

*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 Series 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes In the further opinion of Bond Counsel, interest on the Series 2008 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes although Bond Counsel 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 Series 2008 Bonds See TAX MATTERS*

**\$600,000,000**

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

<b>\$150,000,000</b>	<b>\$150,000,000</b>	<b>\$150,000,000</b>	<b>\$150,000,000</b>
<b>Variable Rate Demand Bonds 2008 Series A</b>	<b>Variable Rate Demand Bonds 2008 Series B</b>	<b>Variable Rate Demand Bonds 2008 Series C</b>	<b>Variable Rate Demand Bonds 2008 Series D</b>

**This cover page contains general information only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

The San Diego County Regional Transportation Commission (the "Commission") will issue the Bonds described herein (the "2008 Series A Bonds," the "2008 Series B Bonds," the "2008 Series C Bonds" and the "2008 Series D Bonds," which shall collectively be referred to herein as the "Series 2008 Bonds") pursuant to an Indenture, dated as of March 1, 2008 (as amended and supplemented, including by a First Supplemental Indenture, dated as of March 1, 2008, the "Indenture"), between the Commission and U S Bank National Association, as trustee

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

Proceeds from the sale of the 2008 Bonds will be used by the Commission to (i) pay for projects it is authorized to fund pursuant to the San Diego County Regional Transportation Commission Act (Public Utilities Code Section 132000 et seq ), (ii) pay all of the Commission's subordinate commercial paper notes outstanding as of the date of closing of the Series 2008 Bonds, (iii) fund capitalized interest on the Series 2008 Bonds, (iv) fund a deposit to the reserve fund securing the Series 2008 Bonds, and (v) pay the costs of issuing the Series 2008 Bonds

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

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

**The Series 2008 Bonds may be tendered at any time by Series 2008 Bondowners for purchase and remarketing.** In order to provide for the payment of the purchase price of the Series 2008 Bonds that are not remarketed, the Commission will enter into standby bond purchase agreements, each dated March 27, 2008 (each, a "2008 Liquidity Facility," and together, the "2008 Liquidity Facilities"), with Dexia Credit Local, acting through its New York Branch ("Dexia") and JPMorgan Chase Bank, National Association ("JPMorgan"), and together with Dexia, each, a "2008 Liquidity Facility Provider") Pursuant to the applicable 2008 Liquidity Facilities, with respect to all Series 2008 Bonds that are tendered for purchase and not remarketed, JPMorgan will be obligated to purchase the 2008 Series A Bonds and the 2008 Series B Bonds and Dexia will be obligated to purchase the 2008 Series C Bonds and 2008 Series D Bonds, subject to the occurrence of certain suspension and termination events specified therein Under the terms of the applicable 2008 Liquidity Facilities, each 2008 Liquidity Facility Provider's obligation to purchase the applicable Series 2008 Bonds is several and not joint and neither 2008 Liquidity Facility Provider will be liable for the failure of the other 2008 Liquidity Facility Provider to purchase the applicable Series 2008 Bonds pursuant to the applicable 2008 Liquidity Facility See "The 2008 Liquidity Facilities" Unless otherwise terminated or extended pursuant to its terms, the JPMorgan standby purchase agreement will expire on March 26, 2009 and the Dexia standby bond purchase agreement will expire on March 27, 2013



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



**(Liquidity Provider for 2008 Series C and 2008 Series D)**

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY 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 SERIES 2008 BONDS.**

The Series 2008 Bonds are offered when, as and if issued by the Commission and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission, and certain other conditions Certain legal matters will be passed upon for the Commission by its general counsel and by Nossaman, Guthner, Knox & Elliott, LLP, Disclosure Counsel to the Commission, for the Underwriters by their counsel, Nixon Peabody LLP, and for the 2008 Liquidity Facility Providers by their counsel, Kutak Rock LLP It is expected that the Series 2008 Bonds will be available for delivery on or about March 27, 2008

**Lehman Brothers**  
 Underwriter and Remarketing Agent  
 2008 Series A Bonds  
**Goldman, Sachs & Co.**  
 Underwriter and Remarketing Agent  
 2008 Series B Bonds

**JPMorgan**  
 Underwriter and Remarketing Agent  
 2008 Series C Bonds  
**UBS Investment Bank**  
 Underwriter and Remarketing Agent  
 2008 Series D Bonds

**SUMMARY OF OFFERING**  
**\$600,000,000**  
**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION**  
**SALES TAX REVENUE BONDS (LIMITED TAX BONDS) 2008 SERIES A-D**

	<u>\$150,000,000</u> <u>2008 Series A Bonds</u>	<u>\$150,000,000</u> <u>2008 Series B Bonds</u>	<u>\$150,000,000</u> <u>2008 Series C Bonds</u>	<u>\$150,000,000</u> <u>2008 Series D Bonds</u>
<b>Maturity Date:</b>	April 1, 2038	April 1, 2038	April 1, 2038	April 1, 2038
<b>Price:</b>	100%	100%	100%	100%
<b>Authorized Denominations:</b>	\$100,000 or any integral multiple of \$5,000 in excess thereof	\$100,000 or any integral multiple of \$5,000 in excess thereof	\$100,000 or any integral multiple of \$5,000 in excess thereof	\$100,000 or any integral multiple of \$5,000 in excess thereof
<b>Initial Interest Rate Determination Method:</b>	Weekly Rate	Weekly Rate	Weekly Rate	Weekly Rate
<b>Interest Payment Dates:</b>	First Business Day of each calendar month commencing May 1, 2008	First Business Day of each calendar month commencing May 1, 2008	First Business Day of each calendar month commencing May 1, 2008	First Business Day of each calendar month commencing May 1, 2008
<b>Record Date for Interest Payments:</b>	Business Day prior to Interest Payment Date	Business Day prior to Interest Payment Date	Business Day prior to Interest Payment Date	Business Day prior to Interest Payment Date
<b>2008 Liquidity Facility Provider:</b>	JPMorgan Chase Bank, National Association	JPMorgan Chase Bank, National Association	Dexia Credit Local, New York Branch	Dexia Credit Local, New York Branch
<b>Remarketing Agent/Underwriter:</b>	Lehman Brothers Inc	Goldman, Sachs & Co	J P Morgan Securities Inc	UBS Securities LLC
<b>CUSIP No.:</b>	797400 FFO	797400 FG8	797400 FH6	797400 FJ2

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

**This Official Statement is not intended to provide information about the Series 2008 Bonds after conversion to an Interest Rate Period other than a Daily Rate Period or a Weekly Rate Period.**

While in a Daily Rate Period or a Weekly Rate Period, the Series 2008 Bonds are subject to optional and mandatory tender for purchase in authorized denominations at a purchase price equal to the principal amount thereof, without premium, plus accrued interest to the Purchase Date (the "Purchase Price"). See "DESCRIPTION OF THE SERIES 2008 BONDS."

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

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

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the Commission, the 2008 Liquidity Facility Providers or the Underwriters.

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

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

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

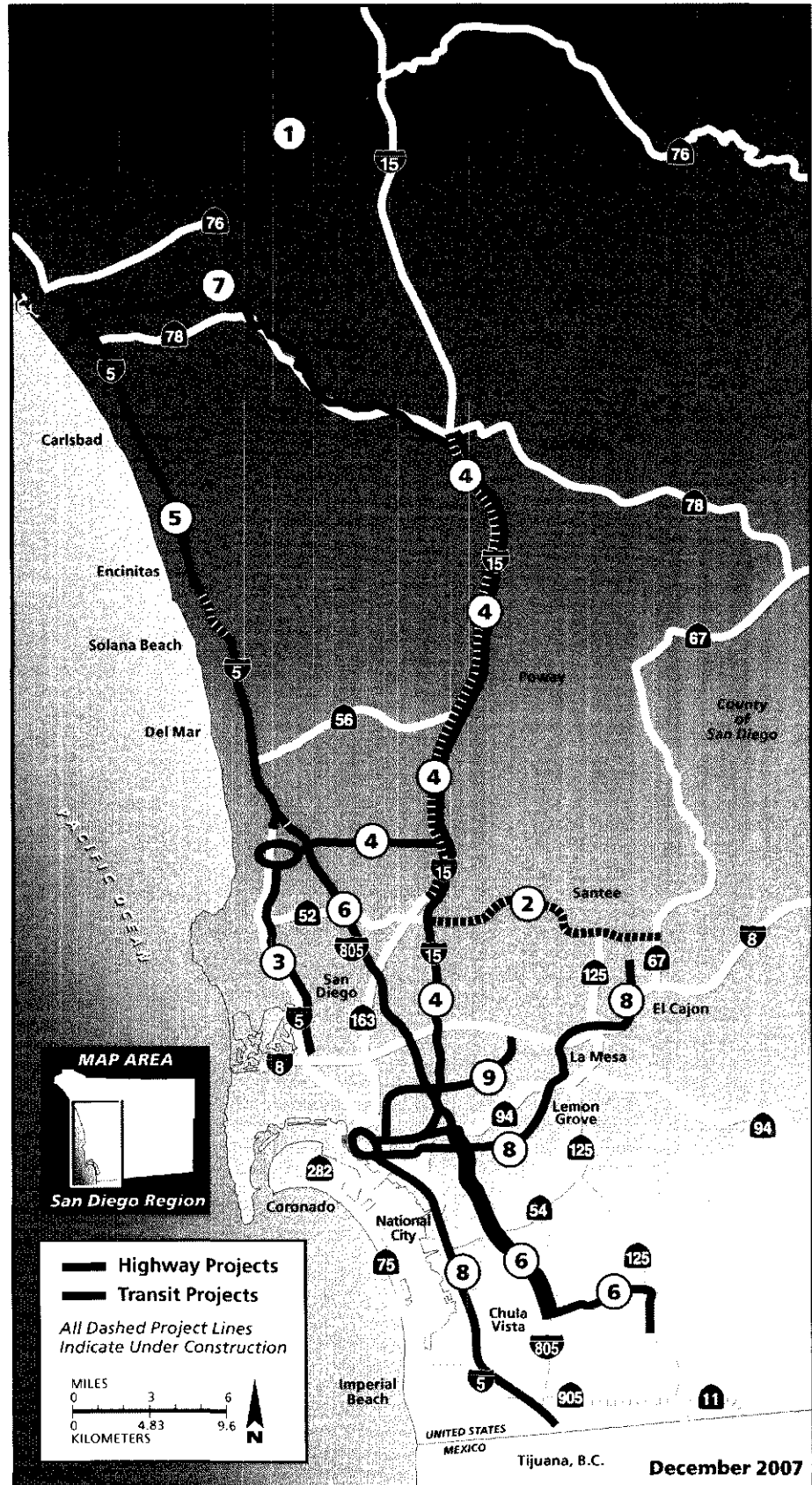
In connection with the offering of the Series 2008 Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market prices of the Series 2008 Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2008 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the Summary of Offering beginning on the inside cover page and such public offering prices may be changed from time to time by the Underwriters.

#### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

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 nor does it plan to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

## Early Action Projects

- 1 SR 76 - Widening
- 2 SR 52 - Widening and Extension
- 3 Mid-Coast and Super Loop Transit
- 4 I-15 Managed Lanes and Bus Rapid Transit (BRT)
- 5 I-5 North Coast Corridor - Environmental Effort and HOV Lanes
- 6 I-805 Corridor - Environmental Effort & BRT
- 7 SPINTER - Oceanside to Escondido
- 8 Trolley - Vehicle and Station Upgrades (Blue and Orange Lines)
- 9 Mid-City Rapid Bus



# SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

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**FIRST VICE-CHAIR: Hon. Lori Holt Pfeiler**  
**SECOND VICE-CHAIR: Hon. Jerome Stocks**

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(A) Chairman Allen Lawson (San Pasqual)

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(A) Hon Jack Feller, Councilmember

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(A) Hon Don Higginson, Councilmember

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Hon Jim Madaffer, Councilmember  
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(A) Hon John Minto, Councilmember

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Hon Dianne Jacob, Vice Chairwoman  
(A) Hon Pam Slater-Price, Chair Pro Tem  
(A) Hon Bill Horn, Supervisor

### CALIFORNIA DEPARTMENT OF TRANSPORTATION

(Advisory Member)  
Will Kempton, Director  
(A) Pedro Orso-Delgado, District 11 Director

### METROPOLITAN TRANSIT SYSTEM

(Advisory Member)  
Harry Mathis, Chairman  
(A) Hon Jerry Rindone, Vice Chairman  
(A) Hon Bob Emery, Board Member

### NORTH COUNTY TRANSIT DISTRICT

(Advisory Member)  
Hon Ed Gallo, Chairman  
(A) Hon Jerome Stocks, Planning Committee Chair  
(A) Hon David Druker, Monitoring Committee Chair

### IMPERIAL COUNTY

(Advisory Member)  
Hon Victor Carrillo, Chairman  
(A) Hon David Ouzan, Councilmember, City of  
Calexico

### UNITED STATES DEPARTMENT OF DEFENSE

(Advisory Member)  
CAPT Steve Wirsching, USN, CEC, Southwest  
Division Naval Facilities Engineering Command  
(A) CAPT Robert Fahey, USN, CEC, Southwest  
Division Naval Facilities Engineering Command

### SAN DIEGO UNIFIED PORT DISTRICT

(Advisory Member)  
Laure Black, Commissioner  
(A) Mike Najera, Commissioner

### SAN DIEGO COUNTY WATER AUTHORITY

(Advisory Member)  
Marilyn Dailey, Commissioner  
(A) Mark Muir, Commissioner  
(A) Gary Croucher, Commissioner

### MEXICO (CONSUL GENERAL OF MEXICO)

(Advisory Member)  
Hon Remedios Gomez-Arnau, Consul General of  
Mexico

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**MANAGEMENT**

**EXECUTIVE DIRECTOR**

Gary L. Gallegos

**CHIEF DEPUTY EXECUTIVE  
DIRECTOR**

Diane Eidam

**GENERAL COUNSEL**

Julie Wiley

**DIRECTOR OF MOBILITY  
MANAGEMENT AND PROJECT  
IMPLEMENTATION**

John ("Jack") A. Boda

**DIRECTOR OF FINANCE**

Renee Wasmund

**DIRECTOR OF LAND USE AND  
TRANSPORTATION PLANNING**

Bob Leiter

**CHIEF ECONOMIST**

Marney P. Cox

**TRANSNET PROGRAM MANAGER**

Charles Stoll

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**FINANCIAL ADVISOR**

Public Financial Management Inc.  
Newport Beach, California

**BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

**TRUSTEE**

U.S. Bank National Association  
Los Angeles, California

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## OFFICIAL STATEMENT

**\$600,000,000**

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

#### **INTRODUCTION AND PURPOSE OF THE SERIES 2008 BONDS**

This Official Statement, including the cover page and all appendices hereto (the "Official Statement"), provides certain information concerning the issuance and sale by the San Diego County Regional Transportation Commission (the "Commission") of \$600,000,000 aggregate principal amount of San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A through D (the "Series 2008 Bonds"), comprised of:

<u>Amount</u>	<u>Series</u>	<u>Initial Interest Rate Mode</u>
\$150,000,000	2008 Series A Bonds	Weekly Rate
150,000,000	2008 Series B Bonds	Weekly Rate
150,000,000	2008 Series C Bonds	Weekly Rate
150,000,000	2008 Series D Bonds	Weekly Rate

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

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

The Series 2008 Bonds are limited obligations of the Commission secured by a pledge of sales tax revenues (herein called the "Sales Tax Revenues") derived from a one-half of one percent (0.5%) retail transactions and use tax (the "Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 and following), net of an administrative fee paid to the California State Board of Equalization (the "BOE") in connection with the collection and disbursement of the Sales Tax. On November 3, 1987, a majority of the voters approved the San Diego Transportation Improvement Program Ordinance and Expenditure Plan (as amended, the "1987 Ordinance") which imposed the Sales Tax in the County for a twenty-year period. The Sales Tax was scheduled to expire on April 1, 2008. On November 2, 2004, more than two-thirds of the voters approved San Diego Transportation Improvement Program Ordinance and Expenditure Plan (the "Sales Tax Extension Ordinance," and, together with the 1987 Ordinance, hereinafter collectively referred to as the "Ordinance") which provided for an extension of the Sales Tax through March 31, 2048. The Series

2008 Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS–Pledge of Sales Tax Revenues ” herein.

Additional Bonds and other obligations secured by a pledge of the Sales Tax Revenues on a parity with the Series 2008 Bonds may be issued or incurred. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Additional Bonds and Parity Obligations” herein. The Series 2008 Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under the Indenture, are referred to collectively herein as the “Bonds.” In 2005, the Commission authorized the issuance from time to time of San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) (the “Subordinate Commercial Paper Notes”) that are secured by a lien on the Sales Tax Revenues that is subordinate to the lien of the Bonds and Parity Obligations. The Subordinate Commercial Paper Notes are currently authorized to be issued in an aggregate principal amount of up to \$335,000,000 outstanding at any one time and, as of March 21, 2008, were outstanding in the aggregate principal amount of \$111,383,000. A portion of the proceeds of the Series 2008 Bonds will be used to pay such outstanding Subordinate Commercial Paper Notes at their respective dates of maturity and the program will be reduced to an authorized amount of \$100,000,000.

The Commission has also entered into an interest rate swap agreement (the “Subordinate Swap Agreement”) with Morgan Stanley Capital Services Inc. (“Morgan Stanley”) pursuant to which the Commission pays a fixed interest rate and Morgan Stanley pays a variable interest rate. The Commission’s obligation to make regularly-scheduled interest payments under the Subordinate Swap Agreement is secured on a parity with the Subordinate Commercial Paper Notes. The Subordinate Swap Agreement terminates on April 1, 2008.

Pursuant to an Indenture, dated as of October 1, 1992 (the “Existing Indenture”), the Commission from time to time has issued its Sales Tax Revenue Bonds (Limited Tax Bonds), which were secured by a pledge of the Sales Tax Revenues (the “Existing Bonds”). On March 13, 2008, the Commission deposited funds pursuant to an escrow agreement with U.S. Bank National Association, as trustee under the Existing Indenture, which along with certain interest earnings on the investment of such funds are sufficient to defease the final payment of the principal of and interest on the Existing Bonds due on April 1, 2008 and discharge the lien of the Existing Indenture on Sales Tax Revenues.

In November, 2005, the Commission entered into three interest rate swap agreements in an initial aggregate notional amount of \$600,000,000 (the “Initial Swaps”) pursuant to which the Commission agrees to pay to the counterparties a fixed rate of interest and the counterparties agree to pay the Commission a floating rate of interest. The Initial Swaps are effective as of April 1, 2008, and the notional amounts amortize in tandem with the amortization of the Series 2008 Bonds. Regularly scheduled payments on the Initial Swaps are payable on a parity with the Series 2008 Bonds.

The Commission will apply the proceeds of the Series 2008 Bonds to (i) pay for projects it is authorized to fund pursuant to the San Diego County Regional Transportation Commission Act, (ii) pay all of the Commission’s Subordinate Commercial Paper Notes outstanding as of the date of closing of the Series 2008 Bonds, (iii) fund capitalized interest on the Series 2008 Bonds, (iv) fund a Reserve Fund for the Series 2008 Bonds, and (v) pay the costs of issuing the Series 2008 Bonds. See “SUMMARY OF FINANCING PLAN.”

