

NEW ISSUE—BOOK ENTRY ONLY

RATINGS:

Moody's: "Aa1"
Standard & Poor's: "AAA"
(See "RATINGS")

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 2010 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the 2010 Series B Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is such interest included in adjusted current earnings in calculating corporate alternative minimum taxable income. Interest on the Series 2010 Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the 2010 Series A Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other federal or the State of California (the "State") tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds. See "TAX MATTERS" herein.

\$350,000,000

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

\$338,960,000

**(TAXABLE BUILD
AMERICA BONDS)
2010 Series A**

\$11,040,000

**(TAX-EXEMPT BONDS)
2010 Series 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 "2010 Series A Bonds," and the "2010 Series B Bonds," which shall collectively be referred to herein as the "Series 2010 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 "First Supplemental Indenture"), a Second Supplemental Indenture, dated as of July 1, 2008 (the "Second Supplemental Indenture"), and a Third Supplemental Indenture, dated as of October 1, 2010 (the "Third Supplemental Indenture"), collectively "the Indenture"), between the Commission and U.S. Bank National Association, as trustee.

The Series 2010 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 on April 1, 1988; the Sales Tax is scheduled to expire on March 31, 2048. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS" herein.

Proceeds from the sale of the Series 2010 Bonds will be used by the Commission to (i) finance, refinance and/or reimburse the Commission for its prior payment of the Costs of the Project, including by retiring a portion of the principal amount of the Existing Notes and (ii) pay the costs of issuing the Series 2010 Bonds.

The Series 2010 Bonds will be dated their date of delivery. The principal amounts, interest rates, maturity dates, and other information relating to the Series 2010 Bonds are summarized in the Summary of Offering on the inside cover page. Investors may purchase Series 2010 Bonds in book-entry form only.

The Series 2010 Bonds are subject to mandatory sinking fund redemption by the Commission prior to maturity as described in this Official Statement. The Series 2010 Bonds also are subject to optional redemption or purchase by the Commission prior to maturity as described in this Official Statement.

THE SERIES 2010 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE, THE COUNTY 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 SERIES 2010 BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE SERIES 2010 BONDS. THE SERIES 2010 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE COMMISSION OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE SALES TAX REVENUES AND THE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.

The Series 2010 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 LLP, Disclosure Counsel to the Commission, and for the Underwriters by their counsel, Nixon Peabody LLP. It is expected that the Series 2010 Bonds will be available for delivery on or about November 10, 2010.

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Dated: October 28, 2010

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OFFICIAL STATEMENT

\$350,000,000

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

INTRODUCTION AND PURPOSE OF THE SERIES 2010 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 \$350,000,000 aggregate principal amount of San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds) (the "2010 Series A Bonds") and 2010 Series B (Tax-Exempt Bonds) (the "2010 Series B Bonds" and, together with the 2010 Series A Bonds, the "Series 2010 Bonds"), consisting of 2010 Series A Bonds in the aggregate principal amount of \$338,960,000 and 2010 Series B Bonds in the aggregate principal amount of \$11,040,000.

The Series 2010 Bonds are being issued pursuant to an Indenture, dated as of March 1, 2008, between the Commission and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented by a First Supplemental Indenture, dated as of March 1, 2008, a Second Supplemental Indenture, dated as of July 1, 2008, and a Third Supplemental Indenture, dated as of October 1, 2010 (the "Third Supplemental Indenture"), each between the Commission and the Trustee. The Indenture, as so amended and 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 2010 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 the 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 2010 Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture, except the Rebate Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Pledge of Sales Tax Revenues" herein.

The 2010 Series A Bonds will be executed and delivered as bonds designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. Interest on the 2010 Series A Bonds is not excluded from gross income for purposes of federal income taxation. See “TAX MATTERS.” With respect to the 2010 Series A Bonds, the Commission would expect to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on such 2010 Series A Bonds (the “Subsidy Payments”). 2010 Series A Bondholders will not receive a tax credit with respect to the 2010 Series A Bonds. The Commission has covenanted in the Indenture to comply with all of the conditions to the receipt of the Subsidy Payments, and the Indenture provides that the Commission will cause the Subsidy Payments to be sent to the Trustee for deposit to the Interest Fund. The Commission is obligated to make all payments of principal and interest with respect to the 2010 Series A Bonds from the Sales Tax Revenues whether or not the Commission receives any Subsidy Payments. See “DESCRIPTION OF THE SERIES 2010 BONDS – Designation of 2010 Series A Bonds.”

Additional Bonds and other obligations secured by a pledge of the Sales Tax Revenues on a parity with the Series 2010 Bonds and the San Diego County Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A, 2008 Series B, 2008 Series C, and 2008 Series D may be issued or incurred, subject to the requirements of the Indenture (“Additional Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS – Additional Bonds and Parity Obligations” herein. The Series 2008 Bonds, the Series 2010 Bonds and any Additional Bonds hereafter authorized by, and at any time Outstanding under, the Indenture are referred to collectively herein as the “Bonds.” In 2005, the Commission authorized the issuance from time to time of San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) (the “Existing 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 Existing Notes are currently authorized to be issued in an aggregate principal amount of up to \$100,000,000 outstanding at any one time and, as of October 1, 2010, were outstanding in the aggregate principal amount of \$47,316,000.

The Series 2008 Bonds are variable rate Bonds and were issued in March 2008 in the aggregate principal amount of \$600,000,000. The Series 2008 Bonds currently bear interest at a Weekly Rate and have a maturity date of April 1, 2038. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS –Additional Bond and Parity Obligations – Parity Obligations – 2008 Liquidity Facilities” for additional information regarding the Series 2008 Bonds.

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 became 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 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS –Additional Bond and Parity Obligations – Parity Obligations – Interest Rate Swaps” for additional information regarding the Initial Swaps.

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

BONDS –Additional Bond and Parity Obligations – Parity Obligations – Basis Rate Swap Overlays to the Interest Rate Swaps” for additional information regarding the Basis Rate Swap Overlays.

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

The Commission will apply the proceeds of the Series 2010 Bonds to (i) finance, refinance and/or reimburse the Commission for its prior payment of the Costs of the Project (as defined below), including by retiring a portion of the principal amount of the Existing Notes and (ii) pay the costs of issuing the Series 2010 Bonds. See “SUMMARY OF FINANCING PLAN.” The Commission reasonably expects to apply the proceeds of the Series 2010 Bonds to finance or refinance projects that include, but are not limited to, the projects included in the Commission’s *TransNet* Early Action Projects (the “*TransNet EAP*”, depicted in the map on page i), which includes various highway and transit improvements in the Interstates 5, 15, and 805 corridors; completion of the State Route 52 and 76 projects; implementation of the Mid-Coast Corridor, SuperLoop, and Mid-City Rapid transit projects; Trolley vehicle and station upgrades along the Blue and Orange Lines; and double tracking improvements in the coastal rail corridor (the “Project”).

DESCRIPTION OF THE SERIES 2010 BONDS

General

The Series 2010 Bonds are being issued by the Commission pursuant to the Indenture and the Act. The Series 2010 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 2010 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 2010 Bonds. Investors may purchase Series 2010 Bonds in book-entry form only. Beneficial Owners of the Series 2010 Bonds will not receive certificates representing their ownership interests in the Series 2010 Bonds purchased. Payments of principal and interest on the Series 2010 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 2010 Bonds is the responsibility of DTC’s Direct and Indirect Participants and not the Commission. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

The Commission will date the Series 2010 Bonds the date of their delivery. The Series 2010 Bonds will mature in the principal amounts in the years, and will bear interest at the respective rates of interest, all as set forth on the inside cover page hereof.

Interest on the Series 2010 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Commission will issue the Series 2010 Bonds as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Commission will pay interest on the Series 2010 Bonds on April 1 and October 1 of each year, commencing on April 1, 2011.

Designation of 2010 Series A Bonds

The 2010 Series A Bonds will be executed and delivered as bonds designated as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009, signed into law on February 17, 2009 (the “Recovery Act”). With respect to the 2010 Series A Bonds, the Commission would expect to receive a cash subsidy payment from the United States Treasury pursuant to the

Recovery Act equal to 35% of the interest payable with respect to the 2010 Series A Bonds on or about each Interest Payment Date. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States, but are required to be paid by the Treasury under the Recovery Act. The Commission covenants in the Indenture to comply with all of the conditions to the receipt of the Subsidy Payments, and the Indenture provides that the Commission will cause the Subsidy Payments to be sent to the Trustee for deposit to the Interest Fund. The Commission is obligated to make all payments of principal and interest with respect to the 2010 Series A Bonds whether or not it receives Subsidy Payments pursuant to the Recovery Act. The Commission can give no assurances about future changes in legislation or Treasury regulations or the netting of other tax liabilities of the Commission against the expected Subsidy Payments which may affect the amount or timely receipt of such payments.

Redemption Terms of the Series 2010 Bonds

Optional Redemption of the 2010 Series A Bonds. The 2010 Series A Bonds shall be subject to redemption prior to their stated maturity date, at the option of the Commission, from any source of available funds, as a whole or in part on any date, at a Redemption Price equal to 100% of the principal amount of the 2010 Series A Bonds to be redeemed plus the Make-Whole Premium (using a discount rate equal to the Comparable Treasury Yield plus 35 basis points), if any, together with accrued interest to the date fixed for redemption. The Commission shall provide, or shall cause the Designated Banking Institution to provide, the Make-Whole Premium, if any, to the Trustee in writing.

Optional Redemption of the 2010 Series B Bonds. The 2010 Series B Bonds maturing after April 1, 2020 are subject to redemption prior to their respective stated maturities, at the option of the Commission, from any source of available funds, on any date on or after April 1, 2020, as a whole, or in part by such maturity or maturities as may be specified by Request of the Commission (and by lot within a maturity), at a Redemption Price equal to 100% of the aggregate principal amount thereof, plus interest accrued thereon to the date fixed for redemption.

Extraordinary Optional Redemption of the 2010 Series A Bonds. The 2010 Series A Bonds shall be subject to redemption prior to maturity at the option of the Commission upon the occurrence of a Tax Law Change, from any source of available funds, as a whole or in part, on any date, at a Redemption Price equal to 100% of the principal amount of 2010 Series A Bonds to be redeemed plus the Make-Whole Premium (using a discount rate equal to the Comparable Treasury Yield plus 100 basis points), if any, plus accrued interest to the date fixed for redemption. The Commission shall provide, or shall cause the Designated Banking Institution to provide, the Make-Whole Premium, if any, to the Trustee in writing.

Mandatory Redemption of 2010 Series A Bonds. The 2010 Series A Bonds maturing on April 1, 2048 are Term Bonds and are subject to mandatory redemption from Mandatory Sinking Account Payments for such 2010 Series A Bonds, on each date a Mandatory Sinking Account Payment for such 2010 Series A Bonds is due, and in the principal amount equal to the Mandatory Sinking Account Payment due on such date at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Mandatory Sinking Account Payments for 2010 Series A Bonds that are Term Bonds shall be due in such amounts and on such dates as follows:

2010 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>
2039	\$28,440,000	2044	\$34,340,000
2040	29,535,000	2045	35,660,000
2041	30,665,000	2046	37,030,000
2042	31,845,000	2047	38,450,000
2043	33,070,000	2048 [†]	39,925,000

[†] Final Maturity

Mandatory Redemption of 2010 Series B Bonds. The 2010 Series B Bonds maturing on April 1, 2030 are Term Bonds and are subject to mandatory redemption from Mandatory Sinking Account Payments for such 2010 Series B Bonds, on each date a Mandatory Sinking Account Payment for such 2010 Series B Bonds is due, and in the principal amount equal to the Mandatory Sinking Account Payment due on such date at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Mandatory Sinking Account Payments for 2010 Series B Bonds that are Term Bonds shall be due in such amounts and on such dates as follows:

2010 Series B Bonds	
<i>Redemption Date (April 1)</i>	<i>Mandatory Sinking Account Payment</i>
2027	\$505,000
2028	525,000
2029	545,000
2030 [†]	570,000

[†] Final Maturity

General Redemption Provisions

Selection of Bonds for Redemption. If less than all of the 2010 Series A Bonds of a maturity are to be redeemed pursuant to the Indenture, the principal of all such 2010 Series A Bonds shall be subject to redemption on a pro rata basis. While the 2010 Series A Bonds are registered in book-entry only form, and so long as DTC or a successor securities depository is the sole registered owner of the 2010 Series A Bonds, if less than all of the 2010 Series A Bonds of a maturity are called for prior redemption, the particular 2010 Series A Bonds or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures, provided that, so long as the 2010 Series A Bonds are held in book-entry form, the selection for redemption of such 2010 Series A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, which operational arrangements currently provide for adjustment of the principal by a factor provided pursuant to such operational arrangements. DTC will be responsible for distributing the principal, premium, if any, and accrued interest among the DTC participants, pro rata according to the beneficial interest in such 2010 Series A Bonds that DTC records list as owned by each DTC participant as of the record date for such payment. In the event 2010 Series A Bonds that are Term Bonds are designated for redemption, the

Commission may designate the Mandatory Sinking Account Payments under the Indenture, or portions thereof, that are to be reduced as allocated to such redemption.

It is the Commission's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Commission and the Beneficial Owners be made on a pro rata basis as described above with respect to the 2010 Series A Bonds. However, neither the Commission nor the Underwriters can provide any assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the 2010 Series A Bonds on a pro rata basis as discussed above or if the Trustee does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, then the 2010 Series A Bonds will be selected for redemption in accordance with DTC operational arrangements by lot or in such other manner as is in accordance with applicable DTC procedures.

The Commission shall designate which maturities of any 2010 Series B Bonds are to be called for optional redemption pursuant to the Indenture. If less than all 2010 Series B Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the 2010 Series B Bonds of such maturity date to be redeemed by lot and shall promptly notify the Commission in writing of the numbers of the 2010 Series B Bonds so selected for redemption. For purposes of such selection, 2010 Series B Bonds shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately redeemed. In the event 2010 Series B Bonds that are Term Bonds are designated for redemption, the Commission may designate the Mandatory Sinking Account Payments under the Indenture, or portions thereof, that are to be reduced as allocated to such redemption.

Notice of Redemption. The Trustee will send each notice of redemption by first class mail not less than 20 nor more than 90 days prior to the redemption date to 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 2010 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 2010 BONDS—General Redemption Provisions."

Any optional redemption of the Series 2010 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 2010 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 2010 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice the Series 2010 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 2010 Bonds so called for redemption shall cease to accrue, and said Series 2010 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of such Series 2010 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 2010 Bonds redeemed pursuant to the provisions described herein shall be cancelled upon surrender.

DEBT SERVICE SCHEDULE

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

Fiscal Year Ending June 30	Principal Amount ⁽¹⁾		Interest Amount ⁽²⁾		Subsidy Payments	Combined Net Annual Debt Service
	Series 2008 Bonds	Series 2010 Bonds	Series 2008 Bonds	Series 2010 Bonds		
2011	\$11,700,000.00	\$460,000.00	\$21,197,038.62	\$ 8,014,234.61	\$(2,746,591.47)	\$38,624,681.76
2012	12,300,000.00	560,000.00	20,762,680.62	20,452,675.60	(7,012,573.96)	47,062,782.26
2013	12,600,000.00	580,000.00	20,308,077.12	20,435,875.60	(7,012,573.96)	46,911,378.76
2014	13,200,000.00	590,000.00	19,840,590.10	20,418,475.60	(7,012,573.96)	47,036,491.74
2015	13,800,000.00	620,000.00	19,351,017.00	20,394,875.60	(7,012,573.96)	47,153,318.64
2016	14,400,000.00	640,000.00	18,839,358.00	20,370,075.60	(7,012,573.96)	47,236,859.64
2017	14,700,000.00	665,000.00	18,307,453.50	20,344,475.60	(7,012,573.96)	47,004,355.14
2018	15,300,000.00	690,000.00	17,762,662.52	20,317,875.60	(7,012,573.96)	47,057,967.16
2019	15,900,000.00	720,000.00	17,195,791.60	20,290,275.60	(7,012,573.96)	47,093,493.24
2020	16,500,000.00	750,000.00	16,606,831.50	20,261,475.60	(7,012,573.96)	47,105,733.14
2021	17,100,000.00	395,000.00	15,995,785.50	20,231,475.60	(7,012,573.96)	46,709,687.14
2022	18,000,000.00	410,000.00	15,360,813.02	20,215,675.60	(7,012,573.96)	46,973,914.66
2023	18,600,000.00	430,000.00	14,694,552.12	20,199,275.60	(7,012,573.96)	46,911,253.76
2024	19,200,000.00	445,000.00	14,006,205.12	20,182,075.60	(7,012,573.96)	46,820,706.76
2025	20,100,000.00	460,000.00	13,293,931.62	20,168,725.60	(7,012,573.96)	47,010,083.26
2026	21,000,000.00	480,000.00	12,548,529.12	20,145,725.60	(7,012,573.96)	47,161,680.76
2027	21,300,000.00	505,000.00	11,773,678.62	20,121,725.60	(7,012,573.96)	46,687,830.26
2028	22,500,000.00	525,000.00	10,982,263.62	20,101,525.60	(7,012,573.96)	47,096,215.26
2029	23,400,000.00	545,000.00	10,148,517.12	20,080,525.60	(7,012,573.96)	47,161,468.76
2030	24,300,000.00	570,000.00	9,281,641.62	20,058,725.60	(7,012,573.96)	47,197,793.26
2031	25,200,000.00	-	8,381,637.10	20,035,925.60	(7,012,573.96)	46,604,988.74
2032	26,100,000.00	-	7,448,503.50	20,035,925.60	(7,012,573.96)	46,571,855.14
2033	27,300,000.00	-	6,480,400.52	20,035,925.60	(7,012,573.96)	46,803,752.16
2034	28,200,000.00	-	5,469,966.10	20,035,925.60	(7,012,573.96)	46,693,317.74
2035	29,400,000.00	-	4,424,562.02	20,035,925.60	(7,012,573.96)	46,847,913.66
2036	30,600,000.00	-	3,334,986.10	20,035,925.60	(7,012,573.96)	46,958,337.74
2037	31,800,000.00	-	2,201,238.02	20,035,925.60	(7,012,573.96)	47,024,589.66
2038	33,300,000.00	-	1,021,477.60	20,035,925.60	(7,012,573.96)	47,344,829.24
2039	-	28,440,000.00	-	20,035,925.60	(7,012,573.96)	41,463,351.64
2040	-	29,535,000.00	-	18,354,837.20	(6,424,193.02)	41,465,644.18
2041	-	30,665,000.00	-	16,609,023.36	(5,813,158.18)	41,460,865.18
2042	-	31,845,000.00	-	14,796,415.20	(5,178,745.32)	41,462,669.88
2043	-	33,070,000.00	-	12,914,057.26	(4,519,920.04)	41,464,137.22
2044	-	34,340,000.00	-	10,959,289.56	(3,835,751.34)	41,463,538.22
2045	-	35,660,000.00	-	8,929,452.16	(3,125,308.26)	41,464,143.90
2046	-	37,030,000.00	-	6,821,589.56	(2,387,556.34)	41,464,033.22
2047	-	38,450,000.00	-	4,632,746.26	(1,621,461.18)	41,461,285.08
2048	-	39,925,000.00	-	2,359,966.76	(825,988.36)	41,458,978.40
Total	\$577,800,000.00	\$350,000,000.00	\$357,020,192.02	\$669,506,478.73	\$(232,830,744.39)	\$1,721,495,926.36

⁽¹⁾ Includes Mandatory Sinking Account Payments.

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

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 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 Board of Equalization (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 Sales Tax Revenues, see "THE SALES TAX—Historical Sales Tax Revenues."

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

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE, THE COUNTY OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN THE COMMISSION, 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 SALES TAX REVENUES AND THE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.

Revenue Fund; Allocation of Sales Tax Revenues

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Commission has pledged the Sales Tax Revenues to the Trustee and shall cause the BOE to transmit the same directly to the Trustee each month, net of the BOE administrative fee which is deducted quarterly. The Trustee will forthwith deposit all Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such Sales Tax Revenues are received by the Trustee. See APPENDIX C – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of Sales Tax Revenues." The Sales Tax Revenues are to be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and Parity Obligations and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. Investment income on amounts held by the Trustee (other than amounts held in the 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 (consisting of the Existing Notes and obligations payable on a parity therewith), and all other amounts payable under the Indenture remain unpaid, in each month following receipt and deposit of the Sales Tax Revenues in the Revenue Fund, the Trustee is required to set aside the moneys in the Revenue Fund in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit may be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding Parity Obligations shall be made on a parity basis each month, as provided in the Indenture):

1. Interest Fund. The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to (a) one-sixth of the aggregate semiannual amount of interest becoming due and payable on Outstanding fixed interest rate bonds during the next ensuing six-months until the requisite semiannual amount of interest on all such bonds is on deposit, provided that the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the first Interest Payment Date with respect to such fixed rate Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding variable rate bonds calculated, or 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 Subsidy Payments received with respect to the 2010 Series A Bonds and all Swap Revenues received with respect to the Interest Rate Swap Agreements that are Parity Obligations 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 such 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.” There will be no Bond Reserve Fund established for the Series 2010 Bonds.

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.

No Bond Reserve Fund for the Series 2010 Bonds

Pursuant to the Indenture, no Bond Reserve Fund will be established for the Series 2010 Bonds.

Outstanding Sales Tax Revenue Bonds

In March, 2008, the Commission issued the Series 2008 Bonds in the aggregate principal amount of \$600,000,000. The Series 2008 Bonds initially bear interest at a Weekly Rate. Under the terms of the Indenture, the interest payable on the Series 2008 Bonds may be converted to another Interest Rate Determination Method, including to a fixed rate at the option of the Commission and in accordance with the requirements of the Indenture.

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

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

- (a) No Event of Default shall have occurred and then be continuing.
- (b) If the Supplemental Indenture providing for the issuance of such Series of Additional Bonds requires either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the supplemental indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Commission or from both such sources or in the form of a Reserve Facility as described under APPENDIX C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions” and “Establishment and Application of Funds and Accounts - Funding and Application of Bond Reserve Funds.”
- (c) The Commission shall have placed on file with the Trustee a Certificate of the Commission, certifying that the amount of Sales Tax Revenues collected during the Fiscal Year for which audited financial statements are available preceding the date on which such additional Series of Bonds will become outstanding was equal to at least 1.3 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued. For purposes of calculating Maximum Annual Debt Service, principal and interest payments on Obligations are excluded to the extent such payments are to be paid from Revenues then held on deposit by the Trustee or from other amounts on deposit, including Investment Securities and interest to be payable thereon, with the Trustee or other fiduciary in escrow specifically therefor and interest payments are excluded to the extent

that such interest payments are to be paid from the proceeds of Obligations, including Investment Securities and interest to be payable thereon, held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or from pledged Subsidy Payments the Commission expects to receive.

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

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

Parity Obligations. As defined in the Indenture, "Parity Obligations" means any indebtedness, installment sale obligation, lease obligation or other obligation of the Commission for borrowed money or the Initial Swaps, the Basis Rate Swap Overlays, or any other Interest Rate Swap Agreement (excluding, in each case, fees and expenses and termination payments on Interest Rate Swap Agreements, which fees and expenses and termination payments shall be secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon the Sales Tax Revenues that 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 that 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.

2008 Bond Reserve Fund. Pursuant to the Indenture, there has been established the 2008 Bonds Reserve Fund to be maintained by the Trustee as a pooled reserve fund to provide for a reserve fund for the 2008 Reserve Fund Eligible Bonds. The "2008 Reserve Fund Eligible Bonds" are the Series 2008 Bonds and any other Series of Additional Bonds or Refunding Bonds or portions thereof (in each case, payable on a parity with the 2008 Bonds from, and secured as to payment on a parity with the Series 2008 Bonds by, the Revenues and other funds) issued and designated, by a Supplemental Indenture, to be secured by and entitled to the pledge and benefit of the 2008 Bonds Reserve Fund. The Commission has not designated the Series 2010 Bonds as 2008 Reserve Fund Eligible Bonds.

