

**Ratings: Moody's: P-1
S&P: A-1+ (Expected)
(See "Ratings" herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission, 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 Notes, when issued in accordance with the Amended and Restated Subordinate Indenture, the Tax Certificate and the Amended and Restated Issuing and Paying Agent Agreement, 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. The amount treated as interest on the Notes and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Service Notice 94-84. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "TAX MATTERS."

\$100,000,000

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
SUBORDINATE SALES TAX REVENUE COMMERCIAL PAPER NOTES
(LIMITED TAX BONDS)
SERIES B**

This cover page contains certain information for quick reference only. It is not a summary of the Notes. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision. This Offering Memorandum supersedes the Offering Memorandum relating to the Notes dated November 4, 2005.

The San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds), Series B (the "Notes" or the "Series B Notes") are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Notes will be made in principal amounts of \$100,000 and in integral multiples of \$1,000 in excess thereof and will be in book-entry form only. Purchasers of the Notes will not receive instruments representing their beneficial ownership in the Notes purchased but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. See Appendix C—"Book-Entry Only System" herein.

The Notes are limited obligations of the San Diego County Regional Transportation Commission (the "Commission") payable from the receipts of a one-half of one percent (1/2%) 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 expires on March 31, 2048. **The Commission has incurred obligations secured by the Sales Tax on a senior basis to the Notes, and subject to certain financial covenants described herein, the Commission may incur additional obligations secured by the Sales Tax on a senior basis to the Notes.** See "Security and Source of Payment for the Notes" herein.

Liquidity for the Series B Notes will be provided pursuant to the Credit Agreement between the Commission and

Bank of America 
Merrill Lynch

The Credit Agreement for the Series B Notes pursuant to which Bank of America, N.A. (the "Bank") will advance funds to enable the Commission to pay the principal on Notes maturing on the date of such advance expires September 27, 2012. **The Bank's obligation to advance funds to enable the Commission to pay the principal on the Notes maturing on the date of such advance is subject to termination or suspension automatically or immediately without notice in certain cases; the Bank will not be obligated to advance funds to enable the Commission to pay the principal on Notes maturing in the event of early termination or suspension of the Credit Agreement pursuant to the terms thereof.**

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER 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, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES. THE GENERAL FUND OF THE COMMISSION IS 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 NOTES OR THEIR INTEREST. THE NOTES 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 REVENUES.

The Notes are offered when, as and if issued and delivered subject to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Commission by its General Counsel and by Nossaman LLP, Los Angeles, California, Disclosure Counsel.

Dated: September 23, 2011.

Citigroup

No dealer, broker, salesperson or other person has been authorized by the Commission, the Dealer, the Bank or the Financial Advisor to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any offer, solicitation or sale of any Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Offering Memorandum is not to be construed as a contract with the purchasers of the Notes.

The information set forth herein has been obtained from the Commission, the Bank, The Depository Trust Company, and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by any Dealer of the Notes. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change since the date hereof in the affairs of the Commission, or in any other matters which are material to the full and punctual payment of any Notes. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

This Offering Memorandum is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Notes have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

The Dealer has provided the following sentence for inclusion in this Offering Memorandum. The Dealer has reviewed the information in this Offering Memorandum in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Dealer does not guarantee the accuracy or completeness of such information. The information and expression of opinion herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commission since the date hereof. This Offering Memorandum, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFERING MEMORANDUM

Certain statements included or incorporated by reference in this Offering 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 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.

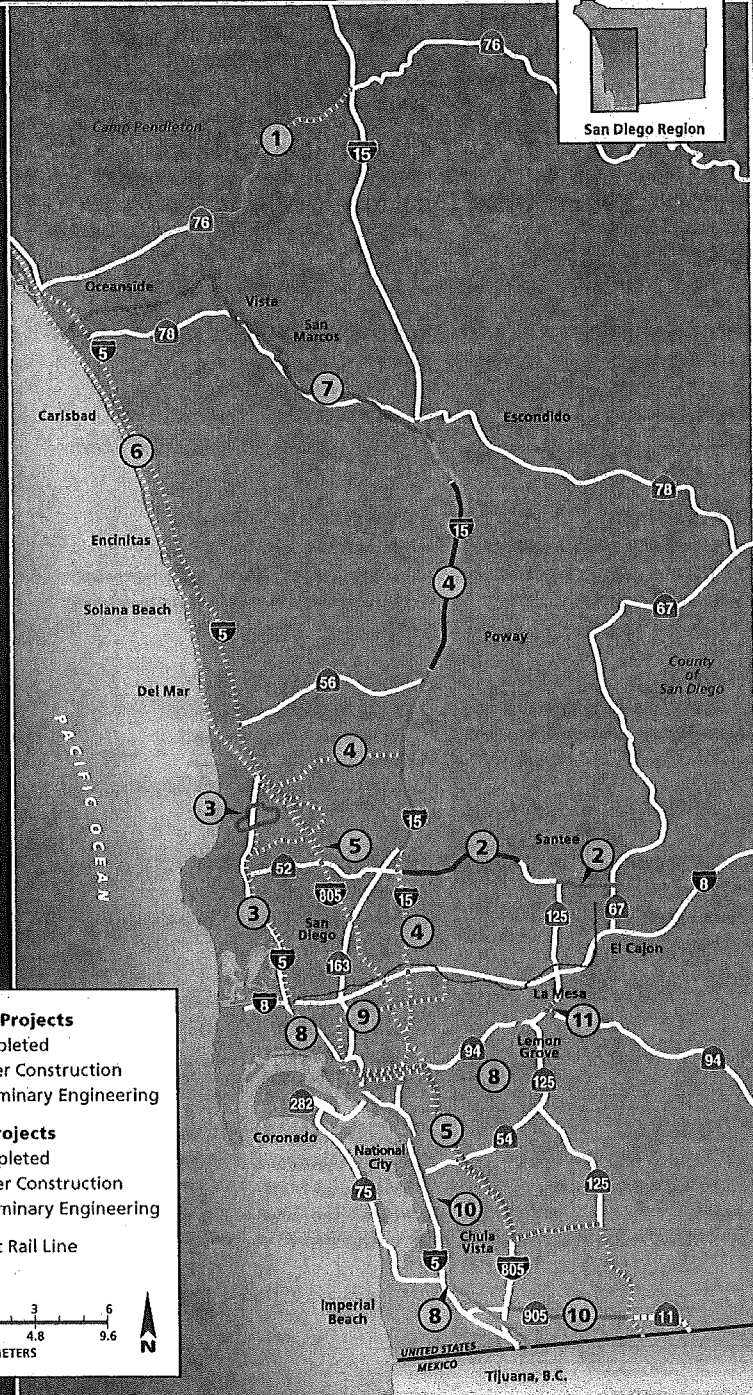
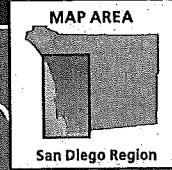
EARLY ACTION PROJECTS

June 2011



www.KeepSanDiegoMoving.com

- 1 **SR 76:**
Widen highway
- 2 **SR 52:**
Widen and extend highway
- 3 **Mid-Coast:**
Transit: Old Town-UCSD
Transit: UTC SuperLoop
- 4 **I-15:**
HOV/Express Lanes
Transit: Escondido-Downtown
Transit: Escondido-Sorrento Valley
- 5 **I-805:**
HOV/Express Lanes
Transit: Otay-Downtown
Transit: Otay-Sorrento Valley
- 6 **North Coast:**
I-5 HOV/Express Lanes
Coastal rail double-tracking
- 7 **SPRINTER:**
Oceanside-Escondido light rail
- 8 **Blue and Orange Line Trolley:**
Low-floor vehicles
Station upgrades
- 9 **Mid-City:**
Transit: Downtown-SDSU
- 10 **Goods Movement:**
South Line rail upgrades
SR 905
- 11 **SR 94 / SR 125:**
South to East Connector



Highway Projects

- Completed
- Under Construction
- Preliminary Engineering

Transit Projects

- Completed
- Under Construction
- Preliminary Engineering
- Light Rail Line

MILES
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0 4.8 9.6
KILOMETERS

N



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Los Angeles, California

ISSUING AND PAYING AGENT

U.S. Bank Trust National Association
New York, New York

TABLE OF CONTENTS

	Page
INTRODUCTION	1
General	1
The Notes	1
Security and Source of Payment for the Notes	2
References	2
DESCRIPTION OF THE NOTES	3
General	3
SECURITY AND SOURCE OF PAYMENT FOR THE NOTES	3
Pledge of Sales Tax Revenues	3
Outstanding Senior Lien Debt	4
Additional Indebtedness; Refunding Notes; Limitation on the Issuance of Obligations Payable from Sales Tax	6
THE SALES TAX	7
Historical Taxable Sales	8
Historical Sales Tax Revenues	8
THE LINE OF CREDIT	10
THE BANK	18
Certain Information Concerning The Series B Notes Bank	18
THE COMMISSION	19
General	19
The Ordinance	19
Executive Staff	19
Potential Acquisition of Southbay Expressway Toll Concession	21
THE TRANSPORTATION EXPENDITURE PLAN	21
RISK FACTORS	22
Economy of the County and the State	22
The Sales Tax	22
Proposition 218	22
Further Initiatives	23
No Acceleration Provision	23
Loss of Tax Exemption	23
Limitations of the Credit Agreement and Related Risks	23
Impact of Bankruptcy of the Commission	24
Risks Relating to Build America Bonds	24
ABSENCE OF MATERIAL LITIGATION	25
TAX MATTERS	25
RATINGS	27
LEGALITY FOR INVESTMENT IN CALIFORNIA	27

THE DEALER27

FINANCIAL ADVISOR28

OTHER MATTERS28

APPENDIX A - INFORMATION REGARDING THE COUNTY OF SAN DIEGOA-1

APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE SAN DIEGO COUNTY REGIONAL
TRANSPORTATION COMMISSION FOR THE FISCAL YEAR ENDED JUNE 30, 2010B-1

APPENDIX C - BOOK-ENTRY ONLY SYSTEMC-1

APPENDIX D - DEFINITIONS AND SUMMARY OF THE LEGAL DOCUMENTSD-1

APPENDIX E - PROPOSED FORM OF OPINION OF BOND COUNSELE-1

OFFERING MEMORANDUM

\$100,000,000
San Diego County Regional Transportation Commission
Subordinate Sales Tax Revenue Commercial Paper Notes
(Limited Tax Bonds)
Series B

INTRODUCTION

This introduction is not a summary of the Offering Memorandum. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Offering Memorandum and the documents summarized or described herein. A full review should be made of the entire Offering Memorandum for an informed investment decision.

General

This Offering Memorandum, which includes the cover page and appendices hereto, sets forth certain information in connection with the offering of \$100,000,000 aggregate principal amount of San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds), Series B (the "Notes" or the "Series B Notes") to be issued from time to time by the San Diego County Regional Transportation Commission (the "Commission"). Pursuant to Sections 132000 et seq. 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 revenues of the Sales Tax (more fully described herein). The Commission's debt issuing capacity and authority is separate and distinct from either the City of San Diego or the County of San Diego (the "County"). The Notes are being issued pursuant to the Act and an Amended and Restated Subordinate Indenture, dated as of November 1, 2005 (as amended, the "Subordinate Indenture"), between the Commission and U.S. Bank National Association, as trustee (the "Trustee"). Certain matters relating to the payment of the principal of and interest on the Notes and the preparation and sale of the Notes are described in an Amended and Restated Issuing and Paying Agent Agreement, dated as of November 1, 2005 (as amended, the "Issuing and Paying Agent Agreement"), between the Commission and U.S. Bank Trust National Association (the "Issuing and Paying Agent"). The Commission has appointed Citigroup Global Markets Inc. as dealer (the "Dealer") with respect to the offering and sale of the Series B Notes pursuant to a Commercial Paper Dealer Agreement, dated as of November 1, 2005 (the "Dealer Agreement"), between the Commission and the Dealer.

The Notes

The Notes are being issued pursuant to authority granted under the Act, Resolution No. RC2005-01 adopted by the Board of Directors of the Commission on September 23, 2005, Resolution No. RC2008-02 adopted by the Board of Directors of the Commission on May 23, 2008, and adopted under the San Diego Transportation Improvement Program Ordinance and Expenditure Plan adopted on July 31, 1987 (as amended, the "1987 Ordinance") and the San Diego Transportation Improvement Program Ordinance and Expenditure Plan (the "Sales Tax Extension Ordinance"), adopted on May 28, 2004 (the 1987 Ordinance and the Sales Tax Extension Ordinance are referred to collectively as the "Ordinance"). See "Description of the Notes" herein. The Notes are authorized to be issued in an amount not to exceed \$100,000,000; as of June 30, 2011, \$34,000,000 principal amount of Notes were outstanding.

In June 2008, the Commission issued \$34,000,000 of Notes, the proceeds of which were applied to purchase certain certificates of participation (the "NCTD Certificates") originally issued in 2004 as auction rate securities by the North County Transit District ("NCTD") to fund, in part, Expenditure Plan-eligible projects relating

to NCTD's SPRINTER rail line. The NCTD Certificates are insured by MBIA Insurance Corporation and are subject to annual mandatory prepayments in part with a final maturity in 2034. Pursuant to a Memorandum of Understanding, dated June 1, 2008, by and between the Commission and NCTD, the Commission and NCTD agreed that the Commission would apply principal and interest payments it receives from NCTD for the NCTD Certificates to pay the principal of and interest on the Notes the Commission issued to purchase the NCTD Certificates. However, the Notes are not directly secured by payments the Commission receives from NCTD, but rather by the pledge of Revenues as herein described. See "SECURITY AND SOURCE OF PAYMENT FOR THE NOTES - Pledge of Sales Tax Revenues." The NCTD Certificates held by the Commission are subject to tender and remarketing prior to maturity under certain circumstances at the option of the Commission or NCTD, in accordance with the provisions of the Memorandum of Understanding, and the Commission expects to apply the proceeds of any such remarketing either to pay the principal of and interest on the Notes or to finance a portion of the projects described in the Expenditure Plan. See "The Transportation Expenditure Plan" herein.

Security and Source of Payment for the Notes

The Notes are limited obligations of the Commission payable from certain revenues (as more fully defined herein, the "Sales Tax Revenues") to be received from the collection of a one-half of one percent (1/2%) retail transactions and use tax (the "Sales Tax") imposed in the County. Collection of the Sales Tax commenced April 1, 1988, and, pursuant to the Sales Tax Extension Ordinance, will continue until March 31, 2048. See "SECURITY AND SOURCE OF PAYMENT FOR THE NOTES - Pledge of Sales Tax Revenues" and "The Sales Tax" herein.

A revolving line of credit will provide liquidity support for the Notes (the "Liquidity Facility"). Pursuant to the Credit Agreement dated as of September 1, 2011 (the "Credit Agreement") between the Commission and Bank of America, N.A. (the "Series B Notes Bank" or the "Bank"). The Bank has agreed to provide to the Commission a revolving line of credit in the amount of \$100,000,000 representing the aggregate principal amount of the Series B Notes authorized to be outstanding at any one time. See "THE LINE OF CREDIT." **The obligation of the Bank to advance funds to enable the Commission to pay the principal on Notes maturing on the date of such advance is subject to termination or suspension automatically and immediately without notice under certain circumstances; the Bank will not be obligated to advance funds to enable the Commission to pay the principal on Notes maturing on the date of such advance in the event of early termination or suspension of the Credit Agreement pursuant to the terms thereof.** As provided in the Amended and Restated Indenture, the Commission may deliver an alternate liquidity facility to replace the facility then in effect, provided that (i) the Commission shall provide the Issuing and Paying Agent, the Trustee and the applicable Dealer with written evidence of the ratings on the applicable Series of Notes upon delivery of the alternate liquidity facility, and (ii) such alternate liquidity facility shall take effect on a date on which all Notes of such Series mature. The Issuing and Paying Agent shall give notice of the provision of the alternate liquidity facility to the Owners of the applicable series of Notes at least thirty days prior to the proposed date of delivery of such alternate liquidity facility.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE COMMISSION TO THE EXTENT OF THE PLEDGE OF REVENUES DESCRIBED HEREIN, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES. 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 NOTES OR THEIR INTEREST. THE NOTES 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 REVENUES.

References

Brief descriptions of the Notes, the security and sources of payment for the Notes, the Ordinance, the Commission and its financial status and the pledge of Sales Tax Revenues are presented herein. Such references and descriptions do not purport to be comprehensive or definitive. All references herein to various documents are qualified in their entirety by reference to the forms thereof. Such documents pertaining to the Notes are available at

the offices of the Trustee. All capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Appendix D hereto or in the Amended and Restated Subordinate Indenture.

DESCRIPTION OF THE NOTES

General

The Notes are authorized to be issued pursuant to the Act and the Amended and Restated Subordinate Indenture. The Notes will be dated the date of their respective authentication and issuance, and will be issued in book-entry form only in denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof. The Notes will bear interest from their respective dates, payable on their respective maturity dates.

The Notes: (i) will bear interest payable at maturity at a rate not to exceed twelve percent (12%) per annum calculated on the basis of a year consisting of 365/366 days and actual number of days elapsed; (ii) will mature on a Business Day not more than two hundred seventy (270) days after their respective dates, but in no event later than the expiration date of the Sales Tax or five (5) days prior to the expiration date of the applicable Liquidity Facility; and (iii) will be sold at a price of not less than one hundred percent (100%) of the principal amount thereof.

The Notes, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC" and together with any successor securities depository, the "Securities Depository"). DTC will act as Securities Depository for the Notes so purchased. Individual purchases will be made in book-entry only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Notes. So long as Cede & Co. is the registered owner of the Notes, as nominee of DTC, references herein to the Noteholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners of Notes. In this Offering Memorandum, the term "Beneficial Owner of Notes" shall mean the person for whom a Participant (as such term is defined in Appendix C) acquires an interest in the Notes.

So long as Cede & Co. is the registered owner of the Notes, principal of and interest on the Notes are payable by wire transfer of same day funds by the Issuing and Paying Agent to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to Beneficial Owners of the Notes. See APPENDIX C - "BOOK-ENTRY-ONLY SYSTEM" herein.

SECURITY AND SOURCE OF PAYMENT FOR THE NOTES

Pledge of Sales Tax Revenues

The Notes are limited obligations of the Commission and are payable as to principal and interest exclusively from Revenues, consisting of Sales Tax Revenues and any other amounts pledged to pay the Senior Lien Debt (as defined below) received by the Trustee after satisfaction of the Commission's obligation to pay principal of and interest on the Senior Lien Debt and any other requirements relating to the Senior Lien Debt and any funds held by the Trustee under the Amended and Restated Subordinate Indenture (other than amounts held in the Rebate Fund) and amounts held by the Issuing and Paying Agent in funds established under the Amended and Restated Indenture or the Amended and Restated Issuing and Paying Agent Agreement, subject to the provisions of the Amended and Restated Subordinate Indenture and the Amended and Restated Issuing and Paying Agent Agreement permitting the application thereof for the purposes and on the terms set forth therein. "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 State Board of Equalization ("BOE") for costs and expenses for its services in connection with the Sales Tax. For a general discussion of the Sales Tax and historical and forecasted Sales Tax Revenues, see "The Sales Tax" herein.