Pursuant to the Indenture, the Series 2008 Bonds will be subject to optional and mandatory tender for purchase at a purchase price equal to the principal thereof plus accrued interest thereon to the date of purchase, as provided in the Indenture. See “ADDITIONAL TERMS OF THE SERIES 2008 BONDS – Optional Tender Provisions” and “- Mandatory Tender Provisions.” In order to provide for the payment

of the purchase price of the Series 2008 Bonds, the Commission will enter into standby bond purchase agreements, each dated March 27, 2008 (each, a “2008 Liquidity Facility,” and together, the “2008 Liquidity Facilities”), with Dexia Credit Local, acting through its New York Branch (“Dexia”) and JPMorgan Chase Bank, National Association (“JPMorgan”, and together with Dexia, each, a “2008 Liquidity Facility Provider” and collectively the “2008 Liquidity Facility Providers”). Pursuant to each applicable 2008 Liquidity Facility, with respect to Series 2008 Bonds that are tendered for purchase and not remarketed, JPMorgan will be obligated to purchase the 2008 Series A Bonds and the 2008 Series B Bonds and Dexia will be obligated to purchase the 2008 Series C Bonds and the 2008 Series D Bonds, subject to the occurrence of certain suspension and termination events specified therein. Under the terms of the 2008 Liquidity Facilities, each 2008 Liquidity Facility Provider’s obligation to purchase its designated Series of Series 2008 Bonds is several and not joint and neither 2008 Liquidity Facility Provider will be liable for the failure of the other 2008 Liquidity Facility Provider to purchase its designated Series of Series 2008 Bonds pursuant to the applicable 2008 Liquidity Facility. Unless earlier terminated or extended pursuant to its terms, the JPMorgan 2008 Liquidity Facility will expire on March 26, 2009 and the Dexia 2008 Liquidity Facility will expire on March 27, 2013. See “THE 2008 LIQUIDITY FACILITIES” and Appendix F – “2008 LIQUIDITY FACILITY PROVIDERS”.

The initial Remarketing Agent for the 2008 Series A Bonds is Lehman Brothers Inc., for the 2008 Series B Bonds is Goldman, Sachs & Co., for the 2008 Series C Bonds is J.P. Morgan Securities Inc. and for the 2008 Series D Bonds is UBS Securities LLC (each a “Remarketing Agent” and collectively the “Remarketing Agents”). The Commission will enter into a Remarketing Agreement covering each Series of the Series 2008 Bonds with the Remarketing Agent for such Series as shown in the Summary of Offering on the inside cover page. Each Remarketing Agent undertakes, among other things, to use its best efforts to remarket Series 2008 Bonds for which it is the Remarketing Agent that are tendered for purchase. Each Remarketing Agent also undertakes to set the interest rate on the Series 2008 Bonds for which it is the Remarketing Agent. The Commission or the Remarketing Agent may terminate the Remarketing Agreement under the circumstances and in the manner described in the Remarketing Agreement, in which case the Commission expects to appoint a replacement remarketing agent in accordance with the Indenture.

## **DESCRIPTION OF THE SERIES 2008 BONDS**

### **General**

The Series 2008 Bonds are being issued by the Commission pursuant to the Indenture and the Act. The Series 2008 Bonds will be dated their date of delivery and will mature on the dates and in the principal amounts shown in the Summary of Offering on the inside cover page of this Official Statement.

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

See “ADDITIONAL TERMS OF SERIES 2008 BONDS” for further information, including Interest Rate Determination Methods, conversion from one Interest Rate Determination Method to another, optional tender provisions, mandatory tender provisions, and cross-references to other important

information about practices and procedures of the Commission and the Remarketing Agents for the Series 2008 Bonds.

### ***Series 2008 Bonds***

The Series 2008 Bonds will initially bear interest at the Weekly Rate, with such rates determined as described below under “ADDITIONAL TERMS OF SERIES 2008 BONDS — Interest Rate Determination Methods.” Interest on Series 2008 Bonds bearing interest at a Weekly Rate will be payable on the first Business Day of each calendar month, commencing on May 1, 2008. Interest on Series 2008 Bonds bearing a Weekly Rate will be computed on the basis of a 365/366-day year and actual days elapsed. The record date for Series 2008 Bonds bearing interest at the Weekly Rate will be the Business Day immediately preceding the Interest Payment Date. The Series 2008 Bonds will be issued in fully registered form in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

### ***Conversion of Series 2008 Bonds***

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

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

### **Redemption Terms of the Series 2008 Bonds**

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

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

**2008 Series A Bonds**

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2009	\$2,700,000	2024	\$4,800,000
2010	\$2,850,000	2025	\$5,025,000
2011	\$2,925,000	2026	\$5,250,000
2012	\$3,075,000	2027	\$5,325,000
2013	\$3,150,000	2028	\$5,625,000
2014	\$3,300,000	2029	\$5,850,000
2015	\$3,450,000	2030	\$6,075,000
2016	\$3,600,000	2031	\$6,300,000
2017	\$3,675,000	2032	\$6,525,000
2018	\$3,825,000	2033	\$6,825,000
2019	\$3,975,000	2034	\$7,050,000
2020	\$4,125,000	2035	\$7,350,000
2021	\$4,275,000	2036	\$7,650,000
2022	\$4,500,000	2037	\$7,950,000
2023	\$4,650,000	2038 <sup>†</sup>	\$8,325,000

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<sup>†</sup> Final Maturity

**2008 Series B Bonds**

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2009	\$2,700,000	2024	\$4,800,000
2010	\$2,850,000	2025	\$5,025,000
2011	\$2,925,000	2026	\$5,250,000
2012	\$3,075,000	2027	\$5,325,000
2013	\$3,150,000	2028	\$5,625,000
2014	\$3,300,000	2029	\$5,850,000
2015	\$3,450,000	2030	\$6,075,000
2016	\$3,600,000	2031	\$6,300,000
2017	\$3,675,000	2032	\$6,525,000
2018	\$3,825,000	2033	\$6,825,000
2019	\$3,975,000	2034	\$7,050,000
2020	\$4,125,000	2035	\$7,350,000
2021	\$4,275,000	2036	\$7,650,000
2022	\$4,500,000	2037	\$7,950,000
2023	\$4,650,000	2038 <sup>†</sup>	\$8,325,000

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<sup>†</sup> Final Maturity

**2008 Series C Bonds**

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2009	\$2,700,000	2024	\$4,800,000
2010	\$2,850,000	2025	\$5,025,000
2011	\$2,925,000	2026	\$5,250,000
2012	\$3,075,000	2027	\$5,325,000
2013	\$3,150,000	2028	\$5,625,000
2014	\$3,300,000	2029	\$5,850,000
2015	\$3,450,000	2030	\$6,075,000
2016	\$3,600,000	2031	\$6,300,000
2017	\$3,675,000	2032	\$6,525,000
2018	\$3,825,000	2033	\$6,825,000
2019	\$3,975,000	2034	\$7,050,000
2020	\$4,125,000	2035	\$7,350,000
2021	\$4,275,000	2036	\$7,650,000
2022	\$4,500,000	2037	\$7,950,000
2023	\$4,650,000	2038 <sup>†</sup>	\$8,325,000

<sup>†</sup> Final Maturity

**2008 Series D Bonds**

<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>	<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2009	\$2,700,000	2024	\$4,800,000
2010	\$2,850,000	2025	\$5,025,000
2011	\$2,925,000	2026	\$5,250,000
2012	\$3,075,000	2027	\$5,325,000
2013	\$3,150,000	2028	\$5,625,000
2014	\$3,300,000	2029	\$5,850,000
2015	\$3,450,000	2030	\$6,075,000
2016	\$3,600,000	2031	\$6,300,000
2017	\$3,675,000	2032	\$6,525,000
2018	\$3,825,000	2033	\$6,825,000
2019	\$3,975,000	2034	\$7,050,000
2020	\$4,125,000	2035	\$7,350,000
2021	\$4,275,000	2036	\$7,650,000
2022	\$4,500,000	2037	\$7,950,000
2023	\$4,650,000	2038 <sup>†</sup>	\$8,325,000

<sup>†</sup> Final Maturity



## **Purchase In Lieu of Redemption**

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

## **General Redemption Provisions**

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

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

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

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

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

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

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

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

## DEBT SERVICE SCHEDULE

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

Fiscal Year Ending June 30	Principal Amount <sup>(1)</sup>	Interest Amount <sup>(2)</sup>	Annual Debt Service
2008		3,926,399.99	3,926,399.99
2009	10,800,000.00	22,019,742.02	32,819,742.02
2010	11,400,000.00	21,618,513.12	33,018,513.12
2011	11,700,000.00	21,197,038.62	32,897,038.62
2012	12,300,000.00	20,762,680.62	33,062,680.62
2013	12,600,000.00	20,308,077.12	32,908,077.12
2014	13,200,000.00	19,840,590.10	33,040,590.10
2015	13,800,000.00	19,351,017.00	33,151,017.00
2016	14,400,000.00	18,839,358.00	33,239,358.00
2017	14,700,000.00	18,307,453.50	33,007,453.50
2018	15,300,000.00	17,762,665.52	33,062,665.52
2019	15,900,000.00	17,195,791.60	33,095,791.60
2020	16,500,000.00	16,606,831.50	33,106,831.50
2021	17,100,000.00	15,995,785.50	33,095,785.50
2022	18,000,000.00	15,360,813.02	33,360,813.02
2023	18,600,000.00	14,694,552.12	33,294,552.12
2024	19,200,000.00	14,006,205.12	33,206,205.12
2025	20,100,000.00	13,293,931.62	33,393,931.62
2026	21,000,000.00	12,548,529.12	33,548,529.12
2027	21,300,000.00	11,773,678.62	33,073,678.62
2028	22,500,000.00	10,982,263.62	33,482,263.62
2029	23,400,000.00	10,148,517.12	33,548,517.12
2030	24,300,000.00	9,281,641.62	33,581,641.62
2031	25,200,000.00	8,381,637.10	33,581,637.10
2032	26,100,000.00	7,448,503.50	33,548,503.50
2033	27,300,000.00	6,480,400.52	33,780,400.52
2034	28,200,000.00	5,469,966.10	33,669,966.10
2035	29,400,000.00	4,424,562.02	33,824,562.02
2036	30,600,000.00	3,334,986.10	33,934,986.10
2037	31,800,000.00	2,201,238.02	34,001,238.02
2038	33,300,000.00	1,021,477.60	34,321,477.60
<b>Total</b>	<b>600,000,000.00</b>	<b>404,584,847.15</b>	<b>1,004,584,847.15</b>

<sup>(1)</sup> Includes Mandatory Sinking Account Payments.

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

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS

### Pledge of Sales Tax Revenues

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

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

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN THE COMMISSION, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. 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 BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE BONDS. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE COMMISSION OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES AND THE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.**

### Revenue Fund; Allocation of Sales Tax Revenues

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

So long as any Bonds remain Outstanding and Parity Obligations, Subordinate Obligations, and all other amounts payable under the Indenture remain unpaid, in each month following receipt and deposit

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

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

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

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

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

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

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

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

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

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

### **Reserve Fund**

Upon issuance of the Series 2008 Bonds, a 2008 Bonds Reserve Fund for the Series 2008 Bonds is established pursuant to the First Supplemental Indenture to be maintained in an amount equal to the Reserve Requirement for the Series 2008 Bonds, for the purpose of paying principal of and interest on the Series 2008 Bonds when due when insufficient moneys for such payment are on deposit in the Principal Account and the Interest Account under the Indenture. Any amounts on deposit in the 2008 Bonds

Reserve Fund in excess of the 2008 Bonds Reserve Requirement shall be transferred to the Commission yearly on April 1.

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

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

### **Additional Bonds and Parity Obligations**

The only outstanding obligations secured by Sales Tax Revenues are the Series 2008 Bonds, the Initial Swaps, the 2008 Liquidity Facilities and the Subordinate Commercial Paper Notes. The Commission may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of Sales Tax Revenues on a parity with the Bonds and the regularly scheduled payments on the Initial Swaps and any other Interest Rate Swap Agreements, subject to compliance with the terms and provisions set forth in the Indenture. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations.”

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

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

(b) If the Supplemental Indenture providing for the issuance of such Series of additional Bonds requires either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered

Outstanding upon the issuance of such additional Series of Bonds, the supplemental indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Commission or from both such sources or in the form of a Reserve Facility as described under APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions” and “Establishment and Application of Funds and Accounts - Funding and Application of Bond Reserve Funds.”

(c) The Commission shall have placed on file with the Trustee a Certificate of the Commission, certifying that the amount of Sales Tax Revenues collected during the Fiscal Year for which audited financial statements are available preceding the date on which such additional Series of Bonds will become outstanding was equal to at least 1.3 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued.

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

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

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

### **Initial Swap Agreements**

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. The Initial Swaps are effective as of



April 1, 2008 and the notional amounts of \$200,000,000 for each Initial Swap 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 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 Bonds, Parity Obligations and Subordinate Obligations, including the Subordinate Commercial Paper Notes. 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:

Name of Counterparty	Fixed Rate of Interest	Floating Rate of Interest
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 BMA Swap Index thereafter
Merrill Lynch Capital Services Inc.	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD BMA Swap Index thereafter

### Subordinate Obligations

Except to the extent restricted by the Indenture, the Commission may issue or incur obligations ("Subordinate Obligations") payable out of Sales Tax Revenues on a basis junior and subordinate to the payment of the principal, interest and reserve fund requirements for the Bonds and Parity Obligations, as the same become due and payable and at the times and in the manner as required by the Indenture or as required by the instrument pursuant to which such Parity Obligations were issued or incurred, as applicable. The Commission's Subordinate Obligations currently consist of the Subordinate Commercial Paper Notes, the Commission's obligation to make regularly scheduled payments under the Subordinate Swap Agreement. Any termination payments under the Commission's Initial Swaps and fees and expenses due under the 2008 Liquidity Facilities are payable on a basis subordinate to the Subordinate Obligations.

### THE 2008 LIQUIDITY FACILITIES

*The following is a summary of certain provisions of the 2008 Liquidity Facilities. This summary does not purport to be comprehensive. The 2008 Liquidity Facilities provide liquidity support for the Series 2008 Bonds. Reference should be made to each 2008 Liquidity Facility for the complete text thereof, and the discussion herein is qualified by such reference. Unless otherwise noted in this Official Statement, all defined terms in this summary of the 2008 Liquidity Facilities shall have the meaning ascribed to such terms in each such 2008 Liquidity Facility. For information regarding the 2008 Liquidity Facility Providers, see APPENDIX F – "2008 LIQUIDITY FACILITY PROVIDERS."*

## General

The Commission has initially arranged for the 2008 Liquidity Providers to provide their respective 2008 Liquidity Facilities, each in the form of a separate Standby Bond Purchase Agreement, both to be dated March 27, 2008, by and among the applicable 2008 Liquidity Facility Provider, the Trustee and the Commission.

The 2008 Series A Bonds and the 2008 Series B Bonds initially will be supported by the 2008 Liquidity Facility by and among JPMorgan, the Commission and the Trustee (the "JPMorgan 2008 Liquidity Facility"). The JPMorgan 2008 Liquidity Facility will expire on March 26, 2009, prior to the final maturity of the 2008 Series A Bonds and 2008 Series B Bonds, unless extended or terminated in accordance with the terms of the JPMorgan 2008 Liquidity Facility.

The 2008 Series C Bonds and the 2008 Series D Bonds initially will be supported by the 2008 Liquidity Facility by and among Dexia, the Commission and the Trustee (the "Dexia 2008 Liquidity Facility"). The Dexia 2008 Liquidity Facility will expire on March 27, 2013, prior to the final maturity of the 2008 Series C Bonds and 2008 Series D Bonds, unless extended or terminated in accordance with the terms of the Dexia 2008 Liquidity Facility.

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

**UNDER CERTAIN CIRCUMSTANCES THE OBLIGATION OF A 2008 LIQUIDITY FACILITY PROVIDER TO PURCHASE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY TENDER MAY BE TERMINATED OR SUSPENDED WITHOUT A PURCHASE BY THE APPLICABLE 2008 LIQUIDITY FACILITY PROVIDER. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE 2008 LIQUIDITY FACILITIES DO NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE SERIES 2008 BONDS. THE 2008 LIQUIDITY FACILITIES PROVIDE FOR THE PURCHASE OF TENDERED BONDS ONLY.**

### **Purchase of Tendered Bonds by 2008 Liquidity Facility Providers**

Each 2008 Liquidity Facility Provider has agreed to purchase during the Purchase Period, Eligible Bonds which have been tendered for optional purchase or which are tendered for mandatory purchase and which are not remarketed as provided in the Indenture. The Purchase Period begins on the date the 2008 Liquidity Facility becomes effective and ends on the earliest of (a) the respective dates set forth in the second and third paragraphs under "General" above or the last day of any extension of such date pursuant to the terms of the applicable 2008 Liquidity Facility; (b) the date on which the Commission delivers an Alternate Liquidity Facility to the Trustee in accordance with the terms of the Indenture; (c) the date on which no Series 2008 Bonds are outstanding; (d) the date on which the Series 2008 Bonds are converted to a Non-Covered Interest Rate; (e) the date specified in a written notice delivered by the Commission to

the applicable 2008 Liquidity Facility Provider that the Commission has elected to terminate the applicable 2008 Liquidity Facility pursuant to the terms of such 2008 Liquidity Facility; (f) the occurrence of certain Events of Termination (as further described below); or (g) the date on which the applicable 2008 Liquidity Facility Provider's commitment has been terminated in its entirety and is no longer obligated to purchase Series 2008 Bonds. The price to be paid by the applicable 2008 Liquidity Facility Provider for such Bonds will be equal to the aggregate principal amount on such Series 2008 Bonds without premium, plus interest accrued thereon on the Purchase Date, unless, in the case of interest, the Purchase Date is an Interest Payment Date. As described below, under certain circumstances the obligation of the 2008 Liquidity Facility Provider to purchase tendered bonds will be automatically suspended or terminated, without prior notice or demand, and the Trustee will be unable to require the purchase of Series 2008 Bonds under the applicable 2008 Liquidity Facility.

### **Events of Termination**

Each of the following is an "Event of Termination" under each 2008 Liquidity Facility:

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

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

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

(d) The occurrence of (x) an Incipient Invalidity Event, which means (i) the validity or enforceability of any provision of the Law or the Ordinance that impacts the Commission's ability to levy its one half of one cent retail transactions and use tax in the incorporated and unincorporated territory of the County of San Diego in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code or to collect Revenues or to pay the Revenues directly to the Trustee is contested by duly authorized action of the Commission or the State or

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

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

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

(g) There is a default on any payment obligation (but not including administrative expenses, such as Credit or 2008 Liquidity Facility Fees) of the Commission under the Related Documents; or

(h) Any material representation or warranty made by the Commission under or in connection with the 2008 Liquidity Facility (including without limitation representations and warranties incorporated therein by reference) shall prove to be untrue in any material respect on the date as of which it was made or deemed made; or

(i) Non-payment of certain fees under the 2008 Liquidity Facility (together with interest thereon at the Default Rate) within 10 days after the Trustee and the Commission have received written notice from the 2008 Liquidity Facility Provider that the same were not paid when due; or

(j) Non-payment of certain other fees or amounts payable under the 2008 Liquidity Facility (together with interest thereon at the Default Rate) within 20 days after written notice thereof to the Commission and the Trustee by the 2008 Liquidity Facility Provider; or

(k) The breach by the Commission of certain covenants under the 2008 Liquidity Facility; or

(l) The breach by the Commission of certain terms or provisions of the 2008 Liquidity Facility which is not remedied within 20 days after written notice thereof shall have been received by the Commission and the Trustee from the 2008 Liquidity Facility Provider; or

(m) The occurrence of any “event of default” as defined in any of the Related Documents (which is not waived pursuant to the terms thereof) which is not otherwise described above, other than the failure of the 2008 Liquidity Facility Provider to provide funds for the purchase of Tendered Bonds when required by the terms and conditions of the 2008 Liquidity Facility.

