilities exceeded assets at the close of the most recent fiscal year, resulting in a current year deficit of \$79,885,764 for total net assets, as shown in Table 1.

Table 1
Net Assets
Governmental Activities

	2010	2009
Current and other assets	\$ 585,452,000	\$ 527,949,270
Restricted assets	56,754,181	55,695,938
Total assets	<u>642,206,181</u>	<u>583,645,208</u>
Current liabilities	102,165,145	26,032,098
Restricted liabilities	34,238,800	34,171,983
Noncurrent liabilities	585,688,000	592,200,000
Total liabilities	<u>722,091,945</u>	<u>652,404,081</u>
Net Assets		
Restricted	22,515,381	21,523,955
Unrestricted (deficit)	<u>(102,401,145)</u>	<u>(90,282,828)</u>
Total net assets (deficit)	<u>\$ (79,885,764)</u>	<u>\$ (68,758,873)</u>

A significant factor contributing to the net assets deficit of \$79,885,764 is \$619,688,000 of outstanding long-term debt of the Commission included in the Statement of Net Assets, which is offset by related balances of cash and investments from the debt proceeds of approximately \$177,000,000 at June 30, 2010, due from other governments for debt proceeds passed through to another government, net of principal retirement for a balance of \$29,353,622 and approximately \$277,000,000 of cash and investments related to *TransNet* balances not yet requested by recipient agencies. The restricted liabilities are not available for spending as the long-term debt payable will be used to pay down outstanding commercial paper notes, which were issued to buy the North County Transit District (NCTD) Certificates of Participation (COP) investment. The restricted deposit payable is a NCTD deposit for commercial paper interest payments related to the COPs. Restricted net assets include \$21,324,637 of resources subject to externally imposed restrictions that must be used for upcoming debt-service payments on the outstanding sales tax revenue bonds, and \$1,190,744 of resources subject to externally imposed restrictions that must be used for environmental mitigation projects (EMP).

Governmental activities. Governmental Activities decreased the Commission's net assets by \$44,605,977 during fiscal year 2010, as shown in Table 2.

**Table 2
Change in Net Assets
Governmental Activities**

	2010	2009
Revenues:		
Program revenues:		
Operating contributions	\$ 91,664	\$ 2,435,240
General revenues:		
Sales tax	208,504,753	219,173,861
Investment earnings (loss)	9,785,172	24,797,641
Total revenues	<u>218,381,589</u>	<u>246,406,742</u>
Expenses:		
General government	1,997,922	2,205,000
Bicycle facilities	1,006,807	4,238,080
Independent Taxpayer Oversight Committee	126,063	260,757
Major corridor capital projects	127,632,511	151,325,743
Major corridor environmental mitigation	19,388,696	17,972,789
Local project environmental mitigation	1,913	3,781
Local street improvements	27,477,959	43,861,781
Smart growth	875,303	4,412
New major corridor transit operations	2,180,492	71,628
Transit system improvements	54,038,344	35,081,065
Interest on long-term debt	28,261,556	25,589,285
Total expenses	<u>262,987,566</u>	<u>280,614,321</u>
Change in net assets	(44,605,977)	(34,207,579)
Net assets (deficit) - beginning of year, as restated	<u>(35,279,787)</u>	<u>(34,551,294)</u>
Net assets (deficit) - end of year	<u>\$ (79,885,764)</u>	<u>\$ (68,758,873)</u>

- General revenues decreased \$25,681,577, which is 10.5 percent less than the prior year. The decrease is due to a decrease in sales tax revenue and investment earnings. Sales tax figures presented in Table 2 above reflect a total decrease of \$10,669,108. Of this decrease, \$1,920,632 is attributable to a change in the method sales tax is recognized and the true comparable decrease in sales tax of \$8,748,476, or 4.0 percent is due to the continual slowdown in San Diego County's economy. Investment earnings decreased by \$15,012,469, or 60.5 percent primarily due to a lower balance of bond proceeds available for investment in U.S. Agencies which ranged from approximately \$316,000,000 at June 30, 2009, to approximately \$177,000,000 at June 30, 2010, lower available yields in fiscal year 2010, and a lower average balance available for investments. The Commission is expecting to hold the U.S. Agencies investments until maturity, resulting in overall investment earnings. Program revenues decreased \$2,343,576, which is primarily due to recording revenue of \$2,076,581 in the prior year for funds returned from member agencies to the Commission, sales of excess land parcels of \$79,561 were received in fiscal year 2009 but not in fiscal year 2010, and a decrease in rental income of \$187,434 in fiscal year 2010. The land parcels were purchased with *TransNet* funds in prior years.
- TransNet* expenses decreased \$17,626,755, or 6.3 percent, which is primarily due to a decrease of \$23,693,232 in payments for major corridor payments and \$16,383,822 in local streets and road improvement payments offset by increases of \$18,957,279 for transit system improvements payments and \$2,672,271 in long-term debt interest payments. The significant decrease in major corridor projects is primarily due to the \$34,000,000 payment to finalize the SPRINTER project in

fiscal year 2009. Bond proceeds are used as the revenue source for both major corridor and EMP expenditures. Interest payments on long-term debt increased by \$2,672,271, which is primarily due to interest payments due on the \$600,000,000 revenue bonds which were issued in March 2008. The significant decrease in local streets and road improvements is based on recipient requests of *TransNet* funds for eligible expenses, which were lower in fiscal year 2010 in relation to fiscal year 2009. Transit services increased due to a \$10.8 million expense for the Mission Valley East project and a \$10.1 million expense to the San Diego Metropolitan Transit System (MTS) for operating purposes.

Financial Analysis of the Government's Funds

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Both of the Commission's funds are governmental funds, the focus of which is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the Commission's governmental funds reported combined ending fund balances of \$497,996,212, a decrease of \$54,375,597 from the prior year. A portion of the Commission's fund balance is reserved for debt-service to indicate that the associated investments have already been committed to pay debt-service principal and interest and are not available for new spending, and for environmental mitigation to pay on-going maintenance costs of certain properties purchased.

The San Diego County Regional Transportation Commission sales tax projects special revenue fund (special revenue fund) had a fund balance of \$284,779,961, of which \$283,589,217 was unreserved. The fund balance of the special revenue fund during the current fiscal year increased by \$86,105,822. Key factors contributing to this increase are as follows:

- Total *TransNet* payments to recipient agencies exceeded total revenues by \$23,625,699 for the current fiscal year, reflecting the use of bond proceeds.
- Interfund transfers of \$109,731,521 occurred, which is primarily due to transfers with the Commission's debt-service fund for principal and interest payments. The bond proceeds transfers in of \$153,735,820 are reduced by sales tax receipts transfers out of \$44,004,299 that are transferred to the debt-service fund for payment of debt principal and interest.

The San Diego County Regional Transportation Commission commercial paper and sales tax revenue bonds debt-service fund (debt-service fund) had a fund balance of \$213,216,251, of which \$157,891,614 was unreserved. The fund balance of the debt-service fund during the current fiscal year decreased by \$140,481,419, and key factors for this decrease are as follows:

- Revenues in the prior year exceeded those of the current year by \$15,233,118 due to earnings on the higher investment balances in 2009 from the 2008 bond proceeds. Bond proceeds of \$141,749,789 were spent in the current year.
- Interfund transfers of (\$104,281,521) occurred, which is primarily due to transfers with the Commission's special revenue fund as noted in the San Diego County Regional Transportation Commission sales tax projects special revenue fund above.

Debt Administration

Long-term debt. At the end of the current fiscal year, the Commission had total debt outstanding of \$619,688,000, which is comprised of \$577,800,000 of sales tax revenue bonds and \$41,888,000 of commercial paper notes. The Commission's total debt decreased by \$6,512,000, which is due to bond principal repayments of \$11,400,000, offset by \$4,888,000 in net commercial paper issued/retired.

Additional information on the Commission's long-term debt can be found in Note 7 in the accompanying notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- Actual cash basis sales tax collections have increased in 13 of the last 16 years of collections, with all of the decreases occurring in the last three years. The sales tax estimate was revised downward twice during fiscal year 2010 to a 10 percent decline over fiscal year 2009 actual receipts, due to the continued slowdown in the San Diego County economy. However, the sales tax collections for fiscal year 2010 decreased from the prior year by 8.02 percent performing favorably over the final revised estimate.
- The Commission is expecting disbursements of \$11.7 million in principal expenditures and approximately \$21 million to \$25 million in interest expenditures related to the 2008 variable rate revenue bonds in fiscal year 2011. Commercial paper is expected to be paid down by \$7,888,000 in fiscal year 2011, with up to an additional \$15,000 in interest expenditures. The commercial paper paid down will be funded with the issuance of the 2010 bonds. The Commission is expecting disbursements of \$460,000 in principal expenditures and approximately \$8 million in interest payments offset with the receipt of a federal subsidy of \$2.7 million related to the 2010 Series A taxable Build America Bonds (BABS) and the 2010 Series B tax-exempt bonds.

Requests for Information

This financial report was designed to provide a general overview of the Commission's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, San Diego County Regional Transportation Commission, 401 B Street, Suite 800, San Diego, CA 92101, (619) 699-1900, or emailed to the Director of Finance at pio@sandag.org.

BASIC FINANCIAL STATEMENTS

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

San Diego County Regional Transportation Commission
Statement of Net Assets
June 30, 2010

	Primary Governmental Governmental Activities
ASSETS	
Cash and investments	\$ 432,772,537
Interest receivable	2,019,256
Due from other governments	69,256,779
Deferred outflow of resources	80,084,380
Deferred charges, net	1,319,048
Restricted assets:	
Cash and investments restricted for debt-service	55,563,437
Cash and investments restricted for environmental mitigation	1,190,744
Total assets	642,206,181
LIABILITIES	
Accounts payable	286,643
Due to SANDAG	22,455,760
Due to other governments	10,469,475
Accrued interest payable	1,800,341
Derivative instrument - swap liability	67,152,926
Liabilities payable from restricted assets:	
Deposits payable	238,800
Long-term debt payable - due within one year	34,000,000
Noncurrent liabilities:	
Long-term debt payable - due within one year	19,588,000
Long-term debt payable - due in more than one year	566,100,000
Total liabilities	722,091,945
NET ASSETS	
Restricted for:	
Debt-service	21,324,637
Environmental mitigation	1,190,744
Unrestricted (deficit) (Note 8)	(102,401,145)
Total net assets (deficit)	\$ (79,885,764)

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Statement of Activities
For the year ended June 30, 2010

Functions	Expenses	Program Revenues Operating Contributions	Net (Expenses) and Changes in Net Assets Governmental Activities
Primary government:			
Governmental activities:			
General government	\$ 1,997,922	\$ -	\$ (1,997,922)
Bicycle facilities	1,006,807	-	(1,006,807)
Independent Taxpayer Oversight Committee	126,063	-	(126,063)
Major corridor capital projects	127,632,511	91,664	(127,540,847)
Major corridor environmental mitigation	19,388,696	-	(19,388,696)
Local project environmental mitigation	1,913	-	(1,913)
Local street improvements	27,477,959	-	(27,477,959)
Smart growth	875,303	-	(875,303)
New major corridor transit operations	2,180,492	-	(2,180,492)
Transit system improvements	54,038,344	-	(54,038,344)
Interest on long-term debt	28,261,556	-	(28,261,556)
Total governmental activities	262,987,566	91,664	(262,895,902)
Total primary government	262,987,566	91,664	(262,895,902)
General revenues:			
Sales tax			208,504,753
Investment earnings			9,785,172
Total general revenues			218,289,925
Change in net assets			(44,605,977)
Net assets (deficit) - beginning of year, as restated (Note 11)			(35,279,787)
Net assets (deficit) - end of year			\$ (79,885,764)

See accompanying Notes to the Basic Financial Statements.

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**GOVERNMENTAL FUND
FINANCIAL STATEMENTS**

San Diego County Regional Transportation Commission
Balance Sheet
Governmental Funds
June 30, 2010

	Major Funds		
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt-Service	Total Governmental Funds
ASSETS			
Cash and investments	\$ 276,494,712	\$ 156,277,825	\$ 432,772,537
Interest receivable	404,854	1,614,402	2,019,256
Due from other governments	39,900,916	29,353,622	69,254,538
Cash and investments - restricted	1,190,744	55,563,437	56,754,181
Total assets	\$ 317,991,226	\$ 242,809,286	\$ 560,800,512
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 286,643	\$ -	\$ 286,643
Due to SANDAG	22,455,760	-	22,455,760
Due to other governments	10,468,862	613	10,469,475
Deferred revenue	-	29,353,622	29,353,622
Liabilities payable from restricted assets	-	238,800	238,800
Total liabilities	33,211,265	29,593,035	62,804,300
Fund Balances:			
Reserved:			
Debt-service	-	55,324,637	55,324,637
Environmental mitigation	1,190,744	-	1,190,744
Unreserved	283,589,217	157,891,614	441,480,831
Total fund balances	284,779,961	213,216,251	497,996,212
Total liabilities and fund balances	\$ 317,991,226	\$ 242,809,286	\$ 560,800,512

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds \$ 497,996,212

Amounts reported for governmental activities in the statement of net assets are different because:

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 30,674,911

Derivative instruments are not reported in the funds but must be reported in the statement of net assets. 12,931,454

Long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the funds. (621,488,341)

Net Assets (Deficit) of Governmental Activities \$ (79,885,764)

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	Major Funds		
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt-Service	Total Governmental Funds
REVENUES:			
Sales tax	\$ 208,504,753	\$ -	\$ 208,504,753
Investment earnings	2,503,894	6,708,360	9,212,254
Debt repayments from other governments	-	1,182,228	1,182,228
Other revenues	91,664	-	91,664
Total revenues	211,100,311	7,890,588	218,990,899
EXPENDITURES:			
Current:			
General government	1,997,922	-	1,997,922
Bicycle facilities	1,006,807	-	1,006,807
Independent Taxpayer Oversight Committee	126,063	-	126,063
Major corridor capital projects	127,632,511	-	127,632,511
Major corridor environmental mitigation	19,388,696	-	19,388,696
Local project environmental mitigation	1,913	-	1,913
Local street improvements	27,477,959	5,450,000	32,927,959
Smart growth	875,303	-	875,303
New major corridor transit operations	2,180,492	-	2,180,492
Transit system improvements	54,038,344	-	54,038,344
Debt-service:			
Principal retirement	-	11,962,000	11,962,000
Interest and other charges	-	26,678,486	26,678,486
Total expenditures	234,726,010	44,090,486	278,816,496
REVENUES OVER (UNDER) EXPENDITURES	(23,625,699)	(36,199,898)	(59,825,597)
OTHER FINANCING SOURCES (USES):			
Transfers in	153,735,820	44,004,299	197,740,119
Transfers out	(44,004,299)	(153,735,820)	(197,740,119)
Commercial paper issued	-	5,450,000	5,450,000
Total other financing sources (uses)	109,731,521	(104,281,521)	5,450,000
Change in fund balances	86,105,822	(140,481,419)	(54,375,597)
FUND BALANCES:			
Beginning of year, as restated (Note 11)	198,674,139	353,697,670	552,371,809
End of year	\$ 284,779,961	\$ 213,216,251	\$ 497,996,212

See accompanying Notes to the Basic Financial Statements.

**San Diego County Regional Transportation Commission
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in
 Fund Balances to the Government-Wide Statement of Activities
 For the year ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ (54,375,597)

Amounts reported for governmental activities in the statement of activities are different because:

Interest revenues in the government-wide statement of activities that do not provide current financial resources are not reported as interest revenues in the funds. 570,677

The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 10,732,326

Interest expense reported in the government-wide statement of activities does not require the use of current financial resources and, therefore is not reported as an expenditure in governmental funds. (1,533,383)

Change in Net Assets of Governmental Activities \$ (44,605,977)

See accompanying Notes to the Basic Financial Statements.

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**NOTES TO THE BASIC
FINANCIAL STATEMENTS**

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

1. Summary of Significant Accounting Policies

The basic financial statements of the San Diego County Regional Transportation Commission (Commission) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

A. Reporting entity

The Commission is the agency established for the purpose of, and is responsible for, the implementation and administration of transportation improvement programs funded by the San Diego countywide one-half percent sales tax effective April 1, 1988, through 2008, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program. On November 2, 2004, the voters of San Diego County voted to extend the current one-half percent sales tax for 40 more years to 2048.