All amounts in the 2008 Bonds Reserve Fund (including all amounts that may be obtained from any Reserve Facility on deposit in the 2008 Bonds Reserve Fund) shall be used and withdrawn by the Trustee solely: (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the 2008 Reserve Fund Eligible Bonds; or (ii) together with any other moneys available therefore, (x) for the payment of all of the 2008 Reserve Fund Eligible Bonds then Outstanding, (y) for

the defeasance or redemption of all or a portion of the 2008 Reserve Fund Eligible Bonds then Outstanding; provided, however, that if funds on deposit in the 2008 Bonds Reserve Fund are applied to the defeasance or redemption of a portion of the 2008 Reserve Fund Eligible Bonds, the amount on deposit in the 2008 Bonds Reserve Fund immediately subsequent to a partial defeasance or redemption shall equal the 2008 Bonds Reserve Requirement applicable to all 2008 Reserve Fund Eligible Bonds Outstanding immediately subsequent to such partial defeasance or redemption, or (z) for the payment of the final principal and interest payment of the 2008 Reserve Fund Eligible Bonds.

Interest Rate Swaps. In November 2005, the Commission entered into three interest rate swap agreements (the “Initial Swaps”) in an initial aggregate notional amount of \$600,000,000. The Initial Swaps were effective as of April 1, 2008 and the notional amounts amortize in tandem with the amortization of the Series 2008 Bonds. Pursuant to the terms of the Initial Swaps, the Commission agreed to pay to the counterparties a fixed rate of interest and the counterparties agreed to pay the Commission a floating rate of interest on the first day of each month, commencing May 1, 2008. The Commission’s obligation to make regularly scheduled payments of interest to the counterparties under the Initial Swaps is payable from and secured by Sales Tax Revenues on a parity basis with the Series 2010 Bonds. Under certain circumstances, the Initial Swaps may be terminated, at which time the Commission may be required to make a termination payment to the applicable counterparty. Termination payments payable in accordance with the provisions of the Initial Swaps are secured by a lien on the Sales Tax Revenues subordinate to the lien that secures the Series 2008 Bonds, the Series 2010 Bonds, Parity Obligations and Subordinate Obligations, including the Existing 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 SIFMA Swap Index thereafter
Merrill Lynch Capital Services Inc.	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD SIFMA Swap Index thereafter

Basis Rate Swap Overlays to the Interest Rate Swaps. In March 2009, the Commission entered into a SIFMA versus LIBOR floating-to-floating or “basis” swaps with Barclays Bank PLC, with initial notional amounts for two of the swaps of \$156,600,000 each. Under two of the Initial Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. Pursuant to the terms of the Basis Rate Swap Overlays of two of the Initial Swaps, the Commission agreed to pay to the counterparties a payment of the SIFMA index and the counterparties agreed to pay the Commission 107.4 percent of LIBOR, on the first day of each month, commencing May 1, 2018, for the last 20 years of two of the Initial Swaps. The Commission’s obligation to make regularly scheduled payments of interest to the counterparties under the Basis Rate Swap Overlays is payable from and secured by Sales Tax Revenues on a parity basis with the Series 2010 Bonds. Under certain circumstances, the Basis Rate Swap Overlays may be terminated, at which time the Commission may be required to make a termination payment to the applicable counterparty. Under the terms of the Basis Rate Swap Overlays, the Commission may

terminate the agreement and cash settle with prior written notice. Termination payments payable in accordance with the provisions of the Basis Rate Swap Overlays are secured by a lien on the Sales Tax Revenues subordinate to the lien that secures the Series 2008 Bonds, the Series 2010 Bonds, Parity Obligations and Subordinate Obligations, including the Existing Notes.

2008 Liquidity Facilities. The 2008 Series A Bonds and the 2008 Series B Bonds are supported by a Standby Bond Purchase Agreement by and among JPMorgan, the Commission and the Trustee (the “JPMorgan Liquidity Facility”). The JPMorgan Liquidity Facility was renewed for two one-year terms in March 2009 and March 2010 and will expire on March 26, 2011, prior to the final maturity of the 2008 Series A Bonds and 2008 Series B Bonds, unless extended or terminated in accordance with its terms.

The 2008 Series C Bonds and the 2008 Series D Bonds are supported by a Standby Bond Purchase Agreement by and among Dexia Crédit Local, the Commission and the Trustee (the “Dexia Liquidity Facility”). The Dexia Liquidity Facility will expire on March 26, 2013, prior to the final maturity of the 2008 Series C Bonds and 2008 Series D Bonds, unless extended or terminated in accordance with its terms. Dexia Crédit Local has notified the Commission that it will not extend the Dexia Liquidity Facility.

During its term each 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. Under certain circumstances, each 2008 Liquidity Facility may be extended, reduced, adjusted or terminated, as described thereunder. The Commission has the right and may elect to terminate each Liquidity Facility in its discretion. The Commission is required under the Indenture to provide a Liquidity Facility for the Series 2008 Bonds so long as they bear interest at the Weekly Rate.

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 Existing Notes and the credit facility for the Existing Notes. Any termination payments under the Commission’s Initial Swaps and Basis Rate Swap Overlays and fees and expenses due under the 2008 Liquidity Facilities are payable on a basis subordinate to the Subordinate Obligations.

Remarketing Agents for the Series 2008 Bonds

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

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. In the event there is a failure on the part of the Remarketing Agents to remarket the Series 2008 Bonds, pursuant to the 2008 Liquidity Facilities, the Trustee may call on the Standby Bond Purchase

Agreement to purchase the Series 2008 Bonds that have not been remarketed (the “Bank Bonds”) and the Bank Bonds will bear interest at the Bank Bond Rate, which could be substantially higher than the Weekly Rate.

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

General

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

As set forth in the Act, the Commission is responsible for providing improvements to the transportation system and other public infrastructure systems in San Diego County. To carry out this responsibility, the Commission adopted in 1987 the initial San Diego Transportation Improvement Program Ordinance (Commission Ordinance 87-1 – Proposition A, 1987). In 2004, the Commission adopted the San Diego Transportation Improvement Program Ordinance and Expenditure Plan (Commission Ordinance 04-01), hereinafter referred to as the “Extension Ordinance,” which provides for an extension of the retail transactions and use tax implemented by the initial 1987 Ordinance for a 40-year period commencing on April 1, 2008. The 1987 Ordinance and the Extension Ordinance each outline a series of projects (herein referred to as the “Expenditure Plan”) to be implemented during the term of the sales tax measure. In connection with implementing the Expenditure Plan, the Commission has adopted and updated a series of plans of finance (the “Plan of Finance”), which describe the types of projects that are to be cash financed and the types of projects that are to be debt financed and the projected timing and amounts of such financing. On July 23, 2010, the Commission approved the 2010 *TransNet* Plan of Finance update which incorporates a “robust” financial scenario that continues to advance to construction several projects in the Commission’s *TransNet* Early Action Program (the “*TransNet* EAP”). The *TransNet* EAP (depicted in the map on page i) includes various highway and transit improvements in the Interstates 5, 15, and 805 corridors; completion of the State Route 52 and 76 projects; implementation of the Mid-Coast Corridor, SuperLoop, and Mid-City Rapid transit projects; Trolley vehicle and station upgrades along the Blue and Orange Lines; and double tracking improvements in the coastal rail corridor.

Executive Staff

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

Gary L. Gallegos, *Executive Director*. Mr. Gallegos serves as SANDAG’s chief executive officer and the secretary of the Board of Directors of both SANDAG and the Commission. He is responsible for the overall management of SANDAG and the Commission, including execution of its operational policies and procedures, the Board approved budget, and all personnel decisions. Mr. Gallegos was appointed by the SANDAG Board to his present position in 2001. Prior to joining SANDAG, Mr. Gallegos held the position of District Director for Caltrans District 11, encompassing San

Diego and Imperial Counties. Mr. Gallegos holds a B.S. degree in Civil Engineering from the University of New Mexico and is a registered civil engineer.

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

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

Lauren Warrem, *Director of Finance*. Ms. Warrem serves as the chief financial officer and directs all financial and programming functions for SANDAG and the Commission. Ms. Warrem transferred to SANDAG from MTS in 2003 as a result of the consolidation of certain regional transportation functions into SANDAG. Before being named Director of Finance, Ms. Warrem served as the Finance Manager for SANDAG for six years. She was at MTS for two years, serving as the Finance Manager and previously worked for KPMG, LLP, a certified public accounting firm. Ms. Warrem holds a B.S. degree in Accounting from Baker University and is a Certified Public Accountant.

Jim Linthicum, *Director of Mobility Management and Project Implementation*. Mr. Linthicum is directly responsible for the implementation of all *TransNet* and capital improvement projects under the control of the Commission. He is accountable for the scope, schedule, and cost of regional transportation projects and coordinates these efforts with federal, State, and local transportation agencies. Mr. Linthicum transferred to SANDAG from MTS in 2003 as a result of the consolidation of project development and construction functions into SANDAG. Prior to his employment at MTS Mr. Linthicum worked for the California Department of Transportation for 23 years. Mr. Linthicum holds a B.S. degree in Civil Engineering from Pennsylvania State University.

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

degree in Business Administration (M.B.A.) in 1985. Both degrees were earned at San Diego State University. He has been a Registered Engineer in the State since 1988.

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

Kim Kawada, TransNet and Legislative Affairs Program Director. Ms. Kawada manages and directs the operations of the SANDAG *TransNet* program and federal and state legislative affairs, and oversees the Board of Directors and Policy Advisory Committee agendas. She has been involved in a number of significant transportation and planning initiatives in the San Diego region. She spearheaded the development of several of the agency's Regional Transportation Plans. She also worked with local, State, and federal officials to launch the first-ever high occupancy toll lanes that charge solo drivers a fee to use carpool lanes. She was responsible for the team that developed the first Regional Comprehensive Plan, a long-range planning framework for the San Diego region. She has worked at SANDAG for 15 years and previously worked for the City of Laguna Niguel. She is a graduate of Brown University with a Bachelors of Arts in American History.

THE SALES TAX

Authorization, Application and Collection of the Sales Tax

The Commission is authorized by the Act to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County in accordance with California's Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 et seq.), upon authorization by a majority of the electors voting on the issue. On November 3, 1987, the voters approved the 1987 Ordinance which imposed the Sales Tax in the County for a twenty-year period. On November 2, 2004, more than two-thirds of the County 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 Existing Notes. After payment of debt service requirements on the Subordinate Obligations, any remaining unapplied Sales Tax Revenues are then remitted to the Trustee for payment of certain fees and expenses and thereafter to the Commission. The fee charged by the BOE is determined by the BOE pursuant to statute. The fee charged by the BOE to the Commission for Fiscal Year 2009-10 for collection of the Sales Tax was \$2,466,890. 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 an eight and one quarter percent sales and use tax currently levied statewide by the State. The current statewide sales and use tax includes a one percent increase that was effective April 1, 2009 and is presently scheduled to expire on June 30, 2011. 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, 2010.

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

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

Source: The Commission.

(1) Net of BOE administrative fee.

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

(3) Unaudited.

Annual Sales Tax Revenues received for the Fiscal Year ended June 30, 2010 (“Fiscal Year 2010”) totaled \$204,191,747. These Sales Tax Revenues are anticipated to equal at least 4.31 times Maximum Annual Debt Service on the Series 2008 Bonds and the Series 2010 Bonds (net of the Subsidy Payments) assuming such Maximum Annual Debt Service amounts as shown in the table “DEBT SERVICE SCHEDULE” herein. Sales Tax Revenues have declined in each Fiscal Year since the Fiscal Year ended June 30, 2007, and Sales Tax Revenues for Fiscal Year 2010 are 8.0% less than the Sales Tax receipts for the prior Fiscal Year. This decline is consistent with what is being experienced at the State and national level with regard to Sales Tax Revenues for this period. Although there can be no assurances if and when Sales Tax Revenues will begin to increase, an increase has been experienced during the second half of Fiscal Year 2010. Half-way through Fiscal Year 2010 Sales Tax Revenues were down 15% from the same period during the previous year. Sales Tax Revenues received during the second half of Fiscal Year 2010 made up for some of the decline recorded during the first half of the Fiscal Year, resulting in a decline of 8% for the entire Fiscal Year. This trend of slow growth is continuing into the first quarter of Fiscal Year 2011.

SUMMARY OF FINANCING PLAN

The Commission has previously issued the Existing Notes, which, as of October 1, 2010, are outstanding in the aggregate principal amount of \$41,316,000. Proceeds of the issuance of the Series 2010 Bonds will be set aside to retire \$7,316,000 of outstanding Existing Notes. Proceeds from the sale of the Series 2010 Bonds will also be used by the Commission to (i) finance, refinance and/or reimburse the Commission for its prior payment of the Costs of the Project and (ii) pay the costs of issuing the Series 2010 Bonds. Transportation projects that may be financed or refinanced with the proceeds of the Series 2010 Bonds include, but are not limited to, the projects included in the Commission's TransNet EAP (depicted in the map on page i), which includes various highway and transit improvements in the Interstates 5, 15, and 805 corridors; completion of the State Route 52 and 76 projects; implementation of the Mid-Coast Corridor, SuperLoop, and Mid-City Rapid transit projects; Trolley vehicle and station upgrades along the Blue and Orange Lines; and double tracking improvements in the coastal rail corridor.

Estimated Sources and Uses of Funds

The following are the estimated sources and uses of funds with respect to the Series 2010 Bonds:

SOURCES:	
Principal Amount	\$350,000,000.00
Net Original Issue Premium	<u>\$849,367.50</u>
TOTAL SOURCES	\$350,849,367.50
USES:	
Project Fund	\$340,650,866.53
Retirement of Existing Notes	\$7,316,000.00
Costs of Issuance ⁽¹⁾	<u>\$2,882,500.97</u>
TOTAL USES	\$350,849,367.50

⁽¹⁾ Costs of issuance include rating agency, legal and financial advisory fees and printing costs and expenses; Underwriters' discount; fees of the Trustee; and other miscellaneous expenses.

Anticipated Issuances of Additional Bonds

The Commission anticipates issuing Additional Bonds, in addition to the Series 2010 Bonds offered hereby, to fund transportation projects authorized under the Expenditure Plan. Furthermore, the Commission is authorized to issue up to \$100 million of Existing Notes.

The principal amount of Additional Bonds or other financing instruments to be subsequently issued by the Commission and the timing of any such issuance or issuances will be determined by the Commission based on a variety of factors including the costs and timing of design and construction of the transportation projects to be financed and the resources then available. The issuance of Additional Bonds is subject to the requirements of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Additional Bonds and Parity Obligations."

COMMISSION INVESTMENT PORTFOLIO

Funds of the Commission are invested pursuant to an investment policy adopted by the 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 (negotiable and non-negotiable), 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 June 30, 2010. Accordingly, there can be no assurance that if these securities had been sold on June 30, 2010, 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 June 30, 2010, the average maturity of the Commission's portfolio was 259 days, with an average yield of approximately 1.26%.

COMMISSION INVESTMENT PORTFOLIO INFORMATION
as of June 30, 2010

<u>Investments</u>	<u>Percent of Portfolio</u>	<u>Par Value</u>	<u>Market Value</u>
Cash or Cash Equivalents	39%	\$191,303,200	\$190,768,248
State of California Local Agency Investment Fund	10	49,293,604	49,374,632
San Diego County Treasurer's Pooled Money Fund	7	34,491,765	34,688,765
U.S. Agencies	44	216,806,903	214,695,073
TOTAL INVESTMENTS	100%	\$491,895,472	\$489,526,718

Source: The Commission.

RISK FACTORS

Economy of the County and the State

The Series 2010 Bonds are secured by a pledge of Sales Tax Revenues, which consist of the Sales Tax less an administrative fee paid to the BOE. The level of Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. The economy of the County is in a recession as evidenced by a decrease in Sales Tax Revenues, an increased unemployment rate, a probable decrease in total personal income and taxable sales, a drop in residential building permits, a decline in the rate of home sales and the median price of single-family homes and condominiums, an increase in notices of default on mortgage loans secured by homes and condominiums and an increase in foreclosures resulting from such defaults. The domestic and international recession has had and may continue to have negative repercussions upon the County, State, national and global economies, including reduced revenues for government, increased unemployment, a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, reduced business activity, increased consumer bankruptcies, and increased business failures and bankruptcies. On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 ("ARRA"). This \$787 billion economic stimulus measure is a combination of tax cuts and government spending on public works projects, education, health care, energy and technology. Congress, the Federal Reserve Board and other agencies of the federal government and foreign governments have taken various actions that are designed to enhance liquidity, improve the performance and efficiency of credit markets and generally stabilize securities markets and stimulate spending. There can be no assurance these actions will be effective. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of Sales Tax Revenues and therefore upon the ability

of the Commission to pay principal of and interest on the Series 2010 Bonds. For information relating to economic conditions within the County and the State see APPENDIX B - "INFORMATION REGARDING THE COUNTY OF SAN DIEGO."

The Sales Tax

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

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIIC and XIID to the California Constitution. Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Commission. The extension of the Sales Tax in 2004 received the approval of more than 2/3 of the voters as required by Article XIIC. However, Article XIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Commission, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the Sales Tax in a manner which would prevent the payment of debt service on the Series 2010 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 2010 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 2010 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 2010 Series B Bonds could become includable in federal gross income, possibly from the date of issuance of the 2010 Series B Bonds, as a result of acts or omissions of the Commission subsequent to the issuance of the Series 2010 B Bonds. Should interest become includable in federal gross income, the 2010 Series B Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

Impact of Bankruptcy of the Commission

As a municipal entity, the Commission may be qualified to file a petition under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”) under certain circumstances. Under Chapter 9, the pledge of the Sales Tax Revenues is fully enforceable only if a bankruptcy court determines that the Sales Tax Revenues are “Special Revenues” under Chapter 9 and that the pledge is valid and binding under Chapter 9. The Sales Tax Revenues may not constitute “Special Revenues” under Chapter 9 because, among other reasons, the Sales Tax was not levied for a particular project and is available for the general purposes of the Commission. If a bankruptcy court were to hold the pledge of the Sales Tax Revenues to be unenforceable under Chapter 9, then the owners of the Bonds (including the Series 2010 Bonds) would no longer be entitled to any special priority to the Sales Tax Revenues and may be treated as general unsecured creditors of the Commission as to the Sales Tax Revenues.

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

Risks Relating to Build America Bonds

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

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

Parity with Variable Rate Bonds

The Series 2008 Bonds are variable rate bonds issued on parity with the Series 2010 Bonds. The calculation of interest on the Series 2008 Bonds is set weekly. Potential fluctuations in interest rates could result in higher net interest rates on the Series 2008 Bonds. The Series 2008 Bonds are subject to tender provisions and remarketing by the Remarketing Agents. In the event of a failure to remarket the Series 2008 Bonds, the Series 2008 Bonds shall be purchased pursuant to the Liquidity Facilities, in which event the Series 2008 Bonds could bear interest at materially higher rates. Furthermore, in the event of an early termination of the Initial Swap Agreements, the Commission would no longer receive the variable interest rate payments payable by the counterparties thereunder.

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 2010 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 2010 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2010 Series B Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is such interest included in adjusted current earnings in calculating corporate alternative minimum taxable income. Interest on the Series 2010 Bonds is exempt from State personal income taxes. Bond Counsel observes that interest on the 2010 Series A Bonds is not excluded from gross income for federal income tax purposes. Bond counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

Tax Matters Relating to the 2010 Series B Bonds

To the extent the issue price of any maturity of the 2010 Series B Bonds is less than the amount to be paid at maturity of such 2010 Series B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2010 Series B Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the 2010 Series B Bonds which is excluded from gross income for federal income tax purposes and State personal income taxes. For this purpose, the issue price of a particular maturity of the 2010 Series B Bonds is the first price at which a substantial amount of such maturity of the 2010 Series B Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2010 Series B Bonds accrues daily over the term to maturity of such 2010 Series B Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2010 Series B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2010 Series B Bonds. Beneficial owners of the 2010 Series

B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Series B Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such 2010 Series B Bonds in the original offering to the public at the first price at which a substantial amount of such 2010 Series B Bonds is sold to the public.

2010 Series B Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2010 Series B Bonds. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2010 Series B 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 2010 Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2010 Series B 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 2010 Series B Bonds may adversely affect the value of, or the tax status of interest on, the 2010 Series B 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 2010 Series B Bonds is excluded from gross income for federal income tax purposes and is exempt from State personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series B 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 2010 Series B 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 2010 Series B Bonds. Prospective purchasers of the 2010 Series B 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 2010 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.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the 2010 Series B 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 2010 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 2010 Bonds, and may cause the Commission or the Beneficial Owners to incur significant expense.

Tax Matters Relating to the 2010 Series A Bonds

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the 2010 Series A Bonds that acquire their 2010 Series A Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their 2010 Series A Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their 2010 Series A Bonds (i.e., the price at which a substantial amount of the 2010 Series A Bonds are sold to the public) and who will hold their 2010 Series A Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a 2010 Series A Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a 2010 Series A Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds 2010 Series A Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding 2010 Series A Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the 2010 Series A Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

The 2010 Series A Bonds are not expected to be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated redemption price at maturity of the 2010 Series A Bonds is not expected to exceed their issue price or because any such excess is expected to only be a de minimus amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the 2010 Series A Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the 2010 Series A Bonds.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Commission) or other disposition of a 2010 Series A Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a 2010 Series A Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the 2010 Series A Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the 2010 Series A Bond (generally, the purchase price paid by the U.S. Holder for the 2010 Series A Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the 2010 Series A Bonds, the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder’s holding period for the 2010 Series A Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any 2010 Series A Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Commission through stock ownership and (2) a bank which acquires such 2010 Series A Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the 2010 Series A Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Bonds. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Commission) or other disposition of a 2010 Series A Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Commission) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A 2010 Series A Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that at the time of such individual’s death, payments of interest with respect to such 2010 Series A Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and “backup withholding” requirements apply to certain payments of principal of, and interest on the 2010 Series A Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Commission) or other disposition of a 2010 Series A Bond, to certain noncorporate holders of 2010 Series A Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any 2010 Series A Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the 2010 Series A Bond or a financial institution holding the 2010 Series A Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the 2010 Series A Bonds that are not United States persons and copies of such owners’ certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign “broker,” as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the 2010 Series A Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a 2010 Series A Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a 2010 Series A Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the I.R.S. (Circular 230), the Commission and its tax advisors are (or may be) required to inform you that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the 2010 Series A Bonds and the transactions described herein (or in such opinion or other advice); and
- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

LEGAL MATTERS

The validity of the Series 2010 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 LLP, as Disclosure Counsel, and for the Underwriters by their counsel, Nixon Peabody LLP.

CONTINUING DISCLOSURE

The Commission has covenanted for the benefit of owners of the Series 2010 Bonds to provide certain financial information and operating data relating to the Commission by not later than two hundred ten (210) days after the end of the Commission's fiscal year in each year, commencing with the fiscal year ending June 30, 2010 and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed by the Commission with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). Within the past five years, the Commission has not failed to comply in all material respects with any previous undertaking with respect to the Rule. See APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services have assigned a rating on the Series 2010 Bonds of "Aa1" and "AAA," respectively.

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

judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of such Series 2010 Bonds.

UNDERWRITING

The Commission has entered into a Purchase Contract (the "Purchase Contract") with respect to the Series 2010 Bonds with Barclays Capital 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 2010 Series A Bonds for reoffering at a purchase price of \$336,719,236.47, which represents the aggregate principal amount of the 2010 Series A Bonds less an Underwriters' discount of \$2,240,763.53, and to purchase the 2010 Series B Bonds for reoffering at a purchase price of \$11,837,630.06, which represents the aggregate principal amount of the 2010 Series B Bonds plus a premium of \$849,367.50 and less an Underwriters' discount of \$51,737.44.