### **Remedies upon an Event of Termination**

If any Event of Termination shall have occurred and be continuing, each 2008 Liquidity Facility Provider has the following remedies under its 2008 Liquidity Facility:

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

***Termination with Notice.*** In the case of an Event of Termination specified in any of paragraphs (g), (h), (i), (j), (k), (l) or (m), the 2008 Liquidity Facility Provider may terminate the Available Commitment and Purchase Period by giving written notice (a “Notice of Termination”) to the Trustee, Commission and the applicable Remarketing Agent, specifying the date on which the Available Commitment and Purchase Period shall terminate, which shall be not less than 30 days from the date of receipt of such notice by the Trustee and on and after the Purchase Termination Date, the 2008 Liquidity

Facility Provider shall be under no further obligation to purchase Series 2008 Bonds under its 2008 Liquidity Facility.

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

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

#### **Extension, Reduction, Adjustment or Termination of each 2008 Liquidity Facility**

Each 2008 Liquidity Facility will expire on the respective dates set forth under “General” above unless earlier terminated or, with the consent of the applicable 2008 Liquidity Facility Provider in its sole and absolute discretion, extended for an additional period or periods, in each case in accordance with the provisions of its 2008 Liquidity Facility.

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

payment of such Series 2008 Bonds or the purchase by the applicable 2008 Liquidity Facility Provider of Series 2008 Bonds tendered or deemed tendered in accordance with the terms of the Indenture.

### **Limitations of Each 2008 Liquidity Facility**

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

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

### **Substitution of Alternate 2008 Liquidity Facility**

Pursuant to the provisions of the Indenture, the Commission may, at any time, deliver a replacement for the 2008 Liquidity Facility (such replacement being hereinafter referred to as an "Alternate 2008 Liquidity Facility") upon satisfaction of certain conditions set forth in the Indenture. The Commission shall provide written notice to the Trustee of any proposed substitution of an Alternate 2008 Liquidity Facility, and the Trustee shall mail notice of such proposed substitution to each Bond owner at least 15 calendar days prior to the effective date of such substitution.

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

## **ADDITIONAL TERMS OF THE SERIES 2008 BONDS**

### **Interest Rate Determination Methods**

*General.* Each Series of the Series 2008 Bonds will initially bear interest at a Weekly Rate. The Commission has the right to change the Interest Rate Determination Method for any Series of the Series 2008 Bonds to a different Interest Rate Determination Method (which may be a Daily Rate, a Weekly

Rate, a Commercial Paper Rate, an Auction Period Rate, an Index Rate, a Term Rate or a Fixed Rate). See “Conversion of Interest Rate Determination Method for Certain Series 2008 Bonds” below.

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

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

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

**Weekly Rate.** So long as a Series of Series 2008 Bonds is in the Weekly Rate Period, the Series 2008 Bonds of such Series will bear interest at a Weekly Rate. During each Weekly Rate Period, the Remarketing Agent for such Series is to set a Weekly Rate for the Series, by 5:00 P.M., New York City time, on each Wednesday (or the immediately succeeding Business Day, if such Wednesday is not a Business Day) for the next period of seven (7) days from and including Thursday of any week to and including Wednesday of the next following week (a “Calendar Week”); *provided*, that, the Weekly Rate for the first Calendar Week (or portion thereof) following a Conversion Date resulting in a change in the Interest Rate Determination Method to a Weekly Rate is to be set by the Remarketing Agent on the Business Day immediately preceding such Conversion Date. Each Weekly Rate is to be the rate of interest that, if borne by the Series 2008 Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities that are of the same general nature as the Series 2008 Bonds for which the Weekly Rate is to be determined, or Tax-Exempt Securities that are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of the Series 2008 Bonds for which the Weekly Rate is to be determined, be the lowest interest rate that would enable the Remarketing Agent to place the Series 2008 Bonds of each Series at a price equal to 100% of the aggregate principal amount of such Series 2008 Bonds (plus accrued interest, if any) on the first day of such Weekly Rate Period.

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



## **Conversion of Interest Rate Determination Method for Series 2008 Bonds**

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

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

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

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

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

***Failure to Convert.*** The Indenture includes provisions setting forth the procedures and conditions for the exercise by the Commission of its right of conversion of Series 2008 Bonds from one Interest Rate Determination Method to another. Under certain circumstances, a planned conversion may not be completed. However, once a notice of conversion is provided to DTC as described in the preceding paragraph, all Series 2008 Bonds covered by that notice must be tendered for purchase (whether or not the planned conversion is completed). See “Funding Optional and Mandatory Tenders of Series 2008 Bonds” concerning payment for Series 2008 Bonds so tendered for purchase.

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

accordance with the Indenture, and all tendered Series 2008 Bonds will be returned to their respective owners. See “Funding Optional and Mandatory Tenders of Series 2008 Bonds” below.

### **Optional Tender Provisions**

The Series 2008 Bonds (other than Series 2008 Bonds registered in the name of a 2008 Liquidity Facility Provider) bearing interest at a Daily Rate or a Weekly Rate are subject to tender for purchase and remarketing at the option of DTC or the Beneficial Owners of those Bonds, who may elect to have Series 2008 Bonds (or portions thereof in Authorized Denominations) purchased at a purchase price (the “Purchase Price”) equal to the principal amount thereof, without premium, plus any accrued interest to the Purchase Date.

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

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

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

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

### **Mandatory Tender Provisions**

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

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

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

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

#### **Funding Optional and Mandatory Tenders of Series 2008 Bonds**

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

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

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

## **Mechanics and Timing of Optional and Mandatory Tenders**

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

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

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

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

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

Funding for purchases of Series 2008 Bonds pursuant to the mandatory tender at the election of the Commission as described under this heading is not supported by the 2008 Liquidity Facilities

described under “THE 2008 LIQUIDITY FACILITIES” nor is it addressed in the Commission’s agreements with Remarketing Agents for Series 2008 Bonds.

## SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

### General

The Commission was organized pursuant to the Act. Pursuant to the provisions of the Act, the Commission is comprised of the members of the San Diego Association of Governments (“SANDAG”), which is a legislatively created regional government agency with a Board of Directors consisting of voting representatives from the County and the eighteen cities within the County. On January 1, 2003, state legislation took effect which consolidated the planning, programming, project development and construction activities of SANDAG, the Metropolitan Transit Development Board (“MTDB”) and North County Transit District into one transportation agency. The initial transfer of planning and programming functions took place in the summer of 2003, and the transfer of project development and construction functions took place in the winter of 2004.

As set forth in the Act, the Commission is responsible for providing improvements to the transportation system and other public infrastructure systems in the County. To carry out this responsibility, the Commission adopted the Ordinance. The 1987 Ordinance and the Sales Tax 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. 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 which are to be cash financed and the types of projects which are to be debt financed and the projected timing and amounts of such financing.

### 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.

**Diane Eidam**, *Chief Deputy Executive Director*. Ms. Eidam's major responsibilities include managing the on-going 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. Eidam 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. Eidam has been employed with SANDAG for 2 years. Prior to working for SANDAG, Ms. Eidam held various positions including four years as the Executive Director of the California Transportation Commission where she was responsible for developing policy initiatives encompassing billions of dollars annually for transportation improvements throughout California in partnership with regional agencies and the California Department of Transportation, eight years as the Deputy Director of Audits and Investigations for the California

Department of Transportation, as well as five years in a variety of management positions at the department. Ms. Eidam has 29 years of professional experience and holds two bachelor of arts degrees from the University of California, Davis, one in Political Science and the second in Economics.

**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 Bachelor's degree from UCSD and a Juris Doctorate from the University of Denver.

**Renee Wasmund, *Director of Finance.*** Ms. Wasmund serves as the chief financial officer and directs all financial and programming functions for SANDAG and the Commission. Ms. Wasmund transferred to SANDAG from MTDB in 2003 as a result of the consolidation of certain regional transportation functions into SANDAG. She was at MTDB 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.

**John ("Jack") A. Boda, *Director of Mobility Management and Project Implementation.*** Mr. Boda 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. Boda joined SANDAG in 2003 and has over 28 years of experience in transportation engineering and management. Prior to joining SANDAG, Mr. Boda worked for the California Department of Transportation and held key leadership positions such as District Director, State Traffic Engineer, State Capital Projects Program Manager, and Chief Assistant to the State Bridge Engineer. Mr. Boda is a Registered Civil Engineer and holds Bachelor of Science degrees in Structural and Transportation Engineering from the California Polytechnic State University in San Luis Obispo.

**Bob Leiter, *Director of Land Use and Transportation Planning.*** Mr. Leiter 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. Leiter joined SANDAG in 2003, after a 29-year career in city planning that included service as planning director for the Cities of Chula Vista, San Rafael, Escondido, and Ventura, California. Mr. Leiter holds a bachelor's degree in political science and a graduate degree in economics from the University of California at Santa Barbara.

**Marney P. Cox, *Director of Special Services/Senior Regional Economist.*** Mr. Cox specializes in regional economics 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 Development 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's 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.

**Charles “Muggs” Stoll, *TransNet Program Manager.*** Mr. Stoll is responsible for the development and implementation of the TransNet Ordinance and Expenditure Plan. He oversees the day-to-day implementation of the TransNet program, including financial planning activities, obtaining state and federal matching funds, and monitoring the progress of all components of the overall TransNet Program. Mr. Stoll recently joined SANDAG in April 2007 after spending over twenty 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 of California since 1988.

## **THE SALES TAX**

### **Authorization, Application and Collection of the Sales Tax**

The Commission is authorized by the Act to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County in accordance with California's Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 et seq.), upon authorization by a majority of the electors voting on the issue. On November 3, 1987, the voters approved the 1987 Ordinance which imposed the Sales Tax in the County for a twenty-year period. The Sales Tax is scheduled to expire on April 1, 2008. On November 2, 2004, more than two-thirds of the voters approved the Sales Tax Extension Ordinance which, among other things, extended the collection of the tax to March 31, 2048. The Ordinance imposes the Sales Tax on the gross receipts of retailers from the sale of tangible personal property sold in the County and upon the storage, use or other consumption in the County of such property purchased from any retailer for storage use or other consumption in the County, subject to certain limited exceptions described below.

Collection of the Sales Tax is administered by the BOE. The BOE, after deducting a fee for administering the Sales Tax, remits the remaining Sales Tax Revenues to the Trustee to satisfy the Commission’s obligations with respect to the Bonds and Parity Obligations. The remaining Sales Tax Revenues are then remitted to the trustee for the Commission’s Subordinate Obligations, including the Subordinate Commercial Paper Notes. After payment of debt service requirements on the Subordinate Obligations, any remaining unapplied Sales Tax Revenues are then remitted to the Trustee. The fee charged by the BOE is determined by the BOE pursuant to statute. The fee charged by the BOE to the Commission for Fiscal Year 2006-07 for collection of the Sales Tax was \$2,293,000. The fee that the BOE is authorized to charge for collection of the Sales Tax is determined by state legislation; there can be no assurances that the amount of this fee or the method for determining the amount of the fee will be the same. This fee may be increased or decreased by legislative action.

The Sales Tax is 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 California 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 California for use within the State, subject to certain exceptions. Action by the State legislature or by voter initiative could change the transactions and items upon which the statewide sales and use tax and the Sales Tax are imposed.

Such changes or amendments could have either an adverse or beneficial impact on the Sales Tax Revenues. The Commission is not currently aware of any proposed legislative change which would have a material adverse effect on Sales Tax Revenues. See also "Proposition 218" below.

Many categories of transactions are exempt from the statewide sales and use tax and from the Sales Tax. The most important are: sales of food products for home consumption; prescription medicine; edible livestock and their feed; seed and fertilizer used in raising food for human consumption; and gas, electricity and water when delivered to consumers through mains, lines, and pipes. In addition, "Occasional Sales" (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the statewide sales and use tax and from the Sales Tax.

### **Historical Taxable Sales**

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

### **Historical Sales Tax Revenues**

The Commission began receiving distributions of the Sales Tax from the BOE in June, 1988. The following table shows the Sales Tax remitted to the Commission during the fiscal years ended June 30, 1989 through June 30, 2007.



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

<u>Fiscal Year Ended June 30</u>	<u>Actual ½% Sales Tax Revenues<sup>(1)</sup></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) <sup>(2)</sup>
1995	114,303,387	2.5
1996	123,511,934	8.1
1997	131,592,528	6.5
1998	145,754,155	10.8
1999	156,909,677	7.7
2000	172,274,619	9.8
2001	189,795,888	10.2
2002	192,836,199	1.6
2003	200,600,386	4.0
2004	213,230,634	6.3
2005	228,562,785	7.2
2006	243,317,789	6.5
2007	247,924,394	1.9

<sup>(1)</sup> Net of BOE administrative fee.

<sup>(2)</sup> Reflects, in part, effect of increase in BOE administration fee in 1994.

Source. San Diego County Regional Transportation Commission.

Annual Sales Tax Revenues for the Fiscal Year ended June 30, 2007, total \$247,924, 394. These Sales Tax Revenues are anticipated to equal at least 7.22 times Maximum Annual Debt Service on the Series 2008 Bonds assuming such Maximum Annual Debt Service amounts as shown in the table "DEBT SERVICE SCHEDULE" herein. Sales Tax receipts for the six months ending December 31, 2007 are 2.4% less than the same period in the prior year. This decline is consistent with what is being experienced at the state and national level with regard to sales tax receipts for this period. Although there can be no assurances if and when Sales Tax receipts will begin to increase, it is anticipated that such an increase could occur beginning in Fiscal Year ending June 30, 2009.

**SUMMARY OF FINANCING PLAN**

The Commission has previously issued the Subordinate Commercial Paper Notes, which are outstanding in the aggregate principal amount of \$111,383,000. Proceeds of the issuance of the Series 2008 Bonds will be set aside to retire all outstanding Subordinate Commercial Paper Notes, with the result that such obligations will no longer be outstanding and the program will be reduced to an authorized amount of \$100,000,000.

The Commission has also entered into an interest rate swap agreement (the "Subordinate Swap Agreement") with Morgan Stanley Capital Services Inc. ("Morgan Stanley") pursuant to which the Commission pays a fixed interest rate and Morgan Stanley pays a variable interest rate. The Commission's obligation to make regularly-scheduled interest payments under the Subordinate Swap

Agreement is secured on a parity with the Subordinate Commercial Paper Notes. The Subordinate Swap Agreement terminates on April 1, 2008.

Pursuant to an Indenture, dated as of October 1, 1992 (the "Existing Indenture"), the Commission from time to time has issued its Sales Tax Revenue Bonds (Limited Tax Bonds), which are secured by a pledge of the Sales Tax Revenues (the "Existing Bonds"). On March 13, 2008, the Commission deposited funds pursuant to an escrow agreement with U.S. Bank National Association, as trustee under the Existing Indenture, which along with certain interest earnings on the investment of such funds are sufficient to defease the final payment of the principal of and interest on the Existing Bonds due on April 1, 2008 and discharge the lien of the Existing Indenture on Sales Tax Revenues.

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

#### **Estimated Sources and Uses of Funds**

The following are the estimated sources and uses of funds with respect to the Series 2008 Bonds:

<b>SOURCES:</b>	
Principal Amount	<u>\$ 600,000,000.00</u>
<b>TOTAL SOURCES:</b>	<b>\$ 600,000,000.00</b>
<b>USES:</b>	
Project Fund	\$466,127,720.67
Payment of Subordinate Commercial Paper Notes	\$111,383,000.00
Reserve Fund	\$ 17,160,738.80
Interest Fund <sup>(1)</sup>	\$ 3,926,399.99
Costs of Issuance <sup>(2)</sup>	<u>\$ 1,402,140.54</u>
<b>TOTAL USES:</b>	<b>\$ 600,000,000.00</b>

<sup>(1)</sup> Equals interest payable on the Series 2008 Bonds from the date of their delivery until June 30, 2008 assuming an interest rate for each series of the Series 2008 Bonds equal to the fixed rates payable by the Commission under the Initial Swaps applicable to such series.

<sup>(2)</sup> Costs of issuance include rating agency, legal and financial advisory fees and printing costs and expenses; underwriters' discount; fees of the trustee; fees of the 2008 Liquidity Facility Providers; and other miscellaneous expenses.

#### **Anticipated Issuances of Additional Bonds**

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

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

### COMMISSION INVESTMENT PORTFOLIO

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

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

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

The value of the various investments in the portfolio will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Further, such values may vary based on credit quality, ratings, or other factors. Therefore, there can be no assurance that the values of the various investments in the portfolio will not vary significantly from the values described below. Further, the values specified in the following tables were based upon estimates of market values provided to the Commission by a third party as of January 31, 2008. Accordingly, there can be no assurance that if these securities had been sold on January 31, 2008, the portfolio would have received the values specified. In addition, under certain provisions of the Indenture, funds and accounts held under the Indenture must be invested in certain specified Investment Securities that include investment agreements and other investments not described above. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” Definitions.”

As of January 31, 2008, the average maturity of the Commission’s portfolio was 92 days, with an average yield of approximately 4.60%.

**COMMISSION INVESTMENT PORTFOLIO INFORMATION**  
as of January 31, 2008

<u>Investments</u>	<u>Percent of Portfolio</u>	<u>Par Value</u>	<u>Market Value</u>
Cash or Cash Equivalents	60%	\$72,867,000	\$72,867,000
State of California Local Agency Investment Fund	30%	\$36,422,000	\$36,447,000
U.S. Agencies	8%	\$10,056,000	\$10,253,000
Commercial Paper	1%	\$939,000	\$936,000
<b>TOTAL SECURITIES</b>	<b>100%</b>	<b>\$120,284,000</b>	<b>\$120,503,000</b>

Source: The Commission. Total amounts may not add due to rounding.

**CERTAIN CONSIDERATIONS AFFECTING THE SERIES 2008 BONDS**

The initial Remarketing Agent for the 2008 Series A Bonds is Lehman Brothers Inc., for the 2008 Series B Bonds is Goldman, Sachs & Co., for the 2008 Series C Bonds is J.P. Morgan Securities Inc. and for the 2008 Series D Bonds is UBS Securities LLC (each a “Remarketing Agent” and collectively the “Remarketing Agents”).

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

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

**Remarketing Agent Practices and Procedures**

*The remaining information under this caption “Remarketing Agent Practices and Procedures” has been provided by the Remarketing Agents for inclusion in this Official Statement and the Commission makes no representation regarding its completeness or accuracy. See APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”*

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

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

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

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

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

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

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

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

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

## **RISK FACTORS**

### **Economy of the County and the State**

The Series 2008 Bonds are secured by a pledge of Sales Tax Revenues, which consist of the Sales Tax less an administrative fee paid to the BOE. The level of Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. 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 current economic conditions within the County and the State see APPENDIX B - "INFORMATION REGARDING THE COUNTY OF SAN DIEGO."

### **The Sales Tax**

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

### **Proposition 218**

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution. Article XIII C 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. The Sales Tax 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 California's initiative process. From time to time other initiative measures could be adopted, which may affect the Commission's ability to levy and collect the Sales Tax.