The Commission and the San Diego Association of Governments (SANDAG) share the same Board of Directors. SANDAG was formed as the comprehensive planning organization under a Joint Powers Agreement dated September 10, 1972. The Joint Powers Agreement was amended on November 5, 1980, to change the agency's name to SANDAG. The member agencies of SANDAG include 18 incorporated cities from the San Diego region and the County of San Diego, California.

On January 1, 2003, state legislation (Senate Bill 1703) was enacted that changed the structure of SANDAG from a Joint Powers Authority to a state-created regional government agency. The effect of this legislation was to make SANDAG a permanent rather than voluntary association of local governments and to increase SANDAG's responsibilities and powers.

The Commission is a blended component unit of SANDAG because a common Board of Directors is shared, and SANDAG is financially accountable for the Commission.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Commission. The statement of activities demonstrates the direct expenses associated with governmental activities that are clearly identifiable with this specific function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. All funds are considered major individual governmental funds and are therefore reported as separate columns in the fund financial statements.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (generally 180 days after year-end) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenues are considered to be measurable and available only when cash is received by the Commission.

The Commission reports the following major governmental funds:

The *sales tax projects special revenue fund* accounts for the activities and resources received pursuant to the countywide one-half percent local sales tax. These revenues are passed through to other governmental agencies to be spent in accordance with the *TransNet* ordinances, spent by the Commission in accordance with the *TransNet* ordinances, or transferred to the Commission's debt-service fund to make principal and interest payments on the long-term debt revenue bonds and commercial paper.

The *commercial paper and sales tax revenue bonds debt-service fund* accounts for the resources accumulated and payments made for principal and interest on the long-term debt revenue bonds and commercial paper. Revenues are derived from interest earned on the investments accumulated for the payment of principal and interest on the revenue bonds and commercial paper.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private sector guidance.

Interfund balances and transfers have been eliminated in the government-wide financial statements.

Amounts reported as program revenues include operating contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include sales taxes and other general revenues not restricted to specific programs.

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

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

D. Cash and investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts and funds, and short-term investments with original maturities of three months or less from the date of acquisition.

The Commission's investment policies are consistent with SANDAG's policies and in accordance with California Government Code Section 53600. The Commission is authorized to invest in the following:

- Treasury obligations
- Federal agencies and U.S. government-sponsored enterprises
- State obligations
- Local agency obligations
- Repurchase agreements
- Bankers' acceptances
- Commercial paper
- Medium-term notes
- Negotiable and nonnegotiable certificates of deposit
- State of California's local agency investment fund
- San Diego County Treasurer's pooled investment fund
- Savings/money market accounts
- California asset management program
- Money market funds
- Mortgage and asset-backed obligations

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value.

The Commission participates in an investment pool managed by the State of California, titled local agency investment fund (LAIF), which has invested 5.42 percent of the pool funds in medium-term and short-term structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares. The fair value of LAIF was calculated by applying a factor of 1.001643776 to total investments held by LAIF. LAIF is classified under investments.

The Commission also participates in the San Diego County Treasurer's Pooled Money Fund which is administered by the Treasurer-Tax Collector's Office. The fair value of Commission's investment in the pool is reported at amounts based upon the Commission's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). Earnings realized on investments based on amortized cost are distributed to Investment Pool participants. Section 27013 of the California Government Code authorizes the Treasurer's Office to deduct administrative fees related to investments. The net realized earnings on investments are apportioned to the Investment Pool participants quarterly, based on the participants' average daily balances. County's annual financial report for the Pool can be obtained from the Treasurer-Tax

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101 and can also be accessed at [http:// www.sdtreastax.com](http://www.sdtreastax.com).

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), the Commission adheres to certain disclosure requirements, if applicable for deposit and investment risk. These requirements are specified for the following areas:

- Interest rate risk
- Credit risk
 - Overall
 - Custodial credit risk
 - Concentration of credit risk
- Foreign currency risk

E. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.”

F. Restricted assets

Certain resources set aside for repayment of revenue bonds are classified as restricted net assets. Their use is limited by applicable bond covenants and therefore are maintained in a separate bank account. The accounts are used to segregate resources accumulated for debt-service principal and interest payments.

Other resources of the Commission set aside as restricted net assets are for NCTD Certificates of Participation which are classified as restricted assets because they are maintained in separate bank accounts held by a trustee and their use is limited to paying down the equivalent amount of commercial paper. Certain environmental mitigation funds are classified as restricted because they are maintained in separate bank accounts held by a trustee and the endowment set-aside portion may not be used and any interest earnings may only be used for certain project costs.

G. Long-term liabilities

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the applicable governmental activities of the statements of net assets. Debt premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Debt payable is reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized using the straight-line method over the term of the related debt.

H. Other financing sources and uses

In the fund financial statements, issuance of debt, including commercial paper and bonds, and transfers in are reported as other financing sources. Transfers out are reported as other financing uses.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

I. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the related, reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Budgetary information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Commission sales tax projects special revenue fund and commercial paper and sales tax revenue bonds debt-service fund.

K. Recently issued and adopted accounting principles

In June 2008, the GASB issued Statement 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Commission adopted GASB 53 in fiscal year 2010. All derivatives are to be reported on the statement of net assets at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument under GASB 53; the changes in fair value are either reported on the statement of net assets as a deferral, or in the statement of activities as investment revenue or loss.

The Commission engaged an independent party to perform the valuation and required tests on all the swaps. Of the Commission's five swap transactions, the three fixed payor swaps qualify for hedge accounting under GASB 53. Therefore, their cumulative changes in fair value are offset by a corresponding deferred outflow account on the statement of net assets, so there is no net impact on net assets from these three swaps.

The two basis swaps are deemed investment instruments under GASB 53, therefore the cumulative changes of these two swaps are reported in the statement of activities. See Note 6 for further detail. The effects of the accounting change on net assets as previously reported for fiscal year 2009 and prior years is an increase of \$12,363,018 million and is adjusted as of June 30, 2009. See Note 11 for further detail.

L. Comparative data/reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010**

2. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balances and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that, “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$30,674,911 are as follows:

Discount on bonds issued	\$	509,042
Debt issuance costs		810,006
Deferred revenue		<u>29,355,863</u>
Net adjustment to increase net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	\$	<u>30,674,911</u>

Another element of that reconciliation states that, “derivative instruments are not reported in the funds but must be reported in the statement of net assets.” The details of this \$12,931,454 difference are as follows:

Deferred outflow of resources	\$	80,084,380
Derivative instrument - swap liability		<u>(67,152,926)</u>
Net adjustment to increase net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	\$	<u>12,931,454</u>

Another element of that reconciliation states that, “long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$(621,488,341) difference are as follows:

Accrued interest payable - revenue bonds	\$	(1,800,341)
Commercial paper payable		(41,888,000)
Bonds payable		<u>(577,800,000)</u>
Net adjustment to reduce net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	\$	<u>(621,488,341)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in funds balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that, “Interest revenues in the government-wide statement of activities that do not provide current financial resources are not reported as interest revenues in the funds.” The details of this \$570,677 difference are as follows:

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

Accrued interest revenue - commercial paper	\$	2,241
Derivative instrument - investment revenue		568,436
Net adjustment to increase net changes in funds balances - governmental funds to arrive at changes in net assets - governmental activities		570,677

Another element of that reconciliation explains that, “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$10,732,326 difference are as follows:

Revenue bond principal retirement	\$	11,400,000
Commercial paper issued		(5,450,000)
Commercial paper pass-through payments to other governments		5,450,000
Debt repayments from other governments		(1,182,228)
Commercial paper paydowns		562,000
Amortization expense on deferred discount on bonds issued		(18,344)
Amortization expense on deferred debt issuance costs		(29,102)
Net adjustment to increase net changes in funds balances - governmental funds to arrive at changes in net assets - governmental activities		\$ 10,732,326

Another element of that reconciliation states that, “interest expenses reported in the government-wide statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.” The details of this (\$1,533,383) difference are as follows:

Change in interest expense - revenue bonds	\$	(1,531,142)
Accrued interest expense - commercial paper		(2,241)
Net adjustment to increase net changes in funds balances - governmental funds to arrive at changes in net assets - governmental activities		\$ (1,533,383)

3. Cash and investments

A summary of cash and investments at June 30, 2010, was as follows:

Classification	Fair Value
Cash and investments	\$ 432,772,537
Cash and investments - restricted for debt-service	55,563,437
Cash and investments - restricted for environmental mitigation	1,190,744
Total cash and investments	\$ 489,526,718

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

Cash, cash equivalents, and investments consisted as follows on June 30, 2010:

	Fair Value	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:			
Cash - demand deposits	\$ 6,162	1	Not rated
Cash equivalents - U.S. Agencies	14,472,250	38	AAA
Cash equivalents - Certificates of Participation (NCTD)	34,000,000	14	Aaa
Cash equivalents - money market accounts and funds	142,289,836	47	AAAm
Total cash and cash equivalents	190,768,248	41	
Investments:			
State of California Local Agency Investment Fund	49,374,632	182	Not rated
San Diego County Treasurer's Pooled Money Fund	34,688,765	425	Not rated
U.S. Agencies	214,695,073	443	AAA
Total investments	298,758,470	398	
Total cash, cash equivalents, and investments	\$ 489,526,718		

At year end, the Commission's carrying amount of deposits was \$6,162, and the bank balance was \$6,162. The bank balance was covered by federal depository insurance.

Swap investments

The Commission is invested in two forward contract pay-variable, receive-variable investment derivatives with notional amounts of \$156,600,000 each. At the effective date of April 1, 2018, the Commission will make monthly variable payments to the counterparty based on the current Securities Industry and Financial Markets Association (SIFMA) Swap Index and receive variable payments based on 107.4 percent of three-month LIBOR. At June 30, 2010, these investment derivatives had a fair value of \$12,931,454, and are not yet rated.

Other applicable risks (credit risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with the Commission's derivative investments are described in Note 6.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from the rising interest rates, SANDAG's investment policy, which is adopted by the Commission, limits investments to a maximum maturity of five years or 1,825 days from purchase date. The total portfolio shall not exceed the Commission's anticipated liquidity needs for operations for the next six months. The Commission is in compliance with all maturity provisions of the investment policy.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010**

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Commission is in compliance with all minimum rating requirements of the investment policy.

Concentration of credit risk

The portfolio is diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Credit requirements listed in the investment policy apply at the time of purchase. In the event a security held by the Commission is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Director of Finance shall review the security. The course of action to be followed will then be decided by the Director of Finance and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board of Directors with the next Quarterly Investment Report, along with the findings and any actions taken.

Custodial credit risk

The California Government Code requires California banks and savings and loan associations to secure the Commission's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Commission's name.

The market value of pledged securities must equal at least 110 percent of the Commission's cash deposits. California law also allows institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150 percent of the Commission's total cash deposits. The Commission may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Commission, however, has not waived the collateralization requirements.

4. Receivables

Receipts of funds from other governmental entities that are outstanding at year end are referred to as 'due from other governments'. The 'due from other governments' were as follows:

Sales tax receivable	\$	39,889,073
Rental income receivable		11,843
Advance to County of San Diego for local street and road improvements		21,653,621
Advance to City of National City for local street and road improvements		3,750,001
Advance to City of Santee for local street and road improvements		3,950,000
Total due from other governments	\$	<u>69,254,538</u>

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

5. Transfers

Transfers consisted of transactions related to sales tax receipts transferred to the debt-service fund for the payment of principal, interest, and other costs associated with long-term debt. In addition, transfers consisted of bond proceeds transferred from the debt-service fund to pay for project expenditures of the special revenue fund.

6. Derivative instruments

2008 interest rate swaps

Objective of the interest rate swaps. On November 22, 2005, the Commission entered into three forward interest rate swaps for \$200 million each in order to hedge the interest rate risk associated with future variable-rate revenue bonds expected to be issued in 2008 by "locking in" a fixed interest rate. The intention of the Commission in entering into the swap was to lock in a relatively low cost of funds on a substantial portion of the *TransNet* Early Action Program. The variable rate bonds were issued March 27, 2008.

Terms. The initial notional amounts of the swaps were \$200 million each. The current notional amounts of the swaps are \$192.6 million each. Under two of the swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives a variable payment based on 65 percent of one-month London Interbank Offered Rate (LIBOR) for 10 years. In the tenth year, the swaps will convert to the Securities Industry and Financial Markets Association (SIFMA) Municipal Bond Index for the remaining 20 years, paid monthly. Under the third swap, the Commission pays the counterparty a fixed payment of 3.41 percent and receives a variable payment based on 65 percent of one-month LIBOR for the 30-year period. The notional amounts and maturity dates of the swaps match the notional amounts and the maturity dates of the bonds that were issued in March 2008. The variable rates paid on the 2008 bonds are expected to closely match the variable rates received on the swaps over the term of the bonds and swaps.

Fair values. Because interest rates have declined since execution of the swaps, the swaps had a total negative fair value of \$80,084,380 as of June 30, 2010. The Bank of America swap had a negative fair value of \$29,182,340; the Merrill Lynch Capital Services swap had a negative fair value of \$25,451,020; and the Goldman Sachs Mitsui Marine Derivative Products had a negative fair value of \$25,451,020. The fair values of the derivatives were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2010. The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2010, the Commission was not exposed to credit risk on these swaps because of the negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the swaps' fair values. Favorable credit ratings of the counterparties (Bank of America, Merrill Lynch Capital Services, and Goldman Sachs Mitsui

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

Sachs Mitsui Marine Derivative Products. Sixty-five percent (65 percent) of LIBOR received by the Commission from the swap provider counterparties ranged from 0.14869 percent to 0.22994 percent during the same time period.

Actual debt-service requirements versus the projected debt-service on the swap transaction. For the fiscal year ending June 30, 2010, Bank of America actual debt service was \$6,998,020 versus projected debt service of \$6,664,845; Merrill Lynch Capital Services actual debt service was \$7,552,435 versus projected debt service of \$7,459,349; and Goldman Sachs Mitsui Marine Derivative Products actual debt service was \$7,669,793 versus projected debt service of \$7,459,349. In total, actual debt service was \$22,220,248 versus projected debt service of \$21,583,543, which resulted in an unfavorable position of an excess of variable rate payments made on the bonds as compared to the variable rate payments received from the swap counterparties in the amount of \$636,705 for FY 2010. Over the life of the swaps from the issuance of the bonds through June 30, 2010, cumulatively the Commission is in an unfavorable position of \$2,480,725. This means that the net variable rates the Commission is paying on the 2008 *TransNet* bonds is more than the variable rate the Commission is receiving, and these rates were originally intended to offset and net to zero. The total net cost of the program includes the liquidity facilities with Dexia and JP Morgan. The Dexia Standby Bond Purchase Agreement (SBPA) has a cost of 22.5 basis points. The JP Morgan SBPA originally carried a cost for the initial one-year term of 20 basis points. Although the credit market was improving, accessibility and supply impacted liquidity facility renewals in general. As a result, the renewal fee was 105 basis points for another one-year term through March 2010. A second renewal in March 2010 subsequently lowered the renewal fees to 74 basis points through March 2011. The Commission continues to explore opportunities to lower the cost of the liquidity facility and will again pursue competitive options as we near the renewal term of March 2011. Although the total net cost of the program is higher than originally anticipated, the variable rate financing has met the Commission's objective, as the total net cost of the program has been less than if the Commission had issued fixed rate bonds in April 2008, resulting in cumulative savings of more than \$11.9 million as of June 30, 2010.

2018 basis rate swaps overlay to the 2008 interest rate swaps

Objective of the basis rate swaps. On March 19, 2009, the Commission entered into a SIFMA versus LIBOR floating-to-floating or "basis" swap. The combination of the Basis Swaps and the existing 2008 Interest Rate Swaps effectively amended the existing swaps without having to change the existing floating-to-fixed interest rate swaps. This overlay allowed the Commission to competitively bid the new transaction to a group of potential counterparties without changing the existing 2008 Interest Rate Swaps. The Commission entered into a new transaction with Barclays Bank PLC to overlay the terms under two of the 2008 Interest Rate Swaps, with an expected benefit to the Commission of a substantial reduction in the cost of debt after 2018.

Terms. The initial notional amounts of the swaps are \$156.6 million each. Under two of the 2008 Interest Rate Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. The 2018 Basis Rate Swaps overlay these two 2008 Interest Rate Swaps with a payment of the SIFMA index and a receipt of 107.4 percent of LIBOR for the last 20 years of the swap (April 2018 to April 2038).