The Amended and Restated Subordinate Indenture provides that the pledge of Revenues for the payment of the Notes, and any debt or other obligations of the Commission on a parity with the Notes (such debt being

hereinafter referred to as "Parity Debt"), shall constitute a first lien on the Revenues and shall be valid and binding from and after delivery by the Trustee of the Notes or Parity Debt, without any physical delivery thereof or further act. As of June 30, 2011, the Commission had outstanding \$915,640,000 aggregate principal amount of sales tax revenue bonds (the "Outstanding Senior Lien Debt") and may determine to issue additional sales tax revenue bonds or other indebtedness having a lien upon the Sales Tax Revenues that is senior to that of the Notes (the Outstanding Senior Lien Debt and any additional bonds or other indebtedness with a senior lien to that of the Notes is referred to herein as the "Senior Lien Debt") upon compliance with certain requirements set forth in the Amended and Restated Subordinate Indenture. See "Additional Indebtedness; Refunding Notes; Limitation on the Issuance of Obligations payable from Sales Tax." Under the Amended and Restated Subordinate Indenture, the Commission has covenanted to cause the Sales Tax Revenues to be transmitted by the BOE directly to the trustee for the Senior Lien Debt (the "Senior Lien Bond Trustee"); the Commission has directed the Senior Lien Bond Trustee to remit all Sales Tax Revenues remaining after satisfaction of the requirements relating to the Senior Lien Debt to the Trustee. The Trustee is directed to deposit all Sales Tax Revenues received from the Senior Lien Bond Trustee in the Revenue Fund established under the Amended and Restated Subordinate Indenture. After making the monthly deposits of Sales Tax Revenues to the Interest Fund and the Principal Fund to provide for the payment of the interest on the Notes and the principal of the Notes which the Commission certifies shall be paid from Sales Tax Revenues; the Trustee shall deposit any remaining Sales Tax Revenues into a fund to be used to repay any advances or loans under the Credit Agreement, then shall transmit any excess Sales Tax Revenues to the Senior Lien Bond Trustee. All moneys at any time held in the Revenue Fund established under the Amended and Restated Subordinate Indenture shall be held in trust for the benefit of the registered owners of the Notes and Parity Debt and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Amended and Restated Subordinate Indenture. See APPENDIX D - "DEFINITIONS AND SUMMARY OF THE LEGAL DOCUMENTS - Revenues," - "Pledge of Revenues, Allocation of Revenues."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE COMMISSION TO THE EXTENT OF THE PLEDGE OF REVENUES DESCRIBED HEREIN, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES. 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 NOTES OR THEIR INTEREST. THE NOTES 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 REVENUES.

Outstanding Senior Lien Debt

As of September 1, 2011, the Outstanding Senior Lien Debt consists of six series of sales tax revenue bonds; the 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 (collectively, the "Series 2008 Bonds"), and the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds), and 2010 Series B (Tax-Exempt Bonds) collectively, the "Series 2010 Bonds" and, together with the Series 2008 Bonds, the "Senior Lien Bonds"). As of June 30, 2011, the aggregate principal amount of the Outstanding Senior Lien Debt was \$915,640,000, all of which will mature on or before April 1, 2048, and maximum annual debt service on the Outstanding Senior Lien Debt was approximately \$47.2 million (net of certain federal subsidy payments expected to be received with respect to interest payments on the 2010 Series A (Taxable Build America Bonds)). The Commission anticipates issuing additional Senior Lien Debt subject to satisfaction of the conditions to the issuance of additional Senior Lien Debt as set forth in the Amended and Restated Subordinate Indenture and that certain Indenture dated as of March 1, 2008 (as amended and supplemented, the "Senior Lien Indenture"), by and between the Commission and U.S. Bank National Association, as trustee.

The Series 2008 Bonds were issued in the aggregate principal amount of \$600 million as variable rate demand obligations. While they remain in a variable rate mode, the interest rate on the Series 2008 Bonds is determined by remarketing agents (to a maximum rate of 12%) and the Series 2008 Bonds are subject to optional and mandatory tender under certain circumstances. As of September 1, 2011, the 2008 Bonds are supported by standby bond purchase agreements pursuant to which certain banks have agreed (subject to conditions specified in

the agreements) to purchase the Commission's Series 2008 Bonds that are tendered for purchase and not successfully remarketed. Series 2008 Bonds so purchased and held by the banks (the "2008 Liquidity Facility Bonds") will continue to be secured under the Senior Lien Indenture and payable on a parity basis with other Senior Lien Debt. Under the current standby bond purchase agreements, fees and other expense payments due to the banks are subordinate to Senior Lien Debt, the Notes and other Parity Debt. However, the amortization period applicable to Liquidity Facility Bonds may be accelerated under certain circumstances. See "RISK FACTORS—No Acceleration Provision." The standby bond purchase agreements supporting the Series 2008 Bonds are not a source of funds for the payment of the principal of or interest on the Senior Lien Debt, including the Series 2008 Bonds.

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 Senior Lien 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 Notes. As of September 16, 2011, if the initial swaps were terminated, the Commission would owe a termination amount of 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 Index thereafter
Bank of America, N.A.	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD SIFMA Swap Index thereafter

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 or "basis" swaps with Barclays Bank PLC (the "Basis Rate Swap Overlays"), with initial notional amounts for the two swaps 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 Senior Lien Bonds. Under certain circumstances, the Basis Rate Swap Overlay 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 Overlay are secured by a lien on the Sales Tax Revenues subordinate to the lien which secures the Notes.

A portion of the Series 2010 Bonds were issued as taxable build America bonds and are currently outstanding in the aggregate principal amount of \$349,540,000. The Commission expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on such bonds. See "—Maximum Annual Debt Service." See also "RISK FACTORS—Loss of Subsidy Payments."

Additional Indebtedness; Refunding Notes; Limitation on the Issuance of Obligations Payable from Sales Tax

Additional Series of Notes. The Commission may by Supplemental Indenture establish one or more additional Series of Notes, payable from the Sales Tax Revenues and secured by the pledge made under the Act and the Amended and Restated Subordinate Indenture equally and ratably with the Notes and any other Series of Notes previously issued, in such principal amount as the Commission determines, but only upon compliance by the Commission with the provisions of the Amended and Restated Subordinate Indenture and any additional requirements set forth in said Supplemental Indenture, and subject to the following specific conditions:

- (a) no Event of Default shall have occurred and then be continuing;
- (b) the aggregate principal amount of Notes authorized to be issued together with all outstanding Senior Lien Debt and Parity Debt shall not in combination with all outstanding debt obligations of the Commission exceed any limitation imposed by law or by any Supplemental Indenture or by Section 132309(b) of the Public Utilities Code of the State; and
- (c) the Commission shall have placed on file with the Trustee, the Issuing and Paying Agent and the Bank, a Certificate certifying that the amount of Senior Lien Revenues received by the Commission for any period of 12 consecutive months during the 18 months immediately preceding the date of the proposed issuance will be at least equal to 1.15 times the Maximum Annual Debt Service on all Notes, Parity Debt and Senior Lien Debt then outstanding, including the additional series of Notes then proposed to be issued, and 1 times the amount then due and owing to the provider of a surety bond, insurance policy or letter of credit which is used to satisfy all or a portion of a bond reserve requirement established pursuant to a bond indenture relating to the Senior Lien Debt.

In the event additional assets or revenues are included within the definition of "Senior Lien Revenues" by a Supplemental Bond Indenture, such additional assets or revenues shall be included in the calculations in (c) above, as if such additional assets or revenues had always been included in Senior Lien Revenues; provided that the consent of the Bank to such inclusion is obtained and Moody's and Standard & Poor's each confirm that inclusion of such revenues will not cause a reduction or withdrawal of any rating then in effect with respect to the Notes.

Refunding Notes. Refunding debt may be authorized and issued by the Commission without filing the certificate referred to in subsection (c) above, provided that no Note, advance or bank loan under any Credit Agreement shall be deemed to constitute refunding debt and provided further that Maximum Annual Debt Service on all Senior Lien Debt, Notes and Parity Debt outstanding following the issuance of such refunding debt is less than or equal to Maximum Annual Debt Service on all Senior Lien Debt, Notes and Parity Debt outstanding prior to the issuance of such refunding debt. Such refunding debt may be issued as Senior Lien Debt in accordance with the provisions set forth in the bond indenture relating to the Senior Lien Bonds (the "Bond Indenture") or as Parity Debt in accordance with the provisions set forth herein, in each case, in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of the principal or redemption price, if any, of the Senior Lien Debt, Notes or Parity Debt to be refunded, the interest on the Senior Lien Debt, Notes or Parity Debt to be refunded to the date such Senior Lien Debt, Notes or Parity Debt will be called for redemption or paid at maturity, as applicable, all incidental expenses and costs of issuance for the refunding debt, and interest on the refunding debt from the date thereof to the date of redemption of the Senior Lien Debt, Notes or Parity Debt to be refunded.

Limitations on the Issuance of Obligations Payable from Sales Tax Revenues. The Commission will not, so long as any of the Notes, Advances, Bank Loans, Parity Debt or Senior Lien Debt are outstanding, issue any obligations or securities, however denominated, payable in whole or in part from or secured by Sales Tax Revenues, except the following:

- (a) notes of any additional Series authorized pursuant to the provisions of the Amended and Restated Subordinate Indenture described above under the caption "Additional Series of Notes;"
- (b) refunding debt authorized pursuant to the provisions of the Amended and Restated Subordinate Indenture described above under the caption "Refunding Notes;"
- (c) Parity Debt, provided that certain conditions precedent to the issuance of such Parity Debt specified in the Amended and Restated Subordinate Indenture are satisfied;
- (d) Senior Lien Debt, provided that the Commission shall have placed on file with the Trustee and the Bank a Certificate certifying that, the amount of Senior Lien Revenues received for any period of 12 consecutive months during the 18 months immediately preceding the date on which such additional Senior Lien Debt will become outstanding shall have been at least equal to 1.15 times the amount of Maximum Annual Debt Service on all Senior Lien Debt, Notes and Parity Debt then outstanding and the additional Senior Lien Debt then proposed to be issued, and 1 times the amount then due and owing to the provider of a surety bond, insurance policy or letter of credit which is used to satisfy all or a portion of a bond reserve requirement established pursuant to a bond indenture relating to the Senior Lien Debt;
- (e) Obligations which are junior and subordinate to the payment of the principal, premium, if any, interest and reserve fund requirements, if any, for the Notes and all Parity Debt, and which junior and subordinate obligations are payable as to principal, premium, if any, interest and reserve fund requirements, if any, only out of Revenues after the prior payment of all amounts then required to be paid hereunder from Revenues for principal, premium, if any, interest and reserve fund requirements, if any, for the Notes and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

Notwithstanding anything in the Indenture to the contrary, the making of an Advance or Bank Loan with respect to Notes of any Series shall not be considered the issuance of additional debt.

Maximum Annual Debt Service. For purposes of calculating Maximum Annual Debt Service, principal and interest payments on Debt shall be excluded to the extent that: (i) such payments are to be paid from amounts on deposit with any fiduciary, including Investment Securities and interest to be payable thereon, in escrow specifically therefore; (ii) such interest payments are to be paid from the proceeds of Debt held by any fiduciary as capitalized interest, including Investment Securities and interest to be payable thereon, specifically to pay such interest by such fiduciary, and (iii) such interest payments are to be paid from pledged Subsidy Payments the Commission expects to receive.

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 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 State Board of Equalization, after deducting a fee for administering the Sales Tax, remits the remaining Sales Tax Revenues to the Senior Lien Trustee which are then applied to satisfy the Commission's obligations with respect to the Senior Lien Debt. The remaining Sales Tax Revenues are then remitted to the Trustee. After payment of debt service requirements on the Notes and after payment of certain other obligations, including certain obligations related to the Credit Agreement, any remaining unapplied Sales Tax Revenues are then remitted to the Senior Lien Trustee for payment of certain fees and expenses and thereafter to the Commission. The fee charged by the State Board of Equalization is determined by the State Board of Equalization pursuant to statute. The fee charged by the BOE to the Commission for fiscal year 2010-11 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 of California. 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 State Sales 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 "RISK FACTORS—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 A – "INFORMATION REGARDING THE COUNTY OF SAN DIEGO."

Historical Sales Tax Revenues

The Commission began receiving distributions of the Sales Tax from the BOE in April, 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	2.6
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	247,924,304	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 expected to be received from the U.S. Treasury relating to interest payments on the Series 2010 Bonds (Taxable Build America Bonds)) assuming such Maximum Annual Debt Service amounts as shown in the table "DEBT SERVICE SCHEDULE" herein.

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 through the first quarter of Fiscal Year 2012.

THE LINE OF CREDIT

The following is a summary of certain provisions of the Credit Agreement. This summary is not to be considered a full description or restatement of the material provisions of the Credit Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof. Investors should obtain and review a copy of the Credit Agreement in order to understand all of the terms of such document. Except as otherwise defined herein, capitalized terms used under this caption without definition have the respective meanings set forth in the Credit Agreement.

General

Pursuant to the Credit Agreement, the Bank has agreed to establish a revolving line of credit for the benefit of the Commission for the purpose of making Advances, upon the conditions specified in the Credit Agreement, to fund the payment of the principal on any Notes at the stated maturity thereof.

Set forth below are brief descriptions or excerpts of certain provisions of the Credit Agreement, all of which are qualified in their entirety by reference to the complete provisions of the Credit Agreement.

Revolving Loan Commitment

The Bank has agreed, on the terms and conditions set forth in the Credit Agreement, to provide liquidity for the payment of principal on maturing Notes. In accordance with the terms thereof, the Credit Agreement provides for advances of up to \$100,000,000 for payment of unpaid principal of the Notes at the stated maturity thereof (the "Commitment").

The Credit Agreement will expire on the earliest of (i) September 27, 2012, as such date may be extended pursuant to the terms of the Credit Agreement (the "Revolving Credit Expiration Date;"), (ii) the date on which the Commitment has been reduced to zero pursuant to the terms of the Credit Agreement, or (iii) the date on which the Credit Agreement is replaced with an alternate credit or liquidity facility entered into to support the Notes in accordance with the terms and provisions of the Amended and Restated Subordinate Indenture *provided that* the Bank has made any Advance required to be made on such date under the terms and condition set forth in the Credit Agreement (the earliest of (i), (ii) or (iii), the "Commitment Termination Date").

Not earlier than one hundred eighty (180) days and not less than sixty (60) days prior to the Revolving Credit Expiration Date, the Commission may request in writing to the Bank that it extend the Revolving Credit Expiration Date to a date agreed to by the Commission and the Bank, upon terms and conditions to be agreed upon by the Commission and the Bank in its sole and absolute discretion. The Bank may, in its sole discretion, agree to extend the term of the Credit Agreement. The Bank's failure to respond to such written request for an extension of the Revolving Credit Expiration Date (within thirty (30) calendar days of receipt by the Bank of such request and upon receipt of all information necessary, in the Bank's reasonable judgment, to permit the Bank to make an informed credit decision) will be deemed to be a rejection of such request to extend the term of the Revolving Credit Expiration Date.

Events of Default

Each of the following events shall constitute an "Event of Default" under the Credit Agreement:

- (a) *Payment Default.* The Commission (i) shall fail to pay when due (A) any principal of or interest on the Bank Note or any Loan (other than a failure to pay the principal or interest on the Bank Note or Loan accelerated solely by the Bank pursuant to the terms of the Credit Agreement) or (B) any interest

on any Note, (ii) shall fail to pay within 5 days after the due date thereof any Commitment Fees, or (iii) shall fail to pay within 10 days after the due date thereof any other fees or any other Obligation or amount payable under the Credit Agreement or under the Fee Letter;

(b) *Representations and Warranties.* Any representation or warranty made by the Commission in the Credit Agreement or in the Bank Note or any Related Document or in any certificate or financial statement delivered pursuant thereto shall prove to have been incorrect in any material respect when made (or deemed made);

(c) *Major Covenants.* The Commission shall fail to observe or perform certain covenants, agreements or conditions set forth in the Credit Agreement or in the Bank Note;

(d) *Minor Covenants.* The Commission shall fail to observe or perform any covenant or agreement contained in the Credit Agreement (other than those described in clause (a), (b), or (c) above) or in any other Related Document for thirty (30) days after written notice thereof shall have been given to the Commission by the Bank;

(e) *Bankruptcy and Insolvency.* (i) The Commission shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Commission shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Commission any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Commission, any case, proceeding or other action seeking issuance of a writ of attachment, execution or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Commission shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Commission shall become insolvent within the meaning of Section 101(32) of the United States Bankruptcy Code;

(f) *Cross Defaults to Senior or Parity Debt.* (i) The Commission shall fail to pay when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) any Senior Lien Debt or Revenues Secured Debt (other than a failure to pay any amount described in clause (v) of the definition of "Debt" which has been accelerated pursuant to the terms of the applicable agreement), or any interest or premium thereon, and such failure shall continue beyond any applicable grace period specified in any resolution, indenture, agreement, contract or instrument pursuant to which such Senior Lien Debt or Revenues Secured Debt has been issued, or pursuant to the provisions of such resolution, indenture, agreement, contract or instrument the maturity of such Senior Lien Debt or Revenues Secured Debt, as a result of a payment default, shall have been accelerated or required to be prepaid prior to the stated maturity thereof or (ii) the occurrence of any event under any ordinance, resolution, or instrument giving rise to any such Senior Lien Debt or Revenues Secured Debt or any Parity Debt, which results in or would entitle the

obligee thereof or a trustee on behalf of such obligee to declare the acceleration of any maturity thereof, or upon the lapse of time or the giving of notice or both would entitle the obligee thereof or a trustee on behalf of such obligee to accelerate any maturity thereof, or which results in the forfeiture by the Commission of any of its rights under any such ordinance, resolution, or instrument;

(g) *Other Defaults Above \$10 Million.* The Commission shall fail to pay when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) any Debt of the Commission not referred to in clause (a) or (f) above and in an aggregate amount greater than \$10,000,000, and such failure shall continue beyond any applicable period of grace specified in the resolution, indenture, agreement, contract or instrument providing for the same;

(h) *Unsatisfied Judgments Above \$10 Million.* One or more final unappealable judgments or orders, issued or rendered by a Governmental Authority of competent jurisdiction, for the payment of money, and not covered by insurance, the operation or result of which, individually or in the aggregate, equal or exceed \$10,000,000 shall be issued or rendered against the Commission, and such judgment or order shall continue unsatisfied, unbonded, undismissed or unstayed for a period of sixty (60) days;

(i) *Rating Below Investment Grade.* The long-term unenhanced ratings assigned by Moody's and S&P to any Senior Lien Debt shall be withdrawn or suspended (but excluding withdrawals or suspensions if the Rating Agency stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below "Baa3" (or its equivalent) and "BBB-" (or its equivalent), respectively;

(j) *Incipient/Invalidity Event.* The occurrence of an (i) Incipient Invalidity Event, or (ii) Invalidity Event;

(k) *Rating Maintenance.* (i) either of Moody's or S&P shall withdraw or suspend the long-term unenhanced rating on any Senior Lien Debt or (ii) either Moody's or S&P shall reduce the long-term unenhanced rating on any Senior Lien Debt below "Baa2" (or its equivalent) or "BBB" (or its equivalent), respectively; or

(l) *Debt Moratorium or Restructuring.* (i) the Commission shall impose a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the Notes, the Bank Note or the Loans, or Senior Lien Debt or (ii) 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 the principal of or interest on the Notes, the Bank Note or the Loans;

(m) *Material Adverse Amendment of Law or Ordinance.* 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.

Remedies

Upon the occurrence of any Event of Default, other than an Event of Default specified in paragraph (e) under the subheading “**Events of Default**” above, the Bank may declare the Bank Note and the Loans, all accrued interest thereon, and all other Obligations to be forthwith due and payable, whereupon the Bank Note and the Loans and such interest and all other Obligations shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Commission in the Credit Agreement. If any Event of Default specified in paragraph (e) under the subheading “**Events of Default**” above shall occur, without any notice to the Commission or any other act by the Bank the Bank Note and Loans, together with accrued interest thereon, and all other amounts payable under the Credit Agreement and the Fee Letter, shall become forthwith due and payable, without presentment, demand, protest, or other notice of any kind, all of which are waived by the Commission in the Credit Agreement.

Immediate Termination Events.

Upon the occurrence of any Event of Default described in paragraphs (a)(i), (e), (f)(i), (h), (i), (j)(ii) or (l) under the subheading “**Events of Default**” above (each an “Immediate Termination Event”), the Commitment shall automatically and immediately terminate, without notice, with respect to all Notes and thereafter the Bank shall have no obligation to make any Loan or to fund any outstanding Note.