### **No Acceleration Provision**

The Indenture does not contain a provision allowing for the acceleration of the Series 2008 Bonds in the event of a default in the payment of principal and interest on the Series 2008 Bonds when due. In the event of a default by the Commission, each Holder of a Series 2008 Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture." See APPENDIX C - "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

## **Loss of Tax Exemption**

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

## **Limitations of 2008 Liquidity Facility and Related Risks**

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

The obligation of each of the 2008 Liquidity Facility Providers under its 2008 Liquidity Facility to purchase unremarketed Series 2008 Bonds is subject to the conditions and limitations set forth therein, and is also subject to all rights and defenses available to contracting parties generally. The 2008 Liquidity Facility is not a guaranty to pay the purchase price of the Series 2008 Bonds tendered for purchase. The 2008 Liquidity Facility is a general contract subject to certain conditions and limitations, and is not a letter of credit. Purchasers of the Series 2008 Bonds should consult their legal counsel for an explanation of the differences between a general contract and a letter of credit or guaranty. The information set forth in this Official Statement 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 2008 Liquidity Facility is a general contract only. No law expressly requires performance of the contract, although the non-breaching party would be entitled to allowable damages if there were a breach of contract. Although the Trustee is authorized to draw funds in accordance with the 2008 Liquidity Facility, the 2008 Liquidity Facility Providers have no independent obligation to the Trustee. If a dispute were to develop, the 2008 Liquidity Facility Providers will have all defenses allowed by law or in equity to their payment under or other performance of the 2008 Liquidity Facility, including but not limited to disputes (whether valid or not) regarding the authority of any party to enter into or perform the 2008 Liquidity Facility. Laws regarding contracts allow more of such defenses than laws regarding letters of credit do.

Either of the 2008 Liquidity Facility Providers or the Commission may seek to have any future dispute resolved in court and appealed to final judgment before such 2008 Liquidity Facility Provider performs under the 2008 Liquidity Facility. Further, even if the Commission were to prevail against the 2008 Liquidity Facility Providers, a court would not necessarily order the 2008 Liquidity Facility

Providers to perform under the 2008 Liquidity Facility; it could instead award damages for breach of contract to the Commission. Any such award would not necessarily be in an amount sufficient to pay the purchase price of the Series 2008 Bonds. See “2008 LIQUIDITY FACILITY – Limitations of Each 2008 Liquidity Facility.”

### **ABSENCE OF MATERIAL LITIGATION**

No litigation is pending or, to the best knowledge of the Commission, threatened against the Commission concerning the validity of the Series 2008 Bonds. The Commission is not aware of any litigation pending or threatened against the Commission questioning the political existence of the Commission or contesting the Commission’s ability to impose and collect the Sales Tax.

### **TAX MATTERS**

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 Series 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2008 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel 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 of Bond Counsel is set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2008 Bonds. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2008 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2008 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2008 Bonds. The opinion of Bond Counsel 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 Series 2008 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2008 Bonds. 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 Series 2008 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2008 Bonds to be subject, directly or indirectly, to federal income taxation, or 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. The introduction or enactment of any



such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2008 Bonds. As one example, on November 5, 2007, the United States Supreme Court heard an appeal in the case of *Kentucky v. Davis*, in which a Kentucky state court had ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by Kentucky and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. California law is similar to Kentucky in taxing interest on out-of-state bonds. A ruling by the Supreme Court against the Kentucky law would not change the exemption from California personal income taxes of the interest on the Series 2008 Bonds, but the value of the Series 2008 Bonds may be adversely affected by changes in the demand for California-origin bonds. There can be no assurance as to the outcome of the *Davis* case, the potential impact on market price or marketability of the Series 2008 Bonds which may result from a decision, or the likelihood of any future action by Congress on this subject. Prospective purchasers of the Series 2008 Bonds should consult their own tax advisers 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 Series 2008 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Commission, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Commission has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2008 Bonds ends with the issuance of the Series 2008 Bonds and unless separately engaged, Bond Counsel is not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the Series 2008 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Commission legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2008 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2008 Bonds, and may cause the Commission or the Beneficial Owners to incur significant expense.

## **LEGAL MATTERS**

The validity of the Series 2008 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Commission by its general counsel and by Nossaman, Guthner, Knox & Elliott, LLP, as Disclosure Counsel, for the Underwriters by their counsel, Nixon Peabody LLP, and for the 2008 Liquidity Facility Providers by their counsel, Kutak Rock LLP.

## **RATINGS**

Moody's Investors Service and Standard & Poor's Ratings Services have assigned long-term ratings on the Series 2008 Bonds of "Aa2" and "AAA," respectively. Moody's Investors Service and Standard & Poor's Ratings Services have assigned short-term ratings on the Series 2008 Bonds of "VMIG1" and "A-1+," respectively. The ratings on the Series 2008 Bonds are based upon the delivery

concurrently with the delivery of the Series 2008 Bonds of the 2008 Liquidity Facility by the 2008 Liquidity Facility Providers.

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

### **UNDERWRITING**

The Commission expects to enter into a Purchase Contract (the "Purchase Contract") with respect to the Series 2008 Bonds with Lehman Brothers Inc. on behalf of itself and as the representative of the underwriters named therein (collectively, the "Underwriters") pursuant to which the Underwriters will agree, subject to certain conditions, to purchase the Series 2008 Bonds for reoffering at a purchase price of \$599,449,684.46, which represents the aggregate principal amount of the Series 2008 Bonds less an underwriters' discount of \$550,315.54.

The Underwriters will purchase all of the Series 2008 Bonds if any are purchased. The Underwriters will agree to make a public offering of the Series 2008 Bonds at par.

### **FINANCIAL ADVISOR**

The Commission has retained Public Financial Management Inc., Newport Beach, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the Series 2008 Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Compensation paid to the Financial Advisor in connection with the issuance of the Series 2008 Bonds is contingent upon the issuance of the Series 2008 Bonds.

### **RELATIONSHIP OF CERTAIN PARTIES**

JPMorgan Chase Bank, National Association is a party to a Standby Bond Purchase Agreement with the Commission. J. P. Morgan Securities Inc. is expected to be the underwriter and remarketing agent with respect to certain of the Series 2008 Bonds. J. P. Morgan Securities Inc. and JPMorgan Chase Bank, National Association are affiliated and are subsidiaries of JPMorgan Chase & Co. Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman Mitsui Marine") has entered into a Qualified Swap Agreement with the Commission. The Goldman Sachs Group, L.P. is a partner of Goldman Mitsui Marine. Goldman Sachs & Co. is expected to be the underwriter and remarketing agent with respect to certain of the Series 2008 Bonds. The Goldman Sachs Group L.P. is affiliated with Goldman Sachs & Co.

### **FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS**

Financial information relating to the Commission is included in the Commission's Audited Financial Statements For Year Ended June 30, 2007. The Commission's Audited Financial Statements

For Fiscal Year Ended June 30, 2007 are included as part of Appendix A. The financial statements of the Commission as of June 30, 2007 included in Appendix A in this Official Statement, have been audited by Caporicci and Larson, Certified Public Accountants, as stated in their report appearing in Appendix A. The Commission represents that there has been no material adverse change in its financial position since June 30, 2007.

#### **MISCELLANEOUS**

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

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

The execution and delivery of this Official Statement by the Executive Director of the Commission has been duly authorized by the Commission.

**SAN DIEGO COUNTY REGIONAL  
TRANSPORTATION COMMISSION**

By: /s/ Gary L. Gallegos  
Executive Director

The execution and delivery of this Official Statement by the Executive Director of the Commission has been duly authorized by the Commission.

**SAN DIEGO COUNTY REGIONAL  
TRANSPORTATION COMMISSION**

By: \_\_\_\_\_  
Executive Director

*Gary L. Gallegos*

**APPENDIX A**

**SAN DIEGO REGIONAL TRANSPORTATION COMMISSION  
AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic 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, 2007, 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 generally accepted auditing standards in the United States 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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, 2007, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



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

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of 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 the Required Supplementary Information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Commission's basic financial statements. 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.

*Capricci & Carlson*

San Diego, California  
November 30, 2007

## 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, 2007. 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 \$(29,937,034). The factor contributing to the net assets deficit is \$57,765,000 of outstanding long-term debt of the Commission included in the Statement of Net Assets. The debt is secured by future sales tax receipts.
- The Commission's total net assets decreased in the current fiscal year by \$(6,847,143). The decrease is mostly due to *TransNet* program payments to agency recipients and interest expense together exceeding both sales tax and interest income.
- As of the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$73,636,174, a decrease of \$59,652,342 in comparison with the prior year. Approximately 25 percent of this total amount, \$18,039,519, is available for spending at the Commission's discretion (unreserved fund balance).
- The Commission's total debt decreased by \$54,438,000, which is due to principal repayments during the current fiscal year of \$61,935,000 on the revenue bonds and commercial paper paydowns of \$26,503,000, offset by commercial paper issuance proceeds of \$34,000,000.

### 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 comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the 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 and the sales tax revenue bonds and commercial paper 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 \$29,937,034 for total net assets.

**Table 2**  
**Net Assets**  
**Governmental Activities**

	2007	2006
Current and other assets	\$ 100,398,991	\$ 160,530,361
Restricted assets	27,614,177	33,317,339
Total assets	128,013,168	193,847,700
Current liabilities	16,981,202	21,530,591
Restricted liabilities	27,614,177	33,317,339
Noncurrent liabilities	113,354,823	162,089,661
Total liabilities	157,950,202	216,937,591
Net Assets		
Unrestricted (deficit)	(29,937,034)	(23,089,891)
Total net assets (deficit)	\$ (29,937,034)	\$ (23,089,891)

A significant factor affecting the net assets deficit is \$57,765,000 of outstanding sales tax revenue bonds. This debt is secured by future sales tax receipts. This factor also results in an unrestricted net assets deficit. The liabilities payable from restricted assets are subject to external restrictions and must be used for upcoming debt-service payments on the outstanding sales tax revenue bonds.

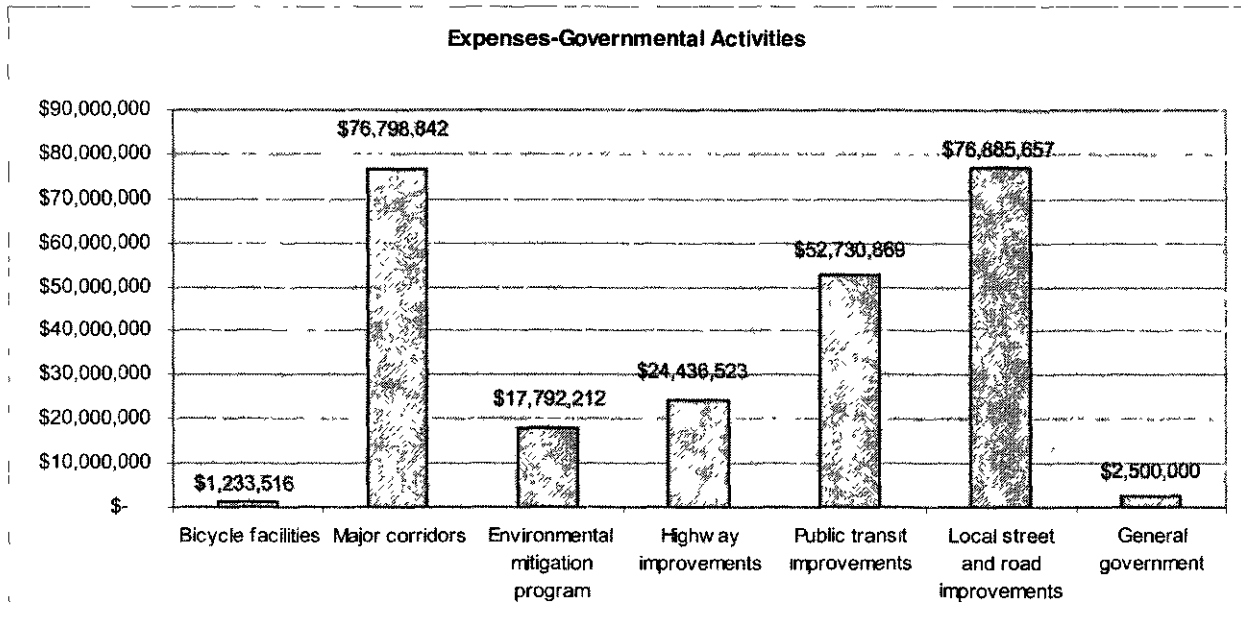
**Governmental activities.** Governmental Activities decreased the Commission's net assets by \$6,847,143 during fiscal year 2007.

**Table 3**  
**Changes in Net Assets**  
**Governmental Activities**

	2007	2006
General revenues:		
Sales taxes	\$ 248,467,503	\$ 244,103,489
Interest income	5,714,723	5,959,730
Land sales	6,400	5,000
Rental income	393,516	415,274
Other income	-	160,650
Total revenues	<u>254,582,142</u>	<u>250,644,143</u>
Expenses:		
General government	2,500,000	2,172,150
Highway improvements	24,436,523	10,894,503
Local street and road improvements	76,885,657	72,981,602
Public transit improvements and operations	52,730,869	48,728,169
Bicycle facilities and walkable communities	1,233,516	2,028,225
Major corridors	76,798,842	29,216,369
Environmental mitigation program	17,792,212	438,629
Interest on long-term debt	9,051,666	12,722,427
Total expenses	<u>261,429,285</u>	<u>179,182,074</u>
Change in net assets before capital contributions	(6,847,143)	71,462,069
Capital contributions	-	(8,740,792)
Change in net assets	(6,847,143)	62,721,277
Net assets (deficit) - beginning of year	<u>(23,089,891)</u>	<u>(85,811,168)</u>
Net assets (deficit) - end of year	<u>\$ (29,937,034)</u>	<u>\$ (23,089,891)</u>

- Revenues increased \$3,937,999, or 1.6 percent, which is primarily due to an increase in sales tax revenues of \$4,364,014, or 1.8 percent.
- *TransNet* expenses increased \$82,247,211, or 45.9 percent, which is primarily due to an increase of \$64,936,056 in payments for major corridors and environmental mitigation and an increase of \$13,542,020 for highway improvements. The increase in major corridors and environmental mitigation is due to early project implementation incurred related to the *TransNet* Extension Ordinance approved by the voters of San Diego County in November 2004. The increase in highway improvements is due to projects constructed by Caltrans, the County of San Diego, and the cities of San Diego and Santee.

**Figure 4  
Expenses-Governmental Activities**



**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 \$73,636,174, a decrease of \$59,652,342 from the prior year. In the current year, sales tax receipts were mostly consistent with the *TransNet* payments to recipient agencies. The decrease is primarily due to debt-service principal, interest, and other debt-service-related charges offset by interest and rental income. A portion of the Commission's fund balance is reserved to indicate that the associated investments are not available for new spending because the investments have already been committed to pay debt-service principal and interest.

**Debt Administration**

**Long-term debt.** At the end of the current fiscal year, the Commission had total debt outstanding of \$140,969,000, which is comprised of \$57,765,000 of sales tax revenue bonds and \$83,204,000 of commercial paper notes. The Commission's total debt decreased by \$54,438,000, which is due to principal repayments during the current fiscal year of \$61,935,000 on the revenue bonds and commercial paper paydowns of \$26,503,000, offset by commercial paper issuance proceeds of \$34,000,000.

Additional information on the Commission's long-term debt can be found in note 6 in the accompanying notes to the basic financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

- Actual sales tax collections have increased every year over the last 13 years, with an average increase for the last 13 years of 6.4 percent. For the fiscal year 2008 budget, \$258.6 million in sales tax receipts is budgeted, which is a 3.5 percent sales tax revenue increase over the actual fiscal year 2007 receipts.
- The Commission is expecting *TransNet* disbursements to other governmental agencies of \$258.6 million in fiscal year 2008 to fund bicycle facilities, highway improvements, public transit improvements and operations, local street and road improvements, and administration. The Commission is expecting disbursements of \$57.8 million in principal expenditures and \$2.9 million in interest expenditures related to the 1992 Series A, 1993 Series A, and 1994 Series A in fiscal year 2008.

## **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](mailto:pio@sandag.org).

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# **BASIC FINANCIAL STATEMENTS**

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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# San Diego County Regional Transportation Commission

## Statement of Net Assets

June 30, 2007

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 44,344,115
Interest receivable	104,238
Due from other governments	55,449,832
Deferred charges, net	500,806
Restricted assets	
Cash and cash equivalents restricted for debt service	<u>27,614,177</u>
<b>Total assets</b>	<u>128,013,168</u>
<b>LIABILITIES</b>	
Accounts payable	2,407,536
Due to SANDAG	13,528,999
Accrued interest payable	1,044,667
Long-term debt payable - due within one year	113,354,823
Liabilities payable from restricted assets	
Long-term debt payable - due within one year	<u>27,614,177</u>
<b>Total liabilities</b>	<u>157,950,202</u>
<b>NET ASSETS</b>	
Unrestricted (deficit)	<u>(29,937,034)</u>
<b>Total net assets (deficit)</b>	<u>\$ (29,937,034)</u>

# San Diego Regional Transportation Commission

## Statement of Activities

For the year ended June 30, 2007

Functions	Net (Expenses) and Changes in Net Assets Governmental Activities
<b>Primary government:</b>	
Governmental activities:	
General government	\$ (2,500,000)
Highway improvements	(24,436,523)
Local street and road improvements	(76,885,657)
Public transit improvements and operations	(52,730,869)
Bicycle facilities	(1,233,516)
Major corridors	(76,798,842)
Environmental mitigation program	(17,792,212)
Interest on long-term debt	(9,051,666)
Total governmental activities	(261,429,285)
<b>Total primary government</b>	(261,429,285)
<b>General revenues:</b>	
Sales tax	248,467,503
Interest income	5,714,723
Rental income	393,516
Other income	6,400
<b>Total general revenues</b>	254,582,142
<b>Change in net assets</b>	(6,847,143)
<b>Net assets (deficit) - beginning of year</b>	(23,089,891)
<b>Net assets (deficit) - end of year</b>	\$ (29,937,034)

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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# San Diego County Regional Transportation Commission

## Balance Sheet

### Governmental Funds

June 30, 2007

	Major Funds		
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 44,260,003	\$ 84,112	\$ 44,344,115
Interest receivable	104,238	-	104,238
Due from other funds	101,634	28,000,000	28,101,634
Due from other governments	17,510,179	37,939,653	55,449,832
Restricted cash and investments	-	27,614,177	27,614,177
<b>Total assets</b>	<b>61,976,054</b>	<b>93,637,942</b>	<b>155,613,996</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	2,407,536	-	2,407,536
Due to SANDAG	13,528,999	-	13,528,999
Due to other funds	28,000,000	101,634	28,101,634
Deferred revenue	-	37,939,653	37,939,653
<b>Total liabilities</b>	<b>43,936,535</b>	<b>38,041,287</b>	<b>81,977,822</b>
<b>Fund Balances:</b>			
Reserved			
Debt-service	-	55,596,655	55,596,655
Unreserved	18,039,519	-	18,039,519
<b>Total fund balances</b>	<b>18,039,519</b>	<b>55,596,655</b>	<b>73,636,174</b>
<b>Total liabilities and fund balances</b>	<b>\$ 61,976,054</b>	<b>\$ 93,637,942</b>	<b>\$ 155,613,996</b>

See accompanying Notes to 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, 2007**

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**Total Fund Balances - Total Governmental Funds** \$ 73,636,174

Amounts reported for governmental activities in the Statement of Net Assets were different because:

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet. (1,044,667)

In the Governmental Funds Balance Sheet, commercial paper deferred revenue is not yet available to finance expenditures of the current fiscal period. Therefore, this asset is offset by a corresponding liability for deferred revenue. This type of deferred revenue is unique to governmental funds only and is not reported in the Government-Wide Statement of Net Assets. 37,939,653

Deferred charges, such as the issuance costs from issuing debt, are expenditures in the government fund financial statements, but are deferred and subject to capitalization and amortization on the government-wide statement of net assets.