Fair values. The swaps had a total combined positive fair value of \$12,931,454 as of June 30, 2010. The fair values of the derivatives were estimated by an independent third-party based on mid-market levels

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010**

as of the close of business on June 30, 2010. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreements. As of June 30, 2010, the Commission was exposed to credit risk on these swaps in the amount of \$12,931,454, which is the derivatives' fair value. However, should interest rates change and the fair value of the swaps become negative; the Commission would not be exposed to any credit risk. The favorable credit rating of the counterparty mitigates this risk. As of June 30, 2010, the swap counterparty, Barclays Bank PLC, was rated Aa3 by Moody's and AA- by Standard & Poor's.

Interest rate risk. This is the risk that changes in market interest rates will adversely affect the net payment on the swaps. The Commission is exposed to interest rate risk on its swaps when LIBOR decreases causing the Commission's net payment on the swaps to increase.

Basis risk. This is the risk that benchmark tax-exempt interest rates paid by the Commission differ from the variable swap rate received from the applicable counterparty. The Commission bears basis risk on each of its basis swaps. The swaps have basis risk since the Commission receives a percentage of LIBOR and pays the tax-exempt benchmark SIFMA Swap Index. The Commission is exposed to basis risk should the floating rate that it receives on a swap plus a spread (107.4% of 3-month LIBOR) is less than the SIFMA Swap Index variable rate the Commission pays on the swap. If a shortfall occurs, the magnitude and duration would impact the expected cost savings from the basis swap.

Termination risk and termination payments. This is the risk that the transaction is terminated in a market dictating a termination payment by the Commission. The Commission can terminate a swap at the fair market value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. Given the positive fair value at June 30, 2010, the Commission was in a favorable termination position relative to the market.

7. Long-term debt

The following is a summary of long-term debt for the year ended June 30, 2010:

	Balance July 1, 2009	Debt Issued	Debt Retired	Balance June 30, 2010
Sales Tax Revenue Bonds:				
2008 Series ABCD	\$ 589,200,000	\$ -	\$ (11,400,000)	\$ 577,800,000
Commercial Paper Notes	37,000,000	5,450,000	(562,000)	41,888,000
Total long-term debt	<u>\$ 626,200,000</u>	<u>\$ 5,450,000</u>	<u>\$ (11,962,000)</u>	<u>\$ 619,688,000</u>

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010**

	Classification			Total
	Noncurrent Liabilities		Restricted Liabilities	
	Due Within One Year	Due in More Than One Year	Due Within One Year	
Sales Tax Revenue Bonds:				
2008 Series ABCD	\$ 11,700,000	\$ 566,100,000	\$ -	\$ 577,800,000
Commercial Paper Notes	7,888,000	-	34,000,000	41,888,000
Total long-term debt	\$ 19,588,000	\$ 566,100,000	\$ 34,000,000	\$ 619,688,000

On June 30, 2010, long-term debt consists of 2008 variable rate revenue bonds issued by the Commission that are collateralized by a pledge of the revenues from a one-half percent sales tax imposed within the County of San Diego. Long-term debt also consists of commercial paper notes issued by the Commission. The notes are payable from and secured by a pledge of the retail transactions and use tax subordinate to the pledge of such retail transactions and use tax which secures limited tax bonds issued or to be issued. Proceeds from long-term debt are to be used primarily to fund certain transportation projects in the San Diego County region.

As maturity of commercial paper notes is 270 days or less, the commercial paper notes are classified as due within one year.

The 2008 Series ABCD bonds

On March 27, 2008, the Commission issued \$600,000,000 of variable rate bonds to fund some of the major projects identified in the *TransNet* reauthorization (approved by voters in November 2004) under the 'Early Action Program.'

The principal requirements to maturity for the 2008 Series ABCD bonds are as follows:

Maturity (April 1)	Principal Amount	Interest Amount
2011	\$ 11,700,000	\$ 25,383,726
2012	12,300,000	24,860,487
2013	12,600,000	24,314,066
2014	13,200,000	23,751,087
2015	13,800,000	23,161,615
2016 - 2020	76,800,000	106,131,463
2021 - 2025	93,000,000	87,645,884
2026 - 2030	112,500,000	65,242,634
2031 - 2035	136,200,000	38,130,232
2036 - 2038	95,700,000	7,514,113
Total	\$ 577,800,000	\$ 426,135,307

The bonds bear interest at a variable rate, which is reset weekly. See Note 6 for the annual reset rate ranges for each remarketing agent.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010**

Commercial paper notes

The Commission currently has a \$100,000,000 tax-exempt commercial paper program (Series B). Under the Credit Agreement relating to the Series B Notes, dated November 9, 2005, the commercial paper is available through 2048, which is the end of the *TransNet* Extension Ordinance period.

During the fiscal year, the maximum outstanding balance was \$42,075,000. As of June 30, 2010, there was \$41,888,000 outstanding. Interest rates during the current year have varied from 0.20 percent to 1.25 percent, with maturities from 1 day to 35 days. Interest rates on outstanding amounts at June 30, 2010, ranged from 0.31 percent to 0.37 percent, with maturities from 8 days to 28 days.

The scheduled principal requirements to maturity for the Series B commercial paper are as follows:

Scheduled Repayment	Principal Amount	Interest Amount
2011	\$ 1,184,000	\$ 129,853
2012	2,323,000	126,182
2013	2,747,000	118,981
2014	2,071,000	110,465
2015	1,814,000	104,045
2016 - 2020	8,699,000	98,422
2021 - 2025	6,700,000	71,455
2026 - 2030	7,700,000	50,685
2031 - 2035	8,650,000	26,815
Total	<u>\$ 41,888,000</u>	<u>\$ 836,903</u>

8. Unrestricted net asset (deficit)

The unrestricted net assets deficit of \$102,401,145 results primarily from the issuance of the \$600,000,000 revenue bonds in fiscal year 2008 for transportation related projects, primarily major corridor and environmental mitigation. The Commission plans to repay the bonds with future sales tax revenue which is dedicated for transportation projects. See Note 7 on long-term debt for further information.

9. Risk management

Insurance coverage is maintained for the Commission by SANDAG. See SANDAG's Comprehensive Annual Financial Report for further details.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010

10. Subsequent event

On November 10, 2010, the Commission issued \$350,000,000 Series 2010 A and B sales tax revenue bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$7,316,000 in outstanding commercial paper notes, and to pay the costs of issuing the Series 2010 Bonds. The Series A Build America Bonds (BABS) totaled \$338,960,000 and carry a fixed interest rate of 5.911 percent (net interest rate of 3.89 percent after deducting the BABs 35 percent federal subsidy) with a maturity date of April 1, 2048. The Series B Tax-Exempt bonds totaled \$11,040,000 with an interest rate of 3.14 percent, based on an interest rate range of 2.00 – 5.00 percent and a maturity date of April 1, 2030.

11. Restatements

The beginning fund balance in the sales tax projects special revenue fund, a special revenue fund, has been increased by \$21,116,068 due to the effects of sales tax revenue being understated in the previous year by amounts which should have been accrued at June 30, 2009. In accordance with GASB Statement No. 33, derived tax revenues are to be accrued when the underlying exchange transaction occurs, which is the remittance of sales tax to the Commission by the State of California (State). Because amounts collected by the State for sales occurring in the quarter including April, May and June are typically remitted to the Commission in July and August, along with a portion of the September remittance, these revenues should be accrued back to the prior period. Beginning net assets in the government-wide statement of activities for governmental activities, as well as, financial data in the management's discussion and analysis for 2010 has been restated to reflect what would have been the sales tax balance at 2009. The statement of activities for the year ended June 30, 2010 continues to report 12 months of cash receipts, and the change in methodology reports an increase in the current year of \$4,501,305 over the prior methodology. This adjustment is for financial reporting purposes only and did not affect allocations to member agencies, as allocations are made on a cash basis. Management will continue to record sales tax revenue in future years using the same methodology.

The two basis swaps that are deemed investment instruments under GASB 53 require a restatement of beginning net assets. The effects of the accounting change on net assets as previously reported for fiscal year 2009 and prior years is an increase of \$12,363,018 million. Beginning net assets in the government-wide statement of activities for governmental activities, as well as financial data in the management's discussion and analysis for 2010 has been restated to reflect what would have been the investment earnings balance at 2009.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2010**

The cumulative effect of the changes in net assets in the statement of activities is as follows:

Net assets (deficit) - beginning of year, previously reported	\$ (68,758,873)
Adjustment of general revenues:	
Sales tax	21,116,068
Investment earnings	<u>12,363,018</u>
Net assets (deficit) - beginning of year, as restated	<u>\$ (35,279,787)</u>

**REQUIRED
SUPPLEMENTARY INFORMATION**

San Diego County Regional Transportation Commission
Sales Tax Projects Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Sales tax	\$ 234,336,683	\$ 199,792,224	\$ 208,504,753	\$ 8,712,529
Investment earnings	1,500,000	1,500,000	2,503,894	1,003,894
Other revenues			91,664	91,664
Total revenues	235,836,683	201,292,224	211,100,311	9,808,087
EXPENDITURES:				
Current:				
General government	2,343,367	1,997,922	1,997,922	--
Bicycle facilities	4,686,734	3,995,844	1,006,807	2,989,037
Independent Taxpayer Oversight Committee	335,310	335,310	126,063	209,247
Major corridor capital projects	86,249,083	73,515,997	127,632,511	(54,116,514)
Major corridor environmental mitigation	9,986,736	8,512,378	19,388,696	(10,876,318)
Local project environmental mitigation	4,085,483	3,482,337	1,913	3,480,424
Local street improvements	66,048,640	56,297,776	27,477,959	28,819,817
Smart growth	4,766,397	4,062,726	875,303	3,187,423
New major corridor transit operations	18,384,673	15,670,515	2,180,492	13,490,023
Transit system improvements	37,450,260	31,921,419	54,038,344	(22,116,925)
Total expenditures	234,336,683	199,792,224	234,726,010	(34,933,786)
REVENUES OVER (UNDER) EXPENDITURES	1,500,000	1,500,000	(23,625,699)	(25,125,699)
OTHER FINANCING SOURCES (USES):				
Transfers in	96,235,819	82,028,375	153,735,820	(71,707,445)
Transfers out	(33,018,513)	(33,018,513)	(44,004,299)	10,985,786
Total other financing sources (uses)	63,217,306	49,009,862	109,731,521	(60,721,659)
Net change in fund balances	64,717,306	50,509,862	86,105,822	35,595,960
FUND BALANCES:				
Beginning of year, as restated	198,674,139	198,674,139	198,674,139	--
End of year	\$ 263,391,445	\$ 249,184,001	\$ 284,779,961	\$ 35,595,960

See accompanying Notes to Required Supplementary Information

**San Diego County Regional Transportation Commission
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2010**

1. Budgetary information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Commission sales tax projects special revenue fund (special revenue fund). The special revenue fund has a legally adopted annual program budget based on expected sales tax revenue receipts.

After the annual budget is adopted, the Board of Directors can legally amend the budget at any time during the fiscal year to incorporate changes in expected sales tax revenues.

Transfers consisted of transactions related to sales tax receipts transferred to the debt-service fund for the payment of principal, interest, and other costs associated with long-term debt. In addition, transfers consisted of transactions using bond proceeds transferred from the debt-service fund to project expenditures of the special revenue fund.

2. Additional appropriations or amendments

Amendments were made to the special revenue fund to reflect a reduction in expected sales tax revenue, as approved by the Board of Directors.

3. Excess of expenditures over appropriations

Expenditures for the year ended June 30, 2010, exceeded appropriations by \$34,933,786 in the special revenue fund. Appropriations reflect estimated expenditures for one year based on estimated sales tax revenue in the same year; however revenues received are expended for multi-year projects therefore the actual expenditures will vary depending on the project schedules. The Commission's unreserved fund balance which includes prior year sales tax revenues covered the excess.

Fund	Final Budget	Actual	Excess over Appropriations
Sales tax projects special revenue fund	\$ 199,792,224	\$ 234,726,010	\$ 34,933,786

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SUPPLEMENTARY INFORMATION

San Diego County Regional Transportation Commission
Commercial Paper and Sales Tax Revenue Bonds Debt-Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment earnings	\$ -	\$ -	\$ 6,708,360	\$ 6,708,360
Debt repayments from other governments	-	-	1,182,228	1,182,228
Total revenues	-	-	7,890,588	7,890,588
EXPENDITURES:				
Current:				
Local street improvements	-	-	5,450,000	(5,450,000)
Debt-service:				
Principal retirement	11,400,000	11,400,000	11,962,000	(562,000)
Interest and other charges	21,618,513	21,618,513	26,678,486	(5,059,973)
Total expenditures	33,018,513	33,018,513	44,090,486	(11,071,973)
REVENUES OVER (UNDER) EXPENDITURES	(33,018,513)	(33,018,513)	(36,199,898)	(3,181,385)
OTHER FINANCING SOURCES (USES):				
Transfers in	33,018,513	33,018,513	44,004,299	(10,985,786)
Transfers out	(96,235,819)	(96,235,819)	(153,735,820)	57,500,001
Commercial paper issued	-	-	5,450,000	(5,450,000)
Total other financing sources (uses)	(63,217,306)	(63,217,306)	(104,281,521)	41,064,215
Net change in fund balances	(96,235,819)	(96,235,819)	(140,481,419)	(44,245,600)
FUND BALANCES:				
Beginning of year	353,697,670	353,697,670	353,697,670	-
End of year	\$ 257,461,851	\$ 257,461,851	\$ 213,216,251	\$ (44,245,600)



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To the Honorable Chair and Members of the Board of Directors
San Diego County Regional Transportation Commission
San Diego, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

We have audited the basic financial statements of the San Diego County Regional Transportation Commission (Commission), a component unit of the San Diego Association of Governments (SANDAG) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 2010. We conducted our audit 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

MHM

To the Honorable Chair and Members of the Board of Directors
San Diego County Regional Transportation Commission
San Diego, California

This report is intended solely for the information and use of the Commission's Board of Directors, management, and others within the Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mayor Hoffman McLean, Jr.

Irvine, California
December 22, 2010

APPENDIX B

INFORMATION REGARDING THE COUNTY OF SAN DIEGO

Set forth below is certain information with respect to the County of San Diego (the "County"). Such information was obtained from the County and from sources the Commission believes to be reliable as of the latest date when such information was available. The Commission takes no responsibility for the accuracy or completeness of such information.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The County is the southernmost major metropolitan area in the State of California (the "State"). The County covers 4,261 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

The topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is stable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of high technology, manufacturing, tourism, agriculture, government and the largest uniformed military presence in the nation, which contributed approximately \$16.10 billion during federal fiscal year 2008 to the County's economy.

PETCO Park, located in the City of San Diego, provides a 42,000 fixed seat baseball stadium for the San Diego Padres. PETCO Park is located in a 26-block neighborhood that contains existing and proposed hotels, office space, retail and housing units within walking distance from the San Diego Convention Center and the Gaslamp Quarter. The baseball stadium also is within walking distance of a San Diego Trolley station and nearby parking facilities.

The San Diego Convention Center includes 2.6 million total gross square feet and plans are in progress to expand the Convention Center into the nearby bayfront area. Preliminary estimates from the San Diego Convention Center Corporation indicate that the Convention Center generated approximately \$1.5 Billion in calendar year 2009 in total economic impact (direct and indirect spending).

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, San Marcos, and Vista. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. In the 1990s the population of the County grew at a greater rate than that of either the State or the nation. The County population as of January 2011 was estimated to be approximately 3,118,876, making it the second largest County by population in California. As of July 1, 2009, the U.S. Census Bureau ranked San Diego County the seventeenth largest Metropolitan Statistical Area in the United States. The 2009 population increased 1.1% from 2008. By the year 2020, the County's population is projected to exceed 3.5 million.

The following table shows changes in the population in the County, the State and the United States for the years 1996 to 2011.