The Underwriters will purchase all of the Series 2010 Bonds if any are purchased. The Underwriters agree to make a public offering of the Series 2010 Bonds.

The following language has been provided by and is being included in this Official Statement at the request of the Underwriters. The Commission cannot and does not assume any responsibility for the accuracy or completeness of such statements or information.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Commission, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Commission.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Series 2010 Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Series 2010 Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Series 2010 Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2010 Bonds that Incapital sells.

De La Rosa & Co., Inc., one of the Underwriters of the Series 2010 Bonds, has entered into separate agreements with UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Series 2010 Bonds, De La Rosa & Co., Inc. will share a portion of its underwriting compensation with respect to the 2010 Series Bonds, with UnionBanc Investment Services LLC or City National Securities, Inc.

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 2010 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 2010 Bonds is contingent upon the issuance of the Series 2010 Bonds.

RELATIONSHIP OF CERTAIN PARTIES

Goldman Sachs & Co., Barclays Capital, Inc., and De La Rosa & Co. are the Underwriters with respect to the Series 2010 Bonds and Remarketing Agents with respect to certain of the Series 2008 Bonds. Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman Mitsui Marine") is a counterparty to an Interest Rate Swap with respect to the 2008 Bonds. The Goldman Sachs Group, L.P. is a partner of Goldman Mitsui Marine. The Goldman Sachs Group L.P. is affiliated with Goldman Sachs & Co. Barclays Bank PLC is a counterparty to the two Basis Rate Swap Overlays. Barclays Bank and Barclays Capital Inc. are affiliated with Barclays PLC.

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, 2009. The Commission's Audited Financial Statements For Fiscal Year Ended June 30, 2009 are included as part of Appendix A. The financial statements of the Commission as of June 30, 2009 included in Appendix A in this Official Statement, have been audited by Caporicci and Larson, Certified Public Accountants (the "Auditors"), 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, 2009, except with respect to a reduction in the receipt of Sales Tax Revenues. See "THE SALES TAX—Historical Sales Tax Revenues" herein. The Auditors have 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.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Commission and holders of any of the Series 2010 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

APPENDIX A

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2009**

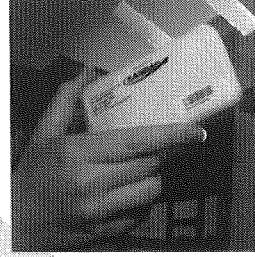
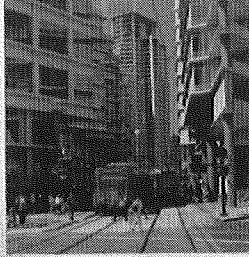
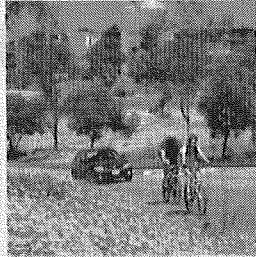
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San Diego Association of Governments

Comprehensive Annual Financial Report

San Diego, California

for the fiscal year ended
June 30, 2009



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San Diego Association of Governments

San Diego, California

Comprehensive Annual Financial Report

For the year ended June 30, 2009

PREPARED BY THE SAN DIEGO ASSOCIATION OF GOVERNMENTS

FINANCE DEPARTMENT

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San Diego Association of Governments

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December 15, 2009

File Number 8000180

Honorable Chair and Members
 of the Board of Directors
 San Diego Association of Governments

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- Coronado*
- Del Mar*
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- North County Transit District*
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- San Diego Unified Port District*
- San Diego County Water Authority*
- Southern California Tribal Chairmen's Association*
- Mexico*

We are pleased to present the basic financial statements of the San Diego Association of Governments (SANDAG), for the fiscal year ended June 30, 2009. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SANDAG. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SANDAG. Also included herein is other supplementary information. All disclosures necessary to enable the reader to gain an understanding of SANDAG's financial activities have been included.

The comprehensive annual financial report is presented in three sections: Introductory, Financial and Statistical. The Introductory section includes this letter of transmittal, a list of the SANDAG Board of Directors, a list of the SANDAG executive staff, SANDAG organization chart, and management's discussion and analysis (MD&A). The Financial section consists of the basic financial statements, notes to the basic financial statements, required supplementary information, the statistical section, and the independent auditors' report.

Caporicci & Larson, Certified Public Accountants, have issued an unqualified ("clean") opinion on SANDAG's financial statements for the year ended June 30, 2009.

Reporting Entity

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

SANDAG traces its origins to the 1960s as local planners and decision makers saw the need for coordinated efforts to solve a growing list of regional issues. In 1972, a Joint Powers Agreement was formalized among local governments, creating a council of governments, then known as the Comprehensive Planning Organization, with independent staffing and cooperative financing from the local members and project grants from state and federal agencies. In 1980, the name was changed from the Comprehensive Planning Organization to the San Diego Association of Governments, to better reflect the agency's purpose. In 2003, Senate Bill 1703, as amended by Assembly Bill 361, called for the consolidation of all the roles and responsibilities of SANDAG with certain transit functions of MTS and NCTD. SANDAG is now responsible for transit planning, programming, project implementation, and construction of transit projects in the region. The new consolidated SANDAG streamlines regional decision making to improve the transportation system, protects open space and habitat, bolsters our infrastructure, and sustains our quality of life. SANDAG's Board of Directors also serves as the Commission's Board of Directors. The Commission is responsible for the implementation and administration of transportation improvement programs funded by the San Diego countywide ½-percent sales tax. This tax became effective on April 1, 1988, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program, known as *TransNet*. The sales tax funds are used for highway, public transit, and local streets and road improvements. In November 2004, the voters of San Diego County extended the ½-cent sales tax another 40 years to 2048 with the funds dedicated to the same programs as the original measures, but it also included an innovative environmental program to 'offset' the impact of future transportation improvements while at the same time reducing overall costs and accelerating project delivery. The Commission is authorized to issue limited tax bonds payable from the sales tax receipts, the proceeds of which can be used to finance approved highway, transit, and local street and road projects. The Commission has created a Plan of Finance (POF) for the *TransNet* program, which is updated annually. A summary of the most recent POF is provided near the end of this report.

SANDAG Bylaws require the Board of Directors to approve a preliminary budget no later than April 1 of each year, with final approval by June 30. The preliminary budget is distributed to the funding agencies in March of each year to acquire their formal comments and approval. The annual budget serves as the foundation for SANDAG's financial planning and control. The budget is prepared by function, including the Capital Program, the Administration and Board budgets, and the Overall Work Program (including all regional planning activities). Costs and funding are strictly appropriated between these three major components and carefully monitored. Once the budget is formally approved, SANDAG Board Policy authorizes the Executive Director to enter into agreements not currently incorporated in the budget and make other modifications to the budget in an amount up to \$100,000 cumulatively per project per fiscal year, so long as the overall budget remains in balance. The Executive Director has further delegated budget transfers with no budgetary impact or significant project delay to an Executive Team member and the Director of Finance within the same project and up to \$50,000 between projects. Board Policy requires the Executive Director to report to the Board these actions taken by the Executive Director or his or her designee. The budget is monitored on an on-going basis and quarterly progress reports are generated at all levels, variances are analyzed, and corrective action is taken to ensure actual expenses are aligned with the budget as closely as possible. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Geography

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

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

Cultural and Educational Attractiveness

The San Diego region has matured as a center for culture and education. San Diegans now boast about their two Tony Award-winning theaters, The Globe Theatre, and the La Jolla Playhouse. In addition, with the San Diego Opera, the San Diego Symphony, and more than 90 museums for the enjoyment of both locals and visitors, the region has an abundance of cultural activities. Higher education is provided through numerous colleges and universities. The University of California, San Diego, is internationally recognized for excellence in higher education and scientific research. San Diego State University is the region's oldest and largest higher education institution. The University of San Diego, a private institution, is a highly respected law school, and the California State University at San Marcos is the region's fastest-growing college both in students and curricula.

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

Economic Summary and Outlook

The Recession

The national recession that began in December 2007 appears to be as deep as any the nation has experienced during the post-WWII period. Through October 2009, the nation has shed over 7.2 million jobs, representing the largest job loss of any peacetime recession since the Great Depression. Locally, the San Diego economy has shed 76,400 jobs over the same time period. San Diego represents about 1 percent of the national economy, so our aggregate job loss since the recession started has been slightly more than the nation. The national unemployment rate, which depends both on the rate of job change and on workers' decisions to enter or leave the work force, stood at 10.2 percent nationwide during October 2009, the highest since 1983 and twice as high as in December 2007. The local

unemployment rate was 10.5 percent during the same month, although the local rate is not adjusted for seasonal variation, which is substantial this time of year and would make the local rate slightly higher. Locally, this is the highest unemployment rate since January 1977, nearly 32 years ago.

One sign that the recession is coming to an end (some economists suggest the recession ended in July 2009) is the slow down in the rate at which jobs are being lost. The nation was losing between 600,000 and 700,000 jobs each month at the start of 2009, the decline per month has slowed to less than 200,000 jobs lost during October 2009. Similar and more encouraging signs have been recorded locally, as our region recorded a rise of more than 8,000 jobs during October 2009. Again, however, these gains are not seasonally adjusted, which would reduce this gain. Two additional positive signs the recession is ending are positive growth in the nation's Gross Domestic Product (GDP), which rose more than 2 percent during the third quarter of 2009, and the rise in the national index of leading economic indicators, which have been positive for the previous six months through September 2009. During September, eight of the ten indicators that make up the index were positive, including the money supply and interest rates, consumer expectations, initial claims for unemployment insurance, stock prices, manufacturing orders, and deliveries. Only building permits and average hours worked in manufacturing were down. A similar leading indicators index for the San Diego economy, created by the University of San Diego, has been portending local economic growth trends.

Although the worst of the recession may be behind us, a majority of economists are forecasting a modest recovery over the next few years followed by a relatively slow expansion through 2015. In the near term, national GDP is expected to expand in the 2 percent to 3 percent range—levels that are historically low for a recovery from a deep recession. For example, following the deep 1981–82 recession in which GDP shrunk by 2.9 percent from peak to trough, the economy bounced right back—growing 4.5 percent in 1983 and 7.2 percent in 1984.

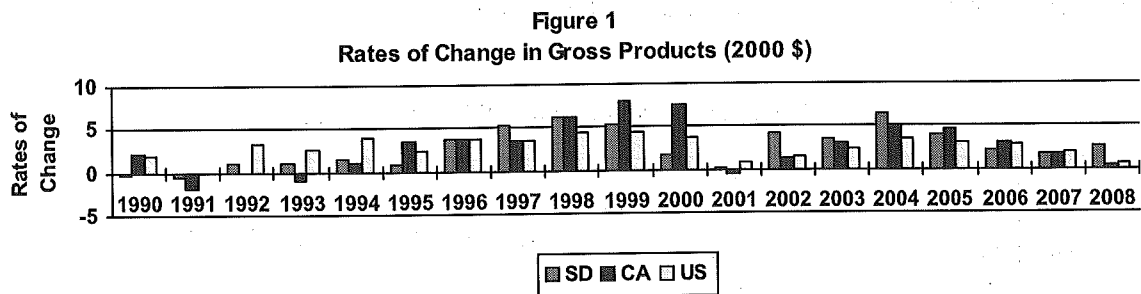
California Budget Outlook

One of the most talked about and written about problems in California over the past few years has been the state's budget deficit. The performance of regional economies in the state, including San Diego's, is linked directly to the State of California's fiscal health. Consequently, the state's budget crisis is likely contributing to the slower rates of growth San Diego has recorded over the past few years. During 2003, it was estimated that the state was facing a potential budget shortfall of over \$36 billion made up of \$22 billion in accumulated debt and an estimated \$14 billion operating or structural deficit. Steps have been implemented to reduce the deficit, including refinancing the accumulated debt, taking advantage of lower interest rates, and reforming the workers' compensation program. However, the state's already difficult budget situation was made worse by a significant drop in revenues and inability to cut expenditures. For the most part, the "closing the gap solutions" since 2003 have proven to be inadequate. In November 2009, the state Legislative Analyst Office released an update on the state's fiscal outlook (*The 2010-11 Budget: California's Fiscal Outlook*) showing the state facing a projected 2009–10 year-end deficit of \$6.3 billion—the gap created primarily by state expenditures drifting well above the target levels, although tax revenues collected are also less than expected. Worse, this gap is expected to widen to nearly \$21 billion for the next fiscal year, 2010–11, and remain there through 2014–15 unless something unexpected occurs. The widening gap reflects the consequences of employing one-time and temporary budget fixes, such as the use of federal stimulus funds, shifting funds from local government to the state, and one-time revenue accelerations.

To manage the State's budget crisis SANDAG is employing a cash management approach by utilizing other available non-State funds including Federal funds and local sales tax to ensure projects already under construction would continue without suspension.

San Diego's Economy and Economic Outlook

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



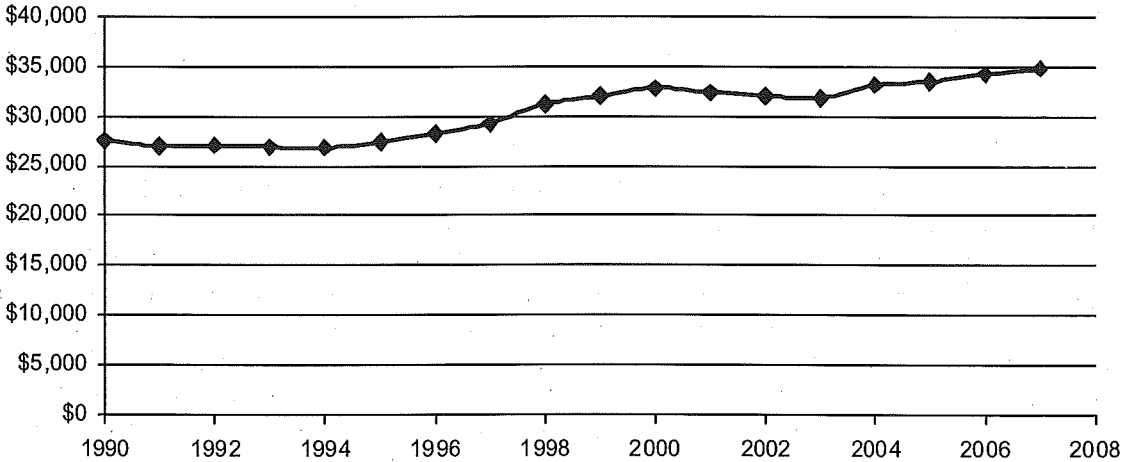
Over the longer term, the strength of the local economy is due, in part, to significant changes that took place during the second half of the decade in the 1990s. The San Diego region underwent a fundamental restructuring process after a period of recession in the early 1990s that increased economic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

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

increasingly skilled labor force. All of these factors help create synergy between companies and provide the labor and skills necessary for traded clusters to prosper.

Today, business services, skilled trades, research and development, and highly technical sectors (all embodied in the region's traded employment clusters) have become the driving forces behind economic development and provide an opportunity to increase our standard of living, as measured by real per capita income. As Figure 2 shows, the local standard of living grew quickly following the end of the local downturn in 1994 and the surge in high-tech employment growth that leveled off in 2000. Job growth since 2000 has been sufficient to keep the region's unemployment rate low (through 2007); however, the growth has not been well balanced between high- and low-paying jobs, and far more jobs are being created that are low-paying resulting in a much different trend for the standard of living since 2000. Between 1994 and 2000, the local standard of living, measured by the growth in real per capita income, increased 22.2 percent, whereas, between 2000 and 2007, the growth rate slowed to 6.1 percent. Over the last 17 years, between 1990 and 2007, real per capita income increased 26.4 percent, from \$27,500 in 1990 to \$34,800 in 2007 (figures in constant 2000 dollars).

Figure 2
SD Real Per Capita Income 1990 – 2007 (2000 \$)



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

Employment and Wages

The latest employment data available is for October 2009 and shows that 1.4 million San Diego residents were employed, a decrease of 67,500 jobs since the start of the recession in December 2007. Since January 2009, total employment in the San Diego region has fallen more than 44,000 jobs, a decline of more than 3 percent. A noteworthy trend in San Diego has been the emerging stability in the financial activities sector, one of the sectors hit hardest by the recession. This sector has lost more than 4,800 jobs since the recession started; however, the rate of job loss has slowed—since January 2009, the sector has lost 800 jobs, a 1 percent decline. Additional sectors that have begun to stabilize or grow during 2009 include Education and Health Services (up 1 percent), Government (up 0.1 percent), and Leisure and Hospitality (down 0.6 percent). Longer-term annual growth trends in jobs by sector are shown in Table 1.

Table 1
Average Annual Employment, 2002-2008
San Diego Region

Major Industry	2002	2008	Change 2002-2008
Construction	76,400	76,200	-0.3%
Manufacturing	112,300	102,300	-8.9%
Trade, Transportation, Utilities	208,600	215,900	3.5%
Information	37,700	38,700	2.6%
Financial Activities	75,000	75,800	1.1%
Professional Business Services	201,700	217,000	7.6%
Education & Health Services	119,700	135,500	13.2%
Leisure & Hospitality	133,800	163,600	22.3%
Other Services	45,600	48,800	7.0%
Government	219,700	225,200	2.5%
Total Regional Employment	1,375,800	1,472,400	7.0%

Source: State of California, Employment Development Department, Industry Employment and Labor Force, March 2009 benchmark; totals include approximately 173,000 self-employed, 11,000 farm, and 300 mining jobs.

The latest wage data for the San Diego region is 2007. The average wage per employee in current 2007 dollars for the San Diego region is \$47,600. As shown in the next chart, after some weakness between 2001 and 2003, the real average wage per worker in the region has begun to increase, rising 5.7 percent since 2003. The increase during 2007 raises the real average annual wage above the level recorded in 2000.

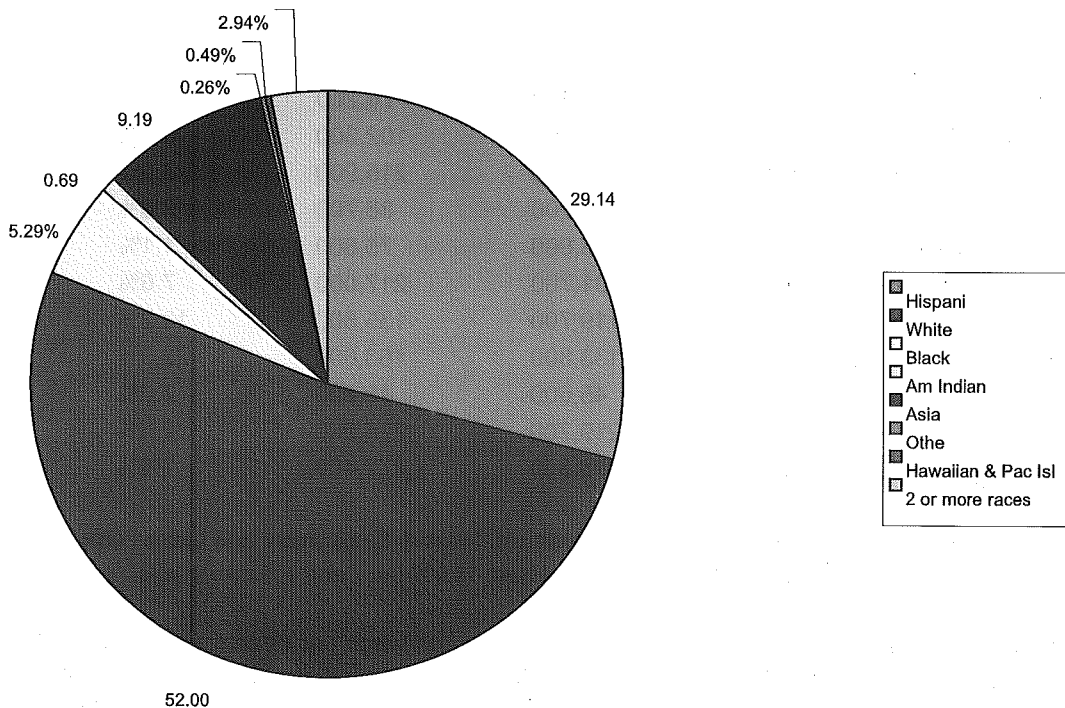
Figure 3
Average Wage Per Worker
San Diego Region (2000 \$)



Demographics

According to the California State Department of Finance's Population and Housing Estimates for January 1, 2009, the San Diego region is home to nearly 3.2 million people and approximately 1.4 million jobs. The latest race and ethnicity data available from the state, displayed in Figure 4, show the majority of the population is non-Hispanic White (52 percent), however, the Hispanic population has been growing rapidly, increasing by nearly 150,000 people from 2000 to 2007, and representing 29.14 percent of the total population in 2007. Of the 2007 total population, 5.29 percent identify themselves as non-Hispanic Blacks, and the remaining 15 percent of the population identify themselves as non-Hispanic Asian, Native Hawaiian and Pacific Islander, American Indian, other, or two or more races. The median household income in the region is estimated to be slightly more than \$63,000 (in current 2008 dollars); with the median age at 34.2 years old.

Figure 4
Population by Race & Ethnicity



Venture Capital

The high-tech sectors driving the region's economic prosperity rely, in part, on venture capital funds to help them perform research to produce leading-edge technologies. San Diego continues to be a favored area for venture capital investment, according to the PricewaterhouseCoopers quarterly *MoneyTree* survey. In comparison with multi-county and multi-state regions, San Diego County posted the sixth-highest dollar volume of venture capital investments during the first three quarters of 2009, receiving nearly \$0.6 billion. This is about one-half the level received during 2008, placing the region in the position to receive less than \$1 billion for only the third time out of the previous 11 years. Since 1995, the first year PricewaterhouseCoopers began publishing the *MoneyTree* report, the region has received more than \$14.9 billion in venture capital investments, with nearly 40 percent going to biotechnology companies.

International Trade

The total dollar value of international trade moving through the San Diego customs district reached nearly \$43 billion during 2005. Imports accounted for \$27.9 billion of international trade during 2005, a rise of 9 percent over 2004. The cumulative rate of growth in trade reached more than 350 percent between 1990 and 2000, then slowed due to security restrictions following September 11, 2001, but has rebounded recently increasing nearly 20 percent since 2003. More recent information for exports from the San Diego metropolitan area is available for 2006. According to the U.S. Census Bureau, San Diego's international exports totaled \$13.6 billion in 2006, a rise of 3.2 percent over 2005. Total trade processed through San Diego's customs district is expected to continue to expand at a rapid pace for the foreseeable future, outstripping the overall rate of economic growth.

The San Diego region's largest export destination continues to be Mexico, accounting for more than 60 percent of all exported goods shipped through the San Diego customs district during 2006 (up from 34 percent in 1987). The U.S. Department of Commerce reports that the largest export category is Electric and Electronic Equipment, accounting for nearly 30 percent of total San Diego exports in 2006. Ranked second is Industrial Machinery and Equipment, with more than 13 percent of all San Diego exports in 2006.

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

Although Mexico remains San Diego's largest trading partner, by far, the amount of trade with other areas has been changing rapidly. The past several years have recorded dramatic changes in the list of San Diego's top 20 trading partners. Between 2001 and 2005, Thailand moved from the fortieth to the third largest recipient of goods passing through San Diego's customs district. Ecuador rose from twenty-eighth to second on our list of top export partners during the same time period. On the downside, the United Kingdom fell from fourth to tenth place, and San Diego exports to Singapore have fallen from fifth to fifteenth place during the same time period.