Issuance costs	533,633
Bond premium	668,300
Less accumulated amortization	(701,127)
<b>Total deferred charges</b>	<b>500,806</b>

Long-term liabilities are not due and payable in the current period. Therefore, they are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities - due within one year	(113,354,823)
Long-term liabilities - due within one year pay from restricted assets	(27,614,177)
<b>Total long-term liabilities</b>	<b>(140,969,000)</b>

**Net Assets (Deficit) of Governmental Activities** \$ **(29,937,034)**



**San Diego County Regional Transportation Commission**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2007**

	Major Funds		
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt Service	Total Governmental Funds
<b>REVENUES:</b>			
Sales tax	\$ 248,467,503	\$ -	\$ 248,467,503
Use of money and property	3,823,356	2,337,554	6,160,910
Other revenues	6,400	-	6,400
<b>Total revenues</b>	<b>252,297,259</b>	<b>2,337,554</b>	<b>254,634,813</b>
<b>EXPENDITURES:</b>			
Current:			
General government	2,500,000	-	2,500,000
Highway improvements	24,436,523	-	24,436,523
Local street and road improvements	76,885,657	-	76,885,657
Public transit improvements and operations	52,730,869	-	52,730,869
Bicycle facilities	1,233,516	-	1,233,516
Major corridors	76,798,842	-	76,798,842
Environmental mitigation program	17,792,212	-	17,792,212
Debt-service:			
Principal retirement	-	61,935,000	61,935,000
Interest and other charges	-	9,303,162	9,303,162
<b>Total expenditures</b>	<b>252,377,619</b>	<b>71,238,162</b>	<b>323,615,781</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(80,360)</b>	<b>(68,900,608)</b>	<b>(68,980,968)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	5,091,535	84,653,398	89,744,933
Transfers out	(84,653,398)	(5,091,535)	(89,744,933)
Commercial paper issuance proceeds	-	34,000,000	34,000,000
Commercial paper repayments from other governments	-	7,831,626	7,831,626
Commercial paper pass-through payments to other governments	-	(6,000,000)	(6,000,000)
Commercial paper paydown	-	(26,503,000)	(26,503,000)
<b>Total other financing sources (uses)</b>	<b>(79,561,863)</b>	<b>88,890,489</b>	<b>9,328,626</b>
<b>Changes in fund balances</b>	<b>(79,642,223)</b>	<b>19,989,881</b>	<b>(59,652,342)</b>
<b>FUND BALANCES:</b>			
Beginning of year	97,681,742	35,606,774	133,288,516
End of year	<u>\$ 18,039,519</u>	<u>\$ 55,596,655</u>	<u>\$ 73,636,174</u>

See accompanying Notes to 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, 2007**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (59,652,342)

Amounts reported for governmental activities in the Statement of Activities were different because

Interest expense on long-term debt is reported in the Statement of Activities, however, a portion of the interest expense does not require the use of current financial resources. Therefore, this portion of interest expense is not reported as an expenditure in the governmental funds. The following amount represents the change in accrued interest from prior year 852,462

Amortization expense on deferred charges is reported in the Statement of Activities, however, a portion of the amortization expense does not require the use of current financial resources. Therefore, this portion of amortization expense is not reported as an expenditure in the governmental funds. The following amount represents the change in deferred charges during the current year (600,966)

The repayment of the bond principal consumes the current financial resources of governmental funds, however, this transaction has no effect on net assets 61,935,000

Commercial paper transactions, debt issuance costs, and a call premium on early retirement of debt provide or require current financial resources, however, these transactions have no effect on net assets

Commercial paper issuance payments to other governments	6,000,000
Commercial paper paydowns	26,503,000
Commercial paper issuance proceeds	(34,000,000)
Commercial paper repayments from other governments	(7,831,626)
Total commercial paper transactions	(9,328,626)

A portion of interest revenues on commercial paper reported in the Statement of Activities that does not provide current financial resources is not reported as revenues in the governmental funds (52,671)

**Change in Net Assets of Governmental Activities** **\$ (6,847,143)**

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# NOTES TO BASIC FINANCIAL STATEMENTS

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**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2007**

**1. Summary of Significant Accounting Policies**

***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 cent 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.

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 the 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.

A separate financial statement is provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

***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 to pay liabilities of the current period. For this purpose, the

**San Diego County Regional Transportation Commission  
Notes to the Basic Financial Statements, Continued  
For the Fiscal Year Ended June 30, 2007**

**1. Summary of Significant Accounting Policies, Continued**

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

government considers revenues to be available if they are collected within 90 days of the end of the current fiscal 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* ordinance, spent by the Commission in accordance with the *TransNet* ordinance, or transferred to the Commission's debt service fund to make principal and interest payments on the long-term debt revenue bonds.

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.

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.

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, 2007**

**1. Summary of Significant Accounting Policies, Continued**

***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 of California obligations
- Local agency obligations
- Repurchase agreements
- Bankers' acceptances
- Commercial paper
- Medium-term notes
- Negotiable 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 a portion of the pool funds in 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 0.999545022 to total investments held by LAIF. LAIF is classified under cash and cash equivalents.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**1. Summary of Significant Accounting Policies, Continued**

***D. Cash and investments, Continued***

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), certain disclosure requirements, if applicable for deposit and investment risk, 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***

Outstanding balances at the end of the fiscal year between funds are referred to as “due to/from other funds.”

***F. 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, as well as issuance costs, 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.

In the governmental fund financial statements, new commercial paper issuances and commercial paper repayments from other governments are reported as other financing sources. The pass-through of new commercial paper issuances to other governments and commercial paper repayments of outstanding commercial paper are reported as other financing uses.

***G. Restricted net assets***

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



**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**1. Summary of Significant Accounting Policies, Continued**

**H. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**I. Budgetary information**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Special Revenue Fund. No amendments were made to the original budget amounts.

**2. Cash and investments**

The following is a summary of cash and investments on June 30, 2007:

	Fair Value
Cash and investments	\$ 44,344,115
Restricted cash and investments	27,614,177
Total	\$ 71,958,292

Cash, cash equivalents, and investments consisted as follows on June 30, 2007:

Investment Type	Fair Value	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents			
Demand deposits	\$ 10,719	1	Not rated
Money market accounts and funds	24,117,702	210	Not rated
State of California - Local Agency Investment Fund	17,847,643	176	Not rated
U S Agencies	1,481,059	88	A-1+
Commercial paper	5,953,183	53	A-1+
Total cash and cash equivalents	49,410,306		
Investments			
U S Agencies	22,547,986	421	AAA or A-1+
Total investments	22,547,986		
Total cash, cash equivalents, and investments	\$ 71,958,292		

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**2. Cash and investments, Continued**

The Commission's carrying amount of deposits was \$10,719, and the bank balance was \$113,094. The bank balance was covered by federal depository insurance or by collateral held by the Commission's agent in the Commission's name.

**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.

**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 investment policy limits the amount of the percentage of the portfolio that can be invested by type of investment for certain types of investments. The Commission is in compliance with investment-type percentages of the total portfolio of the investment policy.

**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% 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% of the Commission's total cash deposits. The Commission may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The Commission, however, has not waived the collateralization requirements.

Under California Government Code Section 53652, Bank of America and other depositories are required to secure the deposit of the Commission with 110% collateral in eligible securities. At June 30, 2007, the collateral held by Bank of America in the California Local Agency Collateral Pool stood at 102% of funds deposited, instead of the required 110%.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**3. Receivables and deferred revenue**

The special revenue fund reported due from other governments of \$17,510,179, which is primarily sales tax revenue. The debt service fund reported due from other governments of \$37,939,653 for outstanding commercial paper funds passed-through to other governmental agencies, including the accrued interest on the commercial paper.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue of \$37,939,653 was reported in the debt service fund for outstanding commercial paper funds to be repaid from other governmental agencies.

**4. Interfund receivables, payables, and transfers**

The sales tax projects special revenue fund was the payable fund and the commercial paper and sales tax revenue bonds debt service fund was the receivable fund for \$28,000,000. The \$28,000,000 is commercial paper issued to cover *TransNet* Extension Ordinance expenses.

The commercial paper and sales tax revenue bonds debt service fund was the payable fund and the sales tax projects special revenue fund was the receivable fund for \$101,634. \$316 is the difference of the amount of commercial paper receivable from other governments and the amount of commercial paper outstanding, as the commercial paper outstanding must be issued and paid down in increments of \$1,000. \$101,318 is the final arbitrage payment amount on the 1996 sales tax revenue bonds, which was accrued to fiscal year 2007 and paid during fiscal year 2008.

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.

**5. Derivative activity**

**Interest rate swaps effective dates April 1, 2008**

*Objective of the interest rate swaps.* On November 22, 2005, the Commission entered into three forward interest rate swaps for \$200,000,000 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 is to lock in a relatively low cost of funds on a substantial portion of the *TransNet* Early Action Program.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**5. Derivative activity, Continued**

**Interest rate swaps effective dates April 1, 2008, Continued**

*Terms.* The initial notional amounts of the swaps were \$200,000,000 each. Under two of the swaps, the Commission pays the counterparty a fixed payment of 3.92 percent and receives a variable payment based on 65 percent of the one-month London Interbank Offered Rate (LIBOR) for 10 years. In the tenth year, the swap will convert to the SIFMA Municipal Bond Index (formerly the Bond Market Association or BMA Municipal Swap Index) for the remaining 20 years, paid monthly. Under the third swap, the Commission pays the counterparty a fixed payment of 3.53 percent and receives a variable payment based on 65 percent of 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 expected to be issued. The variable-rate coupons of the hedged bonds are expected to closely match the SIFMA and percentage of LIBOR rates paid monthly. As these swaps are not yet effective, there have not been any cash flows paid or received, and therefore there are no variable rates to report at this time.

*Fair value.* Because interest rates have increased since execution of the swap, the swaps had a total positive fair value of \$13,163,558 as of June 30, 2007. The Bank of America swap had a positive fair value of \$6,453,448, the Merrill Lynch Capital Services swap had a fair value of \$3,355,055, and the Goldman Sachs Mitsui Marine Derivative Products had a fair value of \$3,355,055. 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 29, 2007. 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, 2007, the Commission was exposed to credit risk on these swaps in the amount of \$13,163,558 which is the derivatives' fair value. However, should interest rates change and the fair value of the swap becomes negative, the Commission would not be exposed to any credit risk. In order to mitigate this risk, the Commission diversified its exposure among three counterparties. As of June 30, 2007, the swap counterparties were rated Aaa (Bank of America and Goldman Sachs Mitsui Marine Derivative Products) and Aa3 (Merrill Lynch Capital Services) by Moody's and AA+ (Bank of America), AA- (Merrill Lynch Capital Products), and AAA (Goldman Sachs Mitsui Marine Derivative Products) by Standard & Poor's. In addition, the fair value of the swap will be fully collateralized by the counterparty with cash or U.S. 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.

*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 expected to be issued in April 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.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**5. Derivative activity, Continued**

**Interest rate swaps effective dates April 1, 2008, Continued**

*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 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 positive fair value of June 30, 2007, the Commission was in a favorable termination position relative to the market.

**Interest rate swaption effective date April 1, 2006**

*Objective of the interest rate swaption.* On February 2, 2003, the Commission entered into an interest rate swaption for \$34,210,000 in order to receive an upfront payment of \$401,000, pay a fixed rate that achieves payment neutrality with existing bonds, also taking into account a call premium of \$668,300, and receive a variable rate pegged to an index designed to achieve projected actual variable rate experience. The intention of the Commission in entering into the swaption was to capture value from the call options in the 1996 Series A Sales Tax Revenue Bonds. The swaption had an expiration of February 1, 2006 and allowed the counterparty to exercise the Commission into a swap effective April 1, 2006.

*Terms.* The swaption was exercised to swap effective April 1, 2006, and the Commission issued \$34,084,000 of commercial paper in order to current refund a portion of the 1996 Series A bonds on the April 1, 2006, call date. On June 30, 2007, the notional amount of the swap was \$21,025,000. The Commission pays the counterparty a fixed payment of 3.45 percent and receives a variable payment based on 60 percent of the one-month LIBOR. During July 1, 2006, through June 30, 2007, the variable rate received by the Commission ranged between 3.07 percent and 3.23 percent. The swap amortizes over two years with a maturity date of April 1, 2008.

*Fair value.* The swap had a negative fair value of \$(43,811) as of June 30, 2007. The fair value of the derivative was estimated by an independent third-party based on mid-market levels as of the close of business on June 29, 2007. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swap.

*Credit risk.* This is the risk that the counterparty will fail to perform under the terms of the agreement. The favorable credit rating of the counterparty mitigates this risk. As of June 30, 2007, the swap counterparty (Morgan Stanley) was rated Aa3 by Moody's and A+ by Standard & Poor's. As of June 30, 2007, the Commission was not exposed to credit risk on the swaption because it had a negative fair value. However, should interest rates change and the fair value of the swaption become positive, the Commission would be exposed to credit risk in the amount of the derivative's fair value.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**5. Derivative activity, Continued**

**Interest rate swaption effective date April 1, 2006, Continued**

*Basis risk.* This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the commercial paper. The rates have not been significantly different since the exercise date.

*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. The Commission anticipates maintaining the existing agreement through the amortization of the commercial paper through April 1, 2008. In addition, as of June 30, 2007, the Commission was in a favorable termination position relative to the market and net payments received.

At June 30, 2007, the net cumulative position of entering the swap and refunding the debt with commercial paper versus the original debt service requirements is a positive \$460,000, which includes the upfront payment of \$401,000 received in 2003.

**6. Long-term debt**

The following is a summary of long-term debt for the year ended June 30, 2007:

	Balance July 1, 2006	Debt Issued	Debt Retired	Balance June 30, 2007	Due Within One Year
Sales Tax Revenue Bonds:					
1996 Series A	\$ 7,000,000	\$ -	\$ (7,000,000)	\$ -	\$ -
1994 Series A	55,000,000	-	(26,800,000)	28,200,000	28,200,000
1993 Series A Refunding	31,410,000	-	(15,305,000)	16,105,000	16,105,000
1992 Series A	26,290,000	-	(12,830,000)	13,460,000	13,460,000
Commercial Paper Notes	75,707,000	34,000,000	(26,503,000)	83,204,000	83,204,000
Total long-term debt	<u>\$ 195,407,000</u>	<u>\$ 34,000,000</u>	<u>\$ (88,438,000)</u>	<u>\$ 140,969,000</u>	<u>\$ 140,969,000</u>

On June 30, 2007, long-term debt consists of Series A 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 issued by the Commission. The notes are payable from and collateralized by a subordinate and second lien basis to the 1991 and 1989 Series A sales tax revenue bonds (limited tax bonds) and a pledge of the sales tax revenues. Proceeds from long-term debt are to be used primarily to fund certain transportation projects in San Diego.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**6. Long-term debt, Continued**

**The 1996 Series A bonds**

On September 1, 1996, the Commission issued \$185,000,000 Second Series Sales Tax Revenue Bonds (Limited Tax Bonds), 1996 Series A. The 1996 Series A Bonds are limited obligations of the Commission collateralized by the provisions of the Indenture, dated as of October 1, 1992, as amended and supplemented, between the Commission and the Trustee, and are payable from and collateralized, as are the 1989, 1992, 1993, and 1994 Series A Bonds, by the reserves from a 1/2 percent sales tax imposed within the County of San Diego. At June 30, 2007, the bonds were entirely paid off.

**The 1994 Series A bonds**

On April 7, 1994, the Commission issued \$261,700,000 Second Series sales tax revenue bonds, 1994 Series A, through a variable-rate mode and executed a swap fixing the Commission's interest rate for the first three years. On May 17, 1995, the Commission executed a fixed-rate conversion of the 1994 Series A bonds in the amount of \$246,500,000. The Commission decided to pursue the option of locking in current low rates by reversing the three-year swap and converting all the outstanding bonds from the weekly mode to a fixed rate. The bond issue resulted in present value interest savings of \$18,300,000, or 9.1 percent of refunded par. The principal requirements to maturity for the 1994 Series A bonds are as follows:

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>	<u>Interest Rate</u>
2008	\$ 28,200,000	\$ 1,339,500	\$ 29,539,500	4.75%
<b>Total</b>	<b>\$ 28,200,000</b>	<b>\$ 1,339,500</b>	<b>\$ 29,539,500</b>	

**The 1993 Series A refunding bonds**

On April 7, 1993, the 1993 Series A refunding bonds were issued for \$174,595,000 to refund a portion of the first senior bonds to achieve debt-service savings. A total of \$154,795,000 of outstanding bonds was refunded (\$41,235,000 of the 1991 Series A bonds and \$113,560,000 of the 1989 Series A bonds). The net present value savings of refunding was approximately \$5,270,000.

Pursuant to the terms of the escrow agreement dated March 1, 1993, between the Commission and Bank of America National Trust and Savings Association, as escrow agent, the refunding of the refunded bonds was affected by depositing a portion of proceeds of the 1993 Series A bonds to the escrow fund created and established pursuant to the escrow agreement.

Such proceeds were used to purchase certain government obligations, the principal of and interest on which will be sufficient to pay when due the principal of, redemption premium, if any, and interest on the refunded bonds on the redemption dates.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**6. Long-term debt, Continued**

**The 1993 Series A refunding bonds, Continued**

The refunding of the refunded bonds discharged the pledge and assignment of revenues collateralizing the refunded bonds under the first senior indenture, except for the rights of the holders of the refunded bonds to receive payments from the escrow fund. As a result, the 1989 and 1991 Series A bond refunded amounts are considered to be defeased, and the liability for those bond amounts has been removed from the statement of net assets.

The principal requirements to maturity for the 1993 Series A refunding bonds are as follows:

Maturity (April 1)	Principal Amount	Interest Amount	Total	Interest Rate
2008	\$ 16,105,000	\$ 845,512	\$ 16,950,512	5.25%
<b>Total</b>	<b>\$ 16,105,000</b>	<b>\$ 845,512</b>	<b>\$ 16,950,512</b>	

**The 1992 Series A bonds**

The Commission had entered into an interest rate swap agreement, dated October 1, 1992, with Lehman Brothers Special Financing, Inc. In general, the swap agreement provided that on a same-day, net payment basis, determined by reference to a notional amount equal to the principal amount of the 1992 Series A bonds outstanding, Lehman Brothers Special Financing, Inc., would pay to the Commission a floating amount and the Commission would pay to Lehman Brothers Special Financing, Inc. a fixed amount. On December 29, 1995, the Commission executed a fixed-rate conversion of the 1992 Series A bonds in the amount of \$134,300,000. The Commission decided to pursue the option of locking in current low rates by reversing the long-dated swap and converting all the outstanding bonds from the weekly mode to a fixed rate. The bond issue resulted in present value savings of approximately \$200,000.

The principal requirements to maturity for the 1992 Series A bonds are as follows:

Maturity (April 1)	Principal Amount	Interest Amount	Total	Interest Rate
2008	\$ 13,460,000	\$ 740,300	\$ 14,200,300	5.50%
<b>Total</b>	<b>\$ 13,460,000</b>	<b>\$ 740,300</b>	<b>\$ 14,200,300</b>	



**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**6. Long-term debt, Continued**

**Defeased bonds**

In past years, the Commission defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt-service payments on the 1991 Series A bonds. The net present value savings of the defeasance was approximately \$2,550,000. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Commission's financial statements. On June 30, 2007, \$24,175,000 of bonds outstanding were considered defeased.

**Commercial paper notes**

On August 1, 1991, the Commission issued tax-exempt commercial paper notes (limited tax bonds), Series A (the "notes"). The maximum aggregate principal amount that could be outstanding under these notes was \$135,000,000. In January 2005, the Board of Directors approved an "Early Action Program" to jump-start some of the major projects identified in the *TransNet* reauthorization (approved by the voters in November 2004). In order to provide financing in advance of the receipt of revenues, in September 2005, the Commission expanded its commercial paper program from \$135,000,000 to \$335,000,000, increasing the number of dealers from one to three. There are three credit facilities in place to secure the commercial paper remarketed by each of the three dealers.