POPULATION⁽¹⁾
(In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States ⁽²⁾	Percent Change
1996	2,621	0.31%	31,837	0.70%	265,229	0.96%
1997	2,653	1.23	32,207	1.16	267,784	0.92
1998	2,703	1.88	32,657	1.40	270,248	0.90
1999	2,751	1.78	33,140	1.48	272,691	0.90
2000	2,813	2.25	33,873	2.22	282,193	3.48
2001	2,849	1.28	34,256	1.13	285,107	1.03
2002	2,890	1.44	34,725	1.37	287,985	1.01
2003	2,927	1.28	35,163	1.26	290,850	0.99
2004	2,953	0.89	35,570	1.16	293,657	0.96
2005	2,967	0.47	35,869	0.84	296,410	0.94
2006	2,976	0.30	36,116	0.68	299,398	1.01
2007	2,998	0.74	36,399	0.78	301,140	0.58
2008	3,032	1.13	36,704	0.84	304,374	0.96
2009	3,064	1.06	36,996	0.80	307,006	0.86
2010	3,091	0.88	37,223	0.61	308,745	0.56
2011	3,095	0.13 ⁽¹⁾	37,253	0.08 ⁽¹⁾	⁽³⁾	

Sources: State of California Department of Finance; U.S. Bureau of the Census

(1) As of January 1 of the year shown, except for 2000 Census (April 1, 2000) and 2010 Census (April 2010)

(2) As of July 1 of the year shown.

(3) National data for July 1, 2011 not yet available.

Employment

The County's total labor force, the number of persons who work or are available for work, during July 2011 was approximately 1,578,500. The number of employed civilian workers in the labor force for the same month was approximately 1,412,100. The following table sets forth information regarding the size of the civilian labor force, employment and unemployment rates for the County, the State and the United States for the full years 2006 through 2010. The last column of the table indicates the civilian labor force, employment and unemployment rates for the County, the State of California and the Nation through July of 2011.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 2006-2011
By Place of Residence
(In Thousands)

	2006	2007	2008	2009	2010	2011**
County of San Diego Labor Force	1,499.9	1,518.3	1,547.3	1,554.1	1,558.2	1,578.50
Employment	1,440.4	1,449.5	1,455.1	1,404.5	1,393.9	1,412.10
Unemployment Rate	4.0%	4.5%	6.0%	9.6%	10.5%	10.5%
State of California Labor Force	17,901.9	17,970.8	18,251.6	18,250.2	18,280.4	18,13.70
Employment	17,029.3	17,011.0	16,938.3	16,163.9	16,051.2	15,874.80
Unemployment Rate	4.9%	5.3%	7.2%	11.4%	12.2%	12.4%
United States Labor Force	151,428.0	153,124.0	154,287.0	154,142.0	154,767.0	153,228.00
Employment	144,427.0	146,047.0	145,362.0	139,877.0	139,882.0	139,296.00
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.6%	9.1%

Sources: County and State Data - California Employment Development Department; National Data - U.S. Department of Labor, Bureau of Labor Statistics.

* Data not seasonally adjusted; March 2010 benchmark.

** As of July 2011.

The following table sets forth the annual average employment within the County by employment sector for 2005 through 2010. Industry employment in the County has decreased by a total of 63,000 jobs since 2005. The largest growth industries were: education and health sciences; leisure and hospitality; and government. During the years profiled, these industries gained a total of 40,600 jobs. The largest growth occurred in education and health sciences (24,600 jobs).

**SAN DIEGO COUNTY
LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
2005-2010**

Employment Sector	2005	2006	2007	2008	2009	2010
Total, All Industries	1,292,800	1,312,500	1,319,700	1,309,300	1,240,900	1,229,800
Agriculture	10,700	10,900	10,900	10,500	9,500	9,700
Natural Resources & Mining	400	500	400	400	400	400
Construction	90,800	92,700	87,000	76,100	61,100	55,500
Manufacturing	104,500	103,900	102,500	102,800	95,300	92,400
Trade, Transportation & Utilities	219,400	222,000	222,300	215,900	199,600	196,700
Wholesale Trade	43,600	45,100	45,500	44,900	40,600	39,200
Retail Trade	147,400	148,200	148,000	142,000	131,600	130,000
Transportation, Warehousing & Utilities	28,400	28,700	28,800	29,000	27,400	27,500
Information	32,600	31,700	31,300	31,400	28,200	25,200
Financial Activities	83,200	83,700	80,300	75,200	69,800	67,100
Finance & Insurance	53,500	53,200	50,200	46,000	43,300	41,400
Real Estate, Rental & Leasing	29,700	30,500	30,100	29,200	26,500	25,700
Professional & Business Services	215,300	219,200	223,000	222,200	205,900	207,900
Education & Health Services	122,500	125,100	129,500	137,300	144,300	147,100
Leisure & Hospitality	149,600	156,500	161,800	164,000	154,800	154,600
Other Services	48,800	48,400	48,300	48,400	46,800	47,200
Government	215,000	217,900	222,400	225,100	225,200	226,000

Source: California Employment Development Department.

Regional Economy

The table below sets forth the County's Gross Metropolitan Product, which is an estimate of the value for all goods and services produced in the region, from 2002 through 2011.

COUNTY OF SAN DIEGO GROSS METROPOLITAN PRODUCT 2002-2011

Year	Gross Metropolitan Product (In Billions)	Annual Percent Change	
		Current Dollars San Diego	Constant Dollars* San Diego
2002	\$123.2	7.7%	5.3%
2003	130.9	6.3	3.9
2004	141.5	8.1	5.2
2005	151.6	7.1	3.9
2006	159.8	5.4	2.2
2007	167.1	4.5	1.7
2008	172.4	3.2	1.4
2009	171.5	(0.5)	(2.4)
2010	176.0	2.6	1.9
2011 ⁽¹⁾	182.6	3.8	2.1

Sources: 2001-2009 Data - Bureau of Economic Analysis; U.S. Department of Commerce; 2010-2011 Data - National University System Institute for Policy Research; reflects data as of August 2011

* Adjusted using the GMP/GSP/GDP Implicit Price Deflator.

⁽¹⁾ Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of many industries, including Biotechnology, Wireless Communications, Defense Manufacturing and Uniformed Personnel, and Leisure and Hospitality. The U.S. Department of Defense contributed about \$16.1 billion to the local economy during 2008, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. The military presence in the County is anticipated to remain relatively stable and may increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States.

Building Activity

Annual total building permit valuation and the annual unit total of new residential permits from 2007 through June of 2011 are shown in the following table.

**COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2007 – June 2011
(In Thousands)**

	2007	2008	2009	2010	2011*
Valuation:					
Residential	\$1,852,381	\$1,339,204	\$464,005	\$974,490	\$733,889
Non-Residential	<u>\$1,416,823</u>	<u>\$1,061,841</u>	<u>\$344,084</u>	<u>\$658,867</u>	<u>\$595,475</u>
Total	\$ 3,269,204	\$2,401,045	\$808,089	\$1,633,357	\$1,329,364
New Housing Units:					
Single Family	3,503	2,347	936	2,254	1,326
Multiple Family	<u>3,942</u>	<u>2,806</u>	<u>742</u>	<u>1,092</u>	<u>1,575</u>
Total	7,445	5,153	1,678	3,346	2,901

Source: Construction Industry Research Board.

* Through June of 2011.

Commercial Activity

Consumer spending for 2009 resulted in approximately \$9.7 billion in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for the years 2006 through 2010.

**COUNTY OF SAN DIEGO
TAXABLE SALES
2006-March 2010
(In Thousands)**

<u>Type of Business</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>
Apparel Stores	\$1,909,011	\$ 2,034,512	\$ 2,205,568	\$2,560,683	\$581,935
General Merchandise	5,594,621	5,673,538	5,305,252	4,254,037	967,426
Specialty Stores ⁽²⁾	4,926,656	-	-	-	-
Food Stores	1,928,274	1,994,237	1,868,466	1,934,812	451,280
Eating and Drinking Establishments	4,521,392	4,784,500	4,869,497	4,717,292	1,154,696
Home Furnishings/ Appliances	1,511,389	1,420,933	1,590,329	2,024,448	192,590
Building Materials	3,331,161	2,768,385	2,183,006	1,841,740	492,022
Automotive	9,819,932	6,321,987	5,010,084	4,196,256	1,055,566
Service Stations ⁽³⁾	-	3,755,121	4,154,465	3,153,090	840,246
All Other Retail Stores	1,076,631	5,285,332	4,529,006	1,405,774	318,113
Business and Personal Services	2,302,057	2,298,265	2,255,309	(4)	(4)
All Other Outlets	<u>10,914,390</u>	<u>11,149,178</u>	<u>11,358,155</u>	<u>11,770,139</u>	<u>2,795,963</u>
TOTAL ALL OUTLETS	\$47,835,514	\$47,485,988	\$45,329,136	\$39,728,657	\$9,570,811

Source: California State Board of Equalization, Taxable Sales in California.

(1) Information available through First Quarter of 2010 only.

(2) After 2006, data for the Specialty Stores Group was included in the category for All Other Retail Stores.

(3) After 2006, Service Stations became a separate category and were not included in the Automotive Category.

(4) After 2008, category for Business and Personal Services was discontinued.

Personal Income

The following table summarizes the median household income for the County, the State, and the United States between 2003 and 2009. In 2009, the median household income for the County of San Diego was \$60,231.

MEDIAN HOUSEHOLD INCOME⁽¹⁾ 2003 through 2009 ⁽²⁾			
<u>Year</u>	<u>San Diego County</u>	<u>California</u>	<u>United States</u>
2003	\$ 49,886	\$ 50,220	\$ 43,564
2004	51,012	51,185	44,684
2005	56,335	53,629	46,242
2006	59,591	56,645	48,451
2007	61,794	59,948	50,740
2008	63,026	61,021	52,029
2009	60,231	58,931	50,221

Source: U.S. Census Bureau – Economic Characteristics – America Community Survey.

(1) Estimated in inflation-adjusted dollars.

(2) Data for 2010 is not currently available.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside and San Bernardino Counties, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

The San Diego International Airport (Lindbergh Field) is located approximately three miles northwest of the downtown area and sits on 614 acres. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 18 passenger carriers and six cargo carriers. In addition to San Diego International Airport, there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit System (“MTS”) and North County Transit District. The San Diego Trolley, developed by MTS beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$67.08 billion in 2010, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately 1.7% from the prior year. The County hosted 64 conventions and trade shows during 2010, attended by approximately 543,931 delegates. Additional visitors pass through the San Ysidro Port of Entry, the busiest border crossing in the world with more than nearly 42 million crossings during 2010 between San Diego and Tijuana, Mexico.

Education

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts for the most part educate secondary students, and unified districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are: San Diego State University; the University of California, San Diego; National University; the University of San Diego; Point Loma Nazarene University; California State University - San Marcos; Alliant International University; the University of Phoenix; Thomas Jefferson School of Law; and California Western School of Law.

APPENDIX C

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE
INDENTURE**

APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture, dated as of March 1, 2008, between the San Diego County Regional Transportation Commission (the "Commission") and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented and amended by the First Supplemental Indenture, dated as of March 1, 2008, the Second Supplemental Indenture, dated as of July 1, 2008 and the Third Supplemental Indenture, dated as of October 1, 2010 (hereinafter collectively referred to as the "Indenture"), each between the Commission and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

Definitions

Accreted Value means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date.

Accreted Value Table means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

Act means the San Diego County Regional Transportation Commission Act, Chapter 2 of Division 12.7 (Section 132000 et seq.) of the Public Utilities Code of the State, as now in effect and as it may from time to time hereafter be amended or supplemented.

Alternate Credit Enhancement means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank, pension fund or other financial institution, and delivered or made available to the Trustee, as a replacement or substitution for any Credit Enhancement then in effect.

Alternate Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

Annual Debt Service means, for any Fiscal Year, the aggregate amount (without duplication) of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

Assumed Debt Service means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Commission not exceeding thirty (30) years from the date of calculation, or (ii) the Tax Expiration Date, such Assumed Debt Service to be

calculated on a level debt service basis, based on a fixed interest rate equal to the rate at which the Commission could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may rely conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

Auction has the meaning set forth in Appendix A to the First Supplemental Indenture.

Auction Period has the meaning set forth in Appendix A to the First Supplemental Indenture.

Auction Period Rate has the meaning set forth in Appendix A to the First Supplemental Indenture.

Auction Rate Period means any period during which the 2008 Bonds bear interest at the Initial Period Rate or an Auction Period Rate, as applicable.

Authorized Denominations means, with respect to 2008 Bonds: (i) during a Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, \$100,000 and any integral multiple of \$5,000 in excess thereof, (ii) during an Auction Period, \$25,000 and any integral multiple thereof and (iii) during a Term Rate Period, an Index Rate Period or the Fixed Rate Period, \$5,000 and any integral multiple thereof; provided, however, that if as a result of a Conversion of a Series of 2008 Bonds from a Term Rate Period to another Interest Rate Determination Method, it is not possible to deliver all the Bonds of a Series required or permitted to be Outstanding in a denomination permitted above, 2008 Bonds of a Series may be delivered, to the extent necessary, in different denominations.

Authorized Representative means the Chair of the Board of Directors, the Executive Director, the Chief Deputy Executive Director, the Director of Finance, the Finance Manager, or any other person designated to act on behalf of the Commission by a written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Commission by an Authorized Representative.

Beneficial Owner means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including, without limitation, any Person holding Bonds through nominees or depositories, including the Securities Depository.

Board means the Board of Directors of the Commission.

Bond Obligation means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

Bond Reserve Fund means any fund by that name established with respect to one or more Series of Bonds pursuant to one or more Supplemental Indentures establishing the terms and provisions of such Series of Bonds.

Bond Reserve Requirement with respect to one or more Series of Bonds for which the Commission shall have established a Bond Reserve Fund shall have the meaning specified in the Supplemental Indenture or Supplemental Indentures establishing the terms and provisions of such Series of Bonds.

Bondholder or Holder, whenever used in the Indenture or in this Official Statement with respect to a Bond, means the person in whose name such Bond is registered.

Bonds means the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds) authorized by, and at any time Outstanding pursuant to, the Indenture.

Business Day means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds are issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State, the State of New York or the jurisdiction in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed, or (2) for purposes of payments and other actions relating to Bonds secured by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed, or (3) a day on which the New York Stock Exchange is closed.

Capital Appreciation Bonds means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

Certificate, Statement, Request, Requisition and Order of the Commission mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Commission by an Authorized Representative.

Code means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

Commercial Paper Rate means the interest rate established from time to time pursuant to the provisions of the Indenture.

Commercial Paper Rate Period means each period during which 2008 Bonds bear interest at a Commercial Paper Rate determined pursuant to the provisions of the Indenture.

Commission means the San Diego County Regional Transportation Commission, a public entity of the State, duly organized and existing under the Act.

Continuing Disclosure Agreement means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Agreement, dated the date of issuance of such Series of Bonds, executed by the Commission and a Dissemination Agent, as the same may be supplemented, modified or amended in accordance with its terms.

Conversion means any conversion of the 2008 Bonds from one Interest Rate Determination Method to another, which may be made from time to time in accordance with the terms of the Indenture.

Conversion Date means the date any Conversion of 2008 Bonds becomes effective in accordance with the provisions of the Indenture (or, with respect to notices, time periods and requirements in connection with the proceedings for such Conversion, the day on which it is proposed that such Conversion occur),

Conversion Notice means a written notice delivered by the Commission to change the Interest Rate Determination Method for any 2008 Bond.

Corporate Trust Office or **corporate trust office** means the corporate trust office of the Trustee at U.S. Bank National Association, 633 West 5th Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Division, or such other or additional offices as may be designated by the Trustee from time to time.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Commission and related to the authorization, execution, sale and delivery of the Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning such Series of Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance, credit enhancement and liquidity costs, termination fees payable in connection with the termination of an Interest Rate Swap Agreement in connection with the delivery of such Series of Bonds, and any other cost, charge or fee in connection with the initial delivery of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

Costs of Issuance Fund means a fund by that name established pursuant to the provisions of a Supplemental Indenture to pay Costs of Issuance with respect to a Series of Bonds being issued pursuant to such Supplemental Indenture.

Costs of the Project means all items of expense related to the Project and directly or indirectly payable by or reimbursable to the Commission in accordance with the Act and the Ordinance.

Counterparty means an entity which has entered into an Interest Rate Swap Agreement with the Commission.

Credit Enhancement means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

Credit Provider means, with respect to a Series of Bonds, the Insurer, commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

Current Interest Bonds means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and that pay interest to the Holders thereof on a periodic basis prior to maturity.

Daily Rate means the interest rate on a Series of 2008 Bond in the Daily Rate Period established from time to time pursuant to the Indenture.

Daily Rate Period means any period during which a Series of 2008 Bonds bears interest at the Daily Rate.