Notice of Termination Events.

Upon the occurrence of an Event of Default that is not an Immediate Termination Event, the Bank may, by delivering a notice of termination (“Notice of Termination”) to the Commission, terminate its obligation to make Advances or Bank Loans under the Credit Agreement (except as provided below with respect to Notes issued and sold prior to such date), causing the Issuing and Paying Agent to cease issuing any Notes, whereupon no additional Notes shall be issued, the Available Commitment shall immediately be reduced to the then outstanding principal amount of Notes, and the Available Commitment shall be further reduced in a similar manner as and when such Notes mature such that, on the date all Notes issued and sold prior to the date such Notice of Termination is received by the Issuing and Paying Agent mature, the Available Commitment will be reduced to zero and the obligation of the Bank to extend any further credit under the Credit Agreement will be terminated; *provided* that the Commitment shall not terminate, and the right of the Bank to accelerate the maturity of the Bank Note and the Loans shall not affect the obligation of the Bank to make Loans to the extent necessary for the Commission to make required payments of principal on the Notes issued and sold prior to the date upon which the Notice of Termination is received by the Issuing and Paying Agent; *provided further* that if any Loans are made that would not have been made but for the application of the immediately preceding provision, such Loans shall be immediately due and payable on the date such Loans are made.

Suspension Events.

Upon the occurrence of an Event of Default described in paragraph (j)(i) under the subheading “**Events of Default**” above, the obligation of the Bank to make Advances or Bank Loans under the Credit Agreement shall be automatically and immediately suspended from the time of the occurrence of such Event of Default until a final, non appealable judgment of a court having jurisdiction in the premises shall be entered declaring that (i) all contested provisions of the Law and the Ordinance that impact the Commission’s ability or obligation to levy the Sales Tax in

the incorporated and unincorporated territory of the County of San Diego 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, (ii) all contested provisions of any Payment and Collateral Obligation, any Note, the Bank Note, any Loan and any provision of any Related Document related to the payment of principal and interest on any Note, the Bank Note or any Loan, and/or (iii) the pledge of and lien on the Revenues to secure the payment of principal and interest on the Notes, the Bank Note and the Loans, as applicable, are upheld in their entirety. In the event such judgment is entered declaring that (x) all contested provisions of the Law and the Ordinance that impact the Commission's ability or obligation to levy the Sales Tax in the incorporated and unincorporated territory of the County of San Diego 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, (y) all contested provisions of any Payment and Collateral Obligation, any Note, the Bank Note, any Loan and any provision of any Related Document related to the payment of principal and interest on any Note, the Bank Note or any Loan, and/or (z) the pledge of and lien on the Revenues to secure the payment of principal and interest on the Notes, the Bank Note and the Loans, as applicable, are upheld in their entirety, the obligation of the Bank to make Loans under the Credit Agreement shall be automatically reinstated and the terms of the Credit Agreement will continue in full force and effect (unless the Credit Agreement shall have otherwise expired or terminated in accordance with the terms of the Credit Agreement or there has occurred an Immediate Termination Event) as if there had been no suspension. In the event (1) any provision of the Law and the Ordinance that impacts the Commission's ability or obligation to levy the Sales Tax in the incorporated and unincorporated territory of the County of San Diego 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, (2) any provision of any Payment and Collateral Obligation, any Note, the Bank Note, any Loan and any provision of any Related Document related to the payment of principal and interest on any Note, the Bank Note or any Loan, and/or (3) the pledge of and lien on the Revenues to secure the payment of principal and interest on the Notes, the Bank Note and the Loans, as applicable, is declared to be null and void or unenforceable, then the obligations of the Bank under the Credit Agreement will terminate as set forth above. Notwithstanding the foregoing, if, upon the Commitment Termination Date, litigation is still pending and a judgment regarding the validity and enforceability of (A) any provision of the Law and the Ordinance that impacts the Commission's ability or obligation to levy the Sales Tax in the incorporated and unincorporated territory of the County of San Diego 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, (B) any provision of any Payment and Collateral Obligation, any Note, the Bank Note, any Loan and any provision of any Related Document related to the payment of principal and interest on any Note, the Bank Note or any Loan, and/or (C) the pledge of and lien on the Revenues to secure the payment of principal and interest on the Notes, the Bank Note and the Loans, as is the subject of such Event of Default has not been obtained, then the Commitment and the obligation of the Bank to make Loans under the Credit Agreement shall at such time terminate without notice or demand.

Upon the occurrence of a Default described under paragraphs (e)(ii) or (e)(iii) under the subheading "Events of Default" above, the obligation of the Bank to make Advances or Bank Loans under the Credit Agreement shall be automatically and immediately suspended until the proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, the obligation of the Bank to make Advances under the Credit Agreement shall be reinstated and the terms of the Credit Agreement will continue in full force and effect (unless the obligation of the Bank to make Advances under the Credit Agreement shall have otherwise expired or terminated in accordance with the terms of the Credit Agreement or there has occurred an Immediate Termination Event) as if there had been no such suspension.

Failure to take action in regard to one or more Events of Default shall not constitute a waiver of, or the right to take action in the future in regard to, such or subsequent Events of Default.

Definitions

"Advance" means each revolving loan made by the Bank to the Commission pursuant to the Credit Agreement.

"Bank Loan" shall mean each term loan made by the Bank to the Commission pursuant to the Credit Agreement on the date ninety-one (91) days immediately succeeding the date the related Advance was made.

"Bank Note" means the promissory note of the Commission evidencing the obligations of the Commission under the Credit Agreement, including, without limitation, its obligation to repay the Loans and all Obligations, and constituting Parity Debt under the Indenture.

"Board of Equalization Agreement" means the agreement between the Commission and the State Board of Equalization relating to the State Board of Equalization's obligation to remit Sales Tax Revenues to the Trustee.

"Bond Indenture" has the meaning set forth in the Indenture.

"Bond Indentures" means the Indenture, the Bond Indenture, any Supplemental Bond Indenture or Supplemental Indenture authorizing Debt of the Commission which is secured by Sales Tax Revenues (including Revenues).

"Commitment Fees" has the meaning set forth in the Fee Letter.

"Debt" of any Person means, without duplication, (i) all obligations of such Person evidenced by bonds, debentures, notes, securities or other similar instruments (ii) all obligations of such Person for borrowed money, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) obligations of such Person as lessee under any lease of property, real or personal, that, in accordance with GAAP, would be required to be capitalized on a balance sheet of the lessee thereof, (v) obligations of such Person to reimburse or repay any bank or other Person in respect of amounts paid or advanced under a letter of credit, credit agreement, liquidity facility or other instrument, (vi) all obligations of such Person to purchase securities (or other property) which arise out of or in connection with the sale of the same or substantially similar securities or property or obligations for the deferred purchase price of property or services (other than trade accounts payable occurring in the ordinary course of business), (vii) all Debt of others secured by a Lien on any asset of such Person whether or not such Debt is assumed by such Person, (viii) any obligation of such Person guaranteeing or in effect guaranteeing any other Debt, whether directly or indirectly and (ix) all obligations arising under or pursuant to any Swap Contract.

"Fee Letter" means that certain Fee Letter relating to the Credit Agreement, between the Bank and the Commission, as the same may be amended, supplemented or otherwise modified from time to time.

"Generally Accepted Accounting Principles" or *"GAAP"* means generally accepted accounting principles consistently applied and maintained throughout the period indicated and consistent with the prior financial practice

of the Commission, except for changes permitted by the Governmental Accounting Standards Board or any similar accounting authority of comparable standing.

“Governmental Authority” means any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, central bank, service, district or other instrumentality of any governmental entity or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government.

“Incipient Invalidity Event” 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 the Sales Tax in the incorporated and unincorporated territory of the County of San Diego 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 Note, the Bank Note or any Loan or any provision of any Related Document related to the payment of principal and interest on any Note, the Bank Note or any Loan or the pledge of and lien on the Revenues to secure the payment of principal and interest on the Notes, the Bank Note and the Loans, is contested or repudiated by duly authorized action of the Commission or is declared invalid or unenforceable in a proceeding subject to further appeals by the State or any instrumentality of the State or any other Governmental Authority with appropriate jurisdiction.

“Indenture” means the Amended and Restated Subordinate Indenture, as supplemented and amended in accordance with its terms and the terms of the Credit Agreement.

“Invalidity Event” means (i) the Law or the Ordinance is repealed, (ii) a Federal court or any other court with appropriate jurisdiction or the State or any instrumentality of the State or any other Governmental Authority with appropriate jurisdiction determines in a final non-appealable order or judgment, as the case may be, that any provision or provisions of the Law or the Ordinance regarding (A) the Commission’s ability or obligation to levy or impose the Sales Tax in the incorporated and unincorporated territory of the County of San Diego or collect Revenues or to pay the Revenues directly to the Trustee or (B) the State Board of Equalization’s obligation to collect the Sales Tax or the State Board of Equalization’s ability or obligation to 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 Notes or the payment of the Bank Note and the Loans, is null and void, (iii) the Law or the Ordinance is ruled to be null and void by a Federal court or any court with appropriate jurisdiction or the State or any instrumentality of the State or any other Governmental Authority with appropriate jurisdiction, (iv) any provision of the Credit Agreement, the Bank Note, any Loan, any Note, the Indenture, the Bond Indentures or the Ordinance relating to the Commission’s ability or obligation to make payments of the principal or interest on the Notes or the payment of the Bank Note or any Loan or the pledge of and lien on the Revenues to secure the payment of principal and interest on the Notes and the Bank Note or any Loan (each such provision, a *“Payment and Collateral Obligation”*) or the pledge of and lien on the Revenues to secure the payment of the principal of and interest on the Notes and the Bank Note and the Loans is ruled to be null and void by a Federal court or any other court with appropriate jurisdiction or the court or the State or any instrumentality of the State or any other Governmental Authority 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, publicly denies, contests or repudiates that the Commission has any or further liability or obligation with respect to (A) the payment of the principal of or interest on the Notes, the Bank

Note or any Loan or (B) any provision under the Law or the Ordinance with respect to the payment of, or the pledge of or lien on the Revenues to secure the payment of, the Commercial Payment Notes, the Bank Note, any Loan or any Payment and Collateral Obligation.

"Loan" shall mean an Advance or a Bank Loan made by the Bank to the Commission pursuant to the Credit Agreement.

"Obligations" means all obligations of the Commission to pay principal of and interest on all Loans, all fees and charges payable under the Credit Agreement, under the Fee Letter and under the Bank Note, and all other payment obligations of the Commission owed to the Bank under the terms of the Credit Agreement, the Fee Letter or the Bank Note.

"Payment and Collateral Obligation" has the meaning assigned to that term in the definition of Invalidation Event.

"Rating Agency" means either or both of S&P or Moody's.

"Related Documents" means the Credit Agreement, the Fee Letter, the Bank Note, the Indenture, the Bond Indentures, the Law, the Ordinance, the Board of Equalization Agreement, the Notes, the Issuing and Paying Agency Agreement and all amendments, supplements and modifications thereto permitted thereby.

"Revenues Secured Debt" means (a) Senior Lien Debt and (b) other Debt of the Commission payable from or secured by Sales Tax Revenues (including Revenues) and described in clauses (i), (iv), (v) and (ix) of the definition of "Debt" in the Credit Agreement (and in the case of clause (iv) of the definition of "Debt" in the Credit Agreement, excluding any lease, the obligation of which is subject to appropriation at the discretion of the Commission, and in the case of obligations arising under or pursuant to any Swap Contract as described in clause (ix) of the definition thereof, only with respect to (1) Swap Contracts that provide interest rate support and (2) obligations that constitute regularly scheduled payments that relate to Senior Lien Debt and other obligations described in clause (i) of the definition of "Debt" in the Credit Agreement) the payment of which is secured by a pledge of or Lien on Sales Tax Revenues senior to or on a parity with the payment of the Notes.

"Swap Contract" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a *"Master Agreement"*), including any such obligations or liabilities under any Master Agreement.

THE BANK

The following information has been provided by the Bank for use in securities disclosure documents. The Commission makes no representation regarding the accuracy or completeness thereof, or of any information in the documents incorporated by reference in the following section.

Certain Information Concerning The Series B Notes Bank

Bank of America, N.A.

Bank of America, N.A. (the "*Bank*") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "*Corporation*") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2011, the Bank had consolidated assets of \$1.45 trillion, consolidated deposits of \$1.060 trillion and stockholder's equity of \$176 billion based on regulatory accounting principles

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "*SEC*").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL ON THE NOTES MAY BE MADE FROM AMOUNTS ADVANCED BY THE BANK OF AMERICA, N.A., UNDER THE CREDIT AGREEMENT. ALTHOUGH THE CREDIT AGREEMENT IS A BINDING OBLIGATION OF BANK OF AMERICA, N.A., THE NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in this section "Certain Information Concerning The Series B Notes Bank" is correct as of any time subsequent to the referenced date.

THE COMMISSION

General

The Commission was organized pursuant to 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 operating functions of MTS and NCTD continue to be separate from SANDAG.

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* 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 as a loan of Sales Tax Revenues, or by amending the Ordinance and 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 Bonds or otherwise meet its obligations under the Subordinate Indenture or the Credit Agreement.

THE TRANSPORTATION EXPENDITURE PLAN

On November 3, 1987, a majority of the voters approved the 1987 Ordinance authorizing the levy of a county-wide ½ % sales and use tax to pay for highway improvements, public transit improvements and local street and road improvements. Specific highway and public transit projects are identified in the 1987 Ordinance for funding. The County and each city within the County receives a base allocation of the local streets and road

improvement funds of \$50,000, with the remainder distributed based on population and on miles of maintained roadway.

On November 2, 2004, more than two-thirds of the voters approved the Sales Tax Extension Ordinance which among other things provided for a 40-year extension of the Sales Tax. The Sales Tax Extension Ordinance authorized continuance of the expenditure of the Sales Tax for major highway and transit capital improvement projects and local street and road improvements. In addition, a portion of the Sales Tax was authorized to be expended for habitat-related environmental mitigation activities required in the implementation of the major highway, transit and regional arterial and local street and road improvements identified in the Sales Tax Extension Ordinance, as well as a bicycle, pedestrian and neighborhood safety program.

RISK FACTORS

Economy of the County and the State

The Notes are secured by a subordinate pledge of Sales Tax Revenues. 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, as well as the rest of the country, recently experienced in 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, FY2011, 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 A - "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 XIII C. However, Article XIII C 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 Notes in the event of a default in the payment of principal and interest on the Notes when due. In the event of a default by the Commission, each Holder of a Note will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture. See APPENDIX D – "DEFINITIONS AND SUMMARY OF THE LEGAL DOCUMENTS." The amortization period applicable to the Notes purchased from Advances made pursuant to the Credit Agreement, however, may be accelerated under certain circumstances. The Commission's obligation to reimburse the Series B Notes Bank on account of the purchase of any of the Commission's Notes pursuant to the Credit Agreement may, under specified circumstances, be paid over a period of three years, and may, under certain circumstances, become immediately due and payable on the ninety-first (91st) day following the date on which such Note was purchased with proceeds of an Advance under the Credit Agreement.

In addition, the Series 2008 Bonds are supported by liquidity facilities. The amortization period applicable to Series 2008 Bonds that have become 2008 Liquidity Facility Bonds may be accelerated under certain circumstances. The Commission's obligation to redeemed Bonds purchased by the providers of the liquidity facilities supporting the Series 2008 Bonds on account of the purchase, with proceeds of such liquidity facilities, of any of the Series 2008 Bonds 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 provided for in such liquidity facilities, 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 2008 Liquidity Facility Bond. The liquidity facilities supporting the Series 2008 Bonds are not a source of funds for the payment of the principal of or interest on the Senior Lien Debt or the Notes.

Loss of Tax Exemption

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

Limitations of the Credit Agreement and Related Risks

The ability to obtain funds under the Credit Agreement 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 the Credit Agreement. The ratings on the Notes depends on the ratings of the Bank; accordingly, the ratings on the Notes could be downgraded or withdrawn if the Bank was to be downgraded, placed on credit watch or have their credit suspended or withdrawn or were to refuse to perform under the Credit Agreement.

The obligation of Bank under the Credit Agreement to advance funds to enable the Commission to pay Notes 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 Credit Agreement is not a guaranty to pay the principal of the Notes at maturity. The Credit Agreement is a general contract subject to certain conditions and limitations, and is not a letter of credit. Purchasers of the Notes 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 Offering 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 Credit Agreement 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 Credit Agreement, the Bank has no independent obligation to the Trustee. If a dispute were to develop, the Bank will have all defenses allowed by law or in equity to their payment under or other performance of the Credit Agreement, including but not limited to disputes (whether valid or not) regarding the authority of any party to enter into or perform the Credit Agreement. Laws regarding contracts allow more of such defenses than laws regarding letters of credit do.

Either of the Bank or the Commission may seek to have any future dispute resolved in court and appealed to final judgment before the Bank performs under the Credit Agreement. Further, even if the Commission were to prevail against the Bank, a court would not necessarily order the Bank to perform under the Credit Agreement; 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 principal of the Notes. See "THE LINE OF CREDIT."

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. If a bankruptcy court were to hold the Sales Tax Revenues not to be "Special Revenues" or that the pledge of the Sales Tax Revenues was unenforceable under Chapter 9, then the owners of the Notes 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 Notes, 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 Notes 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. 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 Notes. 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

In the opinion of Orrick, Herrington & Sutcliffe LLP Bond Counsel to the Commission ("Bond Counsel"), 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 Notes, when issued in accordance with the Subordinate Indenture, the Issuing and Paying Agent Agreement and the Master Tax Certificate of the Commission, dated the date of the Bond Counsel opinion (the "Tax Certificate"), 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. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion Bond Counsel is set forth in Appendix E hereto.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of Dealer, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Prospective purchasers of Notes should consult their own tax

advisors with respect to the tax consequences of ownership of Notes if the prospective purchaser elects original issue discount treatment.

Notes purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of notes, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Holder's basis in a Premium Note, will be reduced by the amount of amortizable bond premium properly allocable to such Holder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 Notes. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Notes 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 Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Notes. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. 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 Notes may adversely affect the value of, or the tax status of interest on, the Notes. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Notes 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 Notes may otherwise affect a Holder's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Holder or the Holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

The opinion of Bond Counsel described herein shall be deemed delivered and in effect by Bond Counsel as to any Note issued after the date of such opinion, to the extent that, at the date of issuance of such Note: (i) there is no change in applicable existing federal or State of California law after the date of such opinion; (ii) the provisions of the Amended and Restated Subordinate Indenture, in so far as such provisions affect the terms and conditions pursuant to which Notes are issued and held, have not been materially amended or supplemented after the date of such opinion; (iii) the representations and covenants of the parties contained in the Amended and Restated Subordinate Indenture, the Amended and Restated Issuing and Paying Agent Agreement, the Tax Certificate and certain certificates dated the date of the opinion of Bond Counsel and delivered by authorized officers of the Commission remain true and accurate and are complied with in all material respects; and (iv) no litigation affecting the issuance or validity of the Notes is pending at the time of delivery of any such Notes.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Notes 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 Notes 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 Notes. Prospective purchasers of the Notes 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 opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Notes for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and

has not given any opinion or assurance about the activities of the Commission after the date of such opinion, or about the effect of changes in the Code after the date of such opinion, 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 Holders regarding the tax-exempt status of the Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission and their appointed counsel, including the Holders, 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 notes 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 Notes for audit, or the course or result of such audit, or an audit of notes presenting similar tax issues may affect the market price for, or the marketability of, the Notes, and may cause the Commission or the Holders to incur significant expense.

RATINGS

The Series B Notes have been assigned a rating of "P-1" by Moody's Investors Service and are expected to be assigned a rating of "A-1+" by Standard & Poor's Ratings Services based on the understanding that the Series B Notes Bank will provide the Liquidity Facility in connection with the issuance of the Series B Notes. Certain information was supplied by the Commission to Moody's Investors Service and Standard & Poor's Ratings Services to be considered in evaluating the Notes. The ratings reflect only the views of such rating agencies and any explanation of the significance of such ratings should be obtained from the rating agencies. There is no assurance that any rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by either rating agency if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Notes.