Real Estate

The slowdown in the housing market has dominated the economic news in San Diego since early 2006. After doubling to nearly more than \$520,000 between January 2000 and October 2005, the median price for a single-family home in San Diego fell more than 40 percent by April 2009 and has since begun to rise slowly. According to the S&P Case-Shiller Home Price Index, the median-priced home in San Diego has risen nearly 7 percent between April and September 2009. The weak housing market has affected the construction industry, resulting in a loss of more than 30,000 construction jobs in the San Diego region. The number of new housing unit permits authorized in the region has declined steadily from a peak of 18,314 units in 2003 to 5,357 units during 2008, a decline of more than 70 percent. For the first three quarters of 2009, slightly more than 2,300 housing unit permits have been issued, a trend that will likely push 2009 below the number of permits issued during the previous year, making 2009 the sixth year in a row that the number of new units authorized will have fallen. During the home price boom time period, there had been a shift in the type of units sold away from single-family units and toward multifamily units. In fact, some of the decline in the median price has been a shift in sales away from the more expensive single-family units and toward the less expensive attached/condominium units. During 2002, nearly 25 percent of the homes sold were attached units; this proportion has been above 60 percent since 2004, peaking during 2006 at 69 percent. However, this shift has started back in the other direction; during 2008, 44 percent of the permits issued were for single-family units, and for the first three quarters of 2009, more than 92 percent of the permits issued have been for single-family units.

Retail Sales

Consumer expenditures nationwide contracted significantly during 2008 and during the first half of 2009, as consumers moved away from consumption and increased their savings. It is normal for consumers to spend less during a recession, but the size of the contraction this time was unusually large, causing some economists to speculate that consumers may hesitate or not return to their past spending habits once the recession ends. There are three reasons cited for this abrupt change, first is the amount of consumer debt outstanding, second is the loss in wealth from falling home and stock prices, and third is the expectation that the recovery from the recession will be slow by historical standards keeping the unemployment rate high for a protracted period of time. Some encouraging signs of rising consumption and higher consumer expenditures emerged during the third quarter of 2009 as month-to-month retail sales began to rise. However, there is some concern that much of this rise was due in large part to the "cash for clunkers" program that provided an incentive for buyers to purchase new vehicles. In addition, the downturn in consumer expenditures nationwide has been made worse by the deepening financial crisis, as credit availability to finance major purchases is tightening.

Similar trends are emerging in San Diego. Sales tax receipts received by the Commission declined by 1.4 percent during fiscal year 2008 and by \$22.4 million, or 9.2 percent, during fiscal year 2009. Transportation Development Act (TDA) receipts declined by \$10 million, or 8.5 percent, during fiscal year 2009. The sector hit hardest by the slowdown has been new auto sales, down nearly 30 percent for the second quarter of 2009 compared against the same quarter for the previous year. Construction also was weak, reporting sales down nearly 15 percent for the same quarter. Even our region's large and typically stable visitor industry, represented by the restaurant sector, fell by nearly 6 percent over the same time period.

There seems to be a growing consensus, nationwide, that the recovery from this recession will be slow by historical standards. Locally, for example, we have received the first six months of fiscal year 2010 sales tax receipts from the State Board of Equalization, which are approximately 15.1 percent less (both *TransNet* and TDA) when compared with the same period for the previous year. In light of these expected trends, as well as the results for the first six months of the current fiscal year, SANDAG is projecting a 10 percent decline in sales tax revenues during fiscal year 2010, as compared to fiscal year 2009 actual receipts.

Long-term Financial Planning

As SANDAG has taken on more responsibilities and funding sources have become more constrained, additional tools for managing financial fluctuations are warranted. SANDAG Board policy requires establishing a contingency reserve fund as a means for dealing with emergency or high priority situations that may arise during the course of the year that could not otherwise be funded in the near-term. The targeted minimum amount to be maintained in the reserve account shall be equal to 5 percent of total budgeted annual expenditures of the Overall Work Program (OWP). The ending balance of the contingency reserve, as of June 30, 2009, was approximately \$5.4 million, which is a result of budget savings in the general fund. This represents 9 percent of the fiscal year 2010 OWP budget, which exceeds the target of 5 percent as required by Board policy. Each proposed use of the contingency reserve will be subject to approval by the SANDAG Board leadership, known as the SANDAG Executive Committee.

Major Budget Initiatives and *TransNet* Plan of Finance Update

The following items were not part of the originally budgeted tasks or projects during fiscal year 2009, yet they were accomplished.

- Developed a plan to keep San Diego construction projects going during the impending shut down as a result of the state budget problem;
- Obtained \$130 million of federal economic stimulus funds for highway projects and developed an exchange program to make it easier for the 18 cities and the County to implement local street and road projects, by exchanging the federal stimulus monies for *TransNet* funds;
- Obtained \$80 million of federal economic stimulus funds for transit projects;
- Coordinated the completion of the Los Angeles to San Diego via the Inland Empire High-Speed Train Corridor Feasibility Study, which would be the basis for project-level environmental work along the high-speed train corridor; and
- Obtained \$5.84 million from Proposition 1B for traffic light synchronization improvements;
- Negotiated and executed an \$800,000 sponsorship agreement to establish VONS as the exclusive grocery outlet for Compass Card sales.

The *TransNet* Plan of Finance (POF) is updated as necessary, but at least on an annual basis as part of the overall SANDAG budgeting process. The updated POF is reviewed by the Independent Taxpayers Oversight Committee and SANDAG's Transportation Committee and approved by the full SANDAG Board of Directors. The most recent POF was approved by the SANDAG Board of Directors on March 27, 2009, and focused on the major changes in the last year, emphasizing the substantial adjustments in recent costs and revenues and their effects on the long-term financial projections for the program. The POF update confirmed that although the downturn in sales tax receipts is a cause for concern, the

simultaneous decrease in construction costs has resulted in a counter-balancing development. This allows the projects to continue with a reasonable expectation that current schedules can be maintained.

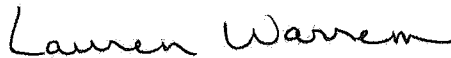
Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to San Diego Association of Governments for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the second consecutive year that SANDAG has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report was accomplished with the cooperation of SANDAG's management, financial staff, and SANDAG's independent auditors, Caporicci & Larson, CPAs. We express our appreciation to the staff members and the auditors who contributed to the preparation of this report.

Respectfully submitted,



LAUREN WARREM

Acting Director of Finance



MARNEY COX

Chief Economist



BOARD OF DIRECTORS

AS OF JUNE 30, 2009

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

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Hon. Jerome Stocks

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Hon. Jack Dale

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Southwest Division Naval Facilities Engineering
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Southwest Division Naval Facilities Engineering
Command

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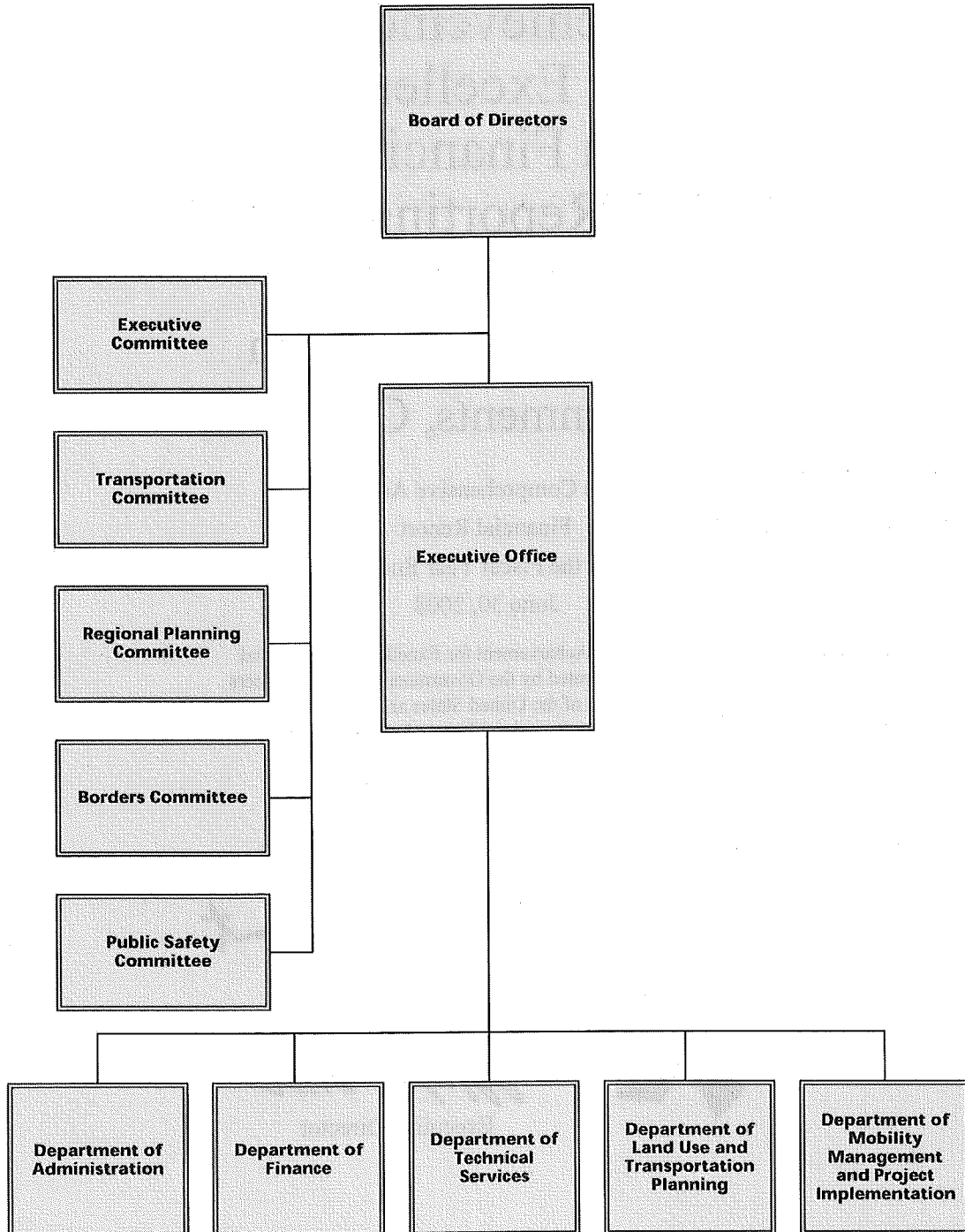
SAN DIEGO ASSOCIATION OF GOVERNMENTS

SANDAG Executive Staff

As of June 30, 2009

Executive Director	Gary Gallegos
Chief Deputy Executive Director	Renée Wasmund
General Counsel	Julie Wiley
Director of Finance, Acting	Lauren Warrem
Director of Administration, Acting	Laura Côté
Director of Land Use and Transportation Planning	Bob Leiter
Director of Technical Services	Kurt Kroninger
Director of Mobility Management and Project Implementation	Jack Boda

San Diego Association of Governments Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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President

Executive Director



INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Board of Directors
of the San Diego Association of Governments
San Diego, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, SourcePoint and Automated Regional Justice Information System (ARJIS) component units, and each major fund of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2009, which collectively comprise SANDAG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SANDAG's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, SourcePoint and ARJIS component units, and each major fund of SANDAG as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other 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 inquiries 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.

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San Diego
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San Diego, California 92111

To the Honorable Chair and Members of the Board of Directors
of the San Diego Association of Governments
San Diego, California

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SANDAG's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory and Statistical Sections have 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 and Statistical Sections.

Capricci & Carson

San Diego, California
December 15, 2009

Management's Discussion and Analysis

This section of the San Diego Association of Government's (SANDAG) basic financial statements presents the analysis of SANDAG's financial performance during the fiscal year that ended on June 30, 2009. The San Diego County Regional Transportation Commission (Commission) is a blended component unit of SANDAG and, therefore, is considered part of SANDAG's primary government. Please read this management's discussion and analysis (MD&A) in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of SANDAG exceeded its liabilities at the close of the most recent fiscal year by \$331,555,552 (net assets). Of this amount, a net assets deficit of \$86,357,996 is considered unrestricted. A significant factor related to the net assets deficit is the Commission's March 2008 bond issuance of \$600,000,000.
- SANDAG's total net assets increased by \$45,104,028. This increase is primarily due to an increase in SANDAG capital asset activities offset by a decrease due to *TransNet* program payments to agency recipients utilizing proceeds from the 2008 bond issuance and *TransNet* debt-service payments.
- As of the close of the current fiscal year, SANDAG's governmental funds reported combined ending fund balances of \$536,068,749. Approximately 89.6 percent of this total amount, or \$480,463,551, is available for spending at SANDAG's discretion (unreserved fund balances).
- SANDAG's total debt decreased by \$7,800,000, due to the \$10,800,000 variable rate demand bond principal repayment offset by the issuance of \$3,000,000 in commercial paper.

Overview of the Financial Statements

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

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

The *statement of net assets* includes all of SANDAG'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 SANDAG is improving or deteriorating.

The *statement of activities* presents information to show changes in SANDAG'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.

Both of the government-wide financial statements distinguish functions of SANDAG that are principally supported by sales taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of SANDAG include general government, transit support activities, regional planning, transportation service and facility planning, transportation development projects, systems management, program management, project monitoring, and external relations, regional information systems, criminal justice, highway improvements, local street and road improvements, public transit improvements and operations, bicycle facilities, Independent Taxpayer Oversight Committee, major corridor capital projects, major corridor environmental mitigation, local project environmental mitigation, local street improvements, smart growth, new major corridor transit operations, transit system improvement, transit capital funding, and interest on long-term debt.

The business-type activities of SANDAG include the I-15 FasTrak® program, which allows solo drivers to pay a toll to use the express lanes on Interstate 15 and the Service Bureau, which provides informational and technical services to member agencies, nonmember government agencies, private organizations, and individuals to enhance the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the Regional Information System (RIS).

The government-wide financial statements include not only SANDAG itself (known as the primary government), but also a legally separate nonprofit corporation (SourcePoint), which provides regional information services and technical assistance to private clients and public agencies; and a legally separate Joint Powers Agency (ARJIS), which provides a regional complex criminal justice enterprise information system utilized by more than 50 local, state, and federal agencies in the San Diego region. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Commission, although also legally separate, functions for all practical purposes as a program of SANDAG, and therefore, has been reported as a blended component unit and included as an integral part of the primary government.

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. SANDAG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of SANDAG are either governmental-type funds or proprietary 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.

SANDAG maintains seven 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 general fund, the prepaid fare media sales special revenue fund, the general services special revenue fund, the *TransNet* special revenue fund, the San Diego County Regional Transportation Commission sales tax projects special revenue fund, the capital projects fund, and the San Diego County Regional Transportation Commission debt-service fund. All funds are considered to be major funds.

Proprietary funds. SANDAG maintains two proprietary funds. Proprietary funds can either be enterprise funds or internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. SANDAG uses enterprise funds to account for both its Interstate 15 FasTrak® program and Service Bureau program.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for its Interstate 15 FasTrak® program and Service Bureau program, both of which are considered to be major funds of SANDAG.

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 SANDAG, assets exceeded liabilities by \$331,555,552 at the close of the most recent fiscal year.

The majority of SANDAG's net assets includes \$396,389,593, which reflects its investment in capital assets (primarily construction-in-progress). These capital assets are used or, in the case of the construction-in-progress, will be contributed to other governmental agencies, which will then be used to provide services to citizens and, therefore, are not available for future spending. The remaining offsetting balance of net assets is the unrestricted net assets deficit of \$86,357,996.

Net Assets

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 618,235,216	\$ 647,438,643	\$ 3,159,289	\$ 2,953,082	\$ 621,394,505	\$ 650,391,725
Capital assets	396,389,593	317,645,268	-	-	396,389,593	317,645,268
Total assets	<u>1,014,624,809</u>	<u>965,083,911</u>	<u>3,159,289</u>	<u>2,953,082</u>	<u>1,017,784,098</u>	<u>968,036,993</u>
Current liabilities	57,428,708	44,494,566	2,397,123	2,307,541	59,825,831	46,802,107
Restricted liabilities	34,202,715	34,783,362	-	-	34,202,715	34,783,362
Noncurrent liabilities	592,200,000	600,000,000	-	-	592,200,000	600,000,000
Total liabilities	<u>683,831,423</u>	<u>679,277,928</u>	<u>2,397,123</u>	<u>2,307,541</u>	<u>686,228,546</u>	<u>681,585,469</u>
Net Assets:						
Invested in capital assets	396,389,593	317,645,268	-	-	396,389,593	317,645,268
Restricted for debt-service	21,523,955	18,201,939	-	-	21,523,955	18,201,939
Unrestricted (deficit)	(87,120,162)	(50,041,224)	762,166	645,541	(86,357,996)	(49,395,683)
Total net assets	<u>\$ 330,793,386</u>	<u>\$ 285,805,983</u>	<u>\$ 762,166</u>	<u>\$ 645,541</u>	<u>\$ 331,555,552</u>	<u>\$ 286,451,524</u>

A significant factor contributing to the unrestricted net assets deficit of \$86,357,996 is \$592,200,000 of outstanding long-term debt of the Commission included in the Statement of Net Assets, which is offset by related balances of cash and investments from the debt proceeds of approximately \$316,000,000 at June 30, 2009, due from other governments for debt proceeds passed through to another government, net of principal retirement for a balance of \$25,085,850, and approximately \$187,000,000 of cash and investments related to *TransNet* balances not yet requested by recipient agencies. The restricted liabilities are not available for spending as the long-term debt payable will be used to paydown outstanding commercial paper notes, which were issued to buy the North County Transit District (NCTD) Certificates of Participation (COP) investment. The restricted retentions payable is for future capital project retention payment held in an escrow bank account. The restricted deposit payable is a NCTD deposit for commercial paper interest payments. The restricted net assets are resources subject to externally imposed restrictions and must be used for upcoming debt-service payments on the outstanding sales tax revenue bonds.

Additional information on SANDAG's long-term debt can be found in Note IV.F. and additional information on SANDAG's capital assets can be found in Note IV.C. in the notes to the basic financial statements of this report.

Governmental activities. Governmental activities increased SANDAG's net assets by \$44,987,403. Key elements of this increase are as follows:

Change in Net Assets

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for services	\$ 1,635,957	\$ 747,426	\$ 2,633,971	\$ 2,335,308	\$ 4,269,928	\$ 3,082,734
Operating grants and contributions	86,646,372	72,589,286	-	-	86,646,372	72,589,286
Capital grants and contributions	35,229,222	33,432,790	-	-	35,229,222	33,432,790
General Revenues:						
Sales taxes	219,173,861	244,535,119	-	-	219,173,861	244,535,119
Local Transportation Development Act funds	8,032,786	8,597,251	-	-	8,032,786	8,597,251
Investment earnings (loss)	24,947,560	(1,115,263)	51,705	93,613	24,999,265	(1,021,650)
Cost recovery	26,015,616	23,780,295	-	-	26,015,616	23,780,295
Other revenues	466,059	91,165	-	-	466,059	91,165
Total revenues	402,147,433	382,658,069	2,685,676	2,428,921	404,833,109	385,086,990
Expenses:						
General government	29,506,295	28,935,867	-	-	29,506,295	28,935,867
Transit support activities	63,760,998	51,063,433	-	-	63,760,998	51,063,433
Regional planning	4,123,055	2,832,945	-	-	4,123,055	2,832,945
Transportation service and facility planning	1,969,902	1,799,546	-	-	1,969,902	1,799,546
Transportation development projects	3,974,971	4,586,455	-	-	3,974,971	4,586,455
Systems management	7,745,668	6,831,294	-	-	7,745,668	6,831,294
Program management, project monitoring, and external relations	4,605,874	3,674,813	-	-	4,605,874	3,674,813
Regional information systems	5,278,079	5,513,475	-	-	5,278,079	5,513,475
Criminal justice	1,442,777	1,470,916	-	-	1,442,777	1,470,916
Highway improvements	165,343	12,481	-	-	165,343	12,481
Local street and road improvements	10,228,989	62,766,695	-	-	10,228,989	62,766,695
Public transit improvements and operations	1,114,806	46,938,252	-	-	1,114,806	46,938,252
Bicycle facilities	4,238,080	2,314,739	-	-	4,238,080	2,314,739
Independent Taxpayer Oversight Committee	260,757	-	-	-	260,757	-
Major corridor capital projects	5,168,110	8,431,949	-	-	5,168,110	8,431,949
Major corridor environmental mitigation	9,243	-	-	-	9,243	-
Local project environmental mitigation	3,781	-	-	-	3,781	-
Local street improvements	29,711,553	-	-	-	29,711,553	-
Smart growth	4,412	-	-	-	4,412	-
New major corridor transit operations	71,628	-	-	-	71,628	-
Transit system improvement	34,359,194	-	-	-	34,359,194	-
Interest on long-term debt	25,589,285	10,774,960	-	-	25,589,285	10,774,960
Service Bureau	-	-	471,887	602,339	471,887	602,339
Interstate 15 FasTrak	-	-	2,128,490	1,161,859	2,128,490	1,161,859
Total expenses	233,332,800	237,947,820	2,600,377	1,764,198	235,933,177	239,712,018
Change in net assets before capital contributions and transfers	168,814,633	144,710,249	85,299	664,723	168,899,932	145,374,972
Transfers in (out)	(31,326)	-	31,326	-	-	-
Capital contributions not restricted to specific programs	(123,795,904)	(50,634,575)	-	-	(123,795,904)	(50,634,575)
Change in net assets	44,987,403	94,075,674	116,625	664,723	45,104,028	94,740,397
Net assets, beginning of year	285,805,983	191,730,309	645,541	(19,182)	286,451,524	191,711,127
Net assets, end of year	\$ 330,793,386	\$ 285,805,983	\$ 762,166	\$ 645,541	\$ 331,555,552	\$ 286,451,524

Revenues increased by 5.1 percent or \$19,746,119. Key factors in this increase are as follows:

- Operating grants and contributions program revenue increased by \$14,057,086, or 19.4 percent, which is primarily due to a \$7,785,704, or 15.9 percent, increase in prepaid fare media pass revenue due to the sale of day passes in fiscal year 2009 which accounted for approximately \$2.7 million compared to fiscal year 2008, an increase in ridership due to the economic climate and gasoline price increases and an increase in transit support pass-throughs to other government agencies totaling \$2,289,748, which is an increase of 426.4 percent. There was a decrease of \$1,302,089 due to the sale of excess land parcels in fiscal year 2009 over fiscal year 2008. The land parcels were purchased with *TransNet* funds in prior years. Additionally, there was a return of project funds of \$1,404,771 unused at the end of the *TransNet* highways and public transit improvements and operations projects.
- Capital grants and contributions increased by \$1,796,432, or 5.4%, primarily due to the completion of several major projects, including phase II of the Del Mar Bluffs Stabilization project, City College Station Realignment, and the IAD/KMD Parking Lot Resurfacing Project, and the acceleration of the construction of Bus Rapid Transit stations on Interstate 15 and the purchase of a land parcel to be used for the South Bay Maintenance Facility.
- An increase in cost recovery revenues of \$2,235,321, or 9.4 percent, which is primarily due to an increase in more direct labor charged to projects.
- Sales tax revenues decreased \$25,361,258, or 10.4 percent, which is due to a continual slowdown in San Diego County's economy.
- In addition, investment earnings (loss) increased by \$26,020,915 due to investment of bond proceeds in U.S. Agencies which ranged from approximately \$454,000,000 at June 30, 2008, to approximately \$316,000,000 at June 30, 2009. SANDAG and the Commission are expecting to hold the U.S. Agencies investments until maturity, resulting in overall investment earnings.