Debt Service, when used with respect to any Bonds or Parity Obligations (for purposes of this definition of "Debt Service," herein collectively referred to as "Obligations"), means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Obligations

during such Fiscal Year and (2) the principal or Mandatory Sinking Account Payments required with respect to such Obligations during such Fiscal Year; computed on the assumption that no portion of such Obligations shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(A) Excluded Principal Payments (and the interest related thereto, provided such interest is being paid from the same source as the Excluded Principal Payments), shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(B) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Obligations, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(C) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such Obligations for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Swap Index for the five (5) years preceding such date of calculation;

(D) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Obligations shall be calculated at an interest rate equal to 100% of the average One Month USD LIBOR Rate during the five (5) years preceding such date of calculation;

(E) with respect to any Obligations bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place providing for a fixed rate of interest to maturity or for a specific term with respect to such Obligations, the interest rate on such Obligations shall be assumed to be the synthetic fixed interest rate specified in such Interest Rate Swap Agreement for such term; provided that if, pursuant to a Certificate of the Commission filed with the Trustee, the sum of (i) interest payable on such Obligations, plus (ii) amounts payable by the Commission under such Interest Rate Swap Agreement, less (iii) amounts receivable by the Commission under such Interest Rate Swap Agreement, is expected to be greater than the interest payable on the Obligations to which such Interest Rate Swap Agreement relates (i.e., if such Interest Rate Swap Agreement is an "off-market" Interest Rate Swap Agreement), then, in such instance, such excess amounts payable by the Commission under such Interest Rate Swap Agreement shall be included in the calculation of Debt Service;

(F) with respect to any Obligations bearing interest, or expected to bear interest, at a fixed interest rate for which an Interest Rate Swap Agreement is in place providing for a net variable interest rate with respect to such Obligations for a specific term, the interest rate on such Obligations shall be assumed to be equal for such term to the sum of (i) the fixed interest rate or rates to be paid on the Obligations, minus (ii) the fixed interest rate receivable by the Commission under such Interest Rate Swap Agreement, plus (iii) the average interest rate of the index on which the Interest Rate Swap

Agreement is based, as identified in a Certificate of the Commission, or, if not based on an identifiable index, then the SIFMA Swap Index, in each case, over the five (5) years preceding the date of calculation;

(G) if any Obligations feature an option, on the part of the owners or an obligation under the terms of such Obligations, to tender all or a portion of such Obligations to the Commission, the Trustee or other fiduciary or agent, and requires that such Obligations or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Obligations, the options or obligations of the owners of such Obligations to tender the same for purchase or payment prior to the stated maturity or maturities shall be ignored and not treated as a principal maturity; and

(H) principal and interest payments on Obligations shall be excluded to the extent such payments are to be paid from Revenues then held on deposit by the Trustee or from other amounts on deposit, including Investment Securities and interest to be payable thereon, with the Trustee or other fiduciary in escrow specifically therefor and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Obligations, including Investment Securities and interest to be payable thereon, held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or from pledged Subsidy Payments the Commission expects to receive.

Defeasance Securities means: (i) U.S. Treasury Certificates, Notes and Bonds, including State and Local Government Series securities; (ii) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself; (iii) Resolution Funding Corp. securities ("REFCORP"), provided, however, only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (iv) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's, provided, however, that if such municipal bonds are rated only by Standard & Poor's, then such pre-refunded municipal bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or "AAA" rated pre-refunded municipal bonds; (v) obligations issued by the following agencies, which are backed by the full faith and credit of the United States: (a) Farmers Home Administration (FmHA) - certificates of beneficial ownership; (b) General Services Administration - participation certificates; (c) U.S. Maritime Administration - Guaranteed Title XI financing; (d) Small Business Administration guaranteed participation certificates and guaranteed pool certificates; (e) GNMA guaranteed MSB and participation certificates; and (f) U.S. Department of Housing and Urban Development (HUD) Local Authority Bonds, or (vi) certain obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States limited to: (a) Federal Home Loan Mortgage Corp. (FHLMC) debt obligations; (b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) consolidated system-wide bonds and notes; (c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; (d) Federal National Mortgage Association (FNMA) debt obligations; (e) Student Loan Marketing Association (SLMA) debt obligations; and (f) Financing Corp. (FICO) debt obligations; and (g) other obligations approved by the Rating Agencies for defeasance escrows rated in the highest Rating Category.

Dissemination Agent means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12(b)(5), the dissemination agent under the Continuing Disclosure Agreement delivered in connection with such Series of Bonds, or any successor dissemination agent designated in writing by the Commission and which has entered into a Continuing Disclosure Agreement with the Commission.

DTC means The Depository Trust Company, New York, New York, or any successor thereto.

Electronic Means means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

Event of Default means any of the events of default specified in the Indenture. See “—Events of Default and Remedies—Events of Default.”

Excluded Principal Payments means each payment of principal of Bonds or Parity Obligations which the Commission determines (in the Certificate of the Commission) that the Commission intends to pay with moneys that are not Sales Tax Revenues (such as commercial paper, balloon indebtedness or bond anticipation notes) but from future debt obligations of the Commission, grants from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Commission, upon which determination of the Commission the Trustee may conclusively rely. No such determination shall affect the security for such Bonds or the obligation of the Commission to pay such payments from Sales Tax Revenues or amounts on deposit in the Bond Reserve Fund, if any. No payment of principal of Bonds may be determined to be an Excluded Principal Payment unless it is due on or prior to the Tax Expiration Date.

Expiration (and other forms of “expire”) means, when used with respect to a 2008 Liquidity Facility or Credit Enhancement, the expiration of such 2008 Liquidity Facility or Credit Enhancement in accordance with its terms.

Favorable Opinion of Bond Counsel means, with respect to any action requiring such an opinion, an Opinion of Bond Counsel to the effect that such action will not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds or such portion thereof as shall be affected thereby.

Fees and Expenses Fund means the fund by that name established pursuant to the Indenture.

First Supplemental Indenture means the First Supplemental Indenture, dated as of March 1, 2008, between the Commission and the Trustee, as amended and supplemented from time to time.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the Commission, which designation shall be provided to the Trustee in a Certificate delivered by the Commission.

Fitch means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

Fixed Rate means the fixed rate borne by any Series of 2008 Bonds from the Fixed Rate Conversion Date for such Series of Bonds, which rate shall be established in accordance with the provisions of the Indenture.

Fixed Rate Conversion Date means the Conversion Date on which the interest rate on any Series of 2008 Bonds shall be converted to a Fixed Rate.

Fixed Rate Period means the period from and including the Fixed Rate Conversion Date of any Series of 2008 Bonds converted to a Fixed Rate to and including their maturity date or earlier date of redemption.

Holder or Bondholder, whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

Indenture means the Indenture, dated as of March 1, 2008, between the Trustee and the Commission, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

Index Agent means the Trustee or such other Person acceptable to the Trustee as may be designated by the Commission to act as the Index Agent for the Trustee.

Index Bonds means 2008 Bonds bearing interest at the Index Rate.

Index Rate means the interest rate established from time to time pursuant to the Indenture, provided, however, that in no event may the Index Rate exceed the Maximum Interest Rate.

Index Rate Period means any period during which 2008 Bonds bear interest at the Index Rate.

Initial Period has the meaning set forth in Appendix A to the First Supplemental Indenture.

Initial Swaps means the following Interest Rate Swap Agreements:

a. ISDA Master Agreement, dated as of November 22, 2005, between Bank of America, N.A. ("BofA") and the Commission, as supplemented by the Schedule, dated as of November 22, 2005 and the confirmation of a transaction entered into on November 22, 2005 between BofA and the Commission;

b. ISDA Master Agreement, dated as of November 22, 2005, between Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman") and the Commission, as supplemented by the Schedule, dated as of November 22, 2005 and the confirmation of a transaction entered into on November 29, 2005 between Goldman and the Commission; and

c. ISDA Master Agreement, dated as of November 22, 2005, between BofA (as successor to Merrill Lynch Capital Services, Inc. ("MLCS")) and the Commission, as supplemented by the Schedule, dated as of November 22, 2005 and the confirmation of a transaction entered into on November 22, 2005 between BofA (as successor to MLCS) and the Commission.

Insurance means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

Insurer means any provider of Insurance with respect to a Series of Bonds.

Interest Fund means the fund by that name established pursuant to the Indenture.

Interest Payment Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Interest Rate Determination Method means any of the methods of determining the interest on the 2008 Bonds from time to time as described in the Indenture.

Interest Rate Swap Agreement means an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement or security, however denominated, entered into between the Commission and a Counterparty, in connection with, or incidental to, the issuance or carrying of Bonds, including, without limitation, an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement or security entered into in advance of the issuance of Bonds.

Investment Securities means the following:

(1) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (3) below to the extent unconditionally guaranteed by the United States of America;

(2) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (1);

(3) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Corporation;

(4) housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(5) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated in either of the two highest long-term or highest short-term Rating Categories by both Moody's and Standard & Poor's;

(6) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (1) or (2) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (1) or (2) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (6) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (6), as appropriate, and (d) which have been rated in one of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(7) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by both Moody's and Standard & Poor's in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated by both Moody's and Standard & Poor's in one of their respective two highest long-term Rating Categories, for comparable types of debt obligations;

(8) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (a) continuously and fully insured by the Federal Deposit Insurance Corporation, or (b) continuously and fully secured by such securities and obligations as are described above in clauses (1) through (5), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(9) taxable commercial paper, other than that issued by bank holding companies, or tax-exempt commercial paper rated in the highest Rating Category by both Moody's and Standard & Poor's;

(10) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in the highest Rating Category for its short-term rating, if any, and in either of the two highest Rating Categories for its long-term rating, if any, by both Moody's and Standard & Poor's, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in either of the two highest long-term Rating Categories by both Moody's and Standard & Poor's;

(11) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (1), (2), (3) or (4) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as

valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(12) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2), (3), (4), (5) and (11) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3), (4), (5) and (11) of this definition of Investment Securities; provided that as used in this clause (12) and clause (13) investments will be deemed to satisfy the requirements of clause (11) if they meet the requirements set forth in clause (11) ending with the words "clauses (1), (2), (3) or (4) above" and without regard to the remainder of such clause (11);

(13) any investment agreement with a financial institution or insurance company which: (a) has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated in either of the two highest long-term Rating Categories by both Moody's and Standard & Poor's; or (b) is fully secured by obligations described in items (1), (2), (3) or (4) of the definition of Investment Securities which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Trustee or other custodian acceptable to the Trustee, (C) subject to a perfected first lien in the Trustee, and (D) free and clear from all third party liens;

(14) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (13) of this definition of Investment Securities and which companies have either the highest rating by both Moody's and Standard & Poor's or have an investment advisor registered with the Securities and Exchange Commission with not less than five (5) years experience investing in such securities and obligations and with assets under management in excess of \$500,000,000;

(15) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended;

(16) bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by both Moody's and Standard & Poor's, which purchases may not exceed two hundred seventy (270) days maturity;

(17) the pooled investment fund of the County of San Diego, California, which is administered in accordance with the investment policy of said County as established by the Treasurer/Tax Collector thereof, as permitted by Section 53601 of the Government Code of the State, copies of which policy are available upon written request to said Treasurer/Tax Collector;

(18) the Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to the Indenture; and

(19) Any other forms of investments, including repurchase agreements, approved in writing by each Credit Provider then providing Credit Enhancement for a Series of Bonds.

Law means the Act, Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 et seq.) of the Government Code of the State as referenced in the Act, and Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 et seq.) of the Government Code of the State, in each case as now in effect and as it may from time to time hereafter be amended or supplemented.

Letter of Credit Account means an account by that name established to hold funds that are drawn on Credit Enhancement provided in the form of a letter of credit and that are to be applied to pay the principal of or interest on a Series of Bonds, which account shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility securing or guaranteeing the payment of purchase price of such Series of Bonds and issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Bonds means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

Liquidity Facility Rate means, with respect to a Series of Bonds, the interest rate per annum, if any, specified as applicable to Liquidity Facility Bonds in the Liquidity Facility delivered in connection with such Series of Bonds.

Liquidity Provider means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

Mandatory Sinking Account Payment means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the Commission in a Sinking Account for the payment of Term Bonds of such Series and maturity.

Mandatory Tender Bonds means 2008 Bonds subject to mandatory tender in accordance with the provisions of the Indenture.

Maturity Date means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Maximum Annual Debt Service means the maximum amount of Annual Debt Service becoming due and payable on all Bonds Outstanding and all Parity Obligations outstanding during the period from the date of such calculation through the final maturity date of the Bonds and Parity Obligations, calculated utilizing the assumptions set forth under the definition of Debt Service.

Maximum Interest Rate means, with respect to all Bonds other than Liquidity Facility Bonds, the lesser of (i) twelve percent (12%) and (ii) the maximum rate of interest that may legally be paid on the Bonds from time to time, and means, with respect to Liquidity Facility Bonds, the lesser of (x) the Liquidity Facility Rate and (ii) the maximum rate of interest that may legally be paid on the Liquidity Facility Bonds from time to time.

Moody's means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

1987 Ordinance means the San Diego Transportation Improvement Program Ordinance and Expenditure Plan, adopted by the Commission on July 31, 1987 and approved by a majority of the electors voting on such proposition on November 3, 1987, as supplemented and amended.

Notice Parties means, as and to the extent applicable, the Commission, the Trustee, the Credit Provider, if any, for the Series of Bonds to which the notice being given relates, the auction agent, if any, for the Series of Bonds to which the notice being given relates, the broker-dealer, if any, for the Series of Bonds to which the notice being given relates, the Liquidity Provider, if any, for the Series of Bonds to which the notice being given relates, the Index Agent, if any, for the Series of Bonds to which the notice being given relates, and the remarketing agent, if any, for the Series of Bonds to which the notice being given relates.

Obligations has the meaning given to such term in the definition of "Debt Service."

One Month USD LIBOR Rate means the rate for deposits in U.S. dollars for a one-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the date of determination of such rate, except that, if such rate does not appear on such page on such date, the One Month USD LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on such date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the "Reference Banks") selected by the Trustee (provided, however, that the Trustee may appoint an agent to identify such Reference Banks). The Trustee or its agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Trustee or its agent, at approximately 11:00 a.m., New York City time, on such date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity. If none of the banks in New York City selected by the Trustee or its agent is then quoting rates for such loans, then the One Month LIBOR Rate for the ensuing interest period will mean the One Month LIBOR Rate most recently in effect.

Opinion of Bond Counsel means a written opinion of a law firm of national standing in the field of public finance selected by the Commission.

Optional Purchase Date means each date on which the 2008 Bonds would be subject to optional redemption and therefore are subject to purchase at the option of the Commission pursuant to the provisions of the Indenture.

Optional Purchase Price means, with respect to the purchase of 2008 Bonds to be purchased pursuant to the provisions of the Indenture on any Optional Purchase Date, the principal amount of the 2008 Bonds to be purchased on such Optional Purchase Date, plus accrued interest to such Optional

Purchase Date, plus an amount equal to the premium, if any, that would be payable upon the redemption, at the option of the Commission exercised on such Optional Purchase Date, of the 2008 Bonds to be purchased.

Ordinance means, collectively, the 1987 Ordinance and the Sales Tax Extension Ordinance, and any amendments or extensions thereto, together with any future ordinance that is adopted pursuant to the Act from time to time and that is designated as an "Ordinance" under the Indenture pursuant to a Supplemental Indenture, as such future ordinance may be amended or extended pursuant to the Act from time to time.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Commission shall have been discharged in accordance with the provisions of the Indenture described below under the caption "Discharge of Liability on Bonds," and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Commission and the pledge of Revenues and all covenants, agreements and other obligations of the Commission to the Holders shall continue to exist and shall run to the benefit of such Credit Provider and such Credit Provider shall be subrogated to the rights of such Holders.

Par Call Date means any Business Day prior to the first Business Day of the April next succeeding the date which is nine years after the Conversion Date of a Series of 2008 Bonds to the Index Rate Period.

Parity Obligations means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Commission for borrowed money, (ii) any obligation to pay the Rebate Requirement, (iii) the Initial Swaps and any other Interest Rate Swap Agreement (excluding in each case fees and expenses and termination payments on Interest Rate Swap Agreements, including the Initial Swaps, which fees and expenses and termination payments shall be secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon Sales Tax Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case (other than in the case of the Initial Swaps) incurred in accordance with the Indenture and in each case having an equal lien and charge upon the Sales Tax Revenues and therefore being payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

Participant means, with respect to a Securities Depository, each participant listed in such Securities Depository's book-entry system as having an interest in the 2008 Bonds.