LEGALITY FOR INVESTMENT IN CALIFORNIA

Under provisions of the Act, the Notes are legal investments in California for all trust funds, funds of insurance companies, commercial and savings banks, trust companies and State school funds and are eligible to secure deposits of public moneys.

THE DEALER

The Commission has appointed Citigroup Global Markets Inc. as Dealer with respect to the offering and sale of the Series B Notes pursuant to the Series B Dealer Agreement. The Dealer Agreement, among other things, does not require the Dealer to purchase the Notes. Furthermore, pursuant to the Dealer Agreement, the Dealer may resign or be replaced by the Commission.

FINANCIAL ADVISOR

Public Financial Management Inc., San Francisco, California, serves as Financial Advisor to the Commission with respect to the sale of the Notes. The Financial Advisor has not conducted a detailed investigation of the affairs of the Commission to determine the completeness or accuracy of this Offering Memorandum. Because of its limited participation, the Financial Advisor has not independently verified any of the data contained herein and has no responsibility for the accuracy or completeness thereof.

OTHER MATTERS

This Offering Memorandum is not to be construed as a contract or agreement between the Commission and the purchasers, holders or Beneficial Owners of any of the Notes. Any statements made in this Offering Memorandum involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commission since the date hereof.

SAN DIEGO COUNTY REGIONAL TRANSPORTATION
COMMISSION

By: _____

Gary L. Gallinas
Executive Director

APPENDIX A

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	1.265	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	37,996	0.80	307,006	0.86
2010	3,091	0.88	36,223	0.61	308,745 ⁽³⁾	0.56
2011	3,095	0.13 ⁽¹⁾	36,253	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 workers in the labor force averaged 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	18,131.70
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	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

<u>Year</u>	Gross Metropolitan Product (In Billions)	Annual Percent Change	
		Current Dollars <u>San Diego</u>	Constant Dollars* <u>San Diego</u>
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
2006-2010
(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 \$7.08 billion in 2010, according to an estimate by the San Diego Convention and Visitors Bureau, a decrease of approximately 1.7% from the prior year. The County hosted 64 conventions and trade shows in 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 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 B

**AUDITED FINANCIAL STATEMENTS
OF THE
SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
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**

TABLE OF CONTENTS

	Pages
INTRODUCTORY SECTION	
Letter of Transmittal	iii
SANDAG Board of Directors	xiv
SANDAG Executive Staff	xv
SANDAG Organization Chart	xvi
 FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet-Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities...	19
Notes to the Basic Financial Statements	22
Required Supplementary Information:	
Sales Tax Projects Special Revenue Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	40
Notes to Required Supplementary Information	41
Supplementary Information:	
Commercial Paper and Sales Tax Revenue Bonds Debt-Service Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	44
 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	 45

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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

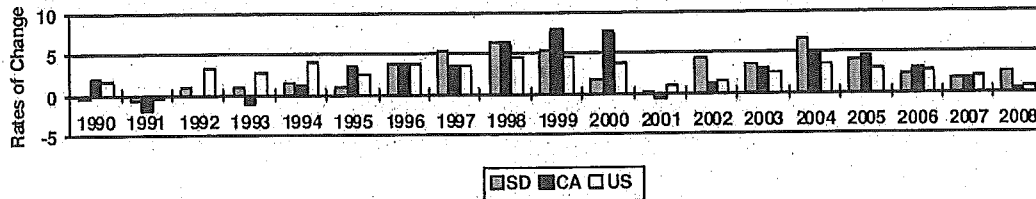
One of the most talked about and written about problems in California over the past few years has been the state's budget deficit. The performance of regional economies in the state, including San Diego's, is linked directly to the State of California's fiscal health. Consequently, the state's budget 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 \$)**



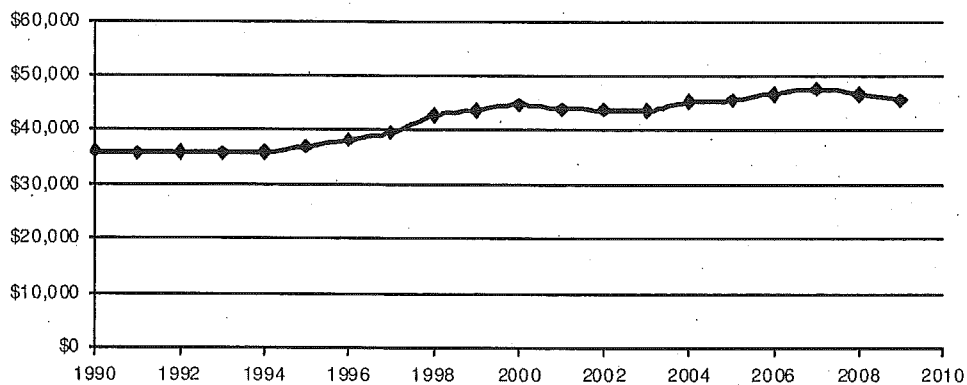
Over the longer term, the strength of the local economy is due, in part, to significant changes that took place during the second half of the decade in the 1990s. The San Diego region underwent a fundamental restructuring process after a period of recession in the early 1990s that increased economic 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.

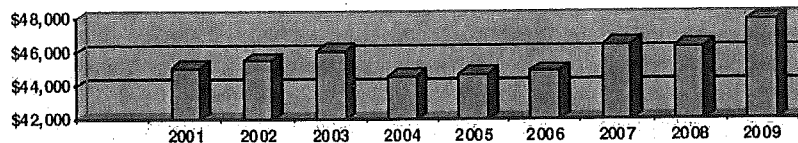
**Figure 3
Industry and Total Employment, 2002-2009
San Diego Region**

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	-.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\$)**

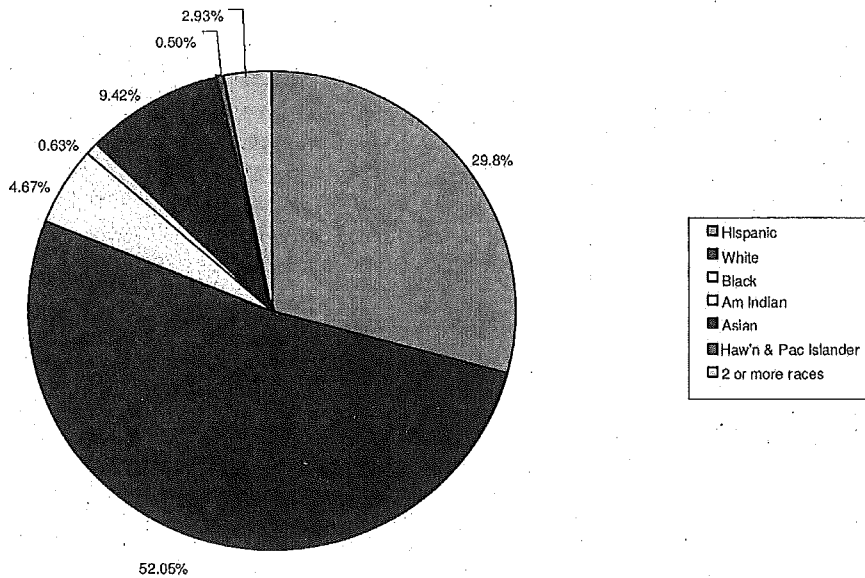


Demographics

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 Commission's 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.

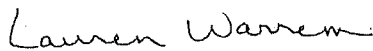
Through the use of timely and prudent debt financing, the Commission was able to provide the financial resources necessary to fund the programmed projects and accumulate a Sales Tax Projects Fund unreserved fund balance for future project expenditures of \$283.3 million.

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.

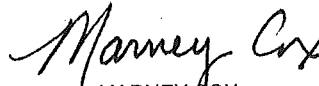
Acknowledgments

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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Southwest Division Naval Facilities Engineering Command

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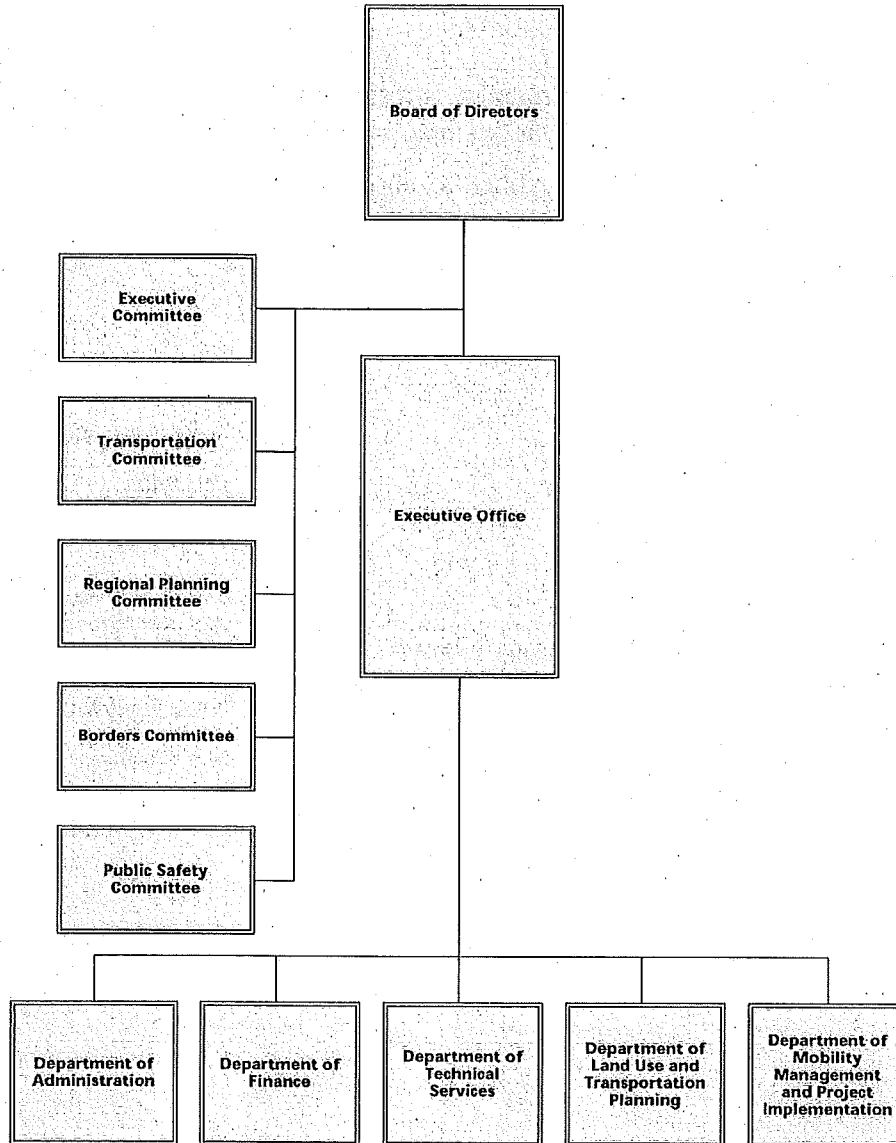
SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
(A Component Unit of the San Diego Association of Governments)

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 Coté
Director of Finance	Lauren Warrem
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





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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 inquiries 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	(35,279,787)	(34,551,294)
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 decreased by \$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 Government 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	<u>\$ (79,885,764)</u>

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>.

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><u>30,674,911</u></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><u>12,931,454</u></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><u>(621,488,341)</u></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	AAA _m
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

Marine Derivative Products) mitigate this risk. As of June 30, 2010, Bank of America was rated Aa3 by Moody's and A+ by Standard & Poor's; Merrill Lynch Capital Services was rated A2 by Moody's and A by Standard & Poor's; and Goldman Sachs Mitsui Marine Derivative Products was rated Aa1 by Moody's and AAA by Standard and Poor's. There were no rating changes during the fiscal year. The ratings are monitored on a weekly basis. In addition, the fair value of the swaps will be fully collateralized by the counterparty with cash or United States government securities if the counterparty's credit quality falls below a rating of Baa2 by Moody's or BBB by Standard & Poor's. Collateral would be posted with a third-party custodian.

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 of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on historical experience, staff expects the payments received under the agreements to approximate the expected bond payments over the 30-year term of the swaps. Due to the unprecedented market occurrences during the last few years, the Commission has been exposed to basis risk since the variable rate received from the counterparty, which is 65 percent of LIBOR, was less than the variable rate the Commission paid on the bonds. The basis risk has narrowed FY 2010, reporting a basis difference of a negative \$637,000 as compared to a negative of \$1.9 million in FY 2009. As the market continues to return to a more normal state, this basis risk is expected to continue to decline.

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 the swap at the fair 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. The Commission or the counterparties may terminate the swap if the other party fails to perform under the terms of the contracts, such as the failure to make swap payments. If the swap is terminated, the expected variable-rate bonds would no longer be hedged. Given the negative fair value of June 30, 2010, the Commission was not in a favorable termination position relative to the market.

Rollover risk. This is the risk that maturity of the hedging derivative instruments is shorter than the maturity of the associated debt leaving the Commission unprotected in the future. When these swaps terminate, or in the case of a termination option, if the counterparty exercises its option, the Commission will be re-exposed to the risks being hedged by the swaps. The Commission is exposed to rollover risk on the swaps only in the event of a failure to perform under the terms of the contracts by the Commission or counterparty.

Reset rates paid and received by the Commission. The weekly variable interest rates paid on the 2008 *TransNet* Bonds, by the Commission to the bondholders for the period July 1, 2009, through June 30, 2010, ranged from 0.10 percent to 0.35 percent for Barclays Bank, 0.08 percent to 0.30 percent for Goldman, Sachs & Co., 0.20 percent to 0.60 percent for J.P. Morgan Securities, Inc., and 0.20 percent to 0.70 percent for EJ De La Rosa. Fixed rates paid by the Commission to the swap provider counterparties were 3.41 percent to Bank of America and 3.8165 percent to Merrill Lynch Capital Services and Goldman

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.



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 Ho Roman McLean P.L.

Irvine, California
December 22, 2010

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy thereof.

Portions of the following information concerning DTC and DTC's book-entry system have been obtained from DTC. The Commission and the dealers make no representation as to the accuracy or completeness of such information.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Notes. The Notes will be issued 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 Master Note will be issued for each Series of the Notes, each in the aggregate principal amount of such Series, and will be deposited with DTC.

DTC, the world's largest securities 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 agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealer, Inc. 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 Standard & Poor's rating 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.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts

such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as defaults and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and undivided payments on the Notes 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 upon DTC's receipt of funds and corresponding detail information from the Commission or the Issuing and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. 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, the Issuing and Paying Agent, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Issuing and Paying Agent, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Commission or the Issuing and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered to DTC.

APPENDIX D

DEFINITIONS AND SUMMARY OF THE LEGAL DOCUMENTS

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DEFINITIONS AND SUMMARY OF THE LEGAL DOCUMENTS

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of the Legal Documents. All capitalized terms used but not defined in this Offering Memorandum will have the meanings set forth in the Indenture.

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 will 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.

Administrative Agent means the entity, acting as administrative agent under a Support Agreement, or its successor as administrative agent; provided, however, that, in the event that either (i) no Administrative Agent has been appointed under a Support Agreement or (ii) utilization of an Administrative Agent is discontinued under any Support Agreement, all references contained in the Indenture to "Administrative Agent" will be deemed to be references to the Bank which has entered into such Support Agreement with the Commission.

Advance means each advance of funds from a Support Facility, in accordance with the terms of the Support Agreement entered into in connection with such Support Facility.

Advice means a notice or a written instrument, executed by the Issuing and Paying Agent for a Series of Notes and delivered to the Depository for such Series of Notes, which specifies the amount by which the indebtedness evidenced by the Master Note delivered in connection with such Series of Notes is to be increased or decreased on any particular date, and which includes such other information as may be required pursuant to the systems and procedures of the Depository applicable to implementation of its book-entry program for obligations of the character of such Series of Notes.

Alternate Facility means a replacement Support Facility provided pursuant to the provisions of the Indenture and the instruments pursuant to which such Support Facility is provided.

Assumed Debt Service means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Senior Lien Debt, Notes and Parity Debt if each Excluded Principal Payment were amortized for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the Tax Expiration Date, and (ii) the date which is thirty (30) years from such date of calculation, on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the Commission could borrow for such period, as certified by 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.

Authorized Representative means the Chair of the Board of Directors, Executive Director, the Chief Deputy Executive Director, the Director of Finance, the TransNet Program Manager, or any other person designated to complete and deliver Issuance Requests and who has been identified in a Certificate of the Commission delivered to the Issuing and Paying Agent and whose signature has likewise been certified to the Issuing and Paying Agent.

Available Amount means the initial amount available to be drawn on a Support Facility as set forth in such Support Facility or the Support Agreement entered into in connection with such Support Facility, as applicable, as such amount may be reduced and/or reinstated pursuant to the terms of such Support Facility or the Support Agreement entered into in connection with such Support Facility, as applicable, and available to be drawn under such Support Facility.

Bank means a provider or the providers of a Support Facility securing a Series of Notes.

Bank Loan means each loan of funds made by a Bank to repay an Advance, in accordance with the terms of the Support Agreement entered into by such Bank with the Commission.

BMA Municipal Swap Index means the index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data or any successor indexing agent which meets the specific criteria established by the Bond Market Association.

Board means the Board of Directors of the Commission.

Bond Indenture means the Existing Bond Indenture and the Sales Tax Extension Bond Indenture or either of them.

Bond Trustee means the Existing Bond Trustee or the Sales Tax Extension Bond Trustee or either of them.

Bonds means the Second Senior Bonds and the Sales Tax Extension Bonds or either of them.

Business Day means, for so long as DTC will be the Depository for any Series of Notes, any day on which DTC is scheduled to be open for money market instrument settlement services, and is other than: (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed; (2) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed; and (3) for purposes of payments and other actions relating to Notes secured by a Support Facility, a day upon which commercial banks are authorized or obligated by law or executive order to be closed in the city in which demands for payment are to be presented pursuant to such Support Facility.

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 its Executive Director, Chief Deputy Executive Director, Director of Finance, TransNet Program Manager or any other person authorized by the Executive Director to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

Certificate Agreement means the Book-Entry-Only Money Market Instrument (Master Note Program) Certificate Agreement, dated as of November 6, 2003, between the Issuing and Paying Agent and DTC.

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 will, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

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

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 a Series of Notes, 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 the Notes, initial fees and charges of the Trustee and the Issuing and Paying Agent, legal fees and charges, fees and disbursements of consultants and professionals, including fees of the Dealers, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Notes, surety, insurance, liquidity and credit enhancements costs, including without limitation fees and expenses payable to a Bank under a Support Agreement, and any other cost, charge or fee in connection with the issuance of a Series of Notes.

Dealer means any dealer for a Series of Notes which has been appointed by the Commission and which has entered into a Dealer Agreement with the Commission with respect to such Series of Notes.

Dealer Agreement means any agreement entered into by the Commission with a Dealer in connection with a Series of Notes, as originally executed and as it may from time to time be supplemented or amended pursuant to its terms.

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.

Depository means DTC or any other qualified securities depository selected as set forth in the Indenture.

DTC means The Depository Trust Company, New York, New York, and its successors and assigns.

Event of Default means any of the events specified in the Indenture.

Excluded Principal Payments means each payment of principal (or the principal component of lease or installment purchase payments) of Senior Lien Debt, Notes or Parity Debt which the Commission determines (in a Supplemental Bond Indenture, the Indenture, a Supplemental Indenture or other document delivered on a date not later than the date of issuance of such Senior Lien Debt, Notes or Parity Debt) that the Commission intends to pay with moneys which are not Senior Lien Revenues or Revenues, as applicable (such as commercial paper, balloon indebtedness or bond anticipation notes), but from future debt obligations of the Commission, grants received 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 will affect the security for such Senior Lien Debt, Notes or Parity Debt or the obligation of the Commission to pay such payments from Revenues or Senior Lien Revenues, as applicable, or, with respect to Existing Senior Lien Debt, from the bond reserve fund established under the Existing Bond Indenture, or with respect to Sales Tax Extension Senior Lien Debt, from the bond reserve fund, if any, established under the Sales Tax Extension Bond Indenture. No payment of principal of Senior Lien Debt, Notes or Parity Debt may be determined to be an Excluded Principal Payment unless it is due on or prior to the Tax Expiration Date.