During the fiscal year, the maximum outstanding balance was \$83,204,000. As of June 30, 2007, there was \$83,204,000 outstanding. Interest rates during the current year have varied from 3.35 percent to 3.75 percent, with maturities from 1 day to 147 days. Interest rates on outstanding amounts at June 30, 2007, ranged from 3.62 percent to 3.72 percent, with maturities from 37 days to 130 days.

**7. Unrestricted net asset (deficit)**

The unrestricted net deficit of \$29,937,034 resulted from the pass-through of revenue bonds to participating government agencies in San Diego County for transportation related projects, primarily streets and roads. The Commission plans to repay the bonds with future Proposition A – San Diego County Transportation Improvement Program sales tax revenue that is dedicated for transportation projects. See note J on long-term debt for further information.

**8. Risk management**

Insurance coverage is maintained for the Commission by SANDAG through commercial insurance. See SANDAG's basic financial statements for further details.

**San Diego County Regional Transportation Commission**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2007**

**9. Subsequent Event**

On October 24, 2007, Merrill Lynch (one of the counterparties on the Commission's interest rate swaps) was downgraded by both Fitch and S&P from AA- to A+ after the securities firm posted the biggest quarterly loss in its 93-year history. The swap documents allow for the Commission to seek collateral when Merrill Lynch is rated A+, when the value of the outstanding swap exceeds \$15,000,000. As it currently has a negative value from the Commission's perspective, no action was taken. Management is continuously monitoring both the value and any changes in credit rating of the swap counterparties.

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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# 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, 2007

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget
<b>REVENUES:</b>			
Sales tax	\$ 249,882,828	\$ 248,467,503	\$ (1,415,325)
Use of money and property	2,000,000	3,823,356	1,823,356
Other revenues	-	6,400	6,400
<b>Total revenues</b>	<b>251,882,828</b>	<b>252,297,259</b>	<b>414,431</b>
<b>EXPENDITURES:</b>			
Current			
General government	2,498,828	2,500,000	(1,172)
Bicycle facilities	1,000,000	1,233,516	(233,516)
Major corridors	-	76,798,842	(76,798,842)
Environmental mitigation program	-	17,792,212	(17,792,212)
Highway improvements	82,128,000	24,436,523	57,691,477
Public transit improvements	82,128,000	52,730,869	29,397,131
Local street and road improvements	82,128,000	76,885,657	5,242,343
<b>Total expenditures</b>	<b>249,882,828</b>	<b>252,377,619</b>	<b>(2,494,791)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,000,000</b>	<b>(80,360)</b>	<b>(2,080,360)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	5,091,535	(5,091,535)
Transfers out	-	(84,653,398)	84,653,398
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(79,561,863)</b>	<b>79,561,863</b>
<b>Net change in fund balances</b>	<b>2,000,000</b>	<b>(79,642,223)</b>	<b>(81,642,223)</b>
<b>FUND BALANCES:</b>			
Beginning of year	97,681,742	97,681,742	-
End of year	<b>\$ 99,681,742</b>	<b>\$ 18,039,519</b>	<b>\$ (81,642,223)</b>

**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***

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

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, 2007, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with generally accepted auditing standards 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 basic 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 result 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 audit procedures for the purpose of expressing our opinion on the basic 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 control deficiency 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 misstatements on a timely basis.

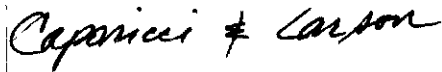
A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

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

This report is intended solely for the information and use of the Commission's Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California  
November 30, 2007

## **APPENDIX B**

### **INFORMATION REGARDING THE COUNTY OF SAN DIEGO**

Set forth below is certain information with respect to the County of San Diego (the "County"). Except as otherwise indicated, such information was obtained from the County 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 County covers 4,255 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 and the largest uniformed military presence in the nation, which contributes approximately \$10 billion annually to the retail and service businesses of the area.

In support of the region's visitor industry, the City of San Diego constructed a baseball park in downtown San Diego ("PETCO Park") within walking distance of the recently expanded convention center. PETCO Park opened in April 2004 providing 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 is also within walking distance of a San Diego Trolley station and nearby parking facilities.

The San Diego Convention Center began operation in November 1989. The Convention Center contains 615,701 square feet of exhibit space and 204,114 square feet of meeting/banquet rooms. In September 2001, a major expansion of the Convention Center was completed which increased the square footage by approximately 50%. Major conventions and trade shows are scheduled into the year 2009.

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.



## Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. In the 1990's the population of the County grew at a greater rate than that of either California or the nation. The County population as of January 2007 was estimated to be approximately 3,098,269, making it the second largest County by population in California. As of July 1, 2006, the U.S. Census Bureau ranked San Diego County the seventeenth largest Metropolitan Statistical Area in the United States. The 2007 population increased 1.11% from 2006. 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 1995 to 2007.

### POPULATION<sup>(1)</sup> (In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States <sup>(2)</sup>	Percent Change
1995	2,613	-	31,617	-	262,803	-
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	2,864	1.81	34,441	1.91	285,107	1.03
2002	2,921	1.99	35,088	1.87	287,985	1.01
2003	2,972	1.74	35,691	1.71	290,850	0.99
2004	3,011	1.31	36,252	1.57	293,657	0.96
2005	3,038	0.90	36,743	1.35	296,410	0.94
2006	3,064	0.86	37,195	1.23	299,398	1.01
2007	3,098	1.11	37,663	1.26	301,140	0.58

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).

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

## Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,518,000 in 2006. The number of employed workers in the labor force averaged approximately 1,457,500. 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 years 2002 through 2006. 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 November of 2007. The unemployment rate in San Diego County remained stable at 4.8 percent in October and November 2007, and above the year-ago estimate of 4.0 percent. This compares with an unadjusted unemployment rate of 5.6 percent for California and 4.7 percent (seasonally adjusted) for the nation during the same period.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT\***  
**ANNUAL AVERAGES 2002-2006**  
**By Place of Residence**  
**(In Thousands)**

	2002	2003	2004	2005	2006	2007**
County of San Diego						
Labor Force	1,450.5	1,469.8	1,492.4	1,507.8	1,518.0	1,545.3
Employment	1,375.8	1,393.3	1,421.7	1,442.7	1,457.5	1,470.7
Unemployment Rate	5.2%	5.2%	4.7%	4.3%	4.0%	4.8
State of California						
Labor Force	17,343.6	17,418.7	17,538.0	17,740.4	17,901.9	18,374.2
Employment	16,180.8	16,227.0	16,444.5	16,782.3	17,029.3	17,353.5
Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.9%	5.6%
United States						
Labor Force	144,863.0	146,510.0	147,401.0	149,320.0	151,428.0	153,828.0
Employment	136,485.0	137,736.0	139,252.0	141,730.0	144,427.0	146,747.0
Unemployment Rate	5.8%	6.0%	5.5%	5.1%	4.6%	4.7%

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 2006 benchmark.

\*\* As of November 2007.

The following table sets forth the annual average employment within the County by employment sector for 2002 through 2006. Industry employment in San Diego County has increased by a total of 69,200 jobs since 2002, with gains in most major industries (with the exception of agriculture, manufacturing, government, and information). The largest growth industries were: leisure and hospitality; construction; and trade, transportation, and utilities. During the years profiled, these industries gained a total of 51,000 jobs. The largest growth occurred in leisure and hospitality (22,400 jobs). Construction gained 16,200 jobs, growth of almost 21 percent. Trade, transportation, and utilities added 12,400 jobs, with retail trade accounting for 9,600 new jobs. Since 2002, professional and business services has shown a growth of 12,100 jobs. The county's manufacturing industry declined by 8,700 jobs. Government (-2,000) and information (-500) also experienced decline. The table below also shows the first eleven months of 2007 with increases of jobs continuing in the areas of leisure and hospitality, trade, transportation and utilities. Also recent increases in information and government which had shown a decline in recent years.

**SAN DIEGO COUNTY  
LABOR FORCE AND INDUSTRY EMPLOYMENT  
ANNUAL AVERAGES  
2002-2006**

<b>Employment Sector</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Total, All Industries	1,241,700	1,251,300	1,271,500	1,292,800	1,310,900	1,335,000
Agriculture	11,000	11,200	11,100	10,700	11,000	10,500
Natural Resources & Mining	300	300	400	400	500	500
Construction	76,400	80,200	87,700	90,800	92,600	85,000
Manufacturing	112,300	105,300	104,300	104,500	103,600	103,100
Trade, Transportation & Utilities	208,600	209,700	215,300	219,400	221,000	228,700
Wholesale Trade	41,300	41,600	41,900	43,600	45,100	46,200
Retail Trade	138,000	140,800	144,900	147,400	147,600	153,400
Transportation, Warehousing & Utilities	29,300	27,300	28,400	28,400	28,300	29,100
Information	37,700	36,900	36,600	37,400	37,200	38,400
Financial Activities	75,000	79,900	81,900	83,200	83,700	81,300
Finance & Insurance	47,300	51,200	52,800	53,500	53,300	53,000
Real Estate, Rental & Leasing	27,700	28,800	29,100	29,700	30,400	28,300
Professional & Business Services	201,700	201,200	204,500	210,400	213,800	220,000
Education & Health Services	119,700	121,800	121,700	122,500	124,700	130,400
Leisure & Hospitality	133,800	140,700	145,700	149,600	156,200	161,500
Other Services	45,600	46,800	47,900	48,800	48,900	51,300
Government	219,700	217,300	214,300	215,000	217,700	224,300

Source: California Employment Development Department.

## Regional Economy

In recent years the County has enjoyed economic stability, outpacing the State economy despite a general recession in the State. Much of this strength was evidenced by, and due to, outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

The Gross Regional Product (“GRP”) for 2006 rose to over \$161 billion from \$151 billion in 2005. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1996 through 2006.

### COUNTY OF SAN DIEGO GROSS REGIONAL PRODUCT 1996-2006

Year	Gross Regional Product (In Billions)	Annual Percent Change	
		Current Dollars San Diego	Real Change* San Diego
1996	\$ 79.127	6.0%	4.2 %
1997	85.675	8.3	6.6
1998	93.738	9.4	8.2
1999	102.422	9.3	8.2
2000	111.639	9.0	7.0
2001	116.347	4.2	2.1
2002	124.920	7.4	4.9
2003	133.051	6.5	4.5
2004	141.707	6.5	4.0
2005	151.105	6.6	4.5
2006 <sup>(1)</sup>	161.087	6.6	4.9

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

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

<sup>(1)</sup> Estimated.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of five basic industrial employment clusters of the region, which consist of high technology (such as biotechnology, medical instruments, wireless communications, software and electronic components), defense and transportation manufacturing, uniformed military, tourism, and agriculture. The U.S. Department of Defense contributes about \$10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence 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. The Department of Defense closed and vacated the Naval Training Center in 1997; however, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

## Building Activity

Annual total building permit valuation and the annual unit total of new residential permits from 2003 through November of 2007 are shown in the following table.

**COUNTY OF SAN DIEGO  
BUILDING PERMIT ACTIVITY  
2003 –November of 2007  
(In Thousands)**

	2003	2004	2005	2006	2007*
Valuation					
Residential	\$3,683,807	\$3,875,359	\$3,562,702	\$2,470,685	\$1,722,842
Non-Residential	<u>1,169,397</u>	<u>1,288,130</u>	<u>\$1,381,794</u>	<u>\$1,621,608</u>	<u>\$1,270,659</u>
Total	\$4,853,204	\$5,163,489	\$ 4,944,496	\$ 4,092,293	\$ 2,993,501
New Housing Units.					
Single Family	9,455	9,555	7,904	4,753	3,289
Multiple Family	<u>8,859</u>	<u>7,751</u>	<u>7,354</u>	<u>6,024</u>	<u>3,496</u>
Total	18,314	17,306	15,258	10,777	6,785

Source: Construction Industry Research Board.

\* Through November of 2007 .

**Commercial Activity**

Consumer spending for 2006 resulted in approximately \$47.8 billion in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for the years 2002 through 2006.

**COUNTY OF SAN DIEGO  
TAXABLE SALES  
2002 2006  
(In Thousands)**

<u>Type of Business</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Apparel Stores	\$ 1,374,858	\$ 1,466,233	\$1,644,428	\$1,798,104	\$1,909,011
General Merchandise	4,557,457	4,832,286	5,204,962	5,406,091	5,594,621
Specialty Stores	3,803,803	4,144,293	4,541,225	4,728,028	4,924,656
Food Stores	1,650,104	1,685,203	1,736,610	1,858,152	1,928,274
Eating and Drinking Establishments	3,505,859	3,757,136	4,047,726	4,267,302	4,521,392
Home Furnishings/Appliances	1,353,158	1,458,403	1,549,482	1,566,046	1,511,389
Building Materials	2,510,931	2,757,706	3,341,105	3,376,009	3,331,161
Automotive	7,862,366	8,563,690	9,318,277	9,739,136	9,819,932
All Other Retail Stores	803,063	855,601	961,645	1,045,927	1,076,631
Business and Personal Services	1,977,606	2,040,077	2,146,781	2,239,304	2,302,057
All Other Outlets	<u>9,196,342</u>	<u>9,303,350</u>	<u>9,978,097</u>	<u>10,655,372</u>	<u>10,914,390</u>
TOTAL ALL OUTLETS	\$38,595,547	\$40,863,978	\$44,470,388	\$46,679,471	\$47,835,514

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

## Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 2000 and 2007. In 2006, the median household income for the County of San Diego was \$45,571 and in 2007, the median household income for the County of San Diego was \$47,378.

### PERSONAL INCOME 2000 through 2007

Year and Area	Total Effective Buying Income (In Thousands)	Median Household Effective Buying Income
2000		
San Diego County	49,907,828	39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233
2001		
San Diego County	54,337,662	44,292
California	652,190,282	44,464
United States	5,230,824,904	39,129
2002		
San Diego County	55,210,119	44,146
California	650,521,407	43,532
United States	5,303,481,498	38,365
2003		
San Diego County	54,831,958	42,315
California	647,879,427	42,484
United States	5,340,682,818	38,035
2004		
San Diego County	57,680,880	43,346
California	674,721,020	42,924
United States	5,466,880,008	38,201
2005		
San Diego County	60,578,879	44,506
California	705,108,410	43,915
United States	5,692,909,567	39,324
2006		
San Diego County	61,891,933	45,571
California	720,799,048	44,681
United States	5,894,664,154	40,529
2007		
San Diego County	66,110,993	47,378
California	764,120,982	46,275
United States	6,107,093,057	41,255

Source: Sales and Marketing Management - Survey of Buying Power, Effective Buying Income for 2000-2005 figures. Demographics USA (Trade Dimensions), Households by EBI, for the 2006 and 2007 figures.

NOTE: As of 2002, Survey of Buying Power changed its reporting methods to be based on projected estimates.

## **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-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's 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 Commission 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"). MTS operates the San Diego Trolley, which was recently expanded to serve San Diego State University, as well as San Diego Transit and other bus services. The North County Transit District provides bus services in the northern portion of the County and operates commuter rail services (Coaster) from Oceanside to downtown San Diego.

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 \$7.7 billion in 2006, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately \$190 million from the prior year. The County hosted 71 conventions and trade shows in 2006, attended by approximately 573,398 delegates, who spent approximately \$462,117,578. Additional visitors pass through the San Ysidro Port of Entry, the busiest border crossing in the world with nearly 70 million crossings each year 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 College; California State University - San Marcos; Alliance International University; and the University of Phoenix.

## APPENDIX C

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

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

#### Definitions

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

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

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

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

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

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

**Applicable Spread** has the meaning specified in the Indenture.

**ARS Conversion Date** has the meaning set forth in Appendix A to the First Supplemental Indenture.

**Assumed Debt Service** means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Commission not exceeding thirty (30) years from the date of calculation, or (ii) the Tax Expiration Date, such Assumed Debt Service to be calculated on a level debt service basis, based on a fixed interest rate equal to the rate at which the Commission could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may rely conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

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

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

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

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

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

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

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

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

**Board** means the Board of Directors of the Commission.

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

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

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

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

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

**Broker-Dealer** has the meaning set forth in Appendix A to the First Supplemental Indenture.

**Broker-Dealer Agreement** has the meaning set forth in Appendix A to the First Supplemental Indenture.

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

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

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

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

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

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

**Commercial Paper Tender Bonds** shall have the meaning set forth in the Indenture.

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

**Continuing Disclosure Agreement** means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Agreement, dated the

date of issuance of such Series of Bonds, executed by the Commission and a Dissemination Agent, as the same may be supplemented, modified or amended in accordance with its terms.

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

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

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

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

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

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

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

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

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

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

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

**Daily Put Bonds** shall have the meaning set forth in the Indenture.

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

**Daily Rate Index** means, on any Business Day, the SIFMA Swap Index or, if the SIFMA Swap Index is no longer published, an index or rate agreed upon by the Commission and the Remarketing Agent; provided, however, that if the Remarketing Agent Advises the Trustee and the Commission that the use of such index would not result or no longer results in a market rate of interest on the Bonds, "Daily Rate Index" shall mean, subject to a Favorable Opinion of Bond Counsel, an index agreed to by the Commission and the Remarketing Agent that would result in a market rate of interest on the Bonds which Daily Index Rate shall in no event exceed the Maximum Interest Rate.

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

**Debt Service**, when used with respect to any Bonds or Parity Obligations (for purposes of this definition of "Debt Service," herein collectively referred to as "Obligations"), means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Obligations during such Fiscal Year and (2) the principal or Mandatory Sinking Account Payments required with respect to such Obligations during such Fiscal Year; computed on the assumption that no portion of such Obligations shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

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

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

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

(D) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes,

the interest rate on such Obligations shall be calculated at an interest rate equal to 100% of the average One Month USD LIBOR Rate during the five (5) years preceding such date of calculation;

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

(F) with respect to any Obligations bearing interest, or expected to bear interest, at a fixed interest rate for which an Interest Rate Swap Agreement is in place providing for a net variable interest rate with respect to such Obligations for a specific term, the interest rate on such Obligations shall be assumed to be equal for such term to the sum of (i) the fixed interest rate or rates to be paid on the Obligations, minus (ii) the fixed interest rate receivable by the Commission under such Interest Rate Swap Agreement, plus (iii) the average interest rate of the index on which the Interest Rate Swap Agreement is based, as identified in a Certificate of the Commission, or, if not based on an identifiable index, then the SIFMA Swap Index, in each case, over the five (5) years preceding the date of calculation;

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

(H) principal and interest payments on Obligations shall be excluded to the extent such payments are to be paid from Revenues then held on deposit by the Trustee or from other amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Obligations held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest.

**Defeasance Securities** means: (i) U.S. Treasury Certificates, Notes and Bonds, including State and Local Government Series securities; (ii) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself; (iii) Resolution Funding Corp. securities ("REFCORP"), provided, however, only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (iv) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's, provided, however, that if such municipal bonds are rated only by Standard & Poor's, then such pre-refunded municipal bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or "AAA" rated pre-refunded municipal bonds; (v) obligations issued by the following agencies, which are backed by the full faith and credit of the United States: (a) Farmers Home Administration (FmHA) - certificates of beneficial ownership; (b) General Services Administration - participation certificates; (c) U.S. Maritime Administration - Guaranteed Title XI financing; (d) Small Business Administration guaranteed

participation certificates and guaranteed pool certificates; (e) GNMA guaranteed MSB and participation certificates; and (f) U.S. Department of Housing and Urban Development (HUD) Local Authority Bonds, or (vi) certain obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States limited to: (a) Federal Home Loan Mortgage Corp. (FHLMC) debt obligations; (b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) consolidated system-wide bonds and notes; (c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; (d) Federal National Mortgage Association (FNMA) debt obligations; (e) Student Loan Marketing Association (SLMA) debt obligations; and (f) Financing Corp. (FICO) debt obligations; and (g) other obligations approved by the Rating Agencies for defeasance escrows rated in the highest Rating Category.