Participating Underwriter means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Person means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Fund means the fund by that name established pursuant to the Indenture.

Principal Office means, with respect to the Trustee, the corporate trust office of the Trustee at 633 West 5th Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Division, or such other or additional offices as may be designated by the Trustee from time to time, and means, with respect to a Credit Provider or a Liquidity Provider, the office designated as such in writing by such party in a notice delivered to the Trustee and the Authority.

Project means transportation facility and public infrastructure improvements within the County of San Diego permitted by the Ordinance and the Act, including, but not limited to, transportation and service improvements for highways, rail transit services, bus services, local streets and roads, bicycle and pedestrian facilities, community infrastructure to support smart growth development, environmental mitigation and enhancement projects, and the payment of all costs incidental to or connected with the accomplishment of such purposes, including, without limitation, costs of land acquisition, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond or note interest estimated to accrue during the construction period and for a period of not to exceed twelve months after completion of construction, and expenses for all proceedings for the authorization, issuance and sale of Bonds.

Project Fund means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the portion of the Project being financed with the proceeds of such Series of Bonds.

Proportionate Basis, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of a portion of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

Purchase Date means any date on which any 2008 Bond is purchased pursuant to the provisions of the Indenture.

Purchase Fund means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Purchase Price means, with respect to any 2008 Bond tendered or deemed tendered pursuant to the Indenture, an amount equal to 100% of the principal amount of any 2008 Bond tendered or deemed tendered to the Trustee for purchase pursuant to the Indenture, provided that if any 2008 Bond so tendered or deemed tendered bears interest at an Index Rate, is subject to payment of a Spread Premium and is purchased prior to its Par Call Date, then the Purchase Price shall be equal to 100% of the Spread Premium that would have been applicable to such 2008 Bond had it been optionally redeemed on the Purchase Date. In addition, if the Purchase Date is not an Interest Payment Date, the Purchase Price for each 2008 Bond tendered or deemed tendered shall be increased to include accrued interest thereon to but not including the Purchase Date; provided, however, if such Purchase Date occurs before an Interest Payment Date, but after the Record Date applicable to such Interest Payment Date, then the Purchase

Price shall not include accrued interest, which shall be paid to the Holder as of the applicable Record Date.

Rate means, with respect to any 2008 Bond, the interest rate applicable to such 2008 Bond as provided in the Indenture.

Rate Index means the Daily Rate Index, the Weekly Rate Index, or both, as the context may require.

Rate Period means any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, Auction Period, Term Rate Period, Index Rate Period or Fixed Rate Period.

Rating Agency means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody's and Standard & Poor's then maintaining a rating on such Series of Bonds at the request of the Commission.

Rating Category means: (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier; and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

Rebate Fund means that fund by that name established pursuant to the Indenture.

Rebate Instructions means, with respect to any Series of Bonds, those calculations and directions required to be delivered to the Trustee by the Commission pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

Rebate Requirement means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

Record Date means (a) for any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Index Rate Period, the Business Day next preceding such Interest Payment Date; (b) for any Interest Payment Date in respect of any Term Rate Period or Fixed Rate Period, the fifteenth (15th) day (whether or not a Business Day) of the month preceding the month in which such Interest Payment Date occurs; and (c) for any Interest Payment Date in respect of any Auction Period, the Business Day immediately preceding the Interest Payment Date; and, with respect to any other Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Redemption Date means the date fixed for redemption of Bonds of a Series subject to redemption in any notice of redemption given in accordance with the terms of the Indenture.

Redemption Fund means the fund by that name established pursuant to the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof) the Bond Obligation of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Refunding Bonds means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture described below under the caption "Issuance of Refunding Bonds."

Remarketing Agent means the one or more banks, trust companies or members of the National Association of Securities Dealers, Inc. meeting the qualifications set forth in the Indenture and appointed by an Authorized Representative to serve as a Remarketing Agent for any 2008 Bonds.

Remarketing Agreement means any agreement or agreements entered into by and between the Commission and a Remarketing Agent for 2008 Bonds.

Reserve Facility means any insurance policy, letter of credit or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in the Indenture described below under the caption "Funding and Application of Bond Reserve Funds," and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

Reserve Facility Provider means any issuer of a Reserve Facility.

Revenue Fund means the Revenue Fund established pursuant to the Indenture.

Revenues means: (i) all Sales Tax Revenues; and (ii) all Swap Revenues. In accordance with the provisions of the Indenture described below under the caption "Issuance of Additional Bonds," the Commission by Supplemental Indenture may provide for additional revenues or assets of the Commission to be included in the definition of Revenues under the Indenture.

Rule 15c2-12 means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

Sales Tax Extension Ordinance means the San Diego Transportation Program Ordinance and Expenditure Plan, adopted by the Commission on May 28, 2004, and approved by at least two-thirds of electors voting on such proposition in the November 2, 2004 election.

Sales Tax Revenues means the amounts available for distribution to the Commission on and after July 1, 1988 on account of the retail transactions and use tax imposed in the County of San Diego pursuant to the Act and the Ordinance after deducting amounts payable by the Commission to the State Board of Equalization for costs and expenses for its services in connection with the retail transactions and use taxes collected pursuant to the Act.

Second Supplemental Indenture means the Second Supplemental Indenture, dated as of July 1, 2008, between the Commission and the Trustee, as amended and supplemented from time to time.

Securities Depository means DTC, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depository, or no such depositories, as the Commission may designate in a Request of the Commission delivered to the Trustee.

Semi-Annual Interest Payment Date means April 1 and October 1.

Serial Bonds means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

Series, whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as in the Indenture provided.

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee and effective from such date.

Sinking Account means an account by that name established in the Principal Fund for the payment of Term Bonds.

Spread Premium has the meaning specified in the Indenture.

Standard & Poor's or S&P means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

State means the State of California.

State Board of Equalization means the California State Board of Equalization.

Subordinate Commercial Paper Notes means the San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) authorized by, and at any time Outstanding pursuant to, the Subordinate Indenture.

Subordinate Indenture means the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, between the Commission and U.S. Bank National Association, as trustee, as supplemented and amended from time to time pursuant to its terms.

Subordinate Obligations means the Subordinate Commercial Paper Notes, any other obligations of the Commission that constitute "Parity Debt" under and as defined in the Subordinate Indenture, and any other obligations of the Commission issued or incurred in accordance with the provisions of the Indenture described in paragraph (D) under the caption "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations" set forth below.

Subordinate Obligations Fund means the fund by that name established pursuant to the Indenture.

Subordinate Trustee means U.S. Bank National Association, as trustee under the Subordinate Indenture, and its successors and assigns.

Subsidy Payments means payments to be made by the United States Treasury to the Trustee pursuant to Section 54AA of the Code or Section 6431 of the Code or any successor to either of such provisions of the Code and with respect to the interest due on a Series of taxable Bonds that have been accorded Build America Bonds status under the provisions of the American Recovery and Reinvestment Act of 2009 or any successor thereto or replacement thereof.

Supplemental Indenture means any indenture duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such supplemental indenture is authorized specifically under the Indenture.

Swap Revenues means all regularly-scheduled amounts (but not termination payments) owed or paid to the Commission by any Counterparty under any Interest Rate Swap Agreement after offset for the regularly-scheduled amounts (but not termination payments) owed or paid by the Commission to such Counterparty under such Interest Rate Swap Agreement.

Tax Certificate means each Tax Certificate delivered by the Commission at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Tax-Exempt means, with respect to interest on any obligations of a state or local government, that such interest is excluded from the gross income of the holders thereof (other than any holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

Tax-Exempt Securities means bonds, notes or other securities the interest on which is Tax-Exempt.

Tax Expiration Date means March 31, 2048 or such later date to which the levy of the retail transactions and use tax is extended in accordance with the Act and the Ordinance.

Term Bonds means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Term Rate means the rate of interest on 2008 Bonds established in accordance with the provisions of the Indenture.

Term Rate Period means any period during which any 2008 Bonds bear interest at the Term Rate established pursuant to the provisions of the Indenture.

Termination (and other forms of "terminate") means, when used with respect to any 2008 Liquidity Facility or Credit Enhancement, the replacement, removal, surrender or other termination of such 2008 Liquidity Facility or Credit Enhancement other than an Expiration or an extension or renewal thereof; provided, however, that Termination does not include immediate suspension or automatic termination events.

Third Supplemental Indenture means the Third Supplemental Indenture, dated as of October 1, 2010, between the Commission and the Trustee, as amended and supplemented from time to time.

Trustee means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

2008 Bonds means the 2008 Series A Bonds, 2008 Series B Bonds, 2008 Series C Bonds and 2008 Series D Bonds, authorized by, and at any time Outstanding pursuant to, the Indenture.

2008 Bonds Purchase Fund means the 2008 Bonds Purchase Fund established pursuant to the provisions of the Indenture.

2008 Bonds Reserve Fund means the fund by that name established pursuant to the provisions of the Indenture.

2008 Bonds Reserve Requirement means, as of any date of calculation, an amount equal to the least of (i) ten percent (10%) of the principal amount of the 2008 Reserve Fund Eligible Bonds (or if the amount of original issue discount or original issue premium applicable to the 2008 Reserve Fund Eligible Bonds exceeds two percent (2%), ten percent (10%) of the issue price of the 2008 Reserve Fund Eligible Bonds), (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the Outstanding 2008 Reserve Fund Eligible Bonds, and (iii) fifty percent (50%) of Maximum Annual Debt Service on the Outstanding 2008 Reserve Fund Eligible Bonds.

2008 Bonds Tax Certificate means the Tax Certificate executed on behalf of the Commission in connection with the issuance of the 2008 Bonds.

2008 Commission Account means, as applicable, the 2008 Series A Commission Account, the 2008 Series B Commission Account, the 2008 Series C Commission Account or the 2008 Series D Commission Account, within the 2008 Bonds Purchase Fund established pursuant to the provisions of the Indenture.

2008 Liquidity Facility means, with respect to the 2008 Series A Bonds and the 2008 Series B Bonds, the Standby Bond Purchase Agreement, dated as of March 1, 2008, between the Commission and JP Morgan Chase Bank, N.A., as supplemented and amended pursuant to its terms, or any agreement pursuant to which an Alternate Liquidity Facility is provided with respect to the 2008 Series A Bonds and 2008 Series B Bonds, and means, with respect to the 2008 Series C Bonds and 2008 Series D Bonds, the Standby Bond Purchase Agreement, dated as of March 1, 2008, between the Commission and Dexia Credit Local, acting through its New York Branch, as supplemented and amended pursuant to its terms, or any agreement pursuant to which an Alternate Liquidity Facility is provided with respect to the 2008 Series C Bonds and 2008 Series D Bonds, in each case according to the provisions of the Indenture.

2008 Liquidity Facility Bonds means Liquidity Facility Bonds consisting of any 2008 Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a 2008 Liquidity Facility as provided in the Indenture, but excluding any Bonds no longer considered to be 2008 Liquidity Facility Bonds in accordance with the terms of the applicable 2008 Liquidity Facility and the provisions of the Indenture.

2008 Liquidity Facility Purchase Account means, as applicable, the 2008 Series A Liquidity Facility Purchase Account, the 2008 Series B Liquidity Facility Purchase Account, the 2008 Series C Liquidity Facility Purchase Account or the 2008 Series D Liquidity Facility Purchase Account, within the 2008 Bonds Purchase Fund established pursuant to the provisions of the Indenture.

2008 Liquidity Provider means, with respect to the 2008 Series A Bonds and 2008 Series B Bonds, JP Morgan Chase Bank, N.A., and means, with respect to the 2008 Series C Bonds and 2008 Series D Bonds, Dexia Credit Local, acting through its New York Branch, or any commercial bank or other financial institution providing an Alternate Liquidity Facility as requested by the Commission in replacement of or substitution for a 2008 Liquidity Facility provided with respect to the 2008 Series A Bonds, the 2008 Series B Bonds, the 2008 Series C Bonds or the Series 2008 D Bonds.

2008 Project Fund means the 2008 Project Fund established pursuant to the Indenture.

2008 Remarketing Account means, as applicable, the 2008 Series A Remarketing Account, the 2008 Series B Remarketing Account, the 2008 Series C Remarketing Account or the 2008 Series D Remarketing Account, within the 2008 Bonds Purchase Fund established pursuant to the Indenture.

2008 Reserve Fund Eligible Bonds means the 2008 Bonds and any other Series of additional Bonds or Refunding Bonds or portions thereof (in each case, payable on a parity with the 2008 Bonds from, and secured as to payment on a parity with the 2008 Bonds by, the Revenues and other funds described in the Indenture) issued and designated, by a Supplemental Indenture adopted by the Commission, to be secured by and entitled to the pledge and benefit of the 2008 Bonds Reserve Fund; provided, that no Bond or Series of Bonds shall hereafter be so designated unless, upon the issuance of such Bond or Series of Bonds and after giving effect to such issuance, the amount then on deposit in the 2008 Bonds Reserve Fund will at least equal the 2008 Bonds Reserve Requirement.

2008 Series A Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A, authorized by Article XIV of the Indenture.

2008 Series B Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series B, authorized by Article XIV of the Indenture.

2008 Series C Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series C, authorized by Article XIV of the Indenture.

2008 Series D Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series D, authorized by Article XIV of the Indenture.

2010 Series A Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds), authorized by the Indenture.

2010 Series B Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series B (Tax-Exempt Bonds), authorized by the Indenture.

Variable Rate means any of the Daily Rate, the Weekly Rate, the Commercial Paper Rate, the Term Rate, the Index Rate, the Initial Period Rate or the Auction Period Rate, as applicable.

Variable Rate Indebtedness means any indebtedness, including Bonds, Parity Obligations, and Subordinate Obligations, the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

Weekly Put Bonds shall have the meaning set forth in the Indenture.

Weekly Rate means the variable interest rate on any 2008 Bond established in accordance with the provisions of the Indenture.

Weekly Rate Index means, on any Business Day, the SIFMA Swap Index or, if the SIFMA Swap Index is no longer published, an index or rate agreed upon by the Commission and the Remarketing Agent; provided, however, that if the Remarketing Agent Advises the Trustee and the Commission that the use of such index would not result or no longer results in a market rate of interest on the Bonds, "Weekly Rate Index" shall mean, subject to a Favorable Opinion of Bond Counsel, an index agreed to by the Commission and the Remarketing Agent that would result in a market rate of interest on the Bonds, which Weekly Rate Index shall in no event exceed the Maximum Interest Rate.

Weekly Rate Period means each period during which any 2008 Bonds bear interest at Weekly Rates.

Pledge of Revenues; Revenue Fund

As security for the payment of all amounts owing on the Bonds and Parity Obligations, there are irrevocably pledged to the Trustee: (i) all Revenues; and (ii) all amounts, including proceeds of the Bonds, held on deposit in the funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Account and any Purchase Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The collateral identified above shall immediately be subject to the pledge described above, and such pledge shall constitute a first lien on and security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the Commission and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act. The pledge of Revenues and all amounts held on deposit in the funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Account and any Purchase Fund) shall be irrevocable until all of the Bonds, all Parity Obligations and amounts owed in connection with the Bonds and Parity Obligations are no longer Outstanding.

All Bonds and Parity Obligations shall be of equal rank without preference, priority or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations.

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Commission assigns and shall cause Sales Tax Revenues to be transmitted by the State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Revenue Fund," which fund the Trustee shall establish and maintain, all Sales Tax Revenues, when and as received by the Trustee. The Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and the Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. Investment income on amounts held by the Trustee under the Indenture (other than amounts held in the Rebate Fund or for which particular instructions, such as with respect to a Project Fund, a Letter of Credit Account or a Purchase Fund, are provided in a Supplemental Indenture, shall also be deposited in the Revenue Fund. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Holders of the Bonds and the holders of Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

As additional security for the payment of all amounts owing on the Bonds, there are irrevocably pledged to the Trustee all Subsidy Payments received with respect to the 2010 Series A Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Such Subsidy Payments shall immediately be subject to such pledge, and such pledge shall constitute a first lien on and

security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the Commission and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act. The pledge of Subsidy Payments with respect to the 2010 Series A Bonds made in the Indenture will be irrevocable until all of the Bonds are no longer Outstanding and no amounts are owed in connection with the Bonds. The Commission will cause the Subsidy Payments with respect to the 2010 Series A Bonds to be sent directly to the Trustee, and the Trustee will deposit the Subsidy Payments, when received, to the Interest Fund.