Existing Bond Indenture means the Indenture, dated as of October 1, 1992, by and between the Commission and the Existing Bond Trustee, as originally executed and as it has been and as it may from time to time be supplemented or amended by any supplemental indenture delivered pursuant to the provisions thereof.

Existing Bond Trustee means U.S. Bank National Association, a national banking association, duly organized and existing under the laws of the United States, successor by merger to U.S. Bank Trust National

Association, formerly known as First Trust of California, National Association, successor trustee to Bank of America National Trust and Savings Association, or its successor as trustee under the Existing Bond Indenture.

Existing Bonds or Second Senior Bonds means the San Diego County Regional Transportation Commission Second Senior Sales Tax Revenue Bonds (Limited Tax Bonds) authorized by, and at any time outstanding pursuant to, the Existing Bond Indenture.

Existing Senior Lien Debt means the Second Senior Bonds and other debt payable on a parity with the Second Senior Bonds issued in accordance with the requirements of the Existing Bond Indenture and the provisions thereof.

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

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

Indenture means the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, 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.

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

Interest Rate Swap Agreement means: (i) with respect to an interest rate swap agreement relating to any Series of Notes, an interest rate swap agreement in which the counterparty with which the Commission or the Trustee may contract is limited to entities the debt securities of which are rated in the highest short-term or one of the two highest long-term debt Rating Categories by Moody's and Standard & Poor's; and (ii) with respect to an interest rate swap agreement relating to any Senior Lien Debt or a portion thereof, (a) the term of which is not less than the term of the Senior Lien Debt to which such interest rate swap agreement relates, and (b) in which the counterparty with which the Commission or the Trustee may contract is limited to (x) entities the debt securities of which are rated in one of the two highest long-term debt Rating Categories by Moody's and Standard & Poor's or (y) entities the obligations of which under such Interest Rate Swap Agreement are either guaranteed or insured by an entity the debt securities or insurance policies of which are so rated or (z) entities the debt securities of which are rated in the third highest long-term debt rating categories by Moody's and Standard & Poor's or whose obligations are guaranteed or insured by an entity so rated, and, in each case, the obligations of which under such Interest Rate Swap Agreement are continuously and fully secured by Investment Securities (other than those described in clauses (iv) through (xviii) of the definition thereof) which will have a market value determined, by the party designated in such Interest Rate Swap Agreement, at least monthly (exclusive of accrued interest), at least equal to the termination value, if any, that would be payable by such counterparty under the Interest Rate Swap Agreement and which will be deposited with a custodian acceptable to the Commission. The ratings of the counterparties in the above definition are determined as of the date of execution of the interest rate swap agreement.

Investment Securities means the following:

(i) 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 (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) 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 (i);

(iii) 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;

(iv) 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;

(v) 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 Moody's and Standard & Poor's;

(vi) 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 (i) or (ii) 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 (i) or (ii) 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 (vi) 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 (vi), 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;

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by 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 Moody's and Standard & Poor's in one of their respective two highest long-term Rating Categories, for comparable types of debt obligations;

(viii) 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 will be purchased directly from such a bank, trust company or national banking association and will be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which will have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and will 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 will 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 will be entitled to rely on each such undertaking;

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

(x) 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 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 Moody's and Standard & Poor's;

(xi) 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 (i), (ii), (iii) or (iv) above, which will have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and will 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 will 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 will be entitled to rely on each such undertaking;

(xii) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (xi) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (xi) of this definition of Investment Securities; provided that as used in this clause (xii) and clause (xiii) investments will be deemed to satisfy the requirements of clause (xi) if they meet the requirements set forth in clause (xi) ending with the words "clauses (i), (ii), (iii) or (iv) above" and without regard to the remainder of such clause (xi);

(xiii) 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 Moody's and Standard & Poor's; or (b) is fully secured by obligations described in items (i), (ii), (iii) or (iv) 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;

(xiv) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) of this definition of Investment Securities and which companies have either the highest rating by 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;

(xv) 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;

(xvi) 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

Moody's and Standard & Poor's, which purchases may not exceed two hundred seventy (270) days maturity or forty percent (40%) of the Commission's surplus money;

(xvii) 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;

(xviii) 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

(xix) any investment approved by the Board for which confirmation is received from each rating agency then rating any of the Notes that such investment will not adversely affect such agency's rating on such Notes.

Issuance Request means a request made by the Commission, acting through an Authorized Representative, to the Issuing and Paying Agent for the authentication and delivery of a Note or Notes.

Issuing and Paying Agent means U.S. Bank Trust National Association, or any successor or assigns permitted under the Issuing and Paying Agent Agreement, or any other Issuing and Paying Agent which is appointed by the Commission and has entered into an Issuing and Paying Agent Agreement.

Issuing and Paying Agent Agreement means the Amended and Restated Issuing and Paying Agent Agreement, dated as of November 1, 2005, between the Commission and the Issuing and Paying Agent, and any and all modifications, alterations, amendments and supplements thereto, or any other Issuing and Paying Agent Agreement entered into by the Commission and an Issuing and Paying Agent with respect to the Notes or a Series of Notes.

Law 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 and 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 said San Diego County Regional Transportation Commission Act and Articles 10 and 11 of Chapter 3 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 Representations means, with respect to the Series B Notes, the Certificate Agreement and the Letter of Representations, dated September 27, 2005, executed by the Commission and the Issuing and Paying Agent and delivered to DTC, as initial Depository for the Series B Notes, or any replacement thereof or substitute therefor, and, with respect to any other Series of Notes, the documentation delivered to a Depository in connection with such Series of Notes.

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

Master Note means a Note substantially in the form attached to the Indenture as Exhibit B.

Maximum Annual Debt Service means the greatest amount of principal and interest becoming due and payable on all Senior Lien Debt, Notes and Parity Debt (for purposes of this definition of "Maximum Annual Debt Service," herein collectively referred to as "Debt") in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments will be excluded from such calculation and Assumed Debt Service will be included in such calculation;

(b) if the Debt is Variable Rate Indebtedness, the interest rate on such Debt for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the average of the BMA Municipal Swap Index for the ten (10) years preceding the date of calculation; provided however that if an Interest Rate Swap Agreement providing for a fixed rate of interest to maturity is in effect with respect to such Debt, the interest rate on such Debt will be assumed to be the interest rate specified in such Interest Rate Swap Agreement; provided, however, that, if the Parity Debt is a Bank Loan, the interest rate will be assumed to be 150% of the daily average of the Six Month LIBOR Rate during the 12-month period ending with the month preceding the date of calculation;

(c) principal and interest payments on Debt will be excluded to the extent that: (i) such payments are to be paid from amounts on deposit with any fiduciary, including Investment Securities and interest to be payable thereon, in escrow specifically therefor, (ii) such interest payments are to be paid from the proceeds of Debt held by any fiduciary as capitalized interest, including Investment Securities and interest to be payable thereon, specifically to pay such interest by such fiduciary, and (iii) such interest payments are to be paid from pledged Subsidy Payments the Commission expects to receive;

(d) in determining the principal amount due in each Fiscal Year, payment will (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 Debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(e) if any Interest Rate Swap Agreement is in effect with respect to, and is payable on a parity with, the Debt to which it relates, no amounts payable under such Interest Rate Swap Agreement will be included in the calculation of Maximum Annual Debt Service unless the sum of (i) interest payable on such Debt, 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, are greater than the interest payable on the Debt to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Debt will be included in such calculation; provided that if such Interest Rate Swap Agreement results in the payment by the Commission of a net variable interest rate with respect to the Debt to which it relates, the interest rate on such Debt will be assumed to be equal to the sum of (x) the fixed interest rate or rates to be paid on the Debt, minus (y) the fixed interest rate receivable by the Commission under such Interest Rate Swap Agreement, plus (z) the average interest rate of the index on which the Interest Rate Swap Agreement is based, as identified by the Director of Finance of the Commission, or, if not based on an identifiable index, then the BMA Municipal Swap Index, in each case, over the five years preceding the date of calculation;

(f) if any Debt features an option, on the part of the owners or an obligation under the terms of such Debt, to tender all or a portion of such Debt to the Commission, the Trustee or other fiduciary or agent, and requires that such Debt 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 Debt, the options or obligations of the owners of such Debt to tender the same for purchase or payment prior to the stated maturity or maturities will be treated as a principal maturity occurring on the first date on which owners of such Debt may or are required to tender such Debt except that any such option or obligation to tender Debt will be ignored and not treated as a principal maturity, if such Debt is rated in one of the two highest long-term Rating Categories by Moody's and by Standard & Poor's or such Debt is rated in the highest short-term, note or commercial paper Rating Categories by Moody's and by Standard & Poor's; and

(g) if any Debt consists of Paired Obligations, the interest rate on such Debt will be the resulting fixed interest rate to be paid by the Commission with respect to such Paired Obligations.

Moody's means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term "Moody's" will 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.

Note Fund means a fund by that name established pursuant to the Indenture and maintained by the Issuing and Paying Agent to pay principal and interest on a Series of Notes when due.

Note Interest Account means an account by that name established in a Note Fund pursuant to the Indenture and maintained by the Issuing and Paying Agent.

Note Principal Account means an account by that name established in a Note Fund pursuant to the Indenture and maintained by the Issuing and Paying Agent.

Notes means the Commission's Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) authorized by, and at any time Outstanding pursuant to, the Indenture.

Notice of Borrowing means a notice submitted by the Issuing and Paying Agent to a Bank pursuant to the Issuing and Paying Agent Agreement.

Notice of No Issuance means a written notice delivered by a Bank with respect to a Series of Notes pursuant to the provisions of the Support Agreement entered into in connection with such Series of Notes, which notifies the Commission and the Issuing and Paying Agent that no additional Notes of such Series may be issued.

Notice of Termination means a written notice delivered by a Bank with respect to a Series of Notes pursuant to the provisions of the Support Agreement entered into in connection with such Series of Notes, which notifies the Commission and the Issuing and Paying Agent that the Support Facility provided pursuant to such Support Agreement is being terminated.

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.

Ordinance means, collectively, the 1987 Ordinance and the Sales Tax Extension Ordinance.

Outstanding, when used as of any particular time with reference to Notes, means (subject to the provisions of the Indenture) all Notes theretofore, or thereupon being, authenticated and delivered by the Issuing and Paying Agent under the Indenture except: (i) Notes theretofore cancelled by the Issuing and Paying Agent or surrendered to the Issuing and Paying Agent for cancellation; (ii) Notes with respect to which all liability of the Commission will have been discharged in accordance with the Indenture, including Notes (or portions of Notes) referred to in the Indenture; and (iii) Notes for the transfer or exchange of or in lieu of or in substitution for which other Notes will have been authenticated and delivered by the Issuing and Paying Agent pursuant to the Indenture.

Owner or Holder or Noteholder or Noteowner means, whenever used herein with respect to a Note, means the person in whose name such Note is registered.

Paired Obligations means any Senior Lien Debt, Notes or Parity Debt, designated as Paired Obligations in a Certificate of the Commission, which are simultaneously outstanding (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of the Commission for the term of such Senior Lien Debt, Notes or Parity Debt.

Parity Debt means amounts owing under any Support Agreement and any indebtedness, installment sale obligation, lease obligation or other obligation of the Commission for borrowed money or Interest Rate Swap Agreement having an equal lien and charge upon the Revenues and therefore payable on a parity with the Notes (whether or not any Notes are Outstanding); provided, however, that any payments with respect to an Interest Rate Swap Agreement which represent termination payments or unwinding payments will not constitute Parity Debt and will be payable from Revenues on a subordinate basis.

Person means a corporation, firm, association, 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 of the Issuing and Paying Agent means the office thereof designated in writing to the Commission, the Trustee, each Administrative Agent and each Dealer.

Project means transportation facility and service improvements within the County of San Diego, including transportation and service improvements for highways, rail transit services, bus services, local streets and roads, bicycle and pedestrian facilities, transportation-related community infrastructure to support smart growth development and related environmental mitigation and enhancement projects, and the payment of all costs incidental to or connected with the accomplishment of such purposes, including, without limitation, 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 construction and for a period not to exceed one year thereafter and expenses for all proceedings for the authorization, issuance and sale of Notes.

Project Fund means a fund by that name established pursuant to the Indenture to hold the proceeds of a Series of Notes or a portion thereof prior to expenditure on the Project.

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 the fund by that name established pursuant to the Indenture.

Rebate Requirement means the Rebate Requirement defined in the Tax Certificate delivered in connection with a Series of Notes.

Redemption Price means, with respect to any Senior Lien Debt or Parity Debt (or portion thereof) the principal amount of such Senior Lien Debt or Parity Debt (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Senior Lien Debt or Parity Debt and the Bond Indenture, Indenture or other document authorizing such Senior Lien Debt or Parity Debt, as applicable.

Revenue Fund means the Subordinate Sales Tax Revenue Fund established pursuant to the Indenture.

Revenues means all Sales Tax Revenues and all interest, profits and other income received from the investment of Sales Tax Revenues (other than amounts in the Rebate Fund) and such additional sources of revenue pledged to pay the Senior Lien Debt under the Bond Indenture, but excluding all amounts: (i) which are required by the terms of the Existing Bond Indenture to be deposited into the Interest Fund, Principal Fund (including Sinking Accounts) and Bond Reserve Fund, each established with the Existing Bond Trustee pursuant to the Existing Bond Indenture, or are otherwise required to be used to pay the principal of or interest on, or reserve requirements with respect to, Existing Senior Lien Debt; and (ii) which will be required by the terms of the Sales Tax Extension Bond Indenture to be deposited into the Interest Fund, Principal Fund (including Sinking Accounts)

and Bond Reserve Fund, if any, established with the Sales Tax Extension Bond Trustee pursuant to the Sales Tax Extension Bond Indenture, or will otherwise be required to be used to pay the principal of or interest on, or reserve requirements with respect to, Sales Tax Extension Senior Lien Debt. Revenues do not include grants from the State or federal governments or any agency or instrumentality thereof or any other funds or assets of the Commission except Sales Tax Revenues and earnings thereon; provided that 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.

Sales Tax Extension Bond Indenture means any indenture entered into by the Commission and a Sales Tax Extension Bond Trustee, pursuant to which the Commission may issue limited tax bonds secured by a lien on the retail transactions and use tax superior to the lien which secures the Notes, as originally executed and as it may from time to time be supplemented or amended by any supplemental indenture delivered pursuant to the provisions thereof.

Sales Tax Extension Bond Trustee means the financial institution designated as trustee under the Sales Tax Extension Bond Indenture or its successor as trustee under the Sales Tax Extension Bond Indenture.

Sales Tax Extension 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 Sales Tax Extension Bond Indenture.

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 Extension Senior Lien Debt means the Sales Tax Extension Bonds and other debt payable on a parity with the Sales Tax Extension Bonds issued in accordance with the requirements of the Sales Tax Extension Bond Indenture and the provisions thereof.

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 Law 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 Law.

Second Senior Bonds or Existing Bonds means the San Diego County Regional Transportation Commission Second Senior Sales Tax Revenue Bonds (Limited Tax Bonds) authorized by, and at any time outstanding pursuant to, the Existing Bond Indenture.

Senior Lien Debt means the Bonds and other debt payable on a parity with the Bonds issued in accordance with the requirements of the Bond Indenture and the provisions thereof.

Senior Lien Revenues means all Sales Tax Revenues and all interest, profits and other income received from the investment of Sales Tax Revenues (other than amounts in any rebate fund established with respect to Senior Lien Debt) and such additional sources of revenue, if any, as are pledged to pay the Senior Lien Debt under the Bond Indenture. Senior Lien Revenues do not include grants from the State or federal governments or any agency or instrumentality thereof or any other funds or assets of the Commission except Sales Tax Revenues and earnings thereon; provided that the Commission by Supplemental Bond Indenture may provide for additional revenues or assets of the Commission to be included in the definition of Senior Lien Revenues.

Series, whenever used in the Indenture with respect to Notes, means all of the Notes designated as being of the same series, regardless of variations in maturity, interest rate and other provisions.

Series B Bank means Bank of America, N.A., or the provider or providers of any Alternate Facility for the Series B Notes, substituted therefor in accordance with the provisions set forth in the Indenture.

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

Six Month LIBOR Rate means, as of any date of determination, the offered rate for deposits in U. S. dollars for a six-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U. S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

Standard & Poor's means Standard & Poor's Corporation, 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 will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" will be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

State means the State of California.

Subsidy Payments means payments to be made by the United States Treasury to the Sales Tax Extension Bond 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 Sales Tax Extension 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 Bond Indenture means any Supplemental Existing Bond Indenture or any Supplemental Sales Tax Extension Bond Indenture.

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

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

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

Support Agreement means any agreement, pursuant to which a Bank provides a Support Facility in connection with a Series of Notes, between the Commission and such Bank, as originally executed and as it may from time to time be amended or supplemented pursuant to its terms, and any similar agreement entered into in connection with an Alternate Facility for such Series of Notes.

Support Agreement Fund means a fund by that name established pursuant to the Indenture.

Support Facility means any letter of credit, line of credit, credit agreement, standby bond purchase agreement or other agreement, instrument, or facility, insurance or guarantee arrangement issued by a financial institution, insurance company or association pursuant to which the Issuing and Paying Agent and/or the Trustee, as the case may be, on behalf of the Commission, is entitled to obtain funds to pay the principal of and interest on any Series of Notes or any Alternate Facility substituted therefor in accordance with the provisions of the Indenture.

Support Facility Expiration Date means the stated expiration date of a Support Facility, taking into account any extension of such stated expiration date.

Support Facility Fund means a fund by that name established pursuant to the Issuing and Paying Agent Agreement.

Tax Certificate means the Master Tax Certificate delivered by the Commission in connection with the Series B Notes, as originally executed and as it may from time to time be amended or supplemented pursuant to its terms, including, without limitation, as amended or supplemented in connection with a new commercial paper program as described therein, or the Master Tax Certificate delivered by the Commission in connection with the issuance of any additional Series of Notes.

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 Law.

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.

Trustee means U.S. Bank National Association, a national banking association, duly organized and existing under the laws of the United States, or its successor, as Trustee, as provided in the Indenture.

Variable Rate Indebtedness means any indebtedness, including, without limitation, auction rate indebtedness, 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 single numerical rate for the entire term of the indebtedness.

SUMMARY OF THE AMENDED AND RESTATED SUBORDINATE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere in this Offering Memorandum. This summary does not purport to be a definitive or comprehensive summary of all the provisions of such document. This summary is qualified in its entirety by reference to the full text of the Indenture.

THE NOTES

Terms of the Notes

The Notes will not be subject to redemption prior to maturity. Each Series of Notes will be numbered consecutively from No. 1 upward. The Issuing and Paying Agent may make additional provisions for numbering, including additional prefixes and suffixes, as it may deem appropriate.

Subject to the provisions set forth in the Indenture, the principal of and the interest on the Notes will be paid in federal or other immediately available funds in such coin or currency of the United States of America as, at the respective times of payment, is legal tender for the payment of public and private debts. The principal of and the interest on the Notes will be payable at the Principal Office of the Issuing and Paying Agent on or before the close of business on any Business Day upon which such Notes have become due and payable, provided that such Notes are presented and surrendered on a timely basis. Upon presentation of such a Note to the Issuing and Paying Agent no later than 2:00 p.m. (New York City time) on or after any Business Day upon which such Notes have become due and payable, payment for such Note will be made by the Issuing and Paying Agent in immediately available funds on such Business Day. If a Note is presented for payment after 2:00 p.m. (New York City time) on a Business Day, payment therefor will be made by the Issuing and Paying Agent on the next succeeding Business Day without the accrual of additional interest thereon.