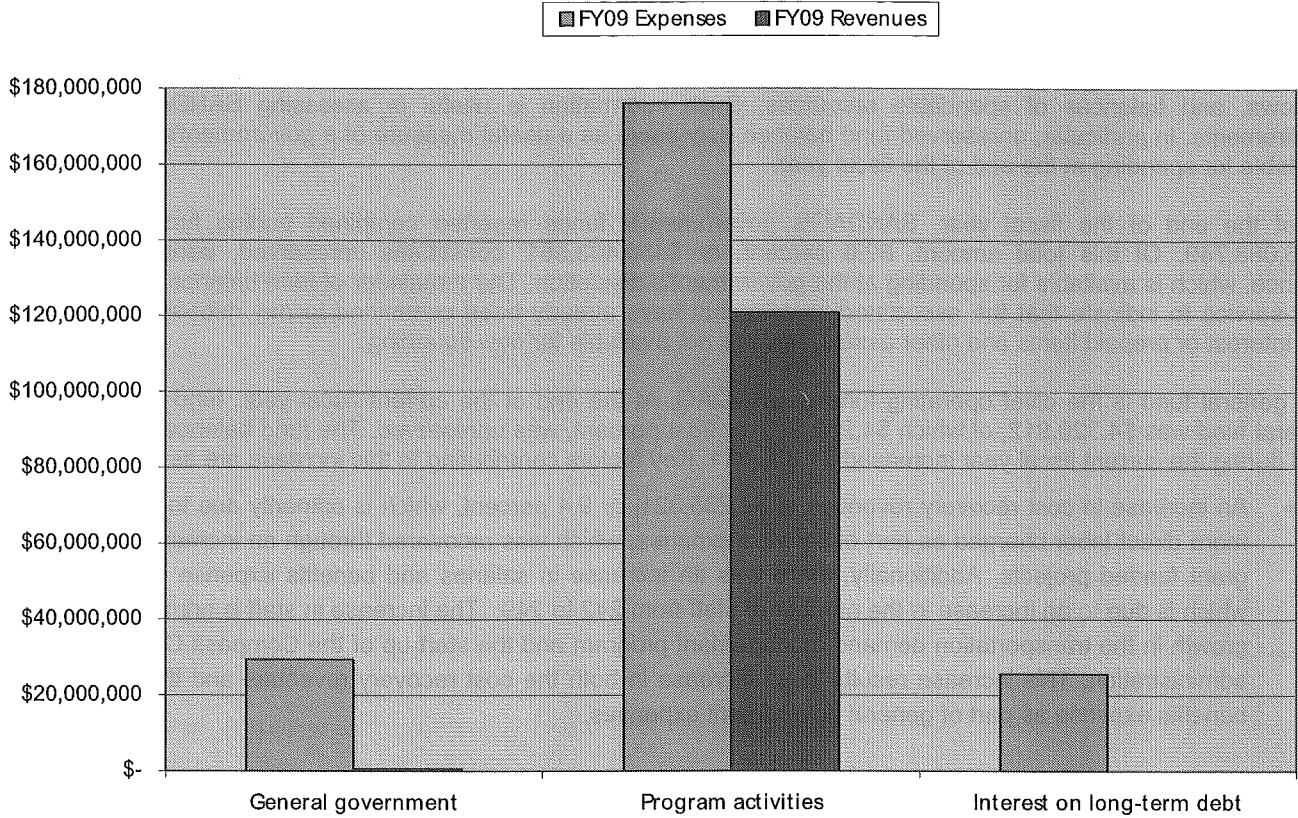
Total expenses decreased by \$3,778,841, or 1.6 percent over the prior year. Key factors in this decrease are as follows:

- The Commission's expenses increased \$31,034,402, or 12.4 percent, which is primarily due to an increase of \$36,428,598 for major corridors payments, \$11,469,017 for major corridor environmental mitigation program (EMP) payments, \$1,923,341 for bicycle facilities payments, and \$14,814,325 in long-term debt interest payments, offset by decreases in payments of \$18,904,914 in local streets and road improvement payments and \$15,060,135 for transit services. The significant increase in major corridors and EMP projects are due to the continual progress on several early action projects as a result of the *TransNet Extension Ordinance* approved by the voters of San Diego County in November 2004. Bond proceeds are used as the revenue source for both major corridors and EMP expenditures. There was an increase in payments for the bicycle facilities program due to the completion of the Inland Rail Trail project, which is a joint project between NCTD and the cities of San Marcos, Escondido, Vista, and Oceanside. Interest payments on long-term debt increased by \$14,814,325, which is primarily due to interest payments on the \$600,000,000 revenue bonds. The decrease in local streets and road improvements is based on recipient requests of *TransNet* funds for eligible expenditures, which were lower in fiscal year 2009 in relation to fiscal year 2008. Transit services decreased mostly as a result of the decrease in the Commission's *TransNet* sales tax revenues available for these projects.
- There is an offsetting decrease due to SANDAG governmental activities that do not include the Commission's activities.
 - Expenses related to SANDAG administered transit support activities increased by \$12,697,565, or 24.9 percent, primarily due to increased revenue distribution payments made to the transit operators. Approximately \$1,700,000 of this increase was payment of prior year's commissions distributed to the transit operators in fiscal year 2009, approximately \$7,800,000 is due to an increase in prepaid fare media pass revenue over the prior year, an increase of approximately \$1,200,000 is due to the addition of the Compass Card back-office administration, and an increase of approximately \$1,300,000 is due to pass-through grants to other governmental agencies. Compass Card is the

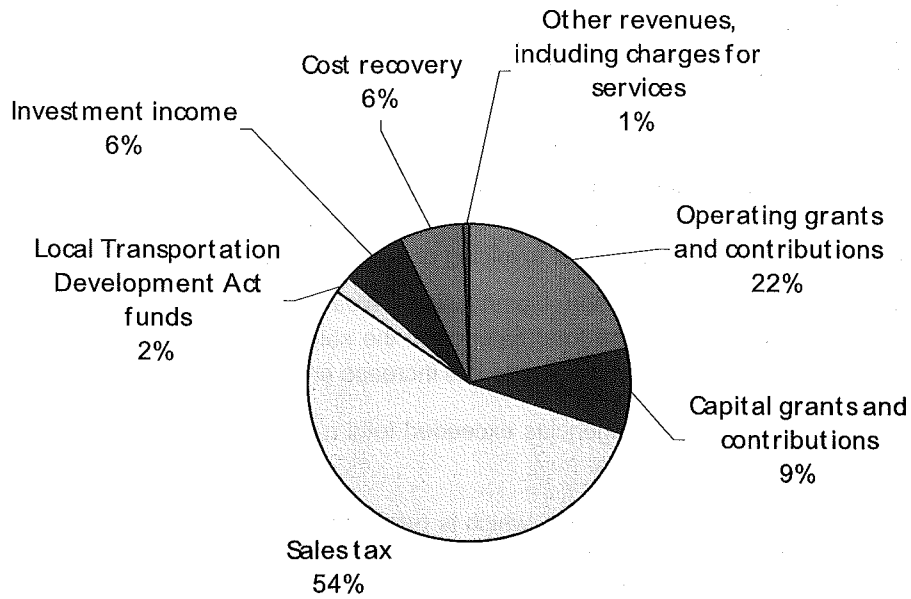
regional automated fare technology system utilizing smart card technology that allows patrons to utilize transit throughout the region.

- Regional planning increased by \$1,407,885, or 49.7 percent, which is largely due to new work elements in the Overall Work Program (OWP) budget for fiscal year 2009 of approximately \$522,000, including the Regional Multimodal Airport Planning work element to work with the San Diego County Regional Airport Authority on regional aviation and multimodal transportation plans per Senate Bill 10, and other various smaller work elements. Additionally, the Regional Beach Sand program increased by approximately \$599,000 due to a grant award for the development of a coastal regional sediment management plan and an economic feasibility study and preliminary planning activities for the implementation of a regional beach sand replenishment project. The additional increases are due to other various work elements which were ongoing from the previous fiscal year, which had increased budgets and spending in fiscal year 2009.
- Transportation development projects increased \$1,765,906, or 52.8 percent, largely due to the increased deployment of regional Intelligent Transportation Systems. The systems continue to be deployed in fiscal year 2009 and require ongoing support for operations, administration and maintenance to ensure they perform as expected and provide mobility services to the public.
- Systems management increased by \$995,396, or 14.5 percent. This increase is primarily due to the continued growth of the transportation demand management (TDM) program, which increased by \$860,806, or 23.3 percent. The TDM program includes Vanpools and commuter services such as online carpool ride matching, ridesharing awareness and participation, and the introduction of TDM products for the Spanish-speaking population.
- There are offsetting eliminations, which resulted in a significant increase in the funds SANDAG received on behalf of its capital and operating programs from the Commission's *TransNet* sales tax program. Eliminations increased by \$53,526,968, or 43.3 percent. These eliminations represent funds transferred in from the Commission to SANDAG which are eliminated to avoid duplication of revenues and expenditures for the primary government. Major corridor environmental mitigation increased \$11,459,774, or 176.2 percent, due to the implementation of a Board approved memorandum of understanding between the U.S. Fish and Wildlife Services, the California Fish and Game Department, and Caltrans to acquire land. Additionally, the major corridor capital projects experienced an increase of \$39,692,437, or 37.4 percent, due to the continued progress on early action projects in San Diego.
- There is an increase in the SANDAG business-type activities expenses of \$836,179. The I-15 FasTrak® program experienced an increase in expenses of \$966,631, or 83.2 percent, resulting from the expansion of the FasTrak lanes from 8 miles to 16 miles during fiscal year 2009.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of SANDAG's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SANDAG's financing requirements. In particular, unreserved fund balance 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, SANDAG's governmental funds reported combined ending fund balances of \$536,068,749. Of this total amount, 89.6 percent, or \$480,463,551, constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved for debt-service to indicate that the associated investments have already been committed to pay debt-service principal and interest or prepaid items and other assets, and are not available for new spending.

The general fund is the chief operating fund of SANDAG. At the end of the current fiscal year, fund balance of the general fund was \$4,320,912, of which \$4,252,570, or 98.4 percent, was unreserved. The fund balance of the general fund during the current fiscal year increased \$1,352,811. Key factors contributing to this increase are as follows:

- An increase in cost recovery revenues of \$2,235,321, or 9.4 percent, which is primarily due to an increase in more direct labor charged as part of salaries expense, which was recovered through an increase in dedicated grant funded projects. Additionally, there was an increase in salaries and benefits expense of 5.0 percent, which is due to an increase in the number of staff from 242 to 249. The increase in staff is primarily due to the growth in the transportation demand management program and the start-up of the Compass Card back-office administration. This increase results in an increase in both the cost recovery revenues and the salaries and benefits expense as part of general government expenses.
- A decrease of \$425,475, which is primarily due to a decrease in expenses for consultant services, governing Board of Director expenses, insurance premiums, and agency-wide cost savings initiatives.

The *TransNet* fund is the recipient fund from the Commission (blended component unit) and the funds are subsequently transferred out to projects and general and administrative expenditures in the general fund, general service fund, prepaid fare media fund, and capital projects fund. At the end of the current fiscal year, the fund balance of the *TransNet* fund was \$0. Revenues increased by \$53,120,384, or 42.8 percent, which is due to an increase in early action program (EAP) projects under the new *TransNet Extension Ordinance* and the use of the 2008 bond proceeds. Transfers out increased by \$53,120,384, or 42.8 percent, which is also due to the EAP projects.

The general services fund had a fund balance of \$1,455,332, of which \$1,452,296, or 99.8 percent, was unreserved. The fund balance of the general services fund during the current fiscal year increased by \$189,408, or 15 percent, due to a decrease in retentions payable which allowed for invoicing of project expenses.

The San Diego County Regional Transportation Commission sales tax projects fund had a fund balance of \$177,558,071, all of which was unreserved. The fund balance of the sales tax projects fund during the current fiscal year increased by \$89,578,349. Key factors contributing to this increase are as follows:

- Total *TransNet* payments to recipient agencies exceeded total revenues by \$31,227,850 for the current fiscal year, reflecting the use of bond proceeds.
- Interfund transfers of \$120,806,199 occurred, which is primarily due to transfers with the Commission's debt-service fund for principal and interest payments. The bond proceeds transfers in of \$163,162,796 are reduced by sales tax receipts transfers out of (\$42,356,597) that are transferred to the debt-service fund for payment of debt principal and interest.

The capital projects fund had a deficit fund balance of \$774,880. The deficit is due to retentions expensed, but not yet recorded into revenue as they cannot be billed until paid to the vendor.

The San Diego County Regional Transportation Commission debt-service fund had a fund balance of \$353,697,670, of which \$298,173,715 was unreserved. The fund balance of the debt-service fund during the current fiscal year decreased by \$134,755,367. Key factors in this decrease are as follows:

- The bond proceeds spent in the current year offset by repayment of other outstanding debt during the same period was a major factor in the higher fund balance in the prior year.
- Revenues in the current year exceeded those of the prior year by \$25,804,832 due to earnings on the higher investment balances from the 2008 bond proceeds.
- Interfund transfers of (\$120,806,199) occurred, which is primarily due to transfers with the Commission's sales tax projects fund as noted in the San Diego County Regional Transportation Commission sales tax projects fund above.

The prepaid fare media sales fund had a deficit fund balance of \$188,356, of which all was unreserved. The fund balance of the prepaid fare media sales fund during the current fiscal year decreased by \$1,911,109. In fiscal year 2009, a one-time transfer of approximately \$1.7 million was made to the Metropolitan Transit System (MTS) for prior year fare media commissions revenue. Due to the elimination of transfers on the transit system, the sales of day passes significantly increased and therefore the commissions revenue also increased significantly in fiscal year 2008. SANDAG historically maintained commissions revenue in order to recover expenses of administering the fare media sales program. However, the significant increase in commissions revenue exceeded the expenses of program administration in fiscal year 2008, and therefore an additional \$1.7 million distribution to MTS was made in fiscal year 2009. The current deficit fund balance is due to distributions exceeding revenues for fiscal year 2009, which will be recovered in fiscal year 2010.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor (\$171,741 increase in the transfer out of TDA funds to the general services fund) in order to fund new, high priority work efforts at the direction of the Board of Directors, which did not have other dedicated funding sources available or to serve as a local match requirement for new dedicated grant funding received during the fiscal year.

Capital Asset and Debt Administration

Capital assets. SANDAG's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$396,389,593 (net of accumulated depreciation). This investment in capital assets includes primarily construction-in-progress (CIP) on projects for the benefit of the transit agencies, Caltrans, or other governmental agencies. Once completed, these projects are contributed to the other governmental agencies to reflect the other government's custodial accountability for the operation and maintenance of the assets. Major projects under construction as of June 30, 2009, include:

- *TransNet* Early Action Program (EAP) Projects. These included major corridor projects for Interstate 5, Interstate 15, Interstate 805, State Route 52, State Route 76, and the Mid-Coast Corridor (such as the Mid-Coast LRT project and the Super Loop project), the Transportation Project Biological Mitigation Fund, and the Regional Habitat Conservation Fund. The CIP balance for EAP projects is \$349.7 million and the overall cumulative approved budget for EAP projects through fiscal year 2009 is \$5.0 billion.

Capital Assets
(net of depreciation)

	Governmental activities	
	2009	2008
Governmental activities:		
Office equipment	\$ 21,694	\$ 52,712
Computer equipment	5,564,631	144,095
Equipment and other	142,897	-
Vehicles	27,886	42,049
Leasehold improvements	35,242	73,688
Construction-in-progress	387,665,072	317,332,724
Land	2,932,171	-
Governmental activities capital assets, net	<u>\$ 396,389,593</u>	<u>\$ 317,645,268</u>

Additional information on SANDAG's capital assets can be found in Note IV.C. in the notes to the basic financial statements of this report.

Long-term debt. At the end of the current fiscal year, SANDAG had total debt outstanding of \$626,200,000, which is comprised of \$589,200,000 of sales tax revenue bonds and \$37,000,000 of commercial paper notes. The Commission's total debt decreased by \$7,800,000, which is due to bond principal repayment of \$10,800,000, offset by \$3,000,000 in commercial paper issued.

Additional information on SANDAG's long-term debt can be found in Note IV.F. in the notes to the basic financial statements of this report.

Economic Factors and Next Year's Budgets

- In the Overall Work Program (OWP), which is the non-capital approved budget document, federal consolidated planning grant sources are expected to increase modestly in fiscal year 2010. The total OWP budget will increase about 3.5 percent to \$57.9 million.
- In the Capital Budget, cumulative capital project funding through 2010 is increasing from \$5 billion to \$5.5 billion for the *TransNet* EAP Projects, which are projects relating to the 40-year *TransNet Extension* sales tax, approved by the voters of San Diego County in November 2004. Funding of current transit capital projects also increased from \$274.9 million to \$287.6 million in fiscal year 2010 for this multi-year program.
- SANDAG continues to strive for continuous improvement by implementing cost effective measures to maximize the efficiency of the general fund expenditures. SANDAG's budget and contract management programs continue to use new technology to develop more effective fiscal discipline, flexibility, and responsiveness. For fiscal year 2009 and beyond, emphasis is being placed on scrutinizing all travel requests, minimizing meeting expenses, re-evaluating each vacant position before authorizing replacement, expanding the ability to respond to legal issues, and optimizing the risk management portfolio. These initiatives and other cost savings measures have resulted in decreases in general and administrative expenses in fiscal year 2009. Further reductions in general and administrative expenses are expected for next fiscal year.
- Major initiatives in the OWP for fiscal year 2010 include further implementation of the Regional Comprehensive Plan (RCP), implementation of the 30-year Regional Transportation Plan (RTP), advancing mobility and goods movement infrastructure within San Diego among neighboring counties and Mexico; and continuing the implementation of the automated 511 and other traveler information services, regional intelligent transportation systems including Compass Card for transit, enhancements to the Automated Regional Justice Information System (ARJIS) and services, and joint development of the multi-modal access component of the Lindbergh Field Master Plan.
- Actual cash basis sales tax collections have increased over the last 13 of 15 years of collections, with a decrease in the last two years. The sales tax collections for fiscal year 2009 decreased from the prior year by 9.2 percent, due to the slowdown in the San Diego County economy. For the fiscal year 2010 budget, \$239 million in sales tax receipts was budgeted. Subsequently during fiscal year 2010, due to the slowdown in the economy and cash receipts for the 1st quarter of fiscal year 2010, the budget for sales tax collections was adjusted down to \$207,561,920, representing a reduction of 6.5 percent over fiscal year 2009 actual amount received. Management is currently in the process of returning to the Board of Directors in January 2010 to request an even further reduction, proposing a reduction of 10 percent over the fiscal year 2009 actual amount

received, based upon more recent cash receipts for the 2nd quarter of fiscal year 2010. The newly forecasted amount to be received in fiscal year 2010, once approved by the Board, would be \$199,792,224.

- The Commission is expecting *TransNet* allocations of \$207 million in fiscal year 2010 to fund general government administration, bicycle facilities, the Independent Taxpayer Oversight Committee, major corridors, major corridor environmental mitigation, local project environmental mitigation, local street improvements, smart growth, new major corridor transit operations operations, and transit system improvements. The Commission is expecting disbursements of \$11.4 million in principal expenditures and approximately \$21 million to \$30 million in interest expenditures related to the 2008 variable rate revenue bonds in fiscal year 2010. Commercial paper is expected to be paid down by \$562,000 in fiscal year 2010, with up to an additional \$198,000 in interest expenditures.

Requests for Information

This financial report was designed to provide a general overview of SANDAG'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 Association of Governments, 401 B Street, Suite 800, San Diego, CA 92101, or e-mailed to the Director of Finance at pio@sandag.org.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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San Diego Association of Governments
Statement of Net Assets
June 30, 2009

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	SourcePoint	ARJIS
ASSETS					
Cash and investments	\$ 499,171,795	\$ 2,172,797	\$ 501,344,592	\$ 223,870	\$ 11,957,308
Accounts receivable	1,306,508	277,202	1,583,710	-	-
Prepaid items and other assets	81,243	-	81,243	-	300
Interest receivable	189,649	-	189,649	-	-
Due from other governments	61,061,913	-	61,061,913	16,800	905,444
Due from component units	52,662	-	52,662	-	-
Due from primary government	-	-	-	5,500	7,245
Internal balances	(709,290)	709,290	-	-	-
Deferred charges, net	1,366,494	-	1,366,494	-	-
Restricted assets:					
Cash restricted for capital project retentions	18,304	-	18,304	-	-
Cash and investments restricted for debt-service	55,695,938	-	55,695,938	-	-
Capital assets:					
Non-depreciable	390,597,243	-	390,597,243	-	-
Depreciable, net of accumulated depreciation	5,792,350	-	5,792,350	-	-
Total assets	1,014,624,809	3,159,289	1,017,784,098	246,170	12,870,297
LIABILITIES					
Accounts payable	15,247,354	402,165	15,649,519	-	108,889
Accrued interest payable	266,958	-	266,958	-	-
Retentions payable	2,683,724	69,557	2,753,281	-	39,341
Due to other governments	18,323,901	-	18,323,901	-	484,695
Due to component units	12,745	-	12,745	-	-
Due to primary government	-	-	-	-	52,662
Transponder deposits payable	-	20,600	20,600	-	-
Unearned revenue	19,243,684	1,904,801	21,148,485	-	-
Compensated absences payable - due within one year	1,650,342	-	1,650,342	-	-
Liabilities payable from restricted assets:					
Deposits payable	171,983	-	171,983	-	-
Retentions payable	30,732	-	30,732	-	-
Long-term debt payable - due within one year	34,000,000	-	34,000,000	-	-
Noncurrent liabilities:					
Long-term debt payable - due within one year	14,400,000	-	14,400,000	-	-
Long-term debt payable - due in more than one year	577,800,000	-	577,800,000	-	-
Total liabilities	683,831,423	2,397,123	686,228,546	-	685,587
NET ASSETS					
Invested in capital assets	396,389,593	-	396,389,593	-	-
Restricted for:					
Special program - iCommute	-	-	-	18,131	-
Restricted for debt-service	21,523,955	-	21,523,955	-	-
Unrestricted (deficit) (Note III.A)	(87,120,162)	762,166	(86,357,996)	228,039	12,184,710
Total net assets	\$ 330,793,386	\$ 762,166	\$ 331,555,552	\$ 246,170	\$ 12,184,710

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Activities
For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 29,506,295	\$ 547,425	\$ -	\$ -	\$ 547,425
Transit support activities	63,760,998	888,532	59,642,814	1,180,323	61,711,669
Regional planning	4,123,055	-	2,939,567	-	2,939,567
Transportation service and facility planning	1,969,902	-	1,993,438	-	1,993,438
Transportation development projects	3,974,971	-	4,075,477	617,744	4,693,221
Systems management	7,745,668	-	7,667,026	-	7,667,026
Program management, project monitoring, and external relations	4,605,874	-	2,668,618	220,512	2,889,130
Regional information systems	5,278,079	-	4,079,503	-	4,079,503
Criminal justice	1,442,777	200,000	1,224,250	-	1,424,250
Highway improvements	165,343	-	1,683,869	-	1,683,869
Local street and road improvements	10,228,989	-	-	-	-
Public transit improvements and operations	1,114,806	-	671,810	-	671,810
Bicycle facilities	4,238,080	-	-	-	-
Independent Taxpayer Oversight Committee	260,757	-	-	-	-
Major corridor capital projects	5,168,110	-	-	-	-
Major corridor environmental mitigation	9,243	-	-	-	-
Local project environmental mitigation	3,781	-	-	-	-
Local street improvements	29,711,553	-	-	-	-
Smart growth	4,412	-	-	-	-
New major corridor transit operations	71,628	-	-	-	-
Transit system improvements	34,359,194	-	-	-	-
Transit capital funding (Note IV.G)	-	-	-	33,210,643	33,210,643
Interest on long-term debt	25,589,285	-	-	-	-
Total governmental activities	233,332,800	1,635,957	86,646,372	35,229,222	123,511,551
Business-type activities:					
Service Bureau	471,887	469,365	-	-	469,365
Interstate 15 FasTrak	2,128,490	2,164,606	-	-	2,164,606
Total business-type activities	2,600,377	2,633,971	-	-	2,633,971
Total primary government	\$ 235,933,177	\$ 4,269,928	\$ 86,646,372	\$ 35,229,222	\$ 126,145,522
Component units:					
SourcePoint	\$ 28,415	\$ 33,250	\$ -	\$ -	\$ 33,250
ARJIS	5,576,164	4,443,628	598,209	-	5,041,837
Total component units	\$ 5,604,579	\$ 4,476,878	\$ 598,209	\$ -	\$ 5,075,087