The Bonds are limited obligations of the Commission and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Sales Tax Revenues and other funds pledged under the Indenture.

Allocation of Sales Tax Revenues

So long as any Bonds are Outstanding and Parity Obligations, Subordinate Obligations, and all other amounts payable under the Indenture remain unpaid, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations):

Interest Fund. Following receipt of the Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) is on deposit in such fund; provided that, from the date of delivery of a Series of Current Interest Bonds until the first Interest Payment Date with respect to such Series of Bonds, the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Commission, or if the Commission shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus one percent (1%) (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued and paid during that month on said Outstanding Variable

Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued under the Indenture and then Outstanding and on April 1 and October 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having Interest Payment Dates other than April 1 and October 1) shall be transferred to the Commission (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Dates). All Subsidy Payments received with respect to the 2010 Series A Bonds and all Swap Revenues received with respect to the Interest Rate Swap Agreements that are Parity Obligations shall be deposited in the Interest Fund and credited to the above-required deposits.

Principal Fund; Sinking Accounts. Following receipt of the Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

In the event that the Sales Tax Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in the same proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than April 1 of each year, the Trustee shall request from the Commission a Certificate of the Commission setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On April 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than April 1) shall be transferred to the Commission.

Bond Reserve Fund. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to such Bond Reserve Fund as is required pursuant to the provisions of the Indenture described below under the caption "Funding and Application of Bond Reserve Funds," each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Subordinate Obligations Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Subordinate Obligations Fund." As long as any Subordinate Obligations remain unpaid, any Revenues remaining in the Revenue Fund, after the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, shall be transferred on the same Business Day to the Subordinate Trustee. After the Subordinate Trustee has made the required deposit of Revenues under the Subordinate Indenture, the Subordinate Trustee shall transfer any remaining Revenues back to the Trustee.

Fees and Expenses Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Fees and Expenses Fund." At the direction of the Commission, after the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Fund and the Subordinate Obligations Fund described above have been made, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund (i) amounts necessary for payment of fees, expenses and similar charges (including fees, expenses and similar charges relating to any Liquidity Facility or Credit Enhancement for the Bonds or any Parity Obligations) owing in such month or following month by the Commission in connection with the Bonds or any Parity Obligations and (ii) amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Commission in connection with Subordinate Obligations. The Commission shall inform the Trustee of such amounts, in writing, on or prior to the first Business Day of each month.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Commission shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Commission on the same Business Day or as soon as practicable thereafter. The Commission may use and apply the Revenues when received by it for any lawful purpose of the Commission, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five (5) days prior to any principal payment date, Interest Payment Date or mandatory redemption date the amounts on deposit in the Revenue Fund, the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee shall immediately notify the Commission, in writing, of such deficiency and direct that the Commission transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Commission covenants and agrees to transfer to the Trustee from any Sales Tax Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Establishment and Application of Funds and Accounts

Each of the funds and accounts described below is established pursuant to the Indenture.

Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purposes of: (a) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), or for reimbursing the Credit Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit, and (b) making periodic payments on Interest Rate Swap Agreements, as provided pursuant to the provisions of the Indenture described below under the caption "Payment Provisions Applicable to Interest Rate Swap Agreements".

Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture, or for reimbursing the Credit Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the "_____ Sinking Account," inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Commission, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Commission, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Commission has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time

purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to the provisions of the Indenture described herein shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Commission by the Trustee. Any amounts remaining in a Sinking Account on April 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as practicable to the Commission to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Commission with the Trustee in a twelve month period ending March 31 (or in a six-month period ending March 31 or September 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next April 1 or October 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Commission. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Commission.

Funding and Application of Bond Reserve Funds. The Commission may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond Reserve Fund so established by the Commission shall be available to secure one or more Series of Bonds as the Commission shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve Fund or, if the Supplemental Indenture establishing any Bond Reserve Fund also establishes a pooled Bond Reserve Requirement that is applicable to an initial Series of Bonds together with any one or more subsequently-issued eligible Series of Bonds with the same pooled Reserve Requirement, in such subsequent Supplemental Indenture. Any Bond Reserve Fund established by the Commission shall be held by the Trustee and shall comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Commission), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Commission may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of both Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit shall have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in this caption. At least one (1) year prior to the stated expiration of such letter of credit, the Commission shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Commission. If the Commission shall fail to deposit a replacement Reserve Facility with the Trustee, the Commission shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to

the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Bond Reserve Fund (which shall be transferred by the Trustee to the Commission) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Commission may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy securing an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Bond Reserve Fund, is no less than the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of both Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Commission shall immediately implement (i) or (iii) of the preceding paragraph or make twelve equal monthly deposits to such Bond Reserve Fund so that the Bond Reserve Fund is replenished to the required level after a year.

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from a Reserve Facility on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee; (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates; or (ii) together with any other moneys available therefor, (x) for the payment or redemption of all Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, (y) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, provided, however, that if funds on deposit in any Bond Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which such Bond Reserve Fund relates, the amount on deposit in the Bond Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption, or (z) for the payment of the final principal and interest payment of the Bonds of such Series. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of, and if so provided by, the terms of the Reserve Facility, if any, securing the Bonds of such Series, shall so notify the issuer thereof and draw on such Reserve Facility to the lesser of

the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal and interest so recovered.

The Trustee shall notify the Commission of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund pursuant to the provisions of the Indenture described below under the caption "Investment in Funds and Accounts" and shall request that the Commission replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Commission shall instruct the Trustee to commence setting aside in each month following receipt of Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation of Investment Securities and shall further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the Sales Tax Revenues each month, commencing with the month following the Commission's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates.

Unless the Commission shall otherwise direct in writing, any amounts in any Bond Reserve Fund in excess of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates shall be transferred by the Trustee to the Commission on the Business Day following October 1 of each year; provided that such amounts shall be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund shall be transferred by the Trustee to the Commission upon the defeasance, retirement or refunding of all Bonds of the Series to which such Bond Reserve Fund relates or upon the replacement of cash on deposit in such Bond Reserve Fund with one or more Reserve Facilities in accordance with the provisions of the Indenture described above. The Bond Reserve Requirement shall be calculated upon the issuance or retirement of a Series of Bonds or upon the defeasance of all or a portion of a Series of Bonds.

Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be applied to the payment of principal of and interest on Subordinate Obligations in accordance with the Indenture.

Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the Commission in connection with the Bonds or any Parity Obligations or Subordinate Obligations as such amounts shall become due and payable.

Redemption Fund. The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Commission with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Commission, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the Commission in a Request to the Trustee, in the manner, at the times and upon the

terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Commission, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Commission, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Commission.

Rebate Fund. Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Commission. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the applicable Tax Certificates. The Commission covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Commission delivered to the Trustee pursuant to each Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto).

Payment Provisions Applicable to Interest Rate Swap Agreements

The Initial Swaps have been entered into by the Commission with respect to the 2008 Bonds and the obligation of the Commission to make payments required under the Initial Swaps (excluding fees and expenses and termination payments under the Initial Swaps) constitutes a Parity Obligation under the Indenture and shall be payable from the Interest Fund. In the event the Commission shall enter into an Interest Rate Swap Agreement in connection with a Series of Bonds other than the Initial Swaps, the amounts received by the Commission, if any, pursuant to such Interest Rate Swap Agreement may be applied to the deposits required under the Indenture. If the Commission so designates in a Supplemental Indenture establishing the terms and provisions of such Series of Bonds (or if such Interest Rate Swap Agreement is entered into subsequent to the issuance of such Series of Bonds, if the Commission so designates in a Certificate of the Commission delivered to the Trustee concurrently with the execution of such Interest Rate Swap Agreement) amounts payable under such Interest Rate Swap Agreement (excluding termination payments and payments of fees and expenses incurred in connection with Interest Rate Swap Agreements which shall in all cases be payable from, and secured by, Sales Tax Revenues on a subordinate basis to Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations) shall constitute Parity Obligations under the Indenture, and, in such event, the Commission shall pay or cause to be paid to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid pursuant to such Interest Rate Swap Agreement, as if such amounts were additional interest due on the Series of Bonds to which such Interest Rate Swap Agreement relates, and the Trustee shall pay to the Counterparty to such Interest Rate Swap Agreement, to the extent required thereunder, from amounts deposited in the Interest Fund for the payment of interest on the Series of Bonds with respect to which such Interest Rate Swap Agreement was entered into.

Investment in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture shall be invested, as directed by the Commission, solely in Investment Securities, subject to the limitations set forth in the Indenture. If and to the extent the Trustee does not receive investment instructions from the Commission with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described in clause (12) of the definition thereof and the Trustee shall thereupon request investment instructions from the Commission for such moneys.

Moneys in any Bond Reserve Fund shall be invested in Investment Securities available on demand for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Costs of Issuance Fund shall be transferred to the Revenue Fund; (iv) all interest, profits and other income received from the investment of moneys in a Project Fund shall be retained in such Project Fund, unless the Commission shall direct that such earnings be transferred to the Rebate Fund; (v) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; (vi) all interest, profits and other income received from the investment of moneys in any Purchase Fund shall be retained in such Purchase Fund; and (vii) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund.

All Investment Securities credited to any Bond Reserve Fund shall be valued (at market value) as of April 1 and October 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Commission may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

Issuance of Additional Bonds and Other Obligations

Issuance of Additional Bonds. The Commission may by Supplemental Indenture establish one or more additional Series of Bonds, payable from Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the Commission may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Commission, but only upon compliance by the Commission with the provisions of the Indenture described under this caption and described below under the caption "Proceedings for Issuance of Additional Bonds" and with any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing.

(B) Subject to the provisions of the Indenture described above under the caption "Funding and Application of Bond Reserve Funds," in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Commission or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Commission shall place on file with the Trustee a Certificate of the Commission certifying that the amount of Sales Tax Revenues collected during the Fiscal Year for which audited financial statements are available preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to 1.3 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on April 1 or October 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Commission with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on April 1 and October 1 in each year to the extent deemed practical in the reasonable judgment of the Commission with regard to the type of Bond to be issued.

Nothing in the Indenture shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph (D) above as if such additional assets or revenues had always been included in "Revenues."

Proceedings for Issuance of Additional Bonds. Before any additional Series of Bonds shall be issued and delivered, the Commission shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Commission.

(B) A Certificate of the Commission certifying: (i) that no Event of Default has occurred and is then continuing; and (ii) that the requirements of the Indenture described in paragraphs (B) and (C) under the caption "Issuance of Additional Bonds" have been satisfied by the Commission.

(C) A Certificate of the Commission certifying (on the basis of computations made no later than the date of sale of such Series of Bonds) that the requirement of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" is satisfied.

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Bonds, when duly executed by the Commission and authenticated and delivered by the Trustee, will be valid and binding obligations of the Commission.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Commission without compliance with the provisions of the Indenture described in paragraph (D) above under the caption "Issuance of Additional Bonds" and in paragraph (C) above under the caption "Proceedings for Issuance of Additional Bonds;" provided that the Trustee shall have been provided with a Certificate of the Commission to the effect that the Commission has determined one of the following: (i) that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds, or (ii) that the Commission expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) any termination payment owed by the Commission to a Counterparty after offset for any payments made to the Commission from such Counterparty under any Interest Rate Swap Agreement that was entered into in connection with the Bonds or Parity Obligations to be refunded;

(4) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(5) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

(6) funding a Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the provisions of the Indenture described under this caption, the Commission shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

(1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Commission.

(2) A Certificate of the Commission certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds or that the Commission expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Commission; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Commission may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds.

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Commission and authenticated and delivered by the Trustee, will be valid and binding obligations of the Commission.

Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations. The Commission will not, so long as any Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues except the following:

(A) Bonds authorized pursuant to provisions in the Indenture described above under the caption "Issuance of Additional Bonds;"

(B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds;"

(C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

(1) Such Parity Obligations have been duly and legally authorized by the Commission for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery of a Certificate of the Commission to that effect, which Certificate of the Commission shall be filed with the Trustee;

(3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption "Issuance of Refunding Bonds" or (ii) the Commission shall have placed on file with the Trustee a Certificate of the Commission, upon which the Trustee may conclusively rely certifying (on the basis of calculations made no later than the date of sale or incurrence of such Parity Obligations, as applicable) that the requirements of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate shall also set forth the computations upon which such Certificate is based; and

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations and the Commission shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

(D) Subordinate Obligations that are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Sales Tax Revenues after the prior payment of all amounts then required to be paid under the Indenture from Sales Tax Revenues for principal, premium, interest and reserve fund requirements, if any, for all Bonds Outstanding, and all Parity Obligations outstanding, as the same become due and payable and at the times and in the amounts as required in the Indenture and in the instrument or instruments pursuant to which any Parity Obligations were issued or incurred, provided that the following conditions to issuance or incurrence of such Subordinate Obligations are satisfied:

(1) Such Subordinate Obligations have been duly and legally authorized by the Commission for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery to the Trustee of a Certificate of the Commission to that effect;

(3) Such Subordinate Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds described above under the caption "Issuance of Refunding Bonds" or (ii) the Commission shall deliver to the Trustee a Certificate of the Commission certifying that the lesser of (x) the amounts of Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Commission) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding, or (y) the estimated Sales Tax Revenues for

the Fiscal Year in which such Subordinate Obligations are to be issued or incurred, shall have been, or will be, as applicable, at least equal to 1.0 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Subordinate Obligations then proposed to be issued or incurred, which Certificate shall also set forth the computations upon which such Certificate is based; and

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Subordinate Obligations and the Commission shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Subordinate Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Subordinate Obligations).

Notwithstanding the foregoing, Existing Notes may continue to be issued and outstanding from time to time under the Subordinate Indenture without complying with the foregoing provisions of (D).

(E) Termination payments and fees and expenses on Interest Rate Swap Agreements, Liquidity Provider or Credit Provider fees and expenses and other obligations that shall be secured by a lien and charge on the Revenues subordinate to the lien and charge upon the Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations.

(F) The Initial Swaps have been entered into by the Commission and the obligation of the Commission to make payments required under the Initial Swaps (excluding fees and expenses and termination payments under the Initial Swaps) constitutes a Parity Obligation under the Indenture. The obligation of the Commission to pay fees, expenses and termination payments under the Initial Swaps is secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon the Sales Tax Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations.

Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations. For purposes of the Indenture, Maximum Annual Debt Service with respect to Bonds shall be determined no later than the date of delivery of such Bonds, and no earlier than the sixtieth (60th) day preceding the date of pricing or sale of such Bonds, utilizing the assumptions set forth in the definition of Debt Service. For purposes of the Indenture, Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligations shall not be considered outstanding until such payment is made thereunder.

Certain Covenants of the Commission

Punctual Payments. The Commission will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of Revenues as provided in the Indenture.

Against Encumbrances. The Commission will not create or permit to exist any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted pursuant to the provisions of the Indenture described above under the

caption "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations".

Accounting Records and Financial Statements. The Commission will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Commission will furnish the Trustee, with copies to each Credit Provider and each Liquidity Provider, within two hundred ten (210) days after the end of each Fiscal Year or as soon thereafter as they can practically be furnished, the financial statements of the Commission for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of an Authorized Representative stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Commission to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Commission, which copy of the financial statements may, at the sole discretion of the Commission, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

Collection of Sales Tax Revenues. The Commission covenants and agrees that it has duly levied a retail transaction and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Commission. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Commission will continue to levy and collect such retail transactions and use tax to the full amount permitted by law. The Commission further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of said retail transactions and use tax and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of any Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any Bonds are Outstanding. The Commission will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Commission by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the Commission in accordance with the provisions of the Indenture described above under the caption "Allocation of Sales Tax Revenues"; provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied as described below under the caption "Application of the Revenues and Other Funds After Default; No Acceleration".