Notwithstanding the provisions set forth regarding terms of the Notes: (i) in the event that the Commission determines to issue a taxable Series of Notes, the terms of such taxable Series of Notes will be set forth in the Supplemental Indenture creating such taxable Series of Notes; and (ii) in the event that a Series of Notes is issued in

the form of a Master Note or Master Notes in book-entry form, such Notes will be payable at maturity without the necessity of physical presentation or surrender in accordance with the procedures of the Depository for such Series of Notes.

Notwithstanding the foregoing, the Commission may deliver the Notes of any Series, including the Series B Notes, in the form of a Master Note, representing all Notes of such Series to be issued from time to time, each maturing not more than 270 days after their respective dates, but in no event later than the Tax Expiration Date or 5 days prior to the applicable Support Facility Expiration Date. Each Master Note may be replaced by a new Master Note having a later maturity date so long as the maturity date thereof does not extend beyond the date calculated in the preceding sentence, as the same may be extended from time to time. Each Master Note will evidence indebtedness of the Commission as set forth in the Advices. Each Advice will comply with the limitations on Notes set forth in the Indenture. The aggregate indebtedness evidenced by any Master Note will at all times equal or be less than the Available Amount of the Support Facility then in effect with respect to the Series of Notes to which the Master Note relates. References in the Indenture to Notes when a Master Note has been issued therefor will refer to the indebtedness under the Master Note or the Advices issued with respect thereto

Transfer of Notes

Any Note may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Indenture, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Note for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Issuing and Paying Agent. Whenever any Note or Notes will be surrendered for transfer, the Commission will execute and the Issuing and Paying Agent will authenticate and deliver a new Note or Notes, of the same Series, maturity and interest rate and for a like aggregate principal amount. The Issuing and Paying Agent will require the Noteholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

ISSUE AND SALE OF NOTES

Issuance and Sale of the Notes

Whenever an Authorized Representative determines that the Commission will sell or issue Notes, such Authorized Representative will deliver an Issuance Request to the Issuing and Paying Agent prescribing the terms of such Notes and the sale or issuance thereof in accordance with the terms of the Indenture, and representing: (i) that all action on the part of the Commission necessary for the valid issuance of the Notes then to be issued has been taken and has not been rescinded or revoked; (ii) that all provisions of State and federal law necessary for the valid issuance of such Notes and (except in the case of a Series of Notes, the interest with respect to which is not expected to be excluded from gross income for federal income tax purposes) necessary to provide that interest thereon is excludable from gross income for purposes of federal income taxes and is exempt from State of California personal income taxes have been complied with; (iii) that interest on the Notes is excludable from gross income for purposes of federal income taxes and is exempt from State of California personal income taxes, provided, however, that such representation need not be provided in the case of a Series of Notes, the interest with respect to which is not expected to be excluded from gross income for federal income tax purposes; and (iv) that such Notes in the hands of the Holders thereof will be valid and binding limited tax bond obligations of the Commission according to their terms. Each such Issuance Request will also certify or constitute a representation and warranty that (x) no Event of Default has occurred and is continuing as of the date of such Issuance Request; (y) the Commission is in compliance with the covenants set forth in the Indenture, including, without limitation, the tax covenants, as of the date of such Issuance Request, and is in compliance with the covenants set forth in the Tax Certificate, as of the date of such Issuance Request, except in the case of a Series of Notes the interest with respect to which is not expected to be excluded from gross income for federal income tax purposes under the Code; and (z) no Notice of No Issuance has been received from the applicable Bank. Notwithstanding any provision of the Indenture or the Issuing and Paying Agent Agreement to the contrary, no such Notes will be delivered by the Issuing and Paying Agent if the delivery of such Notes would result in violation of any of the prohibitions respecting authentication of Notes set forth in the Indenture.

Proceedings for Issuance of Additional Series of Notes

Whenever the Commission will determine to issue an additional Series of Notes pursuant to the Indenture, the Commission will authorize the execution of a Supplemental Indenture specifying the aggregate principal amount of such Series of Notes, which will prescribe the terms and conditions of such Series of Notes, including the Series designation, forms, authorized denominations and the Support Facility to be provided with respect to such Notes and which will include such other provisions respecting the Notes of such Series as will be necessary or appropriate and not inconsistent with the terms of the Indenture.

Before such additional Series of Notes will be issued and delivered, the Commission will file the following documents with the Trustee and the Issuing and Paying Agent (upon which documents the Trustee and Issuing and Paying Agent may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Notes have been satisfied), and each Administrative Agent:

- (1) An executed copy of the Supplemental Indenture authorizing such Series of Notes.
- (2) An executed copy of the Dealer Agreement, the Support Agreement and the Support Facility, and, as and to the extent applicable, the Issuing and Paying Agent Agreement executed in connection with the issuance and delivery of such additional Series of Notes.
- (3) A Certificate of the Commission stating that no Event of Default has occurred and is then continuing; and that upon the delivery of such Series of Notes the aggregate principal amount of Notes then Outstanding will not exceed the amount permitted by law or by the Indenture.
- (4) An Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the Commission in accordance with the Indenture and that such Series, when duly executed by the Commission and authenticated and delivered by the Issuing and Paying Agent, will be valid and binding limited tax bond obligations of the Commission.
- (5) A Certificate certifying (on the basis of calculations as of the date of sale of such Series of Notes, which calculations will be set forth in such Certificate) that the requirement of the Indenture regarding Senior Lien Revenues received is satisfied.
- (6) A Certificate certifying that upon delivery of such additional Series of Notes, the aggregate principal amount of debt of the Commission then outstanding will not exceed the amount permitted by Section 132309(b) of the Public Utilities Code of the State.
- (7) A Certificate of the Commission, if appropriate, designating any Excluded Principal Payments.

Issuance of Refunding Debt

Before refunding debt will be issued and delivered, the Commission will file the following documents with the Trustee and the Issuing and Paying Agent may conclusively rely in determining whether the conditions precedent to the issuance of such debt have been satisfied), and each Administrative Agent:

- (1) A transcript of the proceedings providing for the issuance of such refunding debt.
- (2) An Opinion of Bond Counsel to the effect that such refunding debt has been duly authorized by the Commission in accordance with the Indenture.
- (3) If any of the Senior Lien Debt or Parity Debt to be refunded is to be redeemed prior to its stated maturity date, irrevocable instructions to the trustee for such debt to give the applicable notice of redemption or a waiver of the notice of redemption signed by the owners of all or the portion of such debt 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 for such debt all of the debt proposed to be redeemed (whether cancelled or uncanceled) with irrevocable instructions to the trustee for such debt to cancel said debt so to be redeemed upon the exchange and delivery of said refunding debt; and provided further that no provision of the Indenture will be construed to require the redemption of such debt prior to the maturity date thereof due to the refunding thereof.

(4) A Certificate certifying (on the basis of calculations as of the date of sale of such refunding debt, which calculations will be set forth in such Certificate) that Maximum Annual Debt Service on all Senior Lien Debt, Notes and Parity Debt outstanding following the issuance of such refunding debt is less than or equal to the Maximum Annual Debt Service on all Senior Lien Debt, Notes and Parity Debt outstanding prior to the issuance of such refunding debt.

The proceeds of the sale of the refunding debt will be applied according to the written direction of the Commission to the retirement of the outstanding Senior Lien Debt, Notes or Parity Debt for the refunding of which said refunding debt is being issued. All Senior Lien Debt, Notes or Parity Debt purchased, redeemed or retired by use of funds received from the sale of refunding debt, and all Senior Lien Debt, Notes or Parity Debt surrendered to the trustee for such debt against the issuance of refunding debt, will be forthwith cancelled and will not be reissued.

Limitations on the Issuance of Obligations Payable from Revenues

The Commission will not, so long as any of the Notes, Parity Debt, Advances or Bank Loan is outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Revenues, except the following:

- (a) Notes of any additional Series authorized pursuant to the Indenture;
- (b) Refunding debt authorized pursuant to the Indenture;
- (c) Parity Debt, provided that the following conditions to the issuance of such Parity Debt are satisfied: (1) Such Parity Debt has been duly and legally authorized for any lawful purpose of the Commission; (2) No Event of Default will have occurred and then be continuing, as evidenced in a Certificate of the Commission filed with the Trustee and each Administrative Agent; (3) Unless such Parity Debt is for the refunding purposes specified in the Indenture, the Commission will have obtained and placed on file with the Trustee and each Administrative Agent, the Certificate, upon which the Trustee may conclusively rely, certifying (on the basis of calculations as of the date of delivery of such Parity Debt, which calculations will be set forth in such Certificate) that the requirements of the Indenture with respect to the issuance of an additional Series of Notes have been met with respect to such Parity Debt; (4) The Commission will have filed with the Trustee and each Administrative Agent an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with the Indenture; and (5) The Commission will deliver to the Trustee and each Administrative Agent a transcript of the proceedings providing for the issuance of such Parity Debt.
- (d) Obligations which are junior and subordinate to the payment of the principal, premium, if any, interest and reserve fund requirements, if any, for the Notes and all Parity Debt, and which junior and subordinate obligations are payable as to principal, premium, if any, interest and reserve fund requirements, if any, only out of the Revenues after the prior payment of all amounts then required to be paid under the Indenture from the Revenues for principal, premium, if any, interest and reserve fund requirements, if any, for the Notes and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

Notwithstanding anything in the Indenture to the contrary, the issuance of the Series B Notes or the making of an Advance or Bank Loan with respect to Notes of any Series shall not be considered the issuance of additional debt under the Indenture, and no limitations on the issuance of additional debt in the Indenture will apply to the issuance of Series B Notes or the making of Advances or Bank Loans with respect thereto or with respect to the makings of Advances or Bank Loans with respect to any other Series of Notes.

PROJECT FUNDS

Establishment and Application of Project Funds

In connection with the issuance of each Series of Notes issued to finance a portion of the Project, the Trustee will establish, maintain and hold in trust a separate fund designated as the "____ Project Fund" (inserting therein the Series designation of such Project Fund). The moneys in each Project Fund will be used and withdrawn by the Trustee to pay the costs of the Project, including providing interim funds for a portion or portions of the Project which will on a long term basis be financed with private developer funding, as contemplated by the Ordinance, and the Costs of Issuance of any Series of Notes, provided that moneys in a Project Fund related to a tax-exempt Series of Notes are not permitted to be used to pay the Costs of Issuance of a taxable Series of Notes. All investment earnings on funds held in a Project Fund will be deposited in such Project Fund unless directed by the Commission to be deposited in the Rebate Fund. Before any payment from any Project Fund will be made, the Commission will file or cause to be filed with the Trustee a Requisition of the Commission. Upon receipt of each such Requisition, the Trustee will pay the amount set forth in such Requisition as directed by the terms thereof out of the applicable Project Fund. The Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment. The Trustee will not incur any liability for any disbursement from any Project Fund made in reliance upon any Requisition.

When the Commission determines that the portion of the Project to be financed with the proceeds of a Series of Notes has been completed, a Certificate of the Commission will be delivered to the Trustee by the Commission stating: (i) the fact and date of such completion; (ii) that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in such Project Fund is to be maintained in the full amount of such claims until such dispute is resolved), and (iii) that the Trustee is to transfer the remaining balance in such Project Fund, less the amount of any such retention, to the Principal Fund and apply such funds to the payment at maturity of the Notes of such Series. Upon the receipt of such Certificate, the Trustee will transfer any remaining balance in such Project Fund, less the amount of any such retention, to the Principal Fund to be used for the payment at maturity of the Notes of such Series as soon as practicable in accordance with the foregoing Certificate and the terms and conditions of the Indenture.

REVENUES

Pledge of Revenues

The Revenues are pledged to the payment of Notes and Parity Debt, including, without limitation, all amounts owed to each Bank pursuant to a Support Agreement, without priority or distinction of one over the other and the Revenues constitute a trust fund for the security and payment of the Notes and Parity Debt, including, without limitation, all amounts owed to each Bank pursuant to a Support Agreement; but nevertheless out of Revenues certain amounts may be applied for other purposes as provided in the Indenture.

Out of Revenues there will be applied as hereinafter set forth all sums required for the payment of the principal of and interest on the Notes and all Parity Debt, together with any sinking fund payments of Parity Debt and reserve fund requirements with respect thereto. The pledge of Revenues made in the Indenture will be irrevocable until all of the Notes and all Parity Debt are no longer outstanding.

Allocation of Revenues

So long as any Notes are Outstanding, the Trustee will 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 will establish, maintain and hold in trust for the benefit of the Owners of the Notes) 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 will set aside or transfer amounts with respect to outstanding Parity Debt, as provided in the

proceedings for such Parity Debt delivered to the Trustee pursuant to the Indenture, including, without limitation, all amounts owed to each Bank pursuant to a Support Agreement, which amounts will be set forth by each Bank in an invoice delivered to the Commission and the Trustee or represented by an Advance or Bank Loan, and which amounts will be deposited in the Support Agreement Fund established pursuant to the Indenture, which deposits and amounts will be proportionate in the event such Revenues are insufficient to provide for all deposits and amounts required as of any date to be made with respect to the Notes and such Parity Debt:

(1) **Interest Fund.** The Trustee will set aside in the Interest Fund as soon as practicable in each month an amount which would be sufficient to cause the amount on deposit in the Interest Fund on such day to equal the accrued and unpaid interest, if any, on the Notes Outstanding on such date plus the interest which would accrue on such Notes from such date to and including the next 40 calendar days, or such longer period as will be established in any Supplemental Indenture, if such Notes were outstanding at all times during such period, calculated (i) at the actual rate of interest on the Notes for any day interest is to accrue at a rate known on the date such deposit is made and (ii) at the rate of twelve percent (12%) for any day interest is to accrue at a rate unknown on the date such deposit is made. In August of each year, on the Business Day prior to the date Revenues are to be received by the Trustee from the Bond Trustee for such month, any excess amounts in the Interest Fund not needed to pay interest on the Notes on such date or the following Business Day will be transferred to the Commission; provided, however, that in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Notes or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment date or Business Day will be retained on deposit in the Interest Fund.

(2) **Principal Fund.** The Trustee will deposit in the Principal Fund as soon as practicable in each month an amount equal to the principal amount of Notes maturing in the next 40 calendar days, or such longer period as will be established in a Supplemental Indenture, which the Commission certifies in writing to the Trustee will be paid from Revenues and which will no longer be designated Excluded Principal Payments. The Trustee will also deposit in the Principal Fund moneys provided by the Commission from grants received from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Commission (other than from the issuance and delivery of Notes pursuant to the Issuing and Paying Agent Agreement) for the payment of principal of the Notes.

Any Revenues remaining in the Revenue Fund after the foregoing transfers described above, except as otherwise provided in the Indenture, or in a Supplemental Indenture, or in an instrument providing for the issuance of debt subordinate to the Notes or Parity Debt, will be transferred on the same Business Day to the Existing Bond Trustee for application in accordance with the provisions of the Existing Bond Indenture, or if all Second Senior Bonds will have been discharged, to the Sales Tax Extension Bond Trustee for application in accordance with the provisions of the Sales Tax Extension Bond Indenture.

If 5 days prior to any principal payment date or interest payment date the amounts on deposit in the Interest Fund and Principal Fund, with respect to the payments to be made on such upcoming date from Revenues are insufficient to make such payments, the Trustee will 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 Revenues in its possession the amount of such deficiency on or prior to the principal or interest payment date referenced in such notice.

Application of Interest Fund and Principal Fund; Transfer to Issuing and Paying Agent

All amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Notes as it will become due and payable and making payments on Interest Rate Swap Agreements related to the Notes. Such funds will be transferred to the Issuing and Paying Agent by 12:00 Noon (New York City time) on or before the date interest on the Notes is due to make payment thereon.

All amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purposes of paying the principal of the Notes when due and payable. Such funds will be transferred to the Issuing and Paying Agent by 12:00 Noon (New York City time) on or before the date principal on the Notes is due to make payment thereon.

Support Agreement Funds

In connection with the issuance of each Series of Notes, the Trustee will establish and maintain a separate fund, which fund will be designated the "Support Agreement Fund – Series ___ Support Facility" (inserting therein the Series designation of such Support Agreement Fund). Within each such Support Agreement Fund, the Trustee will establish two (2) separate accounts to be known as the "Support Agreement Interest Account – Series ___ Support Facility" (inserting therein the Series designation of such Support Agreement Interest Account) and the "Support Agreement Principal Account – Series ___ Support Facility" (inserting therein the Series designation of such Support Agreement Principal Account). To the extent that there is an Advance outstanding relating to a Series of Notes, the Trustee will deposit in the applicable Support Agreement Fund, as soon as practicable in each month, an amount equal to one-third (1/3) of the amount expected to become due within the next ninety (90) calendar days with respect to interest due with respect to such Advance, which amount will be deposited in the applicable Support Agreement Interest Account. To the extent that there is a Bank Loan outstanding relating to a Series of Notes, the Trustee will deposit in the applicable Support Agreement Fund as soon as practicable in each month, an amount equal to one-twelfth (1/12) or, during the first six months of a Bank Loan, one-sixth (1/6) of the amount expected to become due on the next date on which an installment of principal is due with respect to such Bank Loan, which amount will be deposited in the applicable Support Agreement Principal Account, and an amount equal to one-third (1/3) of the amount expected to become due within the next ninety (90) calendar days with respect to the interest due with respect to such Bank Loan, which amount will be deposited in the applicable Support Agreement Interest Account. The foregoing deposits by the Trustee will be made from Revenues on a parity basis with the deposits made pursuant to "Allocation of Revenues" above. A Support Agreement Fund may also be funded by the Commission from any other source of funds of the Commission and will be used only to reimburse and repay the applicable Bank with respect to Advances or Bank Loans at the times and in accordance with the terms of the applicable Support Agreement.

Note Funds

In connection with the issuance of each Series of Notes, the Issuing and Paying Agent will establish and maintain a separate fund, which will be designated the "_____ Note Fund" (inserting therein the Series designation of such Note Fund). Within each such Note Fund, the Issuing and Paying Agent will establish two separate accounts to be known as the "_____ Note Principal Account" (inserting therein the Series designation of such Note Principal Account) and the "Note Interest Account" (inserting therein the Series designation of such Note Interest Account). The Issuing and Paying Agent will not have a lien on any Note Fund for the payment of any fees or expenses or other obligations owing to the Issuing and Paying Agent and each such Note Fund will only be used for the purposes set forth in the Indenture and in the Issuing and Paying Agent Agreement.

All moneys from time to time on deposit in each Note Principal Account, whether received from a Dealer from the proceeds of Notes pursuant to the Indenture, from the Trustee from the Principal Fund pursuant to the Indenture from an Advance under a Support Facility, or from any other source, will be used to pay the principal of matured Notes of the applicable Series. Pursuant to the provisions set forth in the Issuing and Paying Agent Agreement and the Indenture, the Issuing and Paying Agent will apply all amounts from time to time held in each Note Principal Account, to the payment of the principal of Notes of the applicable Series when due, as contemplated by this section and the Issuing and Paying Agent Agreement, without further authorization or direction.

Pursuant to the provisions set forth in the Issuing and Paying Agent Agreement and the Indenture, the Issuing and Paying Agent will apply all amounts from time to time on deposit in each Note Interest Account solely for the purpose of paying interest on the Notes of the applicable Series, as contemplated by the Indenture and the Issuing and Paying Agent Agreement, without further authorization or direction.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee or the Issuing and Paying Agent and established pursuant to the Indenture will be invested, as directed by the Commission, solely in Investment Securities. All Investment Securities will, as directed by the Commission in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations set forth in the Indenture and each Tax Certificate, the limitations as to maturities hereinafter in this section and each Tax Certificate set forth and such additional limitations or requirements consistent with the foregoing as may be established in each Tax Certificate or by Request of the Commission. If and to the extent the Trustee or the Issuing and Paying Agent does not receive investment instructions from the Commission with respect to the moneys in the funds and accounts held pursuant to the Indenture by the Trustee or the Issuing and Paying Agent, as applicable, such moneys will be invested in Investment Securities described in clause (xii) of the definition thereof and the Trustee or the Issuing and Paying Agent, as applicable, will thereupon request investment instructions from the Commission for such moneys.