General revenues:

Sales tax
Local Transportation Development Act funds
Investment earnings (loss)
Cost recovery
Other revenues

Transfers in (out)

Capital contributions not restricted to specific programs (Note IV.G)

Total general revenues, transfers and capital contributions

Change in net assets

Net assets - beginning of year

Net assets - end of year

See accompanying Notes to the Basic Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	SourcePoint	ARJIS
\$ (28,958,870)	\$ -	\$ (28,958,870)	\$ -	\$ -
(2,049,329)	-	(2,049,329)	-	-
(1,183,488)	-	(1,183,488)	-	-
23,536	-	23,536	-	-
718,250	-	718,250	-	-
(78,642)	-	(78,642)	-	-
(1,716,744)	-	(1,716,744)	-	-
(1,198,576)	-	(1,198,576)	-	-
(18,527)	-	(18,527)	-	-
1,518,526	-	1,518,526	-	-
(10,228,989)	-	(10,228,989)	-	-
(442,996)	-	(442,996)	-	-
(4,238,080)	-	(4,238,080)	-	-
(260,757)	-	(260,757)	-	-
(5,168,110)	-	(5,168,110)	-	-
(9,243)	-	(9,243)	-	-
(3,781)	-	(3,781)	-	-
(29,711,553)	-	(29,711,553)	-	-
(4,412)	-	(4,412)	-	-
(71,628)	-	(71,628)	-	-
(34,359,194)	-	(34,359,194)	-	-
33,210,643	-	33,210,643	-	-
(25,589,285)	-	(25,589,285)	-	-
(109,821,249)	-	(109,821,249)	-	-
-	(2,522)	(2,522)	-	-
-	36,116	36,116	-	-
-	33,594	33,594	-	-
(109,821,249)	33,594	(109,787,655)	-	-
-	-	-	4,835	-
-	-	-	-	(534,327)
-	-	-	4,835	(534,327)
219,173,861	-	219,173,861	-	-
8,032,786	-	8,032,786	-	-
24,947,560	51,705	24,999,265	1,141	204,812
26,015,616	-	26,015,616	-	-
466,059	-	466,059	-	-
(31,326)	31,326	-	-	-
(123,795,904)	-	(123,795,904)	-	-
154,808,652	83,031	154,891,683	1,141	204,812
44,987,403	116,625	45,104,028	5,976	(329,515)
285,805,983	645,541	286,451,524	240,194	12,514,225
\$ 330,793,386	\$ 762,166	\$ 331,555,552	\$ 246,170	\$ 12,184,710

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FUND FINANCIAL STATEMENTS

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**GOVERNMENTAL FUND
FINANCIAL STATEMENTS**

San Diego Association of Governments
Balance Sheet
Governmental Funds
June 30, 2009

	Major Funds			
	General Fund	TransNet Fund	General Services Fund	San Diego County Regional Transportation Commission Sales Tax Projects Fund
ASSETS				
Cash and investments	\$ 10,623,386	\$ -	\$ 1,800,317	\$ 188,579,383
Accounts receivable	21,501	-	67,086	-
Prepaid items and other assets	68,342	-	3,036	-
Interest receivable	35,067	-	-	149,576
Due from other funds	-	-	712,943	-
Due from other governments	1,225	-	9,443,409	14,594,252
Due from component units	52,662	-	-	-
Cash and investments - restricted	-	-	-	-
Total assets	\$ 10,802,183	\$ -	\$ 12,026,791	\$ 203,323,211
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 216,907	\$ -	\$ 2,359,857	\$ 289,177
Accrued liabilities	157,521	-	11,770	-
Retentions payable	-	-	263,887	-
Due to other funds	5,903,662	-	3,516,702	25,449,680
Due to other governments	178,008	-	447,734	26,283
Due to component units	12,745	-	-	-
Deferred revenue	-	-	3,971,509	-
Liabilities payable from restricted assets	12,428	-	-	-
Total liabilities	6,481,271	-	10,571,459	25,765,140
Fund Balances:				
Reserved:				
Prepaid items and other assets	68,342	-	3,036	-
Debt-service	-	-	-	-
Total reserved	68,342	-	3,036	-
Unreserved	4,252,570	-	1,452,296	177,558,071
Total fund balances	4,320,912	-	1,455,332	177,558,071
Total liabilities and fund balances	\$ 10,802,183	\$ -	\$ 12,026,791	\$ 203,323,211

See accompanying Notes to the Basic Financial Statements.

Major Funds			
San Diego			
Capital Projects Fund	County Regional Transportation Commission Debt-Service Fund	Prepaid Fare Media Sales Fund	Total Governmental Funds
\$ -	\$ 298,168,709	\$ -	\$ 499,171,795
506,119	-	711,802	1,306,508
9,865	-	-	81,243
-	5,006	-	189,649
26,683,256	-	6,764,555	34,160,754
11,289,799	25,085,850	647,378	61,061,913
-	-	-	52,662
18,304	55,695,938	-	55,714,242
<u>\$ 38,507,343</u>	<u>\$ 378,955,503</u>	<u>\$ 8,123,735</u>	<u>\$ 651,738,766</u>

\$ 12,133,817	\$ -	\$ 78,305	\$ 15,078,063
-	-	-	169,291
2,419,837	-	-	2,683,724
-	-	-	34,870,044
10,964,477	-	6,707,399	18,323,901
-	-	-	12,745
13,745,788	25,085,850	1,526,387	44,329,534
18,304	171,983	-	202,715
<u>39,282,223</u>	<u>25,257,833</u>	<u>8,312,091</u>	<u>115,670,017</u>

9,865	-	-	81,243
-	55,523,955	-	55,523,955
<u>9,865</u>	<u>55,523,955</u>	<u>-</u>	<u>55,605,198</u>
<u>(784,745)</u>	<u>298,173,715</u>	<u>(188,356)</u>	<u>480,463,551</u>
<u>(774,880)</u>	<u>353,697,670</u>	<u>(188,356)</u>	<u>536,068,749</u>
<u>\$ 38,507,343</u>	<u>\$ 378,955,503</u>	<u>\$ 8,123,735</u>	<u>\$ 651,738,766</u>

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San Diego Association of Governments
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances - Total Governmental Funds \$ 536,068,749

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 396,389,593

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. 26,452,344

Long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. (628,117,300)

Net Assets of Governmental Activities \$ 330,793,386

San Diego Association of Governments
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the year ended June 30, 2009

	Major Funds			
	General Fund	TransNet Fund	General Services Fund	San Diego County Regional Transportation Commission Sales Tax Projects Fund
REVENUES:				
Federal funds	\$ -	\$ -	\$ 17,041,676	\$ -
State funds	-	-	7,845,577	-
Local <i>TransNet</i> sales tax	-	177,127,419	-	219,173,861
Local Transportation Development Act funds	6,603,093	-	-	-
Other local governmental funding	-	-	2,459,156	-
Prepaid fare media sales revenue	-	-	-	-
Member agency assessments	547,425	-	200,000	-
Investment earnings	149,919	-	-	2,188,085
Debt repayments from other governments	-	-	-	-
Other revenues	-	-	197,337	2,435,240
Cost recovery	26,015,616	-	-	-
Total revenues	33,316,053	177,127,419	27,743,746	223,797,186
EXPENDITURES:				
Current:				
General government	26,343,321	-	-	2,205,000
Transit support activities	-	-	2,895,870	-
Regional planning	-	-	4,240,830	-
Transportation service and facility planning	-	-	2,112,214	-
Transportation development projects	-	-	5,110,560	-
Systems management	-	-	7,876,690	-
Program management, project monitoring, and external relations	-	-	6,343,117	-
Regional information systems	-	-	5,318,951	-
Criminal justice	-	-	1,442,777	-
Highway improvements	-	-	-	368,533
Local street and road improvements	-	-	-	10,248,842
Public transit improvements and operations	-	-	-	555,690
Bicycle facilities	-	-	-	4,238,080
Independent Taxpayer Oversight Committee	-	-	-	260,757
Major corridor capital projects	-	-	-	150,957,210
Major corridor environmental mitigation	-	-	-	17,972,789
Local project environmental mitigation	-	-	-	3,781
Local street improvements	-	-	-	33,612,939
Smart growth	-	-	-	4,412
New major corridor transit operations	-	-	-	71,628
Transit system improvements	-	-	-	34,525,375
Capital outlay	-	-	-	-
Debt-service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	26,343,321	-	35,341,009	255,025,036
REVENUES OVER (UNDER) EXPENDITURES	6,972,732	177,127,419	(7,597,263)	(31,227,850)
OTHER FINANCING SOURCES (USES):				
Transfers in	153,190	-	7,786,671	163,162,796
Transfers out	(5,773,111)	(177,127,419)	-	(42,356,597)
Commercial paper issued	-	-	-	-
Total other financing sources (uses)	(5,619,921)	(177,127,419)	7,786,671	120,806,199
Net change in fund balances	1,352,811	-	189,408	89,578,349
FUND BALANCES:				
Beginning of year	2,968,101	-	1,265,924	87,979,722
End of year	\$ 4,320,912	\$ -	\$ 1,455,332	\$ 177,558,071

See accompanying Notes to the Basic Financial Statements.

Major Funds				
Capital Projects Fund	San Diego County Regional Transportation Commission Debt-Service Fund	Prepaid Fare Media Sales Fund	Eliminations	Total Governmental Funds
\$ 16,693,475	\$ -	\$ -	\$ -	\$ 33,735,151
16,196,399	-	-	-	24,041,976
-	-	-	(177,127,419)	219,173,861
1,429,693	-	-	-	8,032,786
2,339,348	-	888,532	-	5,687,036
-	-	56,746,947	-	56,746,947
-	-	-	-	747,425
-	22,609,556	-	-	24,947,560
-	514,150	-	-	514,150
330,157	-	56,341	-	3,019,075
-	-	-	-	26,015,616
<u>36,989,072</u>	<u>23,123,706</u>	<u>57,691,820</u>	<u>(177,127,419)</u>	<u>402,661,583</u>
-	-	-	(153,190)	28,395,131
580,737	-	65,784,391	(5,500,000)	63,760,998
-	-	-	(117,775)	4,123,055
-	-	-	(142,312)	1,969,902
462,548	-	-	(1,598,137)	3,974,971
-	-	-	(131,022)	7,745,668
222,728	-	-	(1,959,971)	4,605,874
-	-	-	(40,872)	5,278,079
-	-	-	-	1,442,777
-	-	-	(203,190)	165,343
-	-	-	(19,853)	10,228,989
-	-	-	559,116	1,114,806
-	-	-	-	4,238,080
-	-	-	-	260,757
-	-	-	(145,789,100)	5,168,110
-	-	-	(17,963,546)	9,243
-	-	-	-	3,781
-	3,000,000	-	(3,901,386)	32,711,553
-	-	-	-	4,412
-	-	-	-	71,628
-	-	-	(166,181)	34,359,194
203,674,807	-	-	-	203,674,807
-	10,800,000	-	-	10,800,000
-	26,272,874	-	-	26,272,874
<u>204,940,820</u>	<u>40,072,874</u>	<u>65,784,391</u>	<u>(177,127,419)</u>	<u>450,380,032</u>
<u>(167,951,748)</u>	<u>(16,949,168)</u>	<u>(8,092,571)</u>	<u>-</u>	<u>(47,718,449)</u>
168,747,881	42,356,597	6,181,462	-	388,388,597
-	(163,162,796)	-	-	(388,419,923)
-	3,000,000	-	-	3,000,000
<u>168,747,881</u>	<u>(117,806,199)</u>	<u>6,181,462</u>	<u>-</u>	<u>2,968,674</u>
796,133	(134,755,367)	(1,911,109)	-	(44,749,775)
(1,571,013)	488,453,037	1,722,753	-	580,818,524
<u>\$ (774,880)</u>	<u>\$ 353,697,670</u>	<u>\$ (188,356)</u>	<u>\$ -</u>	<u>\$ 536,068,749</u>

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San Diego Association of Governments
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Change in Fund Balances to the Government-Wide Statement of Activities
For the year ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (44,749,775)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. 78,744,325

The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 10,313,825

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds. 679,028

Change in Net Assets of Governmental Activities \$ 44,987,403

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PROPRIETARY FUND FINANCIAL STATEMENTS

San Diego Association of Governments
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-Type Activities-Enterprise Funds		Total
	Major Funds		
	Service Bureau	Interstate 15 FasTrak	
ASSETS			
Current assets:			
Cash and investments	\$ -	\$ 2,172,797	\$ 2,172,797
Accounts receivable	126,698	150,504	277,202
Due from other funds	19,853	837,391	857,244
Total current assets	\$ 146,551	\$ 3,160,692	\$ 3,307,243
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 27,301	\$ 374,864	\$ 402,165
Retentions payable	-	69,557	69,557
Due to other funds	147,954	-	147,954
Transponder deposits payable	-	20,600	20,600
Unearned revenue	-	1,904,801	1,904,801
Total current liabilities	175,255	2,369,822	2,545,077
Net assets:			
Unrestricted	(28,704)	790,870	762,166
Total net assets	\$ (28,704)	\$ 790,870	\$ 762,166

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Revenues, Expenses, and Change in Fund Net Assets
Proprietary Funds
For the year ended June 30, 2009

	Business-type Activities-Enterprise Funds		
	Major Funds		Total
	Service Bureau	Interstate 15 FasTrak	
OPERATING REVENUES:			
Service Bureau revenue	\$ 469,365	\$ -	\$ 469,365
Interstate 15 FasTrak permit revenue	-	2,140,713	2,140,713
Interstate 15 FasTrak fines and forfeitures revenue	-	23,893	23,893
Total operating revenues	469,365	2,164,606	2,633,971
OPERATING EXPENSES:			
Service Bureau expenses	471,887	-	471,887
Interstate 15 FasTrak general and administrative expenses	-	2,128,490	2,128,490
Total operating expenses	471,887	2,128,490	2,600,377
Operating income (loss)	(2,522)	36,116	33,594
NONOPERATING REVENUES:			
Interest revenue	-	51,705	51,705
Total nonoperating revenues	-	51,705	51,705
TRANSFERS:			
Transfers in	31,326	-	31,326
Total transfers	31,326	-	31,326
CHANGE IN FUND NET ASSETS	28,804	87,821	116,625
NET ASSETS:			
Beginning of year	(57,508)	703,049	645,541
End of year	\$ (28,704)	\$ 790,870	\$ 762,166

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2009

	Business-type Activities-Enterprise Funds		
	Major Funds		Total
	Service Bureau	Interstate 15 FasTrak	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 536,317	\$ 2,041,163	\$ 2,577,480
Payments to suppliers	(536,317)	(2,663,649)	(3,199,966)
Net cash provided (used) by operating activities	-	(622,486)	(622,486)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	-	51,705	51,705
Net cash provided (used) by investing activities	-	51,705	51,705
Net increase (decrease) in cash and investments	-	(570,781)	(570,781)
Cash and investments, beginning of year	-	2,743,578	2,743,578
Cash and investments, end of year	\$ -	\$ 2,172,797	\$ 2,172,797
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (2,522)	\$ 36,116	\$ 33,594
Net cash provided (used) by operating activities:			
(Increase) decrease in:			
Accounts receivable	(62,446)	(126,318)	(188,764)
Due from other funds	140,712	(837,391)	(696,679)
Due from other governments	-	2,875	2,875
Increase (decrease) in:			
Accounts payable	1,052	35,782	36,834
Retentions payable	(6,838)	69,553	62,715
Due to other funds	136,906	-	136,906
Due to other governments	(266)	(20,276)	(20,542)
Transponder deposits payable	-	(4,280)	(4,280)
Unearned revenue	(206,598)	221,453	14,855
Total adjustments	2,522	(658,602)	(656,080)
Net cash provided (used) by operating activities	\$ -	\$ (622,486)	\$ (622,486)

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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San Diego Association of Governments
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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 the San Diego Association of Governments (SANDAG). The member agencies include 18 incorporated cities from the San Diego region and the County of San Diego, California.

On January 1, 2003, state legislation (Senate Bill 1703) was enacted that changed the structure of SANDAG from a Joint Powers Authority to a state-created regional government agency. The effect of this legislation was to make SANDAG a permanent rather than voluntary association of local governments and to increase SANDAG's responsibilities and powers. Senate Bill 1703 also required the consolidation of the planning, programming, project development, and construction functions of the San Diego Metropolitan Transit Development Board, currently known as the San Diego Metropolitan Transit System (MTS) and the North San Diego County Transit Development Board, currently known as the North County Transit District (NCTD), into SANDAG. This consolidation was completed in October 2003.

As required by GAAP, these financial statements present SANDAG and its component units, entities for which SANDAG is considered to be financially accountable. Blended component units, although legally separate units, are, in substance, part of an agency's operations, and so data from these units are combined with data of the agency. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the agency. SANDAG has one blended component unit and two discretely presented component units. All component units have a June 30 year end.

Included within the reporting entity as a blended component unit:

San Diego County Regional Transportation Commission (Commission) – The Commission is the agency established for the purpose of, and is responsible for, the implementation and administration of transportation improvement programs funded by the San Diego countywide one-half percent sales tax effective April 1, 1988, through 2008, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program. On November 2, 2004, the voters of San Diego County voted to extend the current one-half percent sales tax for 40 more years to 2048. The Commission's Governing Board is the same as the SANDAG Governing Board. The Commission exclusively benefits SANDAG's member agencies. The Commission is presented as two funds: a special revenue fund type and a debt-service fund type.

SourcePoint – On April 15, 1982, SANDAG formed a nonprofit 501(c)(3) corporation, SourcePoint, for the purpose of providing fee-based products and services that meet the needs of decision makers in the public and private sectors, while enhancing the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the Regional Information System (RIS). The SourcePoint governing board is the SANDAG Executive Committee, which is made up of six members of the 21 elected officials of the SANDAG governing board. The SourcePoint governing board is not substantively the same as the entire SANDAG governing board. SourcePoint provides services directly to the public. SourcePoint is presented as a proprietary fund type.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

Automated Regional Justice Information System (ARJIS) – ARJIS is a Joint Powers Agency (JPA) established in December 1980 under a joint powers agreement (JPA) with the County of San Diego and all municipalities in the County, including the City of San Diego (the “City”). In January 2004, the JPA was amended, as public agencies of the San Diego region recognized the need for continued operation, maintenance, enhancement, and implementation of ARJIS, in order to provide improved law enforcement capabilities within the San Diego region and designated the San Diego Association of Governments (SANDAG) as the administrator, effective July 1, 2004. ARJIS provides a regional complex criminal justice enterprise information system utilized by more than 50 local, state, and federal agencies in the San Diego region. The ARJIS governing board is the SANDAG Public Safety Committee, which is made up of six members of the 21 elected officials of the SANDAG governing board, eight public safety representatives, and five advisory members. The ARJIS governing board is not substantively the same as the entire SANDAG governing board. ARJIS provides services directly to the public. ARJIS is presented as a proprietary fund type.

Complete audited individual financial statements for the Commission, SourcePoint, and ARJIS component units may be obtained from SANDAG, 401 B Street, Suite 800, San Diego, CA 92101, (619) 699-1900.

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 of the activities of the primary government and its two discretely presented component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from the legally separate, discretely presented component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the proprietary funds. All individual governmental funds are determined to be major funds and 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. Sales tax is recognized as revenue in the year in which it is earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the “*current financial resources*” measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (generally 120 days after year end) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt-service expenditures, as well

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues which are considered susceptible to accrual include sales tax, interest, and state and federal grants. In applying the subject to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

Other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

SANDAG reports the following major governmental funds:

The *general fund* is SANDAG's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from local Transportation Development Act (TDA) funds, member agency assessments, and cost recovery related to labor and overhead costs which are recovered through operating and capital grants. Expenditures are primarily expended for general overhead government and transit support activities.

The *special revenue TransNet fund* accounts for the activities and resources received for *TransNet* sales tax revenue received and then transferred out for SANDAG capital and overall work program projects, the prepaid fare media sales fund senior, disabled, and youth subsidy, and a portion of the general fund Board of Director expenses.

The *special revenue general services fund* accounts for the activities and resources of SANDAG to provide primarily for transit support activities, transportation service and facility planning, transportation development projects, systems management, program management, project monitoring, and external relations, regional information systems, and criminal justice. Revenues are primarily derived from federal, state, and local operating grants and contributions.

The *special revenue San Diego County Regional Transportation Commission sales tax projects fund* (Commission sales tax projects fund) accounts for the activities and resources of the Commission, a blended component unit, 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 or commercial paper.

The *capital projects fund* accounts for the resources and activities of SANDAG to provide for rail and bus capital improvements and replacements and other capital implementation projects. Revenues are primarily derived from Federal Transit Administration (FTA) capital grants, TDA, and *TransNet* funds.

The *San Diego County Regional Transportation Commission debt-service fund* (Commission debt-service fund) accounts for the activities and resources accumulated for principal and interest payments on the long-term debt revenue bonds and commercial paper of the Commission, a blended component unit. Revenues are derived from interest earned on the investments accumulated for the payment of principal and interest on the revenue bonds.

The *special revenue prepaid fare media sales fund* accounts for the activities and resources received for prepaid fare media. The revenues are paid to outside agency transit operators.

SANDAG reports the following major proprietary funds:

The *Service Bureau fund* accounts for the activities of the SANDAG Service Bureau, which offers fee-based products and services that meet the needs of decision makers in the public and private sectors while enhancing the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the RIS. The discretely presented component unit 501 (c) (3) nonprofit agency

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

SourcePoint offers the same services. Projects for clients with a requirement to conduct business with a nonprofit agency will be performed by SourcePoint, with all other projects performed under the SANDAG Service Bureau.

The *Interstate 15 FasTrak fund* accounts for the activities of the I-15 FasTrak® program, which allows solo drivers to pay a toll to use the 16 miles of express lanes on Interstate 15.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. SANDAG has elected not to follow subsequent private sector guidance.

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

Amounts reported as program revenues include: (1) charges to customers or applications for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include sales taxes and other general revenues not restricted to specific programs.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the statement of net assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated.

An eliminations column is presented for the fund financial statements in order to eliminate the allocation of revenues and expenditures. Sales tax revenues are recorded in the San Diego County Regional Transportation Commission sales tax projects fund and in the *TransNet* fund upon transfer of cash from the Commission to SANDAG. *TransNet* expenditures are recorded in the San Diego County Regional Transportation Commission sales tax projects fund and in the general fund, general services fund, capital projects fund, or prepaid fare media fund upon expending *TransNet* funds for the administration of the *TransNet* program, fare media *TransNet* operations for senior, disabled, and youth subsidy, and *TransNet* funded projects administered and implemented by SANDAG. At June 30, 2009, the total amount of eliminations was \$177,127,419.

SANDAG applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. SANDAG applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

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

D. Assets, liabilities, and net assets or equity

1. Cash and investments

SANDAG'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.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

SANDAG's investment policy is in accordance with California Government Code Section 53600. SANDAG is authorized to invest in the following:

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

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

SANDAG participates in an investment pool managed by the State of California, titled local agency investment fund (LAIF), which has invested 14.71 percent of the pool funds in medium-term and short-term structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares. The fair value of LAIF was calculated by applying a factor of 1.001304743 to total investments held by LAIF. LAIF is classified under investments.

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

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

2. Receivables and payables

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

3. Prepaid items

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

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

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

as restricted assets because they are maintained in separate bank accounts held by a trustee and their use is limited to paying down the equivalent amount of commercial paper. In addition, certain resources of SANDAG set aside for the payment of future capital contract retention liabilities are classified as restricted assets because they are maintained in separate bank accounts, which will be passed through to contractors as work is completed. The accounts are used to segregate resources accumulated for withheld retention payments.