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

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

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

**Eligible Account** means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor's short-term debt rating of at least 'A-2' (or, if no short-term debt rating, a long-term debt rating of 'BBB+'); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity. means any of the events of default specified in the Indenture.

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

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

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

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



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

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

**First Supplemental Indenture** means the First Supplemental Indenture, between the Commission and the Trustee, as amended and supplemented from time to time.

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

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

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

**Fixed Rate Computation Date** means any Business Day during the period from and including the date of receipt of a Conversion Notice relating to a Fixed Rate Conversion to and including the Business Day next preceding the proposed Conversion Date.

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

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

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

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

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

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

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

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

**Index Rate Continuation Notice** means a written notice delivered by the Commission to establish a new Index Rate Period for any Series of 2008 Bonds, such notice to be delivered to the Trustee, the Index Agent (if the Trustee is not the Index Agent), and the Remarketing Agent.

**Index Rate Determination Date** means a date that is two London Banking Days preceding the date of a Conversion to the Index Rate Period, a date that is two London Banking Days preceding each Purchase Date during the Index Rate Period, and a date that is two London Banking Days preceding each Interest Payment Date during the Index Rate Period; provided, that if the Commission obtains a Favorable Opinion of Bond Counsel, "Index Rate Determination Date" shall mean such other date as is determined by the Commission in consultation with the Remarketing Agent in accordance with the provisions of the Indenture.

**Index Rate Index** means 67% of the Three-Month LIBOR Rate or, if the Three-Month LIBOR Rate is not available, 67% of the Treasury Rate; provided, that if the Commission obtains a Favorable Opinion of Bond Counsel, "Index Rate Index" shall mean such other index as is determined by the Commission in consultation with the Remarketing Agent at the commencement of an Index Rate Period in accordance with the provisions of the Indenture.

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

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

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

**Initial Swaps** means the following Interest Rate Swap Agreements, in a combined notional amount of \$600,000,000:

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

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

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

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

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

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

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

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

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

**Investment Securities** means the following:

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

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

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

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

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

(6) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (1) or (2) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in

clause (1) or (2) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (6) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (6), as appropriate, and (d) which have been rated in one of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

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

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

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

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

(11) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the

securities and obligations described in clauses (1), (2), (3) or (4) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

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

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

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

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

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

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

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

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

**Issue Date** means, with respect to the 2008 Bonds, the date on which the 2008 Bonds are first delivered to the purchasers thereof.

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

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

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

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

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

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

**London Banking Day** means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency) in the City of London, United Kingdom.

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

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

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

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

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

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

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

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

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

**One Month USD LIBOR Rate** means the rate for deposits in U.S. dollars for a one-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the date of determination of such rate, except that, if such rate does not appear on such page on such date, the One Month USD LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on such date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the "Reference Banks") selected by the Trustee (provided, however, that the Trustee may appoint an agent to identify such Reference Banks). The Trustee or its agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Trustee or its agent, at approximately 11:00 a.m., New York City time, on such date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month

maturity. If none of the banks in New York City selected by the Trustee or its agent is then quoting rates for such loans, then the One Month LIBOR Rate for the ensuing interest period will mean the One Month LIBOR Rate most recently in effect.

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

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

**Optional Purchase Price** means, with respect to the purchase of 2008 Bonds to be purchased pursuant to the provisions of the Indenture on any Optional Purchase Date, the principal amount of the 2008 Bonds to be purchased on such Optional Purchase Date, plus accrued interest to such Optional Purchase Date, plus an amount equal to the premium, if any, that would be payable upon the redemption, at the option of the Commission exercised on such Optional Purchase Date, of the 2008 Bonds to be purchased.

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

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

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

**Parity Obligations** means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Commission for borrowed money, (ii) any obligation to pay the Rebate Requirement, (iii) the Initial Swaps and any other Interest Rate Swap Agreement (excluding in each case fees and expenses and termination payments on Interest Rate Swap Agreements, including the Initial Swaps, which fees and expenses and termination payments shall be secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon Sales Tax Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case (other than in the case of the Initial Swaps) incurred in accordance with the Indenture and in each case having an equal lien and charge upon the Sales Tax



Revenues and therefore being payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Record Date** means (a) for any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Index Rate Period, the Business Day next preceding such Interest Payment Date; (b) for any Interest Payment Date in respect of any Term Rate Period or Fixed Rate Period, the fifteenth (15<sup>th</sup>) day (whether or not a Business Day) of the month preceding the month in which such Interest Payment Date occurs; and (c) for any Interest Payment Date in respect of any Auction Period, the Business Day immediately preceding the Interest Payment Date;

and, with respect to any other Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

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

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

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

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

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

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

**Repositories** means the public or private entities designated as Repositories in a Continuing Disclosure Agreement entered into in connection with a Series of Bonds.

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

**Reserve Facility Provider** means any issuer of a Reserve Facility.

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

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

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

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

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

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

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

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

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

**Series of Index Bonds** means a Series of 2008 Bonds in the Index Rate Period.

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

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

**Spread Premium** has the meaning specified in the Indenture.

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

**State** means the State of California.

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

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

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

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

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

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

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

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

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

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

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

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

**Term Rate** means the rate of interest on 2008 Bonds established in accordance with the provisions of the Indenture.

**Term Rate Computation Date** means any Business Day during the period from and including the date of receipt of a Conversion Notice relating to a Conversion to a Term Rate for any 2008 Bonds to and including the Business Day next preceding the proposed Term Rate Conversion Date.

**Term Rate Conversion Date** means: (i) the Conversion Date on which the interest rate on any 2008 Bonds shall be converted to a Term Rate; and (ii) the date on which a new Term Rate Period and Term Rate are to be established.

**Term Rate Continuation Notice** means a written notice delivered by the Commission to establish a new Term Rate Period for any 2008 Bonds in the Term Rate.

**Term Rate Period** means any period during which any 2008 Bonds bear interest at the Term Rate established pursuant to the provisions of the Indenture.

**Termination** (and other forms of "terminate") means, when used with respect to any 2008 Liquidity Facility or Credit Enhancement, the replacement, removal, surrender or other termination of such 2008 Liquidity Facility or Credit Enhancement other than an Expiration or an extension or renewal thereof; provided, however, that Termination does not include immediate suspension or automatic termination events.

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

**Treasury Rate** means the interest rate applicable to 13-week United States Treasury bills determined by the Remarketing Agent on the basis of the average per annum discount rate at which such 13-week Treasury bills shall have been sold at the most recent Treasury auction.

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

**2008 Bonds** means the 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, authorized by, and at any time Outstanding pursuant to, the Indenture.

**2008 Bonds Purchase Fund** means the 2008 Bonds Purchase Fund established pursuant to the provisions of the Indenture.

**2008 Bonds Reserve Fund** means the fund by that name established pursuant to the provisions of the Indenture.

**2008 Bonds Reserve Requirement** means, as of any date of calculation, an amount equal to the least of (i) ten percent (10%) of the principal amount of the 2008 Bonds (or if the amount of original issue discount or original issue premium applicable to the 2008 Bonds exceeds two percent (2%), ten percent (10%) of the issue price of the 2008 Bonds), (ii) one hundred twenty-five percent (125%) of average

Annual Debt Service on the Outstanding 2008 Bonds, and (iii) fifty percent (50%) of Maximum Annual Debt Service on the Outstanding 2008 Bonds.

**2008 Bonds Tax Certificate** means the Tax Certificate executed on behalf of the Commission in connection with the issuance of the 2008 Bonds.

**2008 Commission Account** means, as applicable, the 2008 Series A Commission Account, the 2008 Series B Commission Account, the 2008 Series C Commission Account or the 2008 Series D Commission Account, within the 2008 Bonds Purchase Fund established pursuant to the provisions of the Indenture.

**2008 Liquidity Facility** means, with respect to the 2008 Series A Bonds and the 2008 Series B Bonds, the Standby Bond Purchase Agreement, dated as of March 1, 2008, between the Commission and JP Morgan Chase Bank, N.A., as supplemented and amended pursuant to its terms, or any agreement pursuant to which an Alternate Liquidity Facility is provided with respect to the 2008 Series A Bonds and 2008 Series B Bonds, and means, with respect to the 2008 Series C Bonds and 2008 Series D Bonds, the Standby Bond Purchase Agreement, dated as of March 1, 2008, between the Commission and Dexia Credit Local, acting through its New York Branch, as supplemented and amended pursuant to its terms, or any agreement pursuant to which an Alternate Liquidity Facility is provided with respect to the 2008 Series C Bonds and 2008 Series D Bonds, in each case according to the provisions of the Indenture.

**2008 Liquidity Facility Bonds** means Liquidity Facility Bonds consisting of any 2008 Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a 2008 Liquidity Facility as provided in the Indenture, but excluding any Bonds no longer considered to be 2008 Liquidity Facility Bonds in accordance with the terms of the applicable 2008 Liquidity Facility and the provisions of the Indenture.

**2008 Liquidity Facility Purchase Account** means, as applicable, the 2008 Series A Liquidity Facility Purchase Account, the 2008 Series B Liquidity Facility Purchase Account, the 2008 Series C Liquidity Facility Purchase Account or the 2008 Series D Liquidity Facility Purchase Account, within the 2008 Bonds Purchase Fund established pursuant to the provisions of the Indenture.

**2008 Liquidity Provider** means, with respect to the 2008 Series A Bonds and 2008 Series B Bonds, JP Morgan Chase Bank, N.A., and means, with respect to the 2008 Series C Bonds and 2008 Series D Bonds, Dexia Credit Local, acting through its New York Branch, or any commercial bank or other financial institution providing an Alternate Liquidity Facility as requested by the Commission in replacement of or substitution for a 2008 Liquidity Facility provided with respect to the 2008 Series A Bonds, the 2008 Series B Bonds, the 2008 Series C Bonds or the Series 2008 D Bonds.

**2008 Project Fund** means the 2008 Project Fund established pursuant to the Indenture.

**2008 Remarketing Account** means, as applicable, the 2008 Series A Remarketing Account, the 2008 Series B Remarketing Account, the 2008 Series C Remarketing Account or the 2008 Series D Remarketing Account, within the 2008 Bonds Purchase Fund established pursuant to the Indenture.

**2008 Series A Bonds** shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A, authorized by Article XIV of the Indenture.

**2008 Series B Bonds** shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series B, authorized by Article XIV of the Indenture.

**2008 Series C Bonds** shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series C, authorized by Article XIV of the Indenture.

**2008 Series D Bonds** shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series D, authorized by Article XIV of the Indenture.

**USD-ISDA Swap Rate** shall have the meaning set forth in the provisions of the Indenture.

**Variable Rate** means any of the Daily Rate, the Weekly Rate, the Commercial Paper Rate, the Term Rate, the Index Rate, the Initial Period Rate or the Auction Period Rate, as applicable.

**Variable Rate Demand Bonds** means the 2008 Bonds bearing interest at a Daily Rate or a Weekly Rate.

**Variable Rate Indebtedness** means any indebtedness, including Bonds, Parity Obligations, and Subordinate Obligations, the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

**Weekly Put Bonds** shall have the meaning set forth in the Indenture.

**Weekly Rate** means the variable interest rate on any 2008 Bond established in accordance with the provisions of the Indenture.

**Weekly Rate Index** means, on any Business Day, the SIFMA Swap Index or, if the SIFMA Swap Index is no longer published, an index or rate agreed upon by the Commission and the Remarketing Agent; provided, however, that if the Remarketing Agent Advises the Trustee and the Commission that the use of such index would not result or no longer results in a market rate of interest on the Bonds, "Weekly Rate Index" shall mean, subject to a Favorable Opinion of Bond Counsel, an index agreed to by the Commission and the Remarketing Agent that would result in a market rate of interest on the Bonds, which Weekly Rate Index shall in no event exceed the Maximum Interest Rate.

**Weekly Rate Period** means each period during which any 2008 Bonds bear interest at Weekly Rates.

#### **Pledge of Revenues; Revenue Fund**

As security for the payment of all amounts owing on the Bonds and Parity Obligations, there are irrevocably pledged to the Trustee: (i) all Revenues; and (ii) all amounts, including proceeds of the Bonds, held on deposit in the funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Account and any Purchase Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The collateral identified above shall immediately be subject to the pledge described above, and such pledge shall constitute a first lien on and security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the



Commission and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act. The pledge of Revenues and all amounts held on deposit in the funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Account and any Purchase Fund) shall be irrevocable until all of the Bonds, all Parity Obligations and amounts owed in connection with the Bonds and Parity Obligations are no longer Outstanding.

All Bonds and Parity Obligations shall be of equal rank without preference, priority or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations.

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Commission assigns and shall cause Sales Tax Revenues to be transmitted by the State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Revenue Fund," which fund the Trustee shall establish and maintain, all Sales Tax Revenues, when and as received by the Trustee. The Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and the Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. Investment income on amounts held by the Trustee under the Indenture (other than amounts held in the Rebate Fund or for which particular instructions, such as with respect to a Project Fund, a Letter of Credit Account or a Purchase Fund, are provided in a Supplemental Indenture, shall also be deposited in the Revenue Fund. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Holders of the Bonds and the holders of Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

The Bonds are limited obligations of the Commission and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Sales Tax Revenues and other funds pledged under the Indenture.

#### **Allocation of Sales Tax Revenues**

So long as any Bonds are Outstanding and Parity Obligations, Subordinate Obligations, and all other amounts payable under the Indenture remain unpaid, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations):

**Interest Fund.** Following receipt of the Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and

reserved as capitalized interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) is on deposit in such fund; provided that, from the date of delivery of a Series of Current Interest Bonds until the first Interest Payment Date with respect to such Series of Bonds, the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Commission, or if the Commission shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus one percent (1%) (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued and paid during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued under the Indenture and then Outstanding and on April 1 and October 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having Interest Payment Dates other than April 1 and October 1) shall be transferred to the Commission (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Dates). All Swap Revenues received with respect to the Interest Rate Swap Agreements that are Parity Obligations shall be deposited in the Interest Fund and credited to the above-required deposits.

**Principal Fund; Sinking Accounts.** Following receipt of the Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

In the event that the Sales Tax Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the

Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in the same proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than April 1 of each year, the Trustee shall request from the Commission a Certificate of the Commission setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On April 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than April 1) shall be transferred to the Commission.

**Bond Reserve Fund.** Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to such Bond Reserve Fund as is required pursuant to the provisions of the Indenture described below under the caption "Funding and Application of Bond Reserve Funds," each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

**Subordinate Obligations Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Subordinate Obligations Fund." As long as any Subordinate Obligations remain unpaid, any Revenues remaining in the Revenue Fund, after the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, shall be transferred on the same Business Day to the Subordinate Trustee. After the Subordinate Trustee has made the required deposit of Revenues under the Subordinate Indenture, the Subordinate Trustee shall transfer any remaining Revenues back to the Trustee.

**Fees and Expenses Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Fees and Expenses Fund." At the direction of the Commission, after the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Fund and the Subordinate Obligations Fund described above have been made, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund (i) amounts necessary for payment of fees, expenses and similar charges (including fees, expenses and similar charges relating to any Liquidity Facility or Credit Enhancement for the Bonds or any Parity Obligations) owing in such month or following month by the Commission in

connection with the Bonds or any Parity Obligations and (ii) amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Commission in connection with Subordinate Obligations. The Commission shall inform the Trustee of such amounts, in writing, on or prior to the first Business Day of each month.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Commission shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Commission on the same Business Day or as soon as practicable thereafter. The Commission may use and apply the Revenues when received by it for any lawful purpose of the Commission, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five (5) days prior to any principal payment date, Interest Payment Date or mandatory redemption date the amounts on deposit in the Revenue Fund, the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee shall immediately notify the Commission, in writing, of such deficiency and direct that the Commission transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Commission covenants and agrees to transfer to the Trustee from any Sales Tax Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

#### **Establishment and Application of Funds and Accounts**

Each of the funds and accounts described below is established pursuant to the Indenture.

**Interest Fund.** All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purposes of: (a) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), or for reimbursing the Credit Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit, and (b) making periodic payments on Interest Rate Swap Agreements, as provided pursuant to the provisions of the Indenture described below under the caption "Payment Provisions Applicable to Interest Rate Swap Agreements".

**Principal Fund.** All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture, or for reimbursing the Credit Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the "\_\_\_\_\_ Sinking Account," inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of

Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Commission, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Commission, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Commission has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to the provisions of the Indenture described herein shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Commission by the Trustee. Any amounts remaining in a Sinking Account on April 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as practicable to the Commission to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Commission with the Trustee in a twelve month period ending March 31 (or in a six-month period ending March 31 or September 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next April 1 or October 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Commission. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Commission.

**Funding and Application of Bond Reserve Funds.** The Commission may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond Reserve Fund so established by the Commission shall be available to secure one or more Series of Bonds as the Commission shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve Fund. Any Bond Reserve Fund established by the Commission shall be held by the Trustee and shall comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Commission), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Commission may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of both Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit shall have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and

shall provide by its terms that it may be drawn upon as provided in this caption. At least one (1) year prior to the stated expiration of such letter of credit, the Commission shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Commission. If the Commission shall fail to deposit a replacement Reserve Facility with the Trustee, the Commission shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Bond Reserve Fund (which shall be transferred by the Trustee to the Commission) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Commission may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy securing an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Bond Reserve Fund, is no less than the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of both Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Commission shall immediately implement (i) or (iii) of the preceding paragraph or make twelve equal monthly deposits to such Bond Reserve Fund so that the Bond Reserve Fund is replenished to the required level after a year.

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from a Reserve Facility on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee; (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates; or (ii) together with any other moneys available therefor, (x) for the payment or redemption of all Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, (y) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, provided, however, that if funds on deposit in any Bond Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which such Bond Reserve Fund relates, the amount on deposit in the Bond Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption, or (z) for the payment of the final principal and interest payment of the Bonds of such Series. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under

each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of, and if so provided by, the terms of the Reserve Facility, if any, securing the Bonds of such Series, shall so notify the issuer thereof and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal and interest so recovered.

The Trustee shall notify the Commission of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund pursuant to the provisions of the Indenture described below under the caption "Investment in Funds and Accounts" and shall request that the Commission replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Commission shall instruct the Trustee to commence setting aside in each month following receipt of Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation of Investment Securities and shall further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the Sales Tax Revenues each month, commencing with the month following the Commission's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates.

Unless the Commission shall otherwise direct in writing, any amounts in any Bond Reserve Fund in excess of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates shall be transferred by the Trustee to the Commission on the Business Day following October 1 of each year; provided that such amounts shall be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund shall be transferred by the Trustee to the Commission upon the defeasance, retirement or refunding of all Bonds of the Series to which such Bond Reserve Fund relates or upon the replacement of cash on deposit in such Bond Reserve Fund with one or more Reserve Facilities in accordance with the provisions of the Indenture described above. The Bond Reserve Requirement shall be calculated upon the issuance or retirement of a Series of Bonds or upon the defeasance of all or a portion of a Series of Bonds.

**Subordinate Obligations Fund.** All moneys in the Subordinate Obligations Fund shall be applied to the payment of principal of and interest on Subordinate Obligations in accordance with the Indenture.

**Fees and Expenses Fund.** All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the

Commission in connection with the Bonds or any Parity Obligations or Subordinate Obligations as such amounts shall become due and payable.

**Redemption Fund.** The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Commission with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Commission, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the Commission in a Request to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Commission, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Commission, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Commission.

**Rebate Fund.** Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Commission. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the applicable Tax Certificates. The Commission covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Commission delivered to the Trustee pursuant to each Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto).