Moneys in the funds and accounts will 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 or the Issuing and Paying Agent.

Moneys held by the Issuing and Paying Agent for the payment of the principal of and interest on Notes that have matured will be held uninvested or will be invested only in Investment Securities described in clauses (i) or (ii) of the definition thereof.

Unless otherwise provided in the Indenture or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, will be transferred to the Revenue Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited in the Rebate Fund, except as otherwise provided in the Indenture. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established and held by the Trustee pursuant to the Indenture (other than the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture; and provided further the Trustee will segregate such funds and accounts if so instructed by the Commission to assist in the calculation of the Rebate Requirement. 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 will 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, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Commission may, and the Trustee will, upon the Request of the Commission, enter into a financial futures or financial option contract with an entity the debt securities of which are rated in the highest short-term or one of the two highest long-term Rating Categories by Moody's and Standard & Poor's.

The Commission may, and the Trustee will, upon the Request of the Commission, enter into an Interest Rate Swap Agreement corresponding to the interest rate or rates payable on a Series of Notes or Parity Debt or any portion thereof and the amounts received by the Commission or the Trustee, if any, pursuant to such Interest Rate Swap Agreement may be applied to the deposits required under the Indenture. If the Commission so designates, amounts payable under an Interest Rate Swap Agreement will be secured by Revenues and other assets pledged under the Indenture to the Notes and other Parity Debt on a parity basis therewith (excluding amounts payable in connection with any termination or unwinding of an Interest Rate Swap Agreement which will be secured on a subordinate basis) and, in such event, the Commission will pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided by the Indenture, the amounts to be paid under such Interest Rate Swap Agreement, as if such amounts were additional interest due on the Notes to which such Interest Rate Swap Agreement relates, and the Trustee will pay to the other party to the Interest Rate Swap Agreement, to the extent

required thereunder, amounts deposited in the Interest Fund for the payment of interest on the Notes with respect to which such Interest Rate Swap Agreement was entered into.

The Trustee will keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Notes, including moneys derived from, pledged to, or to be used to make payments on the Notes. Such records will specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and will set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The Trustee will also provide to the Commission in accordance with a Request of the Commission, with respect to each Investment Security such documentation as is reasonably available to the Trustee and is required by the Code or other applicable law to be obtained by the Commission as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments.

COVENANTS OF THE COMMISSION

Punctual Payment

The Commission will punctually pay or cause to be paid the principal of and interest on all the Notes, in strict conformity with the terms of the Notes and of the Indenture, according to the true intent and meaning thereof, but in each case only out of Revenues as provided in the Indenture.

Extension of Payment of Notes

The Commission will not directly or indirectly extend or assent to the extension of the maturity of any of the Notes or the time of payment of any Notes or claims for interest by the purchase or funding of such Notes or claims for interest or by any other arrangement and in case the maturity of any of the Notes or the time of payment of any such claims for interest will be extended, such Notes or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Notes then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in this paragraph will be deemed to limit the right of the Commission to issue debt for the purpose of refunding any Outstanding Notes, and such issuance will not be deemed to constitute an extension of maturity of Notes.

Waiver of Laws

The Commission will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Notes, and all benefit or advantage of any such law or laws is expressly waived by the Commission to the extent permitted by law.

Further Assurances

The Commission will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Notes of the rights and benefits provided in the Indenture.

Against Encumbrances

The Commission will not create any pledge, lien or charge upon any of the Revenues having priority over or having parity with the lien of the Notes except only as permitted in the Indenture.

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 will be made of all transactions relating to the Revenues. Such books of record and account will be available for inspection by the Trustee and each Bank at reasonable hours and under reasonable circumstances.

The Commission will furnish the Trustee and each Administrative Agent within 180 days after the end of each Fiscal Year, the financial statements of the Commission relating to the Revenues 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 the chief financial officer of the Commission 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 owner of Notes upon written request to the Commission.

Collection of Sales Tax Revenues

The Commission covenants and agrees that it has duly levied a retail transactions and use tax in accordance with the Law, 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 Notes 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 Existing Bond Trustee. Said agreement will be continued in effect so long as any of the Existing Senior Lien Debt or Sales Tax Extension Senior Lien Debt, as applicable, remains unpaid and any of the Notes are Outstanding and will not be amended, modified or altered (other than to provide for the transmission of Sales Tax Revenues directly to the Sales Tax Extension Bond Trustee in the event of the discharge of all Existing Senior Lien Debt) without the written consent of the Existing Bond Trustee or the Sales Tax Extension Bond Trustee, as applicable, so long as any of the Existing Senior Lien Debt or Sales Tax Exemption Lien Debt, as applicable, remains unpaid. The Commission will receive and hold in trust for (and remit immediately to) the Existing Bond Trustee or Sales Tax Exemption Bond Trustee, as applicable, any Sales Tax Revenues paid to the Commission by the State Board of Equalization.

In the event that the Existing Bonds are discharged in accordance with the provisions set forth in the Existing Bond Indenture and no other Existing Senior Lien Debt remains outstanding, the Commission covenants and agrees that it will amend said agreement with the State Board of Equalization in order to permit the State Board of Equalization to transmit Sales Tax Revenues to the Sales Tax Extension Bond Trustee. In the event that the Sales Tax Extension Bonds are discharged in accordance with the provisions set forth in the Sales Tax Extension Bond Indenture and no other Sales Tax Extension Lien Debt remains outstanding, the Commission covenants and agrees that it will amend said agreement with the State Board of Equalization to transmit Sales Tax Revenues to the Trustee. If such agreement is so amended, the Commission covenants and agrees that said agreement will be continued in effect so long as any of the Notes are Outstanding and that said agreement will not be further amended, modified or altered without the written consent of the Trustee so long as any of the Notes are Outstanding.

The Commission represents and warrants that it has directed and ordered the Existing Bond Trustee to transmit to the Trustee, on the same Business Day as such Sales Tax Revenues are received, all Sales Tax Revenues, other than the portion of the Sales Tax Revenues applied to payment of the principal of, premium, if any, and interest on the Existing Senior Lien Debt, together with any sinking fund payments and reserve fund requirements with respect thereto, applied by the Existing Bond Trustee pursuant to the provisions set forth in the Existing Bond Indenture.

Sales Tax Revenues received by the Trustee will be transmitted to the Existing Bond Trustee pursuant to the Indenture; provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee will be applied first to the payment of the costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses will be paid from the Revenue Fund, and, second, will be deposited into the Interest Fund, Principal Fund, and the Support Agreement Funds, as more fully set forth in the Indenture.

The Commission covenants and agrees to separately account for all Revenues and to provide to the Trustee and each Bank access to such accounting records at reasonable hours and under reasonable circumstances.

The Commission covenants that so long as the Notes are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Law which would materially and adversely affect the rights of Noteholders or any Bank.

Rebate Fund

The Trustee will 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 will maintain such accounts as will be necessary in order to comply with the terms and requirements of each Tax Certificate. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund will be held by the Trustee for the account of the Commission in trust, to the extent required to satisfy the Rebate Requirement (as defined in each Tax Certificate), for payment to the federal government of the United States of America, and neither the Trustee nor the Owner of any Notes nor any Bank will have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by the Indenture and by the provisions of each Tax Certificate (which are incorporated in the Indenture by reference). 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 will state the actual amounts to be deposited in or withdrawn from the Rebate Fund and will not require the Trustee to make any calculations with respect thereto). The Trustee will be deemed conclusively to have complied with these provisions if it follows such instructions of the Commission, and the Trustee will have no liability or responsibility to enforce compliance by the Commission with the terms of any Tax Certificate nor to make computations in connection therewith.

The Trustee will invest all amounts held in the Rebate Fund, pursuant to written instructions of the Commission, in Investment Securities, subject to the restrictions set forth in each Tax Certificate.

Upon receipt of the instructions of the Commission, the Trustee will remit part or all of the balances in the Rebate Fund to the federal government of the United States of America, as directed. In addition, if such instructions so direct, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds (other than the Support Facility Funds) as directed. Any funds remaining in the Rebate Fund after payment of all of the Notes and payment and satisfaction of any Rebate Requirement, will be withdrawn and remitted to the Commission in accordance with a Request of the Commission.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the federal government of the United States of America and to comply with all other requirements and each Tax Certificate will survive the defeasance or payment in full of the Notes.

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 Notes under Section 103 of the Code; provided that, prior to the issuance of any Series of Notes, the Commission may exclude the application of the covenants regarding the Rebate Fund and taxability to such Series of Notes. Without limiting the generality of the foregoing, the Commission will comply with all requirements and covenants contained in each Tax Certificate. In the event that at any time the Commission is of the opinion that for tax purposes it is necessary

to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Commission will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Notwithstanding any provision of the Indenture, if the Commission will receive an Opinion of Bond Counsel to the effect that any action required under any Tax Certificate or the tax provisions of the Indenture 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 Notes 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 will be deemed to be modified to that extent.

Support Facilities; Alternate Facilities

The Commission will at all times maintain in effect a Support Facility enabling it to borrow an amount equal to the principal amount of each Series of Notes then authorized by the Indenture plus accrued interest thereon. The Commission may deliver a substitute (each, an "Alternate Facility") to replace any Support Facility then in effect, provided, however, that: (i) the Commission will have provided to the Issuing and Paying Agent, the Trustee and the applicable Dealer written evidence from Moody's, if such Series of Notes are then rated by Moody's, and Standard & Poor's, if such Series of Notes are then rated by Standard & Poor's, of the ratings which will be assigned to such Series of Notes upon delivery of such Alternate Facility; and (ii) such Alternate Facility will take effect on a date on which all Notes of such Series mature. The Commission will provide advance written notice of the proposed delivery of an Alternate Facility to the Issuing and Paying Agent, the Trustee and the applicable Dealer, such notice to be provided by the Commission, to the extent practicable, at least 40 days in advance of the proposed delivery of an Alternate Facility. Upon receipt of such written notice from the Commission, the Issuing and Paying Agent will provide written notice of the proposed delivery of an Alternate Facility to the Owners of the applicable Series of Notes, such written notice to be provided by first class mail at least 30 days prior to the proposed date of delivery of such Alternate Facility. Following the substitution of an Alternate Facility for a Support Facility then in effect, references to the Support Facility replaced thereby will refer to such Alternate Facility. Upon receipt of an Alternate Facility, the Issuing and Paying Agent or the Trustee, as applicable, will promptly give notice of the acceptance of such Alternate Facility to the Owners of the Notes, such notice to be given by first class mail, postage prepaid.

Appointment of Dealers

The Commission covenants and agrees to take all reasonable steps necessary to assure that, at all times, there will be one or more Dealers for each Series of Notes, and to that end will from time to time enter into one or more Dealer Agreements with such Dealers, providing for the services specified in such Dealer Agreements to be performed by such Dealers, in connection with the offering, sale and issuance of Notes.

EVENTS OF DEFAULT AND REMEDIES

Events of Default

The following events will be Events of Default:

- (a) default in the due and punctual payment of the principal of any Note when and as the same will become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) default in the due and punctual payment of any installment of interest on any Note when and as such interest installment will become due and payable;
- (c) if the Commission will 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 referred to in subsection (a) or (b), for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Commission by the Trustee; except that, if such failure can be remedied but not within such 60 day period and if the Commission has taken all action reasonably possible to remedy such failure within such 60 day

period, such failure will not become an Event of Default for so long as the Commission will 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 default will exist under any agreement governing any Parity Debt and such default will continue beyond the applicable grace period, if any, provided for with respect to such default or if the holder of any Parity Debt exercises a right under the Parity Debt or the corresponding instruments pursuant to which such Parity Debt was issued to declare the principal thereof to be accelerated and payable immediately;

(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 will 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 will not be vacated or set aside or stayed within 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 will assume custody or control of the Commission or of the Revenues, and such custody or control will not be terminated within 60 days from the date of assumption of such custody or control;

(h) if the Legislature of the State will repeal or amend all or any portion of the provisions of the Law 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 determined that said repeal or amendment does not materially and adversely affect the rights of Noteholders; or

(i) if the holder of any Senior Lien Debt or the trustee for any holder of Senior Lien Debt exercises a right under the Senior Lien Debt or the corresponding instruments under which such Senior Lien Debt was issued to declare the principal thereof to be payable prior to the maturity thereof.

Acceleration

Upon the occurrence and continuation of any Event of Default, the Trustee may and, upon the written request of the Owners of not less than a majority in aggregate principal amount of the Notes Outstanding at the time, after being indemnified to its satisfaction, will, by notice in writing delivered to the Commission, declare the entire principal amount of the Notes then Outstanding under the Indenture and the interest accrued thereon, immediately due and payable, and such entire principal and interest will thereupon become and be immediately due and payable. The right of the Trustee to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before any judgment or decree for the payment of moneys due will have been obtained or entered unless the same has been discharged, all overdue principal of and interest upon the Notes, together with the reasonable and proper charges, expenses and liabilities of the Trustee and the Holders and their respective agents and attorneys and all other sums then payable by the Commission under the Indenture (except the principal of and interest accrued solely by virtue of such declaration) will either be paid by or for the account of the Commission or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) will be cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will be made therefor, then and in every such case the Holders of a majority in principal amount of the Notes then Outstanding by written notice to the Commission and to the Trustee, may rescind such declaration with respect to the Notes and annul such declaration with respect to the Notes, or, if the Trustee will have acted with respect to the Notes without a direction from the Holders of not less than a majority in aggregate principal amount of the Notes Outstanding at the time of such request, and if there will not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in aggregate principal amount of the Notes then Outstanding, then the Trustee may, by written notice to the Commission, annul such declaration and any such default with respect to the Notes and its consequences will be annulled; provided that no such rescission and annulment will extend to or affect any subsequent Event of Default or impair or exhaust any right or power consequent thereon.

Application of the Revenues and Other Funds After Default

If an Event of Default will occur and be continuing, the Commission will immediately transfer to the Trustee all Revenues held by it, and the Trustee will apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (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 Owners of the Notes and Parity Debt, including the costs and expenses of the Trustee and the Noteholders 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; and

(2) To the payment of the whole amount of principal then due on the Notes and Parity Debt (upon presentation of the Notes and Parity Debt 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 principal, at the rate or rates of interest borne by the respective Notes and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price, if applicable, of any Notes and Parity Debt which will have become due, whether at maturity, acceleration or by call for redemption, in the order of their due dates, with interest on the overdue principal and Parity Debt at the rate borne by the respective Notes and Parity Debt, and, if the amount available will not be sufficient to pay in full all the Notes and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Noteholders

The Trustee is irrevocably appointed (and the successive respective Owners of the Notes, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Notes for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Notes, 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 Noteholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than 25% in aggregate amount of Notes then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings, including acceleration upon occurrence and continuance of any Event of Default, as it will 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 granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Law or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Notes or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such Notes, subject to the provisions of the Indenture.

Noteholders' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Notes then Outstanding will 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 will 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 will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Noteholders or holders of Parity Debt not parties to such direction.

Limitation on Noteholders' Right to Sue

No Owner of any Note will 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 Note, unless: (1) such Owner will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than 25% in aggregate principal amount of the Notes then Outstanding will have made written request upon the Trustee to exercise the powers granted to it in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (5) the Trustee will not have received contrary directions from the Owners of a majority in aggregate principal amount of the Notes then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Notes of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Notes will 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 Owners of Notes, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Notes, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Notes, subject to the provisions of the Indenture.

Absolute Obligation of the Commission

Nothing in the Indenture, or in the Notes, contained will affect or impair the obligation of the Commission, which is absolute and unconditional, to pay the principal of and interest on the Notes to the respective Owners of the Notes at their respective dates of maturity, but only out of the Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Notes.

Termination of Proceedings

In case any proceedings taken by the Trustee or any one or more Noteholders on account of any Event of Default will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Noteholders, then in every such case the Commission, the Trustee and the Noteholders, subject to any determination in such proceedings, will be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Commission, the Trustee and the Noteholders will continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Notes is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or of any Owner of the Notes to exercise any right or power arising upon the occurrence of any default will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Notes may be exercised from time to time and as often as may be deemed expedient.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted

The Indenture and the rights and obligations of the Commission, the Owners of the Notes 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 with the written consent of the Owners of a majority in aggregate principal amount of the Notes (or, if such Supplemental Indenture is only applicable to a Series of Notes, such Series of Notes) then Outstanding will have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Notes of any particular maturity remain Outstanding, the consent of the Owners of such Notes will not be required and such Notes will not be deemed to be Outstanding for the purpose of any calculation of Notes Outstanding when determining if an amendment is permitted.

The Indenture and the rights and obligations of the Commission and of the Owners of the Notes and of the Trustee may also be modified or amended at any time by a Supplemental Indenture entered into by the Commission and the Trustee which will become binding when the written consents of each provider of a letter of credit or a policy of bond insurance for the Notes will have been filed with the Trustee, provided that at such time the payment of all the principal of and interest on all Outstanding Notes will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody's and Standard & Poor's.

No such modification or amendment will: (a) extend the fixed maturity of any Note, or reduce the amount of principal thereof, or extend the time of payment provided for any Note, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Note so affected, or (b) reduce the aforesaid percentage of principal the consent of the Owners 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 Owners of the Notes 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 Owners of all of the Notes then Outstanding. It will not be necessary for the consent of the Noteholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof.

The Indenture and the rights and obligations of the Commission, of the Trustee and of the Owners of the Notes may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Commission may adopt without the consent of any Noteholders 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 Notes (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Commission;
- (2) to make provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture;
- (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 will not materially and adversely affect the interests of the Owners of the Notes;
- (4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Parity Debt with such interest rate, payment, maturity and other terms as the Commission may deem desirable; subject to the provisions of the Indenture;
- (5) to provide for the issuance of Notes in book-entry form, provided that no such provision will materially and adversely affect the interests of the Owners of the Notes;

(6) to make modifications or adjustments necessary, appropriate or desirable to accommodate Support Facilities, provided that no such provision will materially and adversely affect the interests of the Owners of the Notes;

(7) if the Commission agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Notes from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(8) to provide for the issuance of an additional Series of Notes pursuant to provisions of the Indenture;

(9) to amend the Indenture to provide for the issuance of an additional Series of Notes upon demonstration of pro forma debt service coverage or historical debt service coverage, provided that no such provision will materially and adversely affect the interests of Owners of the Notes; and

(10) for any other purpose that does not materially and adversely affect the interests of the Owners of the Notes, including, without limitation, to provide for changes requested by Moody's or Standard & Poor's in order to obtain or maintain a credit rating for any Series of Notes.

The provisions described above do not prevent any Noteholder from accepting any amendment as to the particular Notes held by him, provided that due notation thereof is made on such Notes.

DEFEASANCE

Discharge of Indenture

Notes 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 principal of and interest on such Outstanding Notes, as and when the same 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 to pay such Outstanding Notes; or (c) by delivering to the Trustee, for cancellation by it, such Outstanding Notes.

If the Commission will pay all Series for which any Notes 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 Notes will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Commission under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Commission, the Trustee will cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and will execute and deliver to the Commission all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will 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 a firm of independent certified public accountants, or other firm acceptable to the Trustee, are not required for the payment of Notes not theretofore surrendered for such payment.

Discharge of Liability on Notes

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 to pay any Outstanding Note, then all liability of the Commission in respect of such Note will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal of and interest on the Notes, and the Commission will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the continuing duties of the Trustee under the Indenture including, without limitation, the provisions relating to the exchange of Notes and the investment of moneys in funds and accounts.