5. Capital assets

Capital assets, which include office equipment, computer equipment, vehicles, leasehold improvements, and construction-in-progress are reported in the governmental activities column in the government-wide financial statements net of accumulated depreciation, except for construction-in-progress which is not depreciated.

To meet the criteria for capitalization, an asset must have a useful life in excess of one year and an initial, individual cost equal to or greater than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Construction-in-progress (CIP) remains capitalized in the government-wide financial statements until such time the capital projects are complete and operational. Upon completion, the entire amount of the CIP, as well as the legal title of the property and equipment, if applicable, are transferred as contributed capital to other governmental agencies to reflect the other government's custodial accountability for the operation and maintenance of the assets.

Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

Assets	Years
Office equipment	5
Computer equipment	3
Equipment and other	5
Vehicles	5
Leasehold improvements	5

6. Compensated absences

It is SANDAG's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All unused vacation leave and 25 percent of unused sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Based on the reduction in the compensated absences payables balance of \$ 2,058,089 during fiscal year 2009, it was determined that the entire balance of compensated absences reported at June 30, 2009, is expected to be exhausted in fiscal year 2010; therefore the entire balance is reported as current.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Compensated absences payable	\$ 1,673,756	\$ 2,034,675	\$ (2,058,089)	\$ 1,650,342

Compensated absences are liquidated by the general fund.

7. Long-term liabilities

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the governmental activities of the statement 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.

8. Unearned revenue

In the government-wide and fund financial statements, assets and unearned revenue are recognized in connection with a transaction before the earning process is completed.

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

10. Other financing sources and uses

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

11. Estimates

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

12. Budgetary information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund, the capital project fund, and the special revenue funds.

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13. Implementation of New GASB Pronouncements

In fiscal year 2009, SANDAG adopted the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowment*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the "GAAP hierarchy," which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. Statement No. 56 guidance addresses three issues from the AICPA's literature—related party transactions, going concern considerations, and subsequent events.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between fund balances-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds." The details of this \$396,389,593 are as follows:

Construction-in-progress capital assets, not being depreciated	\$	387,665,072
Land, not being depreciated		2,932,171
Capital assets, being depreciated		7,315,518
Accumulated depreciation		(1,523,168)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	\$	396,389,593

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One element of that reconciliation explains that, "other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds." The details of this \$26,452,344 are as follows:

Discount on bonds issued	\$ 527,386
Debt issuance costs	839,108
Deferred revenue	<u>25,085,850</u>
Net adjustment to increase net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	<u>\$ 26,452,344</u>

Another element of that reconciliation states that, "long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds." The details of this \$(628,117,300) difference are as follows:

Accrued interest payable - revenue bonds	\$ (266,958)
Commercial paper payable	(37,000,000)
Bonds payable	(589,200,000)
Compensated absences payable	<u>(1,650,342)</u>
Net adjustment to reduce net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	<u>\$ (628,117,300)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that, "governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense." The details of this \$78,744,325 are as follows:

Construction-in-progress additions-capital outlay	\$ 203,674,807
Construction-in-progress decreases-SANDAG	\$ (9,546,555)
Contributed capital	(123,795,904)
Other capital assets additions	8,908,599
Other capital assets depreciation	<u>(496,622)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	<u>\$ 78,744,325</u>

Another element of that reconciliation states that, "the issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$10,313,825 difference are as follows:

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Revenue bond principal retirement	\$ 10,800,000
Other fiscal costs - 2008 ABCD Bonds	75,000
Commercial paper issued	(3,000,000)
Commercial paper pass-through payments to other governments	3,000,000
Debt repayments from other governments	(514,150)
Amortization expense on deferred discount on bonds issued	(18,344)
Amortization expense on deferred debt issuance costs	(28,681)
	<u> </u>
Net adjustment to increase net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	\$ 10,313,825
	<u> </u>

Another element of that reconciliation states that, "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds." The details of this \$679,028 difference are as follows:

Change in interest expense - revenue bonds	\$ 655,614
Change in compensated absences	23,414
	<u> </u>
Net adjustment to increase net changes in fund balances - governmental funds to arrive at changes in net assets - governmental activities	\$ 679,028
	<u> </u>

III. UNRESTRICTED NET ASSETS DEFICIT AND FUND BALANCE DEFICIT

A. Government-Wide Financial Statements

The governmental activities unrestricted net assets deficit of \$87,120,162 results primarily from the Commission's issuance of the \$600,000,000 revenue bonds for transportation related projects. The Commission plans to repay the bonds with future sales tax revenue which is dedicated for transportation projects. See Note IV.F. on long-term debt for further information.

B. Fund Financial Statements

The prepaid fare media fund had a deficit unreserved fund balance of \$188,356. SANDAG collects and redistributes the revenue from the sales of regional transit passes to the various transit agencies based upon actual usage. Distributions exceeded revenues for fiscal year 2009, which will be recovered in fiscal year 2010.

The capital projects fund had a deficit unreserved fund balance of \$774,880. The deficit is due to retentions expensed, but not yet recorded into revenue as they cannot be billed until paid to the vendor.

The Service Bureau fund had a deficit unrestricted net assets of \$28,704. The deficit is due to nonproject costs being atypically high in prior years due primarily to the implementation of the Service Bureau Marketing Plan. The deficit has decreased by 50.1 percent in the fiscal year ended June 30, 2009.

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For the Fiscal Year Ended June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and investments

A summary of cash and investments at June 30, 2009, was as follows:

	Primary Government			Discretely Presented Component Units		
	Governmental Activities	Business-type Activities	Total	SourcePoint	ARJIS	Total
Cash and investments	\$ 499,171,795	\$ 2,172,797	\$ 501,344,592	\$ 223,870	\$ 11,957,308	\$ 12,181,178
Cash restricted for capital project retentions	18,304	-	18,304	-	-	-
Cash and investments restricted for debt-service	55,695,938	-	55,695,938	-	-	-
Total cash and investments	<u>\$ 554,886,037</u>	<u>\$ 2,172,797</u>	<u>\$ 557,058,834</u>	<u>\$ 223,870</u>	<u>\$ 11,957,308</u>	<u>\$ 12,181,178</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2009:

Investment Type	Fair Value	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:			
Cash - demand deposits	\$ 3,100,322	1	Not rated
Cash equivalents - NCTD Certificates of Participation	34,000,000	4	Aaa
Cash equivalents - money market accounts and funds	157,127,085	56	AAAm
Total Primary Government cash and cash equivalents	<u>194,227,407</u>	<u>46</u>	
Investments:			
State of California Local Agency Investment Fund	50,465,902	186	Not rated
Money market accounts and funds	1,383,259	332	Not rated
U.S. Agencies	310,982,266	632	AAA
Total Primary Government investments	<u>362,831,427</u>	<u>569</u>	
Total Primary Government cash, cash equivalents, and investments	<u>557,058,834</u>	<u>386</u>	
SourcePoint:			
Cash - demand deposits	180	1	Not rated
Cash equivalents - money market accounts and funds	223,690	1	Not rated
Total SourcePoint cash and cash equivalents	<u>223,870</u>	<u>1</u>	
ARJIS:			
Cash - demand deposits	53,730	1	Not rated
Cash equivalents - money market accounts and funds	11,903,578	57	Not rated
Total ARJIS cash, cash equivalents, and investments	<u>11,957,308</u>	<u>57</u>	
Total cash, cash equivalents, and investments	<u>\$ 569,240,012</u>		

At year end, the primary government's carrying amount of deposits was \$3,100,322, and the bank balance was \$2,344,250. This balance was covered by federal depository insurance or by collateral held in SANDAG's name.

At year end, SourcePoint's carrying amount of deposits and bank balance was \$180. This balance was covered by federal depository insurance.

At year end, ARJIS's carrying amount of deposits was \$53,730 and the bank balance was \$264,305. This balance was covered by federal depository insurance.

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Notes to the Basic Financial Statements, Continued
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1. 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 limits investments to a maximum maturity of five years or 1,825 days from purchase date. The total portfolio shall not exceed SANDAG's anticipated liquidity needs for operations for the next six months. SANDAG is in compliance with all maturity provisions of the investment policy.

2. 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 at least one of the nationally recognized statistical rating organizations (NRSRO). SANDAG's investment policy limits investments to the following. State and local agency obligations must be rated A-1/P-1, or equivalent or better short-term or Aa/AA or better long-term by at least one of the NRSROs; repurchase agreements must be with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and California and non-California banking institutions having assets in excess of \$1 billion and in the highest short-term rating category, as provided by Moody's or Standard & Poor's; bankers' acceptances, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest rating category by Moody's or Standard & Poor's; commercial paper of "prime" quality of the highest rating or of the highest letter and number rating as provided for by a NRSRO; medium-term notes must be rated in a rating category of "A" or better by a NRSRO; negotiable certificates of deposit of which the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's; nonnegotiable certificates of deposit and savings/money market accounts of which the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in California Government Code Section 53635; California asset management program of which the portfolio is rated among the top two rating categories by one of the NRSROs; money market funds must either attain the highest ranking letter or numerical rating provided by not less than two of the three largest NRSROs, or have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of \$500,000,000; and mortgage and asset-backed obligations must be rated Aa/AA or higher by two NRSROs and the issuer of such obligations must be rated Aa/AA or higher by two of the NRSROs as well.

Credit requirements listed in the investment policy apply at the time of purchase. In the event a security held by SANDAG is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Director of Finance shall review the security. The course of action to be followed will then be decided by the Director of Finance and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board of Directors along with the findings and any actions taken.

SANDAG's portfolio is in compliance with all minimum rating requirements of the investment policy and did not experience any credit rating changes that brought the security below the minimum credit ratings as specified.

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Notes to the Basic Financial Statements, Continued
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3. Concentration of credit risk

SANDAG's investment policy limits the percentage of the portfolio that can be invested by type of investment for certain types of investments to the following. Purchases of bankers' acceptances may not exceed 40 percent of SANDAG investments; commercial paper may not exceed more than 10 percent of the outstanding paper of an issuing corporation, no more than 10 percent in any one corporation, or may not exceed 25 percent of SANDAG investments; medium-term notes may not exceed 30 percent of SANDAG's investments or no more than 10 percent in any one corporation; certificates of deposit may not exceed 30 percent of SANDAG investments; money markets fund shares may not exceed 20 percent of SANDAG investments; and mortgage and asset-backed obligations may not exceed 20 percent of SANDAG investments.

SANDAG's portfolio is in compliance with all the limit requirements on the percentage of the portfolio that can be invested by type of investment.

4. Custodial credit risk

The California Government Code requires California banks and savings and loan associations to secure SANDAG'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 SANDAG's name.

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

B. Receivables and deferred revenue

Reconciliation of receivables as of June 30, 2009 for the primary government was as follows:

Accounts receivable	\$ 1,583,710
Interest receivable	189,649
Due from other governments	61,061,913
Due from component units	52,662
Total receivables	\$ 62,887,934

Receivables as of June 30, 2009 for the primary government in the aggregate were as follows:

	General Fund	General Services Fund	Commission Sales Tax Projects Fund	Capital Projects Fund	Commission Debt- Service Fund	Prepaid Fare Media Sales Fund	Service Bureau Fund	Interstate 15 FasTrak Fund	Total Primary Government
Receivables:									
Sales taxes	\$ -	\$ -	\$ 14,460,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,460,000
Interest	35,067	-	149,576	-	5,006	-	-	-	189,649
Advance to County									
San Diego for local street and road improvements	-	-	-	-	25,085,850	-	-	-	25,085,850
Grants	-	9,427,557	-	11,174,382	-	-	94,798	-	20,696,737
Accounts and other	75,388	82,938	134,252	621,536	-	1,359,180	31,900	150,504	2,455,698
Total receivables	\$ 110,455	\$ 9,510,495	\$ 14,743,828	\$ 11,795,918	\$ 25,090,856	\$ 1,359,180	\$ 126,698	\$ 150,504	\$ 62,887,934

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Receivables as of June 30, 2009 for SourcePoint were \$16,800 of due from other governments for services provided and \$5,500 due from the primary government for a pass-through iCommute payment to SANDAG from a sponsor intended for the iCommute program within SourcePoint.

Receivables as of June 30, 2009 for ARJIS were \$912,689, which is comprised of \$7,245 due from the primary government for the year-end labor overhead adjustment, and \$905,444 due from other governments for grants or services provided.

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds are as follows:

	Deferred
Cash collected prior to incurring operating expenditures (general services fund)	\$ 3,971,509
Cash collected prior to incurring capital expenditures (capital projects fund)	13,745,788
Advance to County of San Diego for local street and road improvements (commission debt-service fund)	25,085,850
Prepaid fare media sales not yet earned (prepaid fare media sales fund)	587,086
Outstanding fare tokens (prepaid fare media sales fund)	939,301
Total deferred revenue for governmental funds	\$ 44,329,534

C. Capital assets

Capital asset activity for the primary government for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction-in-progress	\$ 317,332,724	\$ 203,674,807	\$ (133,342,459)	\$ 387,665,072
Land	-	2,932,171	-	2,932,171
Total capital assets, not being depreciated	317,332,724	206,606,978	(133,342,459)	390,597,243
Capital assets, being depreciated:				
Office equipment	301,924	-	-	301,924
Computer equipment	774,121	5,818,570	-	6,592,691
Equipment and other	-	157,858	-	157,858
Vehicles	70,816	-	-	70,816
Leasehold improvements	192,229	-	-	192,229
Total capital assets, being depreciated	1,339,090	5,976,428	-	7,315,518
Less accumulated depreciation for:				
Office equipment	(249,212)	(31,018)	-	(280,230)
Computer equipment	(630,026)	(398,034)	-	(1,028,060)
Equipment and other	-	(14,961)	-	(14,961)
Vehicles	(28,767)	(14,163)	-	(42,930)
Leasehold improvements	(118,541)	(38,446)	-	(156,987)
Total accumulated depreciation	(1,026,546)	(496,622)	-	(1,523,168)
Total capital assets, being depreciated, net	312,544	5,479,806	-	5,792,350
Governmental activities capital assets, net	\$ 317,645,268	\$ 212,086,784	\$ (133,342,459)	\$ 396,389,593

The entire amount of depreciation expense of \$496,622 was charged to the primary government governmental activities general government function.

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See Note IV.G.2 for more information regarding the decreases in capital assets above.

SANDAG had active construction projects as of June 30, 2009. The projects primarily include rail, bus, and major corridor capital improvements. At year end, \$43,251,954 was contractually committed to contractors.

D. Interfund receivables, payables, and transfers

The composition of interfund balances within the primary government as of June 30, 2009, was as follows:

Due to/from other funds

		Due to other funds				Total
		General Fund	General Services Fund	Commission Sales Tax Projects Fund	Service Bureau Fund	
Due from other funds	General Services Fund	\$ -	\$ -	\$ 712,943	\$ -	\$ 712,943
	Capital Projects Fund	-	1,966,372	24,716,884	-	26,683,256
	Prepaid Fare Media Sales Fund	5,903,662	860,893	-	-	6,764,555
	Service Bureau Fund	-	-	19,853	-	19,853
	Interstate 15 FasTrak	-	689,437	-	147,954	837,391
	Total	\$ 5,903,662	\$ 3,516,702	\$ 25,449,680	\$ 147,954	\$ 35,017,998

Due to primary government and due from component unit

		Due to Primary Government	
		ARJIS	Total
Due from Component Units	Primary government:		
	General Fund	\$ 52,662	\$ 52,662
	Total	\$ 52,662	\$ 52,662

Due from primary government and due to component unit

		Due from Primary Government		
		SourcePoint	ARJIS	Total
Due to Component Units	Primary government:			
	General Fund	\$ 5,500	\$ 7,245	\$ 12,745
	Total	\$ 5,500	\$ 7,245	\$ 12,745

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Transfers in/out

	Transfers in							Total	
	General Fund	General Services Fund	Commission Sales Tax Projects Fund	Capital Projects Fund	Commission Debt-Service Fund	Prepaid Fare Media Sales Fund	Service Bureau Fund		
Transfers out	General Fund	\$ -	\$ 5,080,176	\$ -	\$ -	\$ -	\$ 681,462	\$ 11,473	\$ 5,773,111
	TransNet Fund	153,190	2,706,495	-	168,747,881	-	5,500,000	19,853	177,127,419
	Commission Sales Tax Projects Fund	-	-	-	-	42,356,597	-	-	42,356,597
	Commission Debt-Service Fund	-	-	163,162,796	-	-	-	-	163,162,796
	Total	\$ 153,190	\$ 7,786,671	\$ 163,162,796	\$ 168,747,881	\$ 42,356,597	\$ 6,181,462	\$ 31,326	\$ 388,419,923

E. Derivative activity

1. 2008 interest rate swaps

Objective of the interest rate swaps. On November 22, 2005, the Commission entered into three forward interest rate swaps for \$200,000,000 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 swaps was to lock in a relatively low cost of funds on a substantial portion of the *TransNet* Early Action Program. The variable rate bonds were issued March 27, 2008.

Terms. The initial notional amounts of the swaps were \$200,000,000 each. The current notional amounts of the swaps are \$196,400,000 each. Under two of the swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives a variable payment based on 65 percent of one-month London Interbank Offered Rate (LIBOR) for 10 years. In the tenth year, the swaps will convert to the SIFMA Municipal Bond Index for the remaining 20 years, paid monthly. Under the third swap, the Commission pays the counterparty a fixed payment of 3.41 percent and receives a variable payment based on 65 percent of LIBOR for the 30-year period. The notional amounts and maturity dates of the swaps match the notional amounts and the maturity dates of the bonds that were issued in March 2008. The variable rates paid on the 2008 bonds are expected to closely match the variable rates received on the swaps over the term of the bonds and swaps.

Fair values. Because interest rates have declined since execution of the swaps, the swaps had a total negative fair value of \$54,759,467 as of June 30, 2009. The Bank of America swap had a negative fair value of \$20,046,725, the Merrill Lynch Capital Services swap had a negative fair value of \$17,356,371, and the Goldman Sachs Mitsui Marine Derivative Products had a negative fair value of \$17,356,371. The fair values of the derivatives were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2009. 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, 2009, the Commission was not exposed to credit risk on these swaps because they had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the swaps' fair values. Favorable credit ratings of the counterparties (Bank of America, Merrill Lynch Capital Services, and Goldman Sachs Mitsui Marine Derivative Products) mitigate this risk. As of June 30, 2009, Bank of America was rated Aa3 by Moody's and A+ by Standard & Poor's, Merrill Lynch Capital Services was rated A2 by Moody's and A by Standard & Poor's, and Goldman Sachs Mitsui Marine Derivative Products was rated Aa1 by Moody's and AAA by Standard and Poor's. Bank of America, Merrill Lynch Capital Services, and Goldman Sachs Mitsui Marine Derivative Products were all downgraded by Moody's during the fiscal year, however all still possessed favorable ratings at June 30, 2009. The ratings are monitored on a weekly basis. In addition, the fair value of the swaps will be fully collateralized by the counterparty with cash or United States government securities if the counterparty's credit quality falls below a rating of Baa2 by Moody's or BBB by Standard & Poor's. Collateral would be posted with a third-party custodian.

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Basis risk. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on historical experience, staff expects the payments received under the agreements to approximate the expected bond payments over the 30-year term of the swaps. Due to the unprecedented market occurrences over the last year, the Commission has been exposed to basis risk since the variable rate received from the counterparty, which is 65 percent of LIBOR, was less than the variable rate the Commission paid on the bonds. As the market returns to a more normal state, this gap is expected to be reduced.

Termination risk and termination payments. This is the risk that the transaction is terminated in a market dictating a termination payment by the Commission. The Commission can terminate the swap at the fair value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. The Commission or the counterparties may terminate the swap if the other party fails to perform under the terms of the contracts, such as the failure to make swap payments. If the swap is terminated, the expected variable-rate bonds would no longer be hedged. Given the negative fair value of June 30, 2009, the Commission was not in a favorable termination position relative to the market.

Reset rates paid and received by the Commission. In May 2008, the Commission was notified that UBS Securities, LLC, which was responsible for remarketing the Series D Bonds, was exiting the institutional municipal securities market. As a result, the Commission selected E.J. De La Rosa & Company to replace UBS Securities, LLC, and E.J. De La Rosa & Company replaced UBS Securities, LLC, on August 13, 2008. On September 24, 2008, Barclays Capital Inc. acquired certain assets of Lehman Brothers, Inc., relating to Lehman Brothers, Inc., investment banking and capital markets businesses. As such, the Commission agreed to the assignment of the Series A remarketing responsibilities from Lehman Brothers, Inc., to Barclays Capital Inc. The weekly variable interest rates paid on the 2008 *TransNet* Bonds by the Commission to the bondholders for the period July 1, 2008, through June 30, 2009, ranged from 0.100 percent to 7.75 percent for Lehman Brothers, Inc./Barclays Bank, 0.13 percent to 7.25 percent for Goldman, Sachs & Co., 0.6 percent to 7.9 percent for J.P. Morgan Securities, Inc., and 0.5 percent to 6.5 percent for UBS/EJ De La Rosa. Fixed rates paid by the Commission to the swap provider counterparties were 3.41 percent to Bank of America and 3.8165 percent to Merrill Lynch Capital Services and Goldman Sachs Mitsui Marine Derivative Products. Sixty-five percent (65 percent) of LIBOR received by the Commission from the swap provider counterparties ranged from 0.208 percent to 2.418 percent during the same time period.

Actual debt-service requirements versus the projected debt-service on the swap transaction. For the fiscal year ending June 30, 2009, Bank of America actual debt-service was \$8,092,761 versus projected debt-service of \$6,789,310, Merrill Lynch Capital Services actual debt-service was \$7,612,262 versus projected debt-service of \$7,598,651, and Goldman Sachs Mitsui Marine Derivative Products actual debt-service was \$8,150,343 versus projected debt-service of \$7,598,652. In total, actual debt-service was \$23,855,366 versus projected debt-service of \$21,986,613, which resulted in an unfavorable position of an excess of variable rate payments made on the bonds as compared to the variable rate payments received from the swap counterparties in the amount of \$1,868,753 for the fiscal year ending June 30, 2009. Over the life of the swaps from the issuance of the bonds through June 30, 2009, cumulatively the Commission is in an unfavorable position of \$1,780,197. This means that the net variable rates the Commission is paying on the 2008 bonds is more than the variable rate the Commission is receiving, and these rates were originally intended to offset and net to zero.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

2. 2018 basis rate swaps overlay to the 2008 interest rate swaps

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

Terms. The initial notional amounts of the swaps are \$156,600,000 each. Under two of the 2008 Interest Rate Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. The 2018 Basis Rate Swaps overlay these two 2008 Interest Rate Swaps with a payment of the SIFMA index and a receipt of 98.3 percent of LIBOR for the last 20 years of the swap (April 2018 to April 2038).

Fair values. The swaps had a total combined positive fair value of \$12,363,018 as of June 30, 2009. The fair values of the derivatives were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2009. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreements. As of June 30, 2009, the Commission was exposed to credit risk on these swaps in the amount of \$12,363,018, which is the derivatives' fair value. However, should interest rates change and the fair value of the swaps become negative; the Commission would not be exposed to any credit risk. The favorable credit rating of the counterparty mitigates this risk. As of June 30, 2009, the swap counterparty, Barclays Bank PLC, was rated Aa3 by Moody's and AA- by Standard & Poor's.

Basis risk. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on current and historical experience, staff expects the overlay of the SIFMA to LIBOR Basis Rate Swaps to significantly reduce the costs of financing after 2018, assuming a return to normal, or even near to normal trading relationships.

Termination risk and termination payments. This is the risk that the transaction is terminated in a market dictating a termination payment by the Commission. The Commission can terminate a swap at the fair market value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. Given the positive fair value at June 30, 2009, the Commission was in a favorable termination position relative to the market.