The Commission covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Commission covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Tax Covenants. The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Commission may exclude the application of the covenants contained in this caption "Tax Covenant" and the caption "Rebate Fund" above to such Series of Bonds. The Commission has excluded the 2010 Series A Bonds from these covenants in accordance with the provisions of the Indenture. The Commission will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Commission, or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Commission will comply with all requirements of the Tax Certificate relating to each Series of the Bonds. In the event that at any time the Commission is of the opinion that for purposes of this caption "Tax Covenants" it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Commission shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The Commission specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

Notwithstanding any provision of this caption "Tax Covenant" and the caption "Rebate Fund" above and any Tax Certificate, if the Commission shall receive an Opinion of Bond Counsel to the effect that any action required under this caption "Tax Covenant" and the caption "Rebate Fund" above or any Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Notwithstanding any provisions of the Indenture, including particularly Article X, the covenants and obligations set forth in this caption shall survive the defeasance of the Bonds or any Series thereof.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Commission covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the provisions of any Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Commission to comply with its obligations under the Indenture.

Events of Default and Remedies

Events of Default. The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the Commission shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as described in subsection (A) or (B) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Commission by the Trustee or by any Credit Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Commission has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Commission shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Commission files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Commission insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Commission, or approving a petition filed against the Commission seeking reorganization of the Commission under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Commission or of the Sales Tax Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 132301 to 132308, inclusive, of the Public Utilities Code of the State, unless the Commission has reasonably determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

Application of the Revenues and Other Funds After Default; No Acceleration. If an Event of Default shall occur and be continuing, the Commission shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference;

(3) to the extent Revenues are available therefor, to be transferred to the trustee for the Subordinate Obligations in the amount necessary for payment of Subordinate Obligations; and

(4) to the payment of all other obligations payable under the Indenture.

Notwithstanding anything in the Indenture to the contrary, in no event are the Bonds subject to acceleration if an Event of Default occurs and is continuing.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Provider providing such Credit Enhancement, or if such Credit Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Sales Tax Revenues and other assets pledged under the Indenture, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Provider

providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Provider to direct proceedings as described below under the caption "Credit Provider Directs Remedies Upon Event of Default") notwithstanding, the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted to the Trustee pursuant to the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of a Credit Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Credit Provider Directs Remedies Upon Event of Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Credit Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the Bonds secured by such Credit Enhancement, provided that the Credit Provider's consent shall not be required as otherwise

provided in the Indenture if such Credit Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Provider.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Commission, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Commission and the Trustee may enter into when the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture.

No such modification or amendment shall (a) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the Commission, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Commission and the Trustee may enter into without the consent of any Bondholders, but with the written consent of each Credit Provider then providing a Credit Enhancement for any Series of Bonds which shall be materially and adversely affected by such amendment, which consent shall not be unreasonably withheld; provided, however, that such written consent shall be required only if the Credit Enhancement provided by such Credit Provider is in full force and effect and if the Credit Provider is not then failing to make a payment as required in connection therewith, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Commission in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Commission;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Commission may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit

the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of the Indenture;

(5) to make modifications or adjustments necessary appropriate or desirable to provide for the issuance or incurrence, as applicable, of Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Commission may deem desirable; subject to the provisions of the Indenture;

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of an auction agent, a broker-dealer, a remarketing agent, a tender agent and/or a paying agent in connection with any Series of Bonds;

(9) to modify the auction provisions applicable to any Series of Bonds in accordance with the terms and provisions set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds;

(10) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(11) if the Commission agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(12) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(13) to modify, alter, amend or supplement the Indenture in any other respect, including amendments that would otherwise be described in the first two paragraphs under this caption, if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture; or if notice of the proposed amendments is given to Holders of the affected Bonds at least thirty (30) days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture or if all Bonds affected thereby are in an auction mode and a successful auction is held following notice of such amendment; and

(14) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the provisions of the Indenture described under this caption shall be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each Credit Provider shall have given its written consent to such Supplemental Indenture in accordance with the provisions of the Indenture.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Commission, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the Commission in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when they become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Commission shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Commission, then and in that case, at the election of the Commission (evidenced by a Certificate of the Commission, filed with the Trustee, signifying the intention of the Commission to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Commission under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Commission, the Trustee shall cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and shall execute and deliver to the Commission all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Commission all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from an independent certified public accountant, a firm of independent certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the

Trustee shall have been made for the giving of such notice, then all liability of the Commission in respect of such Bond shall cease, terminate and be completely discharged, provided that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Commission shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

If the Bonds being discharged are Variable Rate Indebtedness, (i) the Bonds shall be redeemed at the first possible redemption date or purchase date applicable to such Bonds and to the extent the rate of interest payable on such Bonds prior to such redemption or purchase date is not known, such rate of interest shall be assumed to be the maximum rate payable thereon or (ii) the Trustee shall receive a confirmation from the Rating Agency then rating the Bonds that the defeasance will not result in the reduction or withdrawal of the then-current ratings on the Bonds.

The Commission may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Commission may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Defeasance Securities the principal of and interest on which when due will, in the opinion of an independent certified public accountant, a firm of independent certified public accountants or other independent consulting firm delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Commission) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one (1) year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or one (1) year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall be repaid to the Commission free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Commission as aforesaid, the Trustee may (at the cost of the Commission) first mail to the Holders of

any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Commission of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Commission) for interest earned on, moneys so held. Any interest earned thereon shall belong to the Commission and shall be deposited upon receipt by the Trustee into the Revenue Fund.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The following information concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources that the Commission and the Underwriters believe to be reliable, but neither the Commission nor the Underwriters take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Remarketing Memorandum and in APPENDIX C – “Definitions and Summary of Certain Provisions of the Indenture.”

The information concerning DTC set forth herein has been supplied by DTC, and the Commission assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The Bonds will be delivered as fully-registered securities, registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be delivered for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing corporation” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating from Standard & Poor’s of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds

representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. **THE COMMISSION AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.**

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Voting Rights. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE TRUSTEE AND THE COMMISSION SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR

ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS OF THE BONDS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The Commission may decide to discontinue use of the system of book entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture and payment of interest to each Owner who owns of record \$1,000,000 or more in aggregate principal amount of Bonds may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15th day after the Trustee's receipt of such request.

APPENDIX E

**PROPOSED FORM OF SUBSTITUTION OPINION OF BOND COUNSEL AND ORIGINAL
OPINION OF BOND COUNSEL**

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Dated Date]

U.S. Bank National Association,
as Trustee
Los Angeles, California

San Diego County Regional Transportation Commission
Sales Tax Revenue Bonds (Limited Tax Bonds),
2008 Series C and 2008 Series D

 (Alternate Liquidity Facility Opinion)

Ladies and Gentlemen:

San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series C (the "2008C Bonds") in the aggregate principal amount of \$150,000,000 and the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series D (the "2008D Bonds" and, together with the 2008C Bonds, the "Bonds") in the aggregate principal amount of \$150,000,000 were issued by the San Diego County Regional Transportation Commission (the "Issuer") on March 27, 2008, pursuant to an Indenture, dated as of March 1, 2008 (the "Master Indenture"), as supplemented by the First Supplemental Indenture, dated as of March 1, 2008 (the "First Supplemental Indenture"), the Second Supplemental Indenture, dated as of July 1, 2008 (the "Second Supplemental Indenture") and the Third Supplemental Indenture, dated as of October 1, 2010 (the "Third Supplemental Indenture," and together with the Master Indenture, the First Supplemental Indenture and the Second Supplemental Indenture, the "Indenture"), each between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Pursuant to Section 15.14 of the First Supplemental Indenture, on the date hereof, a Standby Bond Purchase Agreement, dated as of September 1, 2011, among the Issuer, the Trustee and Mizuho Corporate Bank, Ltd., acting through its New York Branch ("Mizuho"), relating to the 2008C Bonds, and a Standby Bond Purchase Agreement, dated as of September 28, 2011, among the Issuer, the Trustee, State Street Bank and Trust Company ("State Street") and California State Teachers' Retirement System ("CalSTRS" and, together with Mizuho and State Street, the "Banks"), relating to the 2008D Bonds, are being delivered to the Trustee as substitute liquidity for the Bonds (each an "Alternate Liquidity Facility"). In connection with the delivery of such Alternate Liquidity Facility, as bond counsel to the Issuer, we have reviewed the Indenture, the Alternate Liquidity Facility, a Notice of Alternate Liquidity Facility relating to the 2008C Bonds and a Notice of Alternate Liquidity Facility relating to the 2008D Bonds, each dated September 12, 2011, a rating letter delivered by each Rating Agency rating the Bonds, an opinion of counsel to the Banks, an opinion of counsel to the Issuer, and such other documents, certificates, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and covers certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or

any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any party other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Series 2008 Bonds Tax Certificate (including any supplements or amendments thereto), including (without limitation) covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds, or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner reaffirm any of the matters covered in any prior opinion we rendered with respect to the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Remarketing Memorandum, dated September __, 2011, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The delivery of each Alternate Liquidity Facility to the Trustee is authorized under the Indenture and complies with the terms thereof; and
2. The delivery of each Alternate Liquidity Facility to the Trustee in accordance with the provisions of the Indenture will not, in and of itself, result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

This opinion is furnished by us as bond counsel to the Issuer solely for purposes of Section 15.14 of the Indenture. No attorney-client relationship has existed or exists between our firm and the Trustee or our firm and either Bank in connection with the Bonds or by virtue of this opinion, and we disclaim any obligation to update this opinion.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP



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March 27, 2008

San Diego County Regional
Transportation Commission
San Diego, California

San Diego County Regional Transportation Commission
Sales Tax Revenue Bonds (Limited Tax Bonds)
2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the San Diego County Regional Transportation Commission (the "Issuer") in connection with issuance of \$600,000,000 aggregate principal amount of San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A, 2008 Series B, 2008 Series C, and 2008 Series D (the "Bonds"), issued pursuant to an Indenture, dated as of March 1, 2008, as supplemented and amended by a First Supplemental Indenture, dated as of March 1, 2008 (herein collectively referred to as the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer and the Trustee, certificates of the Issuer, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and



ORRICK

San Diego County Regional
Transportation Commission
March 27, 2008
Page 2

the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county transportation commissions in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

LIQUIDITY PROVIDERS

The information contained in this appendix has been provided by the Liquidity Providers. No representation as to the accuracy or completeness of such information is made by the Commission or the Remarketing Agents. The delivery of the Remarketing Memorandum shall not create any implication that there has been no change in the affairs of any of the Liquidity Providers since the date hereof, or that the information contained or referred to in this appendix is correct as of any time subsequent to its date.

JPMorgan Chase Bank, National Association. JPMorgan Chase Bank, National Association (“the Bank”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of June 30, 2011, JPMorgan Chase Bank, National Association, had total assets of \$1,791.1 billion, total net loans of \$548.2 billion, total deposits of \$1,144.2 billion, and total stockholder’s equity of \$125.6 billion. These figures are extracted from the Bank’s unaudited Consolidated Reports of Condition and Income (the “Call Report”) as of June 30, 2011, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2010, of JPMorgan Chase & Co., the 2010 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Remarketing Memorandum is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC’s website at www.sec.gov.

The information contained in this “APPENDIX F LIQUIDITY PROVIDERS – JPMorgan Chase Bank, National Association” relates to and has been obtained from the Bank. The delivery of the Remarketing Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

Mizuho Corporate Bank, Ltd., acting through its New York Branch. Mizuho Corporate Bank, Ltd. (“Mizuho”) is a wholly-owned subsidiary of Mizuho Financial Group, Inc. (“MHFG”), a corporation organized under the laws of Japan. MHFG is one of the largest financial institutions in the world, offering a broad range of financial services including banking, securities, trust and asset management, credit card, private banking, and venture capital through its group companies. MHFG’s principal banking subsidiaries include Mizuho, Mizuho Bank, Ltd., and Mizuho Trust & Banking Co., Ltd. Mizuho was established on April 1, 2002, following a split and merger process of The Dai-Ichi Kangyo Bank, Limited, The Fuji Bank, Limited and The Industrial Bank of Japan, Limited.

Mizuho’s New York branch (the “New York Branch”) is licensed by the Banking Department of the State of New York as a branch to transact banking business in New York. The New York Branch is

subject to supervision, examination and regulation by the New York State Banking Department and the Federal Reserve Board.

The long-term credit ratings of Mizuho by Moody's, Standard & Poor's and Fitch are A1, A+ and A, respectively, and the short-term credit ratings of Mizuho by Moody's, Standard & Poor's, and Fitch are P-1, A-1 and F1, respectively.

A security rating is not a recommendation to buy, sell or hold securities and should be evaluated independently of any other rating. The rating is subject to revision or withdrawal at any time by the assigning rating organization

Additional information, including the most recent annual report on Form 20-F for the fiscal year ended March 31, 2011, of MHFG, and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC"), may be obtained without charge by each person to whom this Remarketing Memorandum is delivered upon the written request of any such person to Mizuho Corporate Bank, Ltd., 1251 Avenue of the Americas, New York, New York 10020. This information is also available at www.mizuho-fg.co.jp/english/ and at the SEC's website at www.sec.gov.

THE MIZUHO LIQUIDITY FACILITY IS AN OBLIGATION OF MIZUHO AND IS NOT AN OBLIGATION OF MHFG. NO SUBSIDIARY OR AFFILIATE CONTROLLED BY MHFG, EXCEPT MIZUHO, IS OBLIGATED TO MAKE PAYMENTS UNDER THE MIZUHO LIQUIDITY FACILITY.

State Street Bank and Trust Company. State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) is a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With \$21.53 trillion in assets under custody and \$2.01 trillion in assets under management, the Corporation operates in 26 countries and more than 100 markets worldwide. The assets of the Bank at December 31, 2010 accounted for approximately 98% of the consolidated assets of the Corporation. At December 31, 2010, the Corporation had total assets of \$160.5 billion, total deposits (including deposits in foreign offices) of \$98.35 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$11.85 billion and total equity capital of \$17.79 billion.

The Bank's Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2010, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Remarketing Memorandum shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation's Annual Report or Form 10-K for the year ended December 31, 2010. The annual report can be found on the Corporation's web site, www.statestreet.com. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Remarketing Memorandum are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The State Street/CalSTRS Liquidity Facility is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Remarketing Memorandum to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Remarketing Memorandum.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Remarketing Memorandum has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Remarketing Memorandum by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Remarketing Memorandum (except as to this Appendix to the extent it relates to the Bank), the suitability of the 2008 Series D Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

California State Teachers Retirement System. *The following information concerning CalSTRS has been provided by representatives of CalSTRS and has not been independently confirmed or verified by the Issuer. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.*

The California State Teachers' Retirement System (CalSTRS) provides defined retirement, survivor and disability benefits to its members. California public school teachers from preschool through community college and certain other employees of the public school system are required by law to be members of CalSTRS. Contributions to the Teachers' Retirement Fund (Fund) are as follows: members - 8%, school districts and other agencies employing members of CalSTRS - 8.25%, State of California - 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year.

CalSTRS is a component unit of the State of California, organized and operating under the laws of the State of California, including the Teachers' Retirement Law, constituting Part 13 of Division 1 of Title 1 of the Education Code of the State of California, commencing at Section 22000 (Law), as amended. The Law establishes the Teachers' Retirement Board, which has the sole and exclusive fiduciary responsibility over the administration and investment of funds held in the Fund, in which the bulk of the CalSTRS assets are held.

Financial data for June 30, 2010 are taken from the audited financial statements presented in CalSTRS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. Financial data for fiscal years ended after 2010 are incorporated by reference in this section and shall be deemed to be a part hereof.

As of June 30, 2010, the Fund had net assets held in trust for pension benefits with a market value of approximately \$130 billion, compared to approximately \$118.6 billion as of June 30, 2009. As of July 31, 2011, total investment assets had a market value of approximately \$152.7 billion (unaudited).

The CalSTRS Credit Enhancement Program (CEP) is rated AA+/F1+ and Aa3/P-1, by Fitch Ratings and Moody's Investors Service, respectively. CalSTRS, the sponsor of the CEP, is rated AA-/A-1+ by Standard and Poor's.

CalSTRS will provide without charge and upon request, a copy of its financial statements. Requests to CalSTRS for the financial statements should be directed by mail to State Teachers' Retirement System, P.O. Box 163749, MS-04, Sacramento, California 95816-3749, Attention: Credit Enhancement Program, or by email to cepinquiries@CalSTRS.com. The most recent financial statements, CAFR and other information regarding CalSTRS can be viewed at www.CalSTRS.com. CalSTRS investments and the CEP information can be viewed at <http://www.CalSTRS.com/Investments/index.aspx>.

The foregoing information has been provided by CalSTRS and is not intended to serve as a representation, warranty, or contract modification of any kind.