The Commission may at any time surrender to the Trustee for cancellation by it any Notes previously issued and delivered, which the Commission may have acquired in any manner whatsoever, and such Notes, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee

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 any Notes, 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 will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Notes and all unpaid interest thereon to maturity; or

(b) Defeasance Securities the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal of and all unpaid interest to maturity, on the Notes to be paid, as such principal and interest become due; provided, however, that no such opinion will be required and a Certificate of the Commission will suffice in lieu thereof if the Defeasance Securities to be deposited will mature within 90 days of the date of such deposit and if the Commission will have delivered to the Trustee a Certificate to the effect that the Commission will provide such additional funds as are necessary to pay all unpaid interest to maturity on the Notes to be paid should such Defeasance Securities be insufficient;

provided, in each case, that the Trustee, escrow agent or other fiduciary will 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 and interest with respect to such Notes.

Payment of Notes After Discharge of Indenture

Any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Notes and remaining unclaimed for two years after the principal of all of the Notes has become due and payable, if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Notes became due and payable, will, upon Request of the Commission, be repaid to the Commission free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease. All moneys held by or on behalf of the Trustee for the payment of principal of or interest on Notes will be held in trust for the account of the Owners thereof, and the Trustee will not be required to pay Owners any interest on, or be liable to the Owners or any other person (other than the Commission) for any interest earned on, moneys so held. Any interest earned thereon will belong to the Commission and will be deposited monthly by the Trustee into the Revenue Fund.

SUMMARY OF THE AMENDED AND RESTATED ISSUING AND PAYING AGENT AGREEMENT

The following is a summary of certain provisions of the Issuing and Paying Agent Agreement which are not described elsewhere in this Offering Memorandum. This summary does not purport to be a definitive or comprehensive summary of all the provisions of such document. This summary is qualified in its entirety by reference to the full text of the Issuing and Paying Agent Agreement.

Supply of Notes

The Commission agrees from time to time to furnish the Issuing and Paying Agent with an adequate supply of Notes of each Series, as further described in the Issuing and Paying Agent Agreement. Pending receipt of an Issuance Request, the Issuing and Paying Agent agrees to hold the Notes in safekeeping for the account of the Commission in accordance with the customary practice of the Issuing and Paying Agent.

The Commission may deliver Notes of any Series, including the Series B Notes, in the form of a Master Note, representing all Notes of such Series to be issued from time to time, each maturing no later than the date which is five days prior to the expiration date of the applicable Support Facility. Each Master Note may be replaced by a new Master Note having a later maturity date so long as the maturity date thereof does not extend beyond the fifth day prior to the expiration date of the applicable Support Facility, as the same may be extended from time to time. Each Master Note will evidence indebtedness of the Commission as set forth in the Advices. Each Advice will comply with the limitations on Notes set forth in the Issuing and Paying Agent Agreement.

Completion, Authentication and Delivery of Notes

An Issuance Request will be given by an Authorized Representative by telephone, promptly confirmed in writing (which writing may be transmitted by telecopier). Upon receipt of an Issuance Request as described in the Issuing and Paying Agent Agreement, the Issuing and Paying Agent agrees to withdraw the necessary Note(s) from safekeeping and, in accordance with such Issuance Request, agrees to:

- (i) complete each Note as to principal amount (which principal amount will be \$100,000 or an integral multiple of \$1,000 in excess thereof), date of issue, maturity date (which will not exceed 270 days from the date of issuance), interest rate and amount of interest thereon and to register such Note directed by the applicable Dealer;
- (ii) manually authenticate each Note by any officer or employee duly authorized and designated for such purpose;
- (iii) deliver the Note(s) to the applicable Dealer or its agent, which delivery will be against receipt for payment as provided in the Issuing and Paying Agent Agreement or as otherwise provided in such Issuance Request (if such Issuance Request does not provide for such receipt, the applicable Dealer will nevertheless pay the purchase price for the Note(s)); and
- (iv) retain one nonnegotiable copy of each Note for its records and promptly forward one nonnegotiable copy of each Note to the Commission, the Trustee and the applicable Administrative Agent.

An Issuance Request delivered by telephone must be received by the Issuing and Paying Agent by 12:00 Noon New York City time, if the Note(s) are to be delivered the same day. Telephone transmission of an Issuance Request will be confirmed in writing (which writing may be transmitted by telecopier) the same day.

The Commission understands that although the Issuing and Paying Agent has been instructed and has agreed to deliver the Notes against payment, delivery of the Notes will, in accordance with the custom prevailing in the commercial paper market, be made before receipt of payment in immediately available funds. Therefore, once the Issuing and Paying Agent has delivered a Note to the applicable Dealer, or its agent, the Commission agrees to bear the risk that the applicable Dealer or its agent will fail to remit payment for the Note to the Issuing and Paying Agent. It is understood that each delivery of Notes under the Issuing and Paying Agent Agreement will be subject to the rules of the New York Clearing House in effect at the time of such delivery and, in accordance therewith, Notes are to be delivered by 2:00 p.m., New York City time.

Notwithstanding any other provision of the Issuing and Paying Agent Agreement or the Indenture to the contrary, no Notes of any Series will be authenticated or delivered if:

- (i) such delivery would result in the aggregate principal amount of Notes of such Series Outstanding being in excess of the lesser of the principal amount of such Series authorized pursuant to the Indenture and the amount available to be drawn by the Issuing and Paying Agent under the applicable Support Facility for payment of principal of such Series of Notes; or
- (ii) if the Support Facility relating to Notes of such Series provides interest coverage, such delivery would result in an aggregate amount of interest to accrue on the

Outstanding Notes of such Series to maturity to be in excess of the amount available to be drawn by the Issuing and Paying Agent under the applicable Support Facility for the payment of interest on such Series of Notes; or

(iii) such delivery would result in the delivery of Notes of such Series bearing interest at a rate in excess of the maximum rate then permitted by Law, which as of November 1, 2005 is twelve percent (12%) per annum; or

(iv) the maturity date specified in the Issuance Request for Notes of such Series extends beyond 270 days from the respective dates of authentication and issuance of such Series of Notes or beyond the 5 days prior to the Support Facility Expiration Date or beyond 30 years from the date of initial issuance of such Series of Notes (as provided in the Tax Certificate delivered in connection with such Series of Notes) or beyond the Tax Expiration Date; or

(v) a Notice of No Issuance or a Notice of Termination, each in such form as is set forth in the applicable Support Agreement, will have been delivered to the Issuing and Paying Agent by the applicable Administrative Agent and such Notice will not have been withdrawn or revoked by such Administrative Agent; or

(vi) the Issuing and Paying Agent will have actual knowledge that an Event of Default under the Indenture will have occurred and is continuing; or

(vii) the Issuing and Paying Agent will have received notice that the Opinion of Bond Counsel delivered regarding the exclusion of interest on the Notes of such Series from the gross income of the Holders thereof for federal income tax purposes has been or is being withdrawn, which notice will be delivered by such Bond Counsel to the Commission and the Issuing and Paying Agent.

If the Issuing and Paying Agent is unable to comply with an Issuance Request because of any of the above conditions, the Issuing and Paying Agent will immediately notify the Commission and the applicable Dealer of the circumstances prohibiting the issuance of Notes of such Series.

In the event an Advance or a Bank Loan relating to any Series of Notes is outstanding, the Issuing and Paying Agent may authenticate and deliver a principal amount of Notes of such Series exceeding the applicable Available Amount if, upon receipt of the proceeds of such Notes, the Issuing and Paying Agent will have sufficient funds immediately available to reimburse the applicable Administrative Agent for an Advance or a Bank Loan equal to such principal amount; provided, if such reimbursement is with respect to a Bank Loan, such Notes will be issued only with the prior written consent of each applicable Bank. Upon receipt of the proceeds of such Notes, the Issuing and Paying Agent will immediately notify the applicable Administrative Agent that the Issuing and Paying Agent is holding such proceeds in trust for, and will be immediately wiring the same to, such Administrative Agent.

Notwithstanding any other provision in the Indenture or the Issuing and Paying Agent Agreement to the contrary, so long as a Series of Notes will have been delivered through a book-entry only system pursuant to the Indenture, the Issuing and Paying Agent will deliver such Series of Notes in accordance with the terms of the applicable Letter of Representations delivered in connection with such Series of Notes.

Establishment and Application of Note Funds and Accounts; Demand for Payment Under Support Facilities

Concurrently with the execution and delivery of the Issuing and Paying Agent Agreement and for the purposes of the Issuing and Paying Agent Agreement, the Indenture and the applicable Support Agreement providing liquidity for a Series of Notes, the Issuing and Paying Agent will establish and maintain a separate fund, which will be designated the "_____ Note Fund" (inserting therein the Series designation of such Note Fund), including the "_____ Note Principal Account" (inserting therein the Series designation of such Note Principal Account) and the "_____ Note Interest Account" (inserting therein the Series designation of such Note Interest

Account) therein, each in accordance with the provisions set forth in the Indenture and in accordance with the provisions set forth in the Issuing and Paying Agent Agreement.

(a) On each day on which the Issuing and Paying Agent receives a transfer of funds from the Trustee with respect to interest due or to become due on a Series of Notes, the Issuing and Paying Agent will deposit all such amounts in the Note Interest Account for the applicable Series.

(b) On each day on which the Issuing and Paying Agent receives a transfer of funds from the Trustee with respect to principal due or to become due on a Series of Notes, the Issuing and Paying Agent will deposit all such amounts in the Note Principal Account for the applicable Series.

(c) On each day on which a Dealer or its agent takes delivery of Notes, the Dealer or its agent will pay the purchase price for such Notes in immediately available funds to the Issuing and Paying Agent who will deposit all amounts received from the Dealer with respect to the principal of such Notes in the Note Principal Account for the applicable Series or, if such Notes are being issued pursuant to the provision of the Issuing and Paying Agent Agreement allowing Notes to be issued in excess of the applicable Available Amount if the proceeds of such Notes will be sufficient to reimburse all applicable Advances and Bank Loans, in the Support Facility Fund for the applicable Series.

(d) On any date on which Notes of a Series are maturing, the Issuing and Paying Agent will determine the amount available to pay such Notes by receiving proceeds from the applicable Dealer by 12:00 Noon, New York City time, with respect to all Notes of such Series to be authenticated and delivered on such date pursuant to an Issuance Request. If no Issuance Request is received by 12:00 Noon, New York City time, the Issuing and Paying Agent will assume no such proceeds will be delivered. In the event that the aggregate amount of such proceeds and the amounts on deposit in the Note Principal Account for the applicable Series and the Note Interest Account for the applicable Series on the date of maturity of any Note of such Series will be insufficient to pay the principal of or interest due on such Note, the Issuing and Paying Agent will submit a Notice of Borrowing, in such form as is set forth as an exhibit to the Support Agreement for the applicable Series, to the Administrative Agent by 12:30 p.m., New York City time, in order to draw on the Support Facility for the applicable Series in such amount as is necessary to pay the principal of and, if the applicable Support Facility provides interest coverage, interest due on such maturing Note of such Series, and will deposit the amount of such draw corresponding to principal in the Note Principal Account for the applicable Series and will deposit the amount, if any, of such draw corresponding to interest in the Note Interest Account for the applicable Series. If the applicable Support Facility does not provide interest coverage, the Issuing and Paying Agent will notify the Commission, either in writing or by telephone and promptly confirmed in writing, by 12:30 p.m., New York City time, of the amount of any deficiency in the Note Interest Account for the applicable Series, and the Commission will provide to the Issuing and Paying Agent, but only from Sales Tax Revenues, funds in the amount of such deficiency by 2:30 p.m., New York City time. The Issuing and Paying Agent will deposit such funds in the Note Interest Account for the applicable Series.

The Issuing and Paying Agent: (i) will hold the funds in each Note Fund, for the benefit of the Holders of the applicable Series of Notes and the applicable Bank for such Series; (ii) will set such funds aside exclusively for the payment of the principal of and interest on the Series of Notes for which the draw on the Support Facility for such Series was made; and (iii) will apply such amounts to the payment of such principal of and interest on such Series of Notes, upon presentation thereof for payment, in accordance with the terms of the Indenture and the Issuing and Paying Agent Agreement. The Issuing and Paying Agent will not have a lien on any Note Fund for the payment of any fees or expenses or other obligations owing to the Issuing and Paying Agent under the Issuing and Paying Agent Agreement.

Establishment of Support Facility Funds

Concurrently with the execution and delivery of the Issuing and Paying Agent Agreement and for the purposes of the Issuing and Paying Agent Agreement, the Indenture and each Support Agreement providing liquidity for each Series of Notes, the Issuing and Paying Agent will establish a "_____ Support Facility Fund" (inserting therein the Series designation of such Support Facility Fund), in accordance with the provisions set forth in the Issuing and Paying Agent Agreement. The Issuing and Paying Agent will have exclusive control and sole right of withdrawal with respect to the Support Facility Funds.

On each date on which Notes of a Series are to be authenticated and delivered to the applicable Dealer pursuant to the provision of the Issuing and Paying Agent Agreement allowing Notes to be issued in excess of the applicable Available Amount if the proceeds of such Notes will be sufficient to reimburse all applicable Advances and Bank Loans, such Dealer or its agent will pay the purchase price for such Notes in immediately available funds to the Issuing and Paying Agent who will deposit all amounts received from such Dealer with respect to such Series of Notes in the Support Facility Fund for the applicable Series.

The Issuing and Paying Agent will hold the funds in each Support Facility Fund uninvested, for the benefit of the applicable Bank, will set such funds aside exclusively to reimburse the applicable Bank for an Advance or a Bank Loan, and will upon receipt immediately apply such funds to reimburse such Bank for an Advance or a Bank Loan, in accordance with the terms of the Issuing and Paying Agent Agreement and the applicable Support Agreement. The Issuing and Paying Agent will promptly notify the Commission and the Trustee of such reimbursement made to such Bank.

Payment of Matured Notes

By 2:30 p.m., New York City time, on the date that any Notes are scheduled to mature, the Commission agrees that the Commission will have provided, or caused to be provided, to the Issuing and Paying Agent, sufficient funds from which to pay the maturing Notes and the interest thereon which will be paid from the funds provided pursuant to the Issuing and Paying Agent Agreement and as set forth in the Indenture. When any matured Note is presented to the Issuing and Paying Agent for payment by the holder thereof, payment will be made from funds held pursuant to the provisions set forth in the Indenture and in accordance with the terms thereof and of the Issuing and Paying Agent Agreement.

Cancellation of Notes

The Issuing and Paying Agent agrees promptly to cancel the Note(s) presented for payment and return such Notes to the Commission, or the Issuing and Paying Agent may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Notes and deliver a certificate evidencing such destruction to the Commission. Promptly upon the written request of the Commission, the Issuing and Paying Agent agrees to cancel and return to the Commission all unissued Notes in the possession of the Issuing and Paying Agent at the time of such request.

Compliance with Indenture

The Issuing and Paying Agent agrees to accept, undertake and perform all of the duties and obligations set forth and imposed upon the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and under the Indenture and, in addition, the Issuing and Paying Agent agrees:

- (a) to hold all sums held by the Issuing and Paying Agent for the payment of the principal of or interest on the Notes in trust for the benefit of the Holders of the Notes until such sums will be paid to such Holders or otherwise disposed of as provided in the Indenture;
- (b) to invest all sums, if any, held by the Issuing and Paying Agent for the payment of the principal of or interest on the Notes in Investment Securities (as such term is defined in the Indenture) in accordance with the instructions of the Commission and the provisions set forth in the Indenture;
- (c) to transmit to the Trustee, by telex, telecopier or other electronic means of communication by 5:00 p.m., New York City time, on the day received, the contents of an Issuance Request, and to transmit to the Trustee, by telex, telecopier or other electronic means of communication by 5:00 p.m., New York City time, on the date delivered, a copy of any Notice of Borrowing delivered to any Administrative Agent;
- (d) to provide to each Administrative Agent a monthly report, due on the fifth Business Day of each month, which report will set forth such information regarding the authentication and delivery of Notes of the applicable Series during the prior month, as each Administrative Agent and Issuing and Paying Agent will have agreed upon; and

(e) to keep such books and records, including, without limitation a complete record of all Issuance Requests, as will be consistent with prudent industry practice and to make such books and records available for inspection by the Commission, the Trustee and each Administrative Agent, such books and records to be available on each Business Day during reasonable business hours and, if so requested, to send copies of such books and records to the Commission, the Trustee or Administrative Agent, as applicable.

Amendments

The Issuing and Paying Agent Agreement may be modified or amended from time to time and at any time, provided that such modification or amendment is in writing, is executed by the Commission and the Issuing and Paying Agent, and is approved in writing by each Administrative Agent, and provided further that no modification or amendment will materially and adversely affect the rights of the Noteholders of Notes Outstanding on the effective date of such amendment.

Termination

The Issuing and Paying Agent Agreement may be terminated at any time by either the Commission or the Issuing and Paying Agent on the same terms and conditions as are provided for removal or resignation of the Trustee under the Indenture, which terms and conditions are set forth in the Indenture. No termination of the Issuing and Paying Agent Agreement may take effect prior to: (i) the appointment by the Commission of a successor issuing and paying agent; and (ii) the assumption by such successor of the duties of the Issuing and Paying Agent under the Issuing and Paying Agent Agreement and the Indenture; and (iii) the transfer of each Support Facility then in effect to such successor.

Successor in Interest to Issuing and Paying Agent

Any company into which the Issuing and Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Issuing and Paying Agent may sell or transfer all or substantially all of its issuing and paying agent business, provided such company will meet the requirements set forth in the Indenture, will be the successor to such Issuing and Paying Agent without the execution or filing of any paper or any further act, anything in the Issuing and Paying Agent Agreement to the contrary notwithstanding.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Dated Date]

San Diego County Regional
Transportation Commission
San Diego, California

San Diego County Regional Transportation Commission
Subordinate Sales Tax Revenue Commercial Paper Notes
(Limited Tax Bonds), Series B

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the San Diego County Regional Transportation Commission (the "Issuer") in connection with authorization of issuances of up to \$100,000,000 aggregate principal amount of commercial paper notes designated the San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds), Series B (the "Notes"). The Notes are authorized to be issued pursuant to an Amended and Restated Subordinate Indenture, dated as of November 1, 2005, as amended and supplemented by the First Supplement to the Amended and Restated Subordinate Indenture, dated as of March 27, 2008, and the Second Supplement to the Amended and Restated Subordinate Indenture, dated as of October 1, 2010 (together, the "Indenture"), each between the Commission 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, an Amended and Restated Issuing and Paying Agent Agreement, dated as of November 1, 2005, and the First Supplement to the Amended and Restated Issuing and Paying Agent Agreement, dated as of March 27, 2008 (together, the "Issuing and Paying Agent Agreement"), between the Issuer and U. S. Bank Trust National Association, as issuing and paying agent (the "Issuing and Paying Agent"), the Master Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), an opinion of counsel to the Issuer, certificates of the Issuer, the Trustee, the Issuing and Paying Agent 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 and before or after the Notes are issued. 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 speaks only as of its date and 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 (as of the date hereof and as of the date of issuance from time to time of the Notes) 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, the Issuing and Paying Agent Agreement and 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 Notes to be included in gross income for federal income tax purposes, possibly retroactive to the date on which the first Notes were issued. We call attention to the fact that the rights and obligations under the Notes, the Indenture, the Issuing

and Paying Agent Agreement 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 Offering Memorandum or other offering material relating to the Notes 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 Indenture and the Issuing and Paying Agent Agreement have each been duly executed and delivered by the Issuer and constitute valid and binding obligations of the Issuer.

2. The Notes, when duly issued in the form authorized by and otherwise in compliance with the Indenture and the Issuing and Paying Agent Agreement, executed by a duly authorized official of the Issuer and authenticated by the Issuing and Paying Agent against payment therefor, will constitute the valid and binding obligations of the Issuer.

3. Interest on the Notes, when issued in accordance with the Indenture, the Issuing and Paying Agent Agreement and the Tax Certificate, will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Service Notice 94-84. Interest on the Notes 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 Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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