F. Long-term debt

The following is a summary of long-term debt for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Sales Tax Revenue Bonds:				
2008 Series ABCD	\$ 600,000,000	\$ -	\$ (10,800,000)	\$ 589,200,000
Commercial Paper Notes	34,000,000	3,000,000	-	37,000,000
Total long-term debt	<u>\$ 634,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ (10,800,000)</u>	<u>\$ 626,200,000</u>

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

	Classification			Total
	Noncurrent Liabilities		Restricted Liabilities	
	Due Within One Year	Due in More Than One Year	Due Within One Year	
Sales Tax Revenue Bonds:				
2008 Series ABCD	\$ 11,400,000	\$ 577,800,000	\$ -	\$ 589,200,000
Commercial Paper Notes	3,000,000	-	34,000,000	37,000,000
Total long-term debt	<u>\$ 14,400,000</u>	<u>\$ 577,800,000</u>	<u>\$ 34,000,000</u>	<u>\$ 626,200,000</u>

On June 30, 2009, long-term debt consists of 2008 variable rate revenue bonds issued by the Commission that are collateralized by a pledge of the revenues from a one-half percent sales tax imposed within the County of San Diego. Long-term debt also consists of commercial paper notes issued by the Commission. The notes are payable from and secured by a pledge of the retail transactions and use tax subordinate to the pledge of such retail transactions and use tax which secures limited tax bonds issued or to be issued. Proceeds from long-term debt are to be used primarily to fund certain transportation projects in the San Diego County region.

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

1. The 2008 Series ABCD bonds

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

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

Maturity (April 1)	Principal Amount	Interest Amount
2010	\$ 11,400,000	\$ 21,618,513
2011	11,700,000	21,197,039
2012	12,300,000	20,762,681
2013	12,600,000	20,308,077
2014	13,200,000	19,840,590
2015 - 2019	74,100,000	91,456,286
2020 - 2024	89,400,000	76,664,187
2025 - 2029	108,300,000	58,746,920
2030 - 2034	131,100,000	37,062,149
2035 - 2038	125,100,000	10,982,264
Total	<u>\$ 589,200,000</u>	<u>\$ 378,638,706</u>

The bonds bear interest at a variable rate, which is reset weekly. See Note IV.E.1 for reset rates for each remarketing agent.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

2. Commercial paper notes

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

During the fiscal year, the maximum outstanding balance was \$37,000,000. As of June 30, 2009, there was \$37,000,000 outstanding. Interest rates during the current year have varied from 1.1 percent to 6.0 percent, with maturities from 1 day to 93 days. Interest rates on outstanding amounts at June 30, 2009, ranged from 1.2 percent to 1.25 percent, with maturities from 1 day to 7 days.

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

Scheduled Repayment	Principal Amount
2010	\$ 562,000
2011	750,000
2012	1,850,000
2013	1,850,000
2014	1,388,000
2015 - 2019	6,300,000
2020 - 2024	6,550,000
2025 - 2029	7,500,000
2030 - 2034	8,450,000
2035 - 2038	1,800,000
Total	<u>\$ 37,000,000</u>

The commercial paper bears interest at a variable rate.

G. Capital contributions

1. Capital contributions received

The fund financial statements report capital outlay, which are current year capital project expenditures. In the government-wide statement of activities, the expenditures are eliminated and capitalized as construction-in-progress capital assets in the statement of net assets. Therefore, transit capital funding expenses are \$0 and transit capital funding program revenues are \$33,210,643. The program revenues represent the Federal funds, state funds, and other local governmental funding for the construction-in-progress projects in the capital projects fund.

2. Capital contributions to other governments

During the current fiscal year, \$123,795,904 of completed construction-in-progress projects, as well as title to the assets, if applicable, was transferred to other governmental agencies responsible for public transportation operations, \$44,829,575 to MTS, \$50,193,928 to NCTD, \$20,447,080 to Caltrans, and \$231 to the City of Chula Vista, and land purchased for environmental mitigation of \$8,325,090 to the County of San Diego to reflect the other government's custodial accountability for the operations and maintenance of the assets. These capital contributions represent a reduction in capital assets and are not restricted to specific programs per the government-wide statement of activities.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

H. Risk management

SANDAG has a self-insured retention (deductible) for Bodily Injury and Property Damage Liability (including General Liability and Automobile Liability) claims of \$1,000,000 per occurrence. Amounts in excess of the self-insurance are covered by commercial excess insurance up to \$25,000,000. SANDAG purchases "all-risk" (excluding flood and earthquake) insurance for damage to its property up to \$6,271,892, per occurrence subject to a deductible of \$5,000. In addition, SANDAG has insurance policies for costs arising from employee Workers' Compensation claims, Mexican Auto Liability, Foreign Liability and Cyber Liability. Employment Practices Liability and Public Official Errors and Omissions Liability insurance are also covered to a maximum of \$1,000,000 per occurrence, with excess liability insurance up to \$25,000,000.

Claims expenditures and liabilities in connection with these insurance programs are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Claim payments have not exceeded insurance coverage for each of the past three fiscal years.

There were no claims incurred, claims payments and claims payable as of and for the years ended June 30, 2007, 2008, and 2009.

I. Commitments and contingencies

SANDAG leases its office space and some of its copiers, and other miscellaneous office equipment, under various operating leases. Total lease expense for fiscal year 2009 was \$2,231,589. Minimum annual lease payments under non-cancellable operating leases with terms in excess of one year were as follows:

FY	Minimum Lease Payment
2010	\$ 2,343,373
2011	2,477,239
2012	2,484,072
2013	2,406,960
2014	2,406,960
2015	601,740
Total	<u>\$ 12,720,344</u>

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although SANDAG expects such amounts, if any, to be immaterial.

J. Other post-employment benefits (OPEB)

1. Plan description

In March 1986, pursuant to requirements of the state retirement system in which SANDAG participates, SANDAG adopted a policy to provide post-retirement health care benefits to retired employees through CalPERS, a cost-sharing multiple-employer defined benefit plan, that covers all of SANDAG's employees.

2. Funding policy

Contributions to retirees are a fixed dollar amount equal to a maximum of \$250 per month per each eligible retiree. The exception to this contribution is for nine retirees who were grandfathered into their 2007 SANDAG contribution with a 5 percent increase for 2007 and 2008. The expenditure was recorded when the ARC was

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

paid. Total payments to retirees for the year ended June 30, 2009, were \$124,926. There were 42 retiree participants receiving post-employment health care benefits as of June 30, 2009.

SANDAG is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC rate for fiscal year 2009 is 3.6 percent of annual covered payroll.

3. Annual OPEB cost

For the year ended June 30, 2009, SANDAG's annual OPEB cost (expense) of \$510,000 was equal to the ARC. SANDAG's annual OPEB cost, the percentage of annual OPEB cost to be contributed to the plan, and the Net OPEB Asset are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2008	\$ 510,000	100%	\$ -
06/30/2009	510,000	100%	-

4. Funded status and funding progress

The funded status of the plan as of January 1, 2009, which is the most recent actuarial study, was as follows:

Actuarial accrued liability (AAL)	\$ 4,865,596
Actuarial value of plan assets	615,059
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,250,537</u>
Funded ratio (actuarial value of plan assets/AAL)	12.6%
Covered payroll (active plan members)	\$ 14,364,843
UAAL as a percentage of covered payroll	29.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

5. Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the following actuarial methods and assumptions were as follows:

The entry age normal cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements of .5 percent to 5.5 percent after 10 years. The unfunded actuarial accrued liability is being amortized over an initial

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

30 years using the level-percentage-of-pay method on a closed-basis. The remaining amortization period at January 1, 2009, is assumed to be 28 years. Any assets of the plan will be valued on a market value basis.

The retirement age for active employees was determined according to the retirement rates under the PERS pension plan. The pre-retirement turnover was determined according to the termination rates under the PERS pension plan. The pre-retirement and post-retirement mortality rates were determined under the PERS pension plan. It was assumed 95 percent of active employees meeting eligibility requirements will elect retiree health coverage at retirement. Since the retiree pays 100 percent of the cost for spouse coverage, spouse coverage during retiree's lifetime is not explicitly valued. 50 percent of covered retirees are assumed to have spouses continue coverage upon their death. Female spouses are assumed to be 3 years younger than male spouses. Future retirees are assumed to elect medical plan coverage based on similar (50 percent HMO and 50 percent PPO) elections of current retirees.

The valuation was based on the medical premiums paid by SANDAG for insurance coverage. The valuation assumes SANDAG is exempt from the valuation of any medical plan rate subsidy. The expected monthly medical costs at the valuation date for future retirees is as follows:

	PPO	HMO
Non-Medicare Eligible	\$ 349	\$ 281
Medicare Eligible	\$ 294	\$ 236

K. Retirement plan

1. Plan description

SANDAG contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employees retirement system, defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. A menu of benefit provisions, as well as other requirements, are established by state statutes within the Public Employees' Retirement Law. SANDAG selects optional benefit provisions from the benefit menu by contracting with PERS and adopts those benefits through local resolution. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

Employees working less than full time are monitored to determine when and if they qualify for PERS membership. Part-time employees are eligible once they have worked 1,000 hours or 125 days in a fiscal year. Membership becomes effective the first day of the following pay period once the eligibility requirement has been met. Full-time employees are eligible to participate as members of PERS upon employment. Employees are eligible to retire at age 50 with at least five years of credited service. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest 12 consecutive months' full-time equivalent monthly pay. PERS also provides death and disability benefits.

2. Funding policy

The contribution requirements of the plan members are established by state statute, and the employer contribution rate is established and may be amended by PERS. Employees are required to make contributions equal to 8 percent of gross pay. In fiscal year 2009, SANDAG paid the entire employee contribution for all employees. SANDAG is required to contribute the actuarially-determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The current ARC rate is 14.305 percent of annual covered payroll.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2009

3. Annual pension costs

An employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO).

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Pension Cost (APC)	APC Contributed	Net Pension Obligation
06/30/2007	\$ 1,825,614	100%	\$ -
06/30/2008	1,884,281	100%	-
06/30/2009	2,054,891	100%	-

A summary of principle assumptions and methods used to determine the ARC is shown below:

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6 percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plant assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

3. Funded status and funding progress for PERS plan

The funded status of the plan as of June 30, 2008 was as follows:

Actuarial accrued liability (AAL)	\$ 72,569,810
Actuarial value of plan assets	57,495,306
Unfunded actuarial accrued liability (UAAL)	<u>\$ 15,074,504</u>
Funded ratio (actuarial value of plan assets/AAL)	79.2%
Covered payroll (active plan members)	\$ 14,364,843
UAAL as a percentage of covered payroll	104.9%

**REQUIRED
SUPPLEMENTARY INFORMATION**

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**San Diego Association of Governments
Required Supplementary Information
For the Fiscal Year Ended June 30, 2009**

SCHEDULE OF FUNDING PROGRESS FOR PERS RETIREMENT PLAN

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UL) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UL As a % of Payroll [(a-b)]/(c)
6/30/06	\$ 57,403,280	\$ 46,608,909	\$ 10,794,371	81.2%	\$ 13,036,871	82.8%
6/30/07	64,002,735	52,170,723	11,832,012	81.5%	14,290,012	82.8%
6/30/08	72,569,810	57,495,306	15,074,504	79.2%	14,364,843	104.9%

SCHEDULE OF FUNDING PROGRESS FOR PERS OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UL) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UL As a % of Payroll [(a-b)]/(c)
7/01/07*	\$ 4,661,058	\$ -	\$ 4,661,058	0.0%	\$ 14,290,012	32.6%
1/1/09	4,865,596	615,059	4,250,537	12.6%	14,364,843	29.6%

* SANDAG was not yet subject to GASB 45, and therefore, the first valuation was performed on July 1, 2007.

San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2009

A. Budgetary Information

Formal budget integration is employed as a management control device for the general fund, special revenue funds, and capital project fund. Budgets are adopted on a basis consistent with GAAP. The general fund, special revenue funds, and capital project fund have legally adopted annual program budgets.

After the annual program budget is adopted, the Board of Directors can legally amend the budget at any time during the fiscal year to incorporate new grants or contracts which may become available during the year. Management can legally amend or transfer appropriations between programs or projects within the adopted or amended budget, once the budget has been approved, up to a maximum of \$100,000. However, management may not exceed the authorization of any individual fund. The fund level is the legal level of control (the expenditure level on which expenditures may not legally exceed appropriations) for each budget for which data are presented in the annual financial report.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and may be reappropriated in the following year.

B. Additional appropriations or amendments

1. General fund

Amendments were made to the general fund to fund new, high priority work efforts at the direction of the Board of Directors.

2. TransNet fund

TransNet fund appropriations were increased to recognize revisions made to several large capital project budgets, as approved by the Board of Directors.

3. General services fund

Additional appropriations were made to the general services fund to account for additional grant funding received during the year to fund new, high priority work efforts at the direction of the Board of Directors.

4. San Diego County Regional Transportation Commission sales tax projects fund

Amendments were made to the San Diego County Regional Transportation Commission sales tax projects fund in order to reduce sales tax revenue, as approved by the Board of Directors.

5. Prepaid fare media sales fund

Additional appropriations were made to the prepaid fare media sales fund to account for additional grant funding received during the year to fund new, high priority work efforts at the direction of the Board of Directors.

6. Capital projects fund

Capital projects fund appropriations were increased to recognize revisions made to several large capital project budgets, as approved by the Board of Directors.

San Diego Association of Governments
Schedule of Revenues, Expenditures and Change in Fund Balances - Budget and Actual
General Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Local Transportation Development Act funds	\$ 6,932,650	\$ 6,932,650	\$ 6,603,093	\$ (329,557)
Member agency assessments	547,425	547,425	547,425	-
Investment earnings	-	-	149,919	149,919
Cost recovery	28,898,301	28,898,301	26,015,616	(2,882,685)
Total revenues	36,378,376	36,378,376	33,316,053	(3,062,323)
EXPENDITURES:				
Current:				
General government	29,271,301	29,271,301	26,343,321	(2,927,980)
Total expenditures	29,271,301	29,271,301	26,343,321	(2,927,980)
REVENUES OVER (UNDER) EXPENDITURES	7,107,075	7,107,075	6,972,732	(134,343)
OTHER FINANCING SOURCES (USES):				
Transfers in	236,500	236,500	153,190	(83,310)
Transfers out	(8,543,468)	(8,715,209)	(5,773,111)	2,942,098
Total other financing sources (uses)	(8,306,968)	(8,478,709)	(5,619,921)	2,858,788
Net change in fund balances	\$ (1,199,893)	\$ (1,371,634)	1,352,811	\$ 2,724,445
FUND BALANCES:				
Beginning of year			2,968,101	
End of year			<u>\$ 4,320,912</u>	

San Diego Association of Governments
Schedule of Revenue, Expenditures and Change in Fund Balances - Budget and Actual
TransNet Special Revenue Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Local <i>TransNet</i> sales tax	\$ 325,431,925	\$ 349,601,925	\$ 177,127,419	\$ (172,474,506)
Total revenues	325,431,925	349,601,925	177,127,419	(172,474,506)
OTHER FINANCING SOURCES (USES):				
Transfers out	(325,431,925)	(349,601,925)	(177,127,419)	172,474,506
Total other financing sources (uses)	(325,431,925)	(349,601,925)	(177,127,419)	172,474,506
Net change in fund balances	\$ -	\$ -	-	\$ -
FUND BALANCES:				
Beginning of year			-	
End of year			\$ -	

San Diego Association of Governments
Schedule of Revenue, Expenditures and Change in Fund Balances - Budget and Actual
General Services Special Revenue Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Federal funds ¹	\$ 20,193,028	\$ 20,799,510	\$ 17,041,676	\$ (3,757,834)
State funds ¹	5,693,925	6,524,552	7,845,577	1,321,025
Other local governmental funding	7,204,896	7,916,938	2,459,156	(5,457,782)
Member agency assessments	200,000	200,000	200,000	-
Other revenues	346,917	346,917	197,337	(149,580)
Total revenues	33,638,766	35,787,917	27,743,746	(8,044,171)
EXPENDITURES:				
Current:				
Transit support activities ¹	-	-	2,895,870	(2,895,870)
Regional planning	4,849,071	5,712,955	4,240,830	1,472,125
Transportation service and facility planning	3,455,241	3,660,875	2,112,214	1,548,661
Transportation development projects	6,998,166	7,625,578	5,110,560	2,515,018
Systems management	14,593,684	14,685,705	7,876,690	6,809,015
Program management, project monitoring, and external relations	7,536,574	7,690,012	6,343,117	1,346,895
Regional information systems	5,938,393	6,236,896	5,318,951	917,945
Criminal justice	1,742,088	1,822,088	1,442,777	379,311
Total expenditures	45,113,217	47,434,109	35,341,009	12,093,100
REVENUES OVER (UNDER) EXPENDITURES	(11,474,451)	(11,646,192)	(7,597,263)	4,048,929
OTHER FINANCING SOURCES (USES):				
Transfers in	11,474,451	11,646,192	7,786,671	(3,859,521)
Total other financing sources (uses)	11,474,451	11,646,192	7,786,671	(3,859,521)
Net change in fund balances	\$ -	\$ -	189,408	\$ 189,408
FUND BALANCES:				
Beginning of year			1,265,924	
End of year			<u>\$ 1,455,332</u>	

¹\$2,895,870 passed through to subrecipients and not included in budgeted columns (\$2,826,721 Federal and \$69,149 State).

San Diego Association of Governments
Schedule of Revenues, Expenditures, and Change in Fund Balances - Budget and Actual
San Diego Regional Transportation Commission Sales Tax Projects Special Revenue Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Sales tax	\$ 246,012,774	\$ 229,741,846	\$ 219,173,861	\$ (10,567,985)
Investment earnings	1,500,000	1,500,000	2,188,085	688,085
Other revenues	-	-	2,435,240	2,435,240
Total revenues	247,512,774	231,241,846	223,797,186	(7,444,660)
EXPENDITURES:				
Current:				
General government	2,460,128	2,297,418	2,205,000	(92,418)
Highway improvements	-	-	368,533	368,533
Local street and road improvements	-	-	10,248,842	10,248,842
Public transit improvements and operations	-	-	555,690	555,690
Bicycle facilities	4,920,255	4,594,837	4,238,080	(356,757)
Independent Taxpayer Oversight Committee	323,930	323,930	260,757	(63,173)
Major corridor capital projects	90,557,215	84,559,751	150,957,210	66,397,459
Major corridor environmental mitigation	10,485,572	9,791,129	17,972,789	8,181,660
Local project environmental mitigation	4,289,552	4,005,462	3,781	(4,001,681)
Local system improvements	69,347,763	64,754,967	33,612,939	(31,142,028)
Smart growth	5,004,478	4,673,039	4,412	(4,668,627)
New major corridor transit operations	19,302,985	18,024,579	71,628	(17,952,951)
Transit system improvements	39,320,896	36,716,734	34,525,375	(2,191,359)
Total expenditures	246,012,774	229,741,846	255,025,036	25,283,190
REVENUES OVER (UNDER) EXPENDITURES	1,500,000	1,500,000	(31,227,850)	(32,727,850)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	163,162,796	163,162,796
Transfers out	-	-	(42,356,597)	(42,356,597)
Total other financing sources (uses)	-	-	120,806,199	120,806,199
Net change in fund balances	\$ 1,500,000	\$ 1,500,000	89,578,349	\$ 88,078,349
FUND BALANCES:				
Beginning of year			87,979,722	
End of year			<u>\$ 177,558,071</u>	

San Diego Association of Governments
Schedule of Revenue, Expenditures and Change in Fund Balances - Budget and Actual
Prepaid Fare Media Sales Special Revenue Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Other local governmental funding	\$ 829,993	\$ 829,993	\$ 888,532	\$ 58,539
Prepaid fare media sales revenue	36,500,000	36,500,000	56,746,947	20,246,947
Other revenues	-	56,341	56,341	-
Total revenues	37,329,993	37,386,334	57,691,820	20,305,486
EXPENDITURES:				
Current:				
Transit support activities	43,569,993	43,626,334	65,784,391	22,158,057
Total expenditures	43,569,993	43,626,334	65,784,391	22,158,057
REVENUES OVER (UNDER) EXPENDITURES	(6,240,000)	(6,240,000)	(8,092,571)	(1,852,571)
OTHER FINANCING SOURCES (USES):				
Transfers in	6,240,000	6,240,000	6,181,462	(58,538)
Total other financing sources (uses)	6,240,000	6,240,000	6,181,462	(58,538)
Net change in fund balances	\$ -	\$ -	(1,911,109)	\$ (1,911,109)
FUND BALANCES:				
Beginning of year			1,722,753	
End of year			\$ (188,356)	

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SUPPLEMENTARY INFORMATION

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San Diego Association of Governments
Schedule of Revenue, Expenditures and Change in Fund Balances - Budget and Actual
Capital Projects Fund
For the year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Federal funds	\$ 89,971,000	\$ 93,899,500	\$ 16,693,475	\$ (77,206,025)
State funds	234,994,000	242,032,000	16,196,399	(225,835,601)
Local Transportation Development Act funds	3,960,000	4,120,500	1,429,693	(2,690,807)
Other local governmental funding	5,370,217	6,723,952	2,339,348	(4,384,604)
Other revenues	193,675	193,675	330,157	136,482
Total revenues	334,488,892	346,969,627	36,989,072	(309,980,555)
EXPENDITURES:				
Current:				
Transit support activities	250,000	600,000	580,737	19,263
Transportation development projects	954,197	954,197	462,548	491,649
Program management, project monitoring, and external relations	548,471	548,471	222,728	325,743
Capital outlay	649,226,670	685,527,405	203,674,807	481,852,598
Total expenditures	650,979,338	687,630,073	204,940,820	482,689,253
REVENUES OVER (UNDER) EXPENDITURES	(316,490,446)	(340,660,446)	(167,951,748)	172,708,698
OTHER FINANCING SOURCES (USES):				
Transfers in	316,490,446	340,660,446	168,747,881	(171,912,565)
Total other financing sources (uses)	316,490,446	340,660,446	168,747,881	(171,912,565)
Net change in fund balances	\$ -	\$ -	796,133	\$ 796,133
FUND BALANCES:				
Beginning of year			(1,571,013)	
End of year			<u>\$ (774,880)</u>	

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STATISTICAL SECTION

This part of the San Diego Association of Governments' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the SANDAG's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how SANDAG's financial performance and well-being changed over time.	80
Revenue Capacity These schedules contain information to help the reader assess SANDAG's most significant local revenue sources, the sales tax.	86
Debt Capacity These schedules present information to help the reader assess the affordability of the SANDAG's current levels of outstanding debt and SANDAG's ability to issue additional debt in the future.	89
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which SANDAG's financial activities take place.	91
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in SANDAG's financial report relates to the services SANDAG provides and the activities it performs.	93

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

San Diego Association of Governments
Net Assets by Component
Last Six Fiscal Years¹
(accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Governmental activities						
Invested in capital assets	\$ 94,146,501	\$ 95,703,822	\$ 131,050,654	\$ 218,687,940	\$ 317,645,268	\$ 396,389,593
Restricted for debt-service	-	-	-	-	18,201,939	21,523,955
Unrestricted (deficit)	(194,599,679)	(85,795,572)	(21,485,552)	(26,957,631)	(50,041,224)	(87,120,162)
Total governmental activities net assets	\$ (100,453,178)	\$ 9,908,250	\$ 109,565,102	\$ 191,730,309	\$ 285,805,983	\$ 330,793,386
Business-type activities						
Unrestricted (deficit)	\$ -	\$ -	\$ 16,216	\$ (19,182)	\$ 645,541	\$ 762,166
Total business-type activities net assets	\$ -	\$ -	\$ 16,216	\$ (19,182)	\$ 645,541	\$ 762,166
Primary government						
Invested in capital assets	\$ 94,146,501	\$ 95,703,822	\$ 131,050,654	\$ 218,687,940	\$ 317,645,268	\$ 396,389,593
Restricted for debt-service	-	-	-	-	18,201,939	21,523,955
Unrestricted