### **Payment Provisions Applicable to Interest Rate Swap Agreements**

The Initial Swaps have been entered into by the Commission with respect to the 2008 Bonds and the obligation of the Commission to make payments required under the Initial Swaps (excluding fees and expenses and termination payments under the Initial Swaps) constitutes a Parity Obligation under the Indenture and shall be payable from the Interest Fund. In the event the Commission shall enter into an Interest Rate Swap Agreement in connection with a Series of Bonds other than the Initial Swaps, the amounts received by the Commission, if any, pursuant to such Interest Rate Swap Agreement may be applied to the deposits required under the Indenture. If the Commission so designates in a Supplemental Indenture establishing the terms and provisions of such Series of Bonds (or if such Interest Rate Swap Agreement is entered into subsequent to the issuance of such Series of Bonds, if the Commission so designates in a Certificate of the Commission delivered to the Trustee concurrently with the execution of such Interest Rate Swap Agreement) amounts payable under such Interest Rate Swap Agreement (excluding termination payments and payments of fees and expenses incurred in connection with Interest Rate Swap Agreements which shall in all cases be payable from, and secured by, Sales Tax Revenues on a subordinate basis to Bonds, Parity Obligations and payment of principal of and interest on Subordinate



Obligations) shall constitute Parity Obligations under the Indenture, and, in such event, the Commission shall pay or cause to be paid to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid pursuant to such Interest Rate Swap Agreement, as if such amounts were additional interest due on the Series of Bonds to which such Interest Rate Swap Agreement relates, and the Trustee shall pay to the Counterparty to such Interest Rate Swap Agreement, to the extent required thereunder, from amounts deposited in the Interest Fund for the payment of interest on the Series of Bonds with respect to which such Interest Rate Swap Agreement was entered into.

### **Investment in Funds and Accounts**

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture shall be invested, as directed by the Commission, solely in Investment Securities, subject to the limitations set forth in the Indenture. If and to the extent the Trustee does not receive investment instructions from the Commission with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described in clause (12) of the definition thereof and the Trustee shall thereupon request investment instructions from the Commission for such moneys.

Moneys in any Bond Reserve Fund shall be invested in Investment Securities available on demand for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Costs of Issuance Fund shall be transferred to the Revenue Fund; (iv) all interest, profits and other income received from the investment of moneys in a Project Fund shall be retained in such Project Fund, unless the Commission shall direct that such earnings be transferred to the Rebate Fund; (v) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; (vi) all interest, profits and other income received from the investment of moneys in any Purchase Fund shall be retained in such Purchase Fund; and (vii) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund.

All Investment Securities credited to any Bond Reserve Fund shall be valued (at market value) as of April 1 and October 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or

disposing of any investment and, with the prior written consent of the Commission may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

### **Issuance of Additional Bonds and Other Obligations**

**Issuance of Additional Bonds.** The Commission may by Supplemental Indenture establish one or more additional Series of Bonds, payable from Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the Commission may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Commission, but only upon compliance by the Commission with the provisions of the Indenture described under this caption and described below under the caption "Proceedings for Issuance of Additional Bonds" and with any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is a condition precedent to the issuance of any such additional Series of Bonds.

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

(B) Subject to the provisions of the Indenture described above under the caption "Funding and Application of Bond Reserve Funds," in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Commission or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Commission shall place on file with the Trustee a Certificate of the Commission certifying that the amount of Sales Tax Revenues collected during the Fiscal Year for which audited financial statements are available preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to 1.3 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on April 1 or October 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Commission with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on April 1 and

October 1 in each year to the extent deemed practical in the reasonable judgment of the Commission with regard to the type of Bond to be issued.

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

In the event additional assets or revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph (D) above as if such additional assets or revenues had always been included in "Revenues."

**Proceedings for Issuance of Additional Bonds.** Before any additional Series of Bonds shall be issued and delivered, the Commission shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Commission.

(B) A Certificate of the Commission certifying: (i) that no Event of Default has occurred and is then continuing; and (ii) that the requirements of the Indenture described in paragraphs (B) and (C) under the caption "Issuance of Additional Bonds" have been satisfied by the Commission.

(C) A Certificate of the Commission certifying (on the basis of computations made no later than the date of sale of such Series of Bonds) that the requirement of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" is satisfied.

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Bonds, when duly executed by the Commission and authenticated and delivered by the Trustee, will be valid and binding obligations of the Commission.

**Issuance of Refunding Bonds.** Refunding Bonds may be authorized and issued by the Commission without compliance with the provisions of the Indenture described in paragraph (D) above under the caption "Issuance of Additional Bonds" and in paragraph (C) above under the caption "Proceedings for Issuance of Additional Bonds;" provided that the Trustee shall have been provided with a Certificate of the Commission to the effect that the Commission has determined one of the following: (i) that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds, or (ii) that the Commission expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) any termination payment owed by the Commission to a Counterparty after offset for any payments made to the Commission from such Counterparty under any Interest Rate Swap Agreement that was entered into in connection with the Bonds or Parity Obligations to be refunded;

(4) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(5) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

(6) funding a Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the provisions of the Indenture described under this caption, the Commission shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

(1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Commission.

(2) A Certificate of the Commission certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds or that the Commission expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Commission; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Commission may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds.

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Commission and authenticated and delivered by the Trustee, will be valid and binding obligations of the Commission.

**Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations.** The Commission will not, so long as any Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues except the following:

(A) Bonds authorized pursuant to provisions in the Indenture described above under the caption "Issuance of Additional Bonds;"

(B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds; "

(C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

(1) Such Parity Obligations have been duly and legally authorized by the Commission for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery of a Certificate of the Commission to that effect, which Certificate of the Commission shall be filed with the Trustee;

(3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption "Issuance of Refunding Bonds" or (ii) the Commission shall have placed on file with the Trustee a Certificate of the Commission, upon which the Trustee may conclusively rely certifying (on the basis of calculations made no later than the date of sale or incurrence of such Parity Obligations, as applicable) that the requirements of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate shall also set forth the computations upon which such Certificate is based; and

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations and the Commission shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

(D) Subordinate Obligations that are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Sales Tax Revenues after the prior payment of all amounts then required to be paid under the Indenture from Sales Tax Revenues for principal, premium, interest and reserve fund requirements, if any, for all Bonds Outstanding, and all Parity Obligations outstanding, as the same become due and payable and at the times and in the amounts as required in the Indenture and in the instrument or instruments pursuant to which any Parity Obligations were issued or incurred, provided that the following conditions to issuance or incurrence of such Subordinate Obligations are satisfied:

(1) Such Subordinate Obligations have been duly and legally authorized by the Commission for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery to the Trustee of a Certificate of the Commission to that effect;

(3) Such Subordinate Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds described above under the caption "Issuance of Refunding Bonds" or (ii) the Commission shall deliver to the Trustee a Certificate of the Commission certifying that the lesser of (x) the amounts of Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Commission) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding, or (y) the estimated Sales Tax Revenues for the Fiscal Year in which such Subordinate Obligations are to be issued or incurred, shall have been, or will be, as applicable, at least equal to 1.0 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Subordinate Obligations then proposed to be issued or incurred, which Certificate shall also set forth the computations upon which such Certificate is based; and

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Subordinate Obligations and the Commission shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Subordinate Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Subordinate Obligations).

Notwithstanding the foregoing, Existing Notes may continue to be issued and outstanding from time to time under the Subordinate Indenture without complying with the foregoing provisions of (D).

(E) Termination payments and fees and expenses on Interest Rate Swap Agreements, Liquidity Provider or Credit Provider fees and expenses and other obligations that shall be secured by a lien and charge on the Revenues subordinate to the lien and charge upon the Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations.

(F) The Initial Swaps have been entered into by the Commission and the obligation of the Commission to make payments required under the Initial Swaps (excluding fees and expenses and termination payments under the Initial Swaps) constitutes a Parity Obligation under the Indenture. The obligation of the Commission to pay fees, expenses and termination payments under the Initial Swaps is secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon the Sales Tax Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations.

**Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations.** For purposes of the Indenture, Maximum Annual Debt Service with respect to Bonds shall be determined no later than the date of delivery of such Bonds, and no earlier than the sixtieth (60<sup>th</sup>) day preceding the date of pricing or sale of such Bonds, utilizing the assumptions set forth in the definition of Debt Service. For purposes of the Indenture, Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligations shall not be considered outstanding until such payment is made thereunder.

#### **Certain Covenants of the Commission**

**Punctual Payments.** The Commission will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be

paid all Mandatory Sinking Account Payments, but in each case only out of Revenues as provided in the Indenture.

**Against Encumbrances.** The Commission will not create or permit to exist any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted pursuant to the provisions of the Indenture described above under the caption "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations".

**Accounting Records and Financial Statements.** The Commission will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Commission will furnish the Trustee, with copies to each Credit Provider and each Liquidity Provider, within two hundred ten (210) days after the end of each Fiscal Year or as soon thereafter as they can practically be furnished, the financial statements of the Commission for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of an Authorized Representative stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Commission to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Commission, which copy of the financial statements may, at the sole discretion of the Commission, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

**Collection of Sales Tax Revenues.** The Commission covenants and agrees that it has duly levied a retail transaction and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Commission. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Commission will continue to levy and collect such retail transactions and use tax to the full amount permitted by law. The Commission further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of said retail transactions and use tax and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of any Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any Bonds are Outstanding. The Commission will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Commission by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the Commission in accordance with the provisions of the Indenture described above under the caption "Allocation of Sales Tax Revenues"; provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied as described below under the caption "Application of the Revenues and Other Funds After Default; No Acceleration".

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

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

**Tax Covenants.** The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Commission may exclude the application of the covenants contained in this caption "Tax Covenant" and the caption "Rebate Fund" above to such Series of Bonds. The Commission will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Commission, or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Commission will comply with all requirements of the Tax Certificate relating to each Series of the Bonds. In the event that at any time the Commission is of the opinion that for purposes of this caption "Tax Covenants" it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Commission shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The Commission specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

Notwithstanding any provision of this caption "Tax Covenant" and the caption "Rebate Fund" above and any Tax Certificate, if the Commission shall receive an Opinion of Bond Counsel to the effect that any action required under this caption "Tax Covenant" and the caption "Rebate Fund" above or any Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Notwithstanding any provisions of the Indenture, including particularly Article X, the covenants and obligations set forth in this caption shall survive the defeasance of the Bonds or any Series thereof.

**Continuing Disclosure.** Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Commission covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the provisions of any Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions



as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Commission to comply with its obligations under the Indenture.

### **Events of Default and Remedies**

**Events of Default.** The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the Commission shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as described in subsection (A) or (B) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Commission by the Trustee or by any Credit Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Commission has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Commission shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Commission files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Commission insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Commission, or approving a petition filed against the Commission seeking reorganization of the Commission under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Commission or of the Sales Tax Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 132301 to 132308, inclusive, of the Public Utilities Code of the State, unless the Commission has reasonably determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

**Application of the Revenues and Other Funds After Default; No Acceleration.** If an Event of Default shall occur and be continuing, the Commission shall immediately transfer to the Trustee all

Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference;

(3) to the extent Revenues are available therefor, to be transferred to the trustee for the Subordinate Obligations in the amount necessary for payment of Subordinate Obligations; and

(4) to the payment of all other obligations payable under the Indenture.

Notwithstanding anything in the Indenture to the contrary, in no event are the Bonds subject to acceleration if an Event of Default occurs and is continuing.

**Trustee to Represent Bondholders.** The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Provider providing such Credit Enhancement, or if such Credit Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Law or any other law; and upon

instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Sales Tax Revenues and other assets pledged under the Indenture, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

**Bondholders' Direction of Proceedings.** Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Provider to direct proceedings as described below under the caption "Credit Provider Directs Remedies Upon Event of Default") notwithstanding, the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

**Limitation on Bondholders' Right to Sue.** No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted to the Trustee pursuant to the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of a Credit Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

**Credit Provider Directs Remedies Upon Event of Default.** Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Credit

Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the Bonds secured by such Credit Enhancement, provided that the Credit Provider's consent shall not be required as otherwise provided in the Indenture if such Credit Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Provider.

### **Modification or Amendment of the Indenture**

**Amendments Permitted.** The Indenture and the rights and obligations of the Commission, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Commission and the Trustee may enter into when the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture.

No such modification or amendment shall (a) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the Commission, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Commission and the Trustee may enter into without the consent of any Bondholders, but with the written consent of each Credit Provider then providing a Credit Enhancement for any Series of Bonds which shall be materially and adversely affected by such amendment, which consent shall not be unreasonably withheld; provided, however, that such written consent shall be required only if the Credit Enhancement provided by such Credit Provider is in full force and effect and if the Credit Provider is not then failing to make a payment as required in connection therewith, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Commission in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Commission;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Commission

may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of the Indenture;

(5) to make modifications or adjustments necessary appropriate or desirable to provide for the issuance or incurrence, as applicable, of Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Commission may deem desirable; subject to the provisions of the Indenture;

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of an auction agent, a broker-dealer, a remarketing agent, a tender agent and/or a paying agent in connection with any Series of Bonds;

(9) to modify the auction provisions applicable to any Series of Bonds in accordance with the terms and provisions set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds;

(10) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

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

(12) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(13) to modify, alter, amend or supplement the Indenture in any other respect, including amendments that would otherwise be described in the first two paragraphs under this caption, if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture; or if notice of the proposed amendments is given to Holders of the affected Bonds at least thirty (30) days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds

pursuant to the provisions of the Indenture or if all Bonds affected thereby are in an auction mode and a successful auction is held following notice of such amendment; and

(14) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the provisions of the Indenture described under this caption shall be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each Credit Provider shall have given its written consent to such Supplemental Indenture in accordance with the provisions of the Indenture.

**Effect of Supplemental Indenture.** From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Commission, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

#### **Defeasance**

**Discharge of Indenture.** Bonds of any Series or a portion thereof may be paid by the Commission in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when they become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Commission shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Commission, then and in that case, at the election of the Commission (evidenced by a Certificate of the Commission, filed with the Trustee, signifying the intention of the Commission to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Commission under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Commission, the Trustee shall cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and shall execute and deliver to the Commission all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Commission all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from an independent certified public accountant, a firm of independent certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

**Discharge of Liability on Bonds.** Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Commission in respect of such Bond shall cease, terminate and be completely discharged, provided that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Commission shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

If the Bonds being discharged are Variable Rate Indebtedness, (i) the Bonds shall be redeemed at the first possible redemption date or purchase date applicable to such Bonds and to the extent the rate of interest payable on such Bonds prior to such redemption or purchase date is not known, such rate of interest shall be assumed to be the maximum rate payable thereon or (ii) the Trustee shall receive a confirmation from the Rating Agency then rating the Bonds that the defeasance will not result in the reduction or withdrawal of the then-current ratings on the Bonds.

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

**Deposit of Money or Securities.** Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Defeasance Securities the principal of and interest on which when due will, in the opinion of an independent certified public accountant, a firm of independent certified public accountants or other independent consulting firm delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Commission) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

**Payment of Bonds After Discharge of Indenture.** Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one (1) year after such principal, Redemption Price, or interest has become due and payable (whether at

maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or one (1) year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall be repaid to the Commission free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Commission as aforesaid, the Trustee may (at the cost of the Commission) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Commission of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Commission) for interest earned on, moneys so held. Any interest earned thereon shall belong to the Commission and shall be deposited upon receipt by the Trustee into the Revenue Fund.



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## APPENDIX D

### BOOK-ENTRY ONLY SYSTEM

**The following information concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources that the Commission and the Underwriters believe to be reliable, but neither the Commission nor the Underwriters take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Official Statement and in APPENDIX C – “Definitions and Summary of Certain Provisions of the Indenture.”**

DTC will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds 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 Series 2008 Bond certificate will be issued for each maturity of each Series of the Series 2008 Bonds, in the aggregate principal amount of such Series, and will be deposited with DTC.

DTC 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 LLC, and the National Association of Securities Dealers, 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, 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 Standard & Poor’s highest rating: AAA. 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](http://www.dtcc.com).

Purchases of the Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2008 Bond (“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 Series 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 Bonds 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. The Commission and the Trustee will not have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the Series 2008 Bonds.

Redemption notices shall be sent to DTC. If less than all of the Series 2008 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on each payment 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 Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any and interest 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2008 Bonds are required to be printed and delivered as described in the Indenture.

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

### **No Assurance Regarding DTC Practices**

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2008 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2008 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2008 BONDS. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTEXT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2008 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Each person for whom a Participant acquires an interest in the Series 2008 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

NONE OF THE COMMISSION, THE TRUSTEE OR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, THE SELECTION OF THE BENEFICIAL INTERESTS IN THE SERIES 2008 BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL SERIES 2008 BONDS OF A PARTICULAR MATURITY OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE SERIES 2008 BONDS. NO ASSURANCE CAN BE GIVEN BY THE COMMISSION, THE TRUSTEE OR THE UNDERWRITER THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES, INCLUDING REDEMPTION NOTICES (REFERRED TO ABOVE), RECEIVED AS THE REGISTERED OWNER OF THE SERIES 2008 BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Commission or the Trustee determines not to continue the book-entry system or DTC determines to *discontinue its services* with respect to the Series 2008 Bonds, and the Commission does not select another qualified securities depository, the Commission shall deliver one or more Series 2008 Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfer and exchanges of Series 2008 Bonds will be governed by the provisions of the Indenture.

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**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[DATED DATE]

San Diego County Regional  
Transportation Commission  
San Diego, California

San Diego County Regional Transportation Commission  
Sales Tax Revenue Bonds (Limited Tax Bonds)  
2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the San Diego County Regional Transportation Commission (the "Issuer") in connection with issuance of \$ 600,000,000 aggregate principal amount of San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A, 2008 Series B, 2008 Series C, and 2008 Series D (the "Bonds"), issued pursuant to an Indenture, dated as of March 1, 2008, as supplemented and amended by a First Supplemental Indenture, dated as of March 1, 2008 (herein collectively referred to as the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer and the Trustee, certificates of the Issuer, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with

which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county transportation commissions in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

## APPENDIX F

### 2008 LIQUIDITY FACILITY PROVIDERS

*The information contained in this appendix has been provided by the 2008 Liquidity Facility Providers. No representation as to the accuracy or completeness of such information is made by the Commission or the Underwriters. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of any of the 2008 Liquidity Facility Providers since the date hereof, or that the information contained or referred to in this appendix is correct as of any time subsequent to its date.*

**Dexia Crédit Local.** Dexia Crédit Local (“Dexia”) is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 24 billion euros as of December 31, 2006, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the 2008 Liquidity Facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2006 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2006, total funding raised by Dexia and Dexia Municipal Agency was 15.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd., the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2006, Dexia had total consolidated assets of 304 billion euros, outstanding medium and long-term loans to customers of 241 billion euros and shareholders' equity of over 7.98 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 1.082 billion euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2006, the exchange rate was 1.0000 euro equals 1.317 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated "Aa1" long-term and "P-1" short-term by Moody's, "AA" long-term and "A-1+" short-term by S&P, and "AA+" long-term and "F1+" short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall



not create any implication that the information contained or referred to herein is correct as of any time subsequent to the date of this Official Statement.

**JPMorgan Chase Bank, National Association.** JPMorgan Chase Bank, National Association (“the Bank”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of December 31, 2007, JPMorgan Chase Bank, National Association, had total assets of \$1,318.9 billion, total net loans of \$488.4 billion, total deposits of \$772.1 billion, and total stockholder’s equity of \$106.3 billion. These figures are extracted from the Bank’s unaudited Consolidated Reports of Condition and Income (the “Call Report”) as at December 31, 2007, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at [www.fdic.gov](http://www.fdic.gov).

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2007, of JPMorgan Chase & Co., the 2007 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC’s website at [www.sec.gov](http://www.sec.gov).

The information contained in the three immediately preceding paragraphs of this Appendix relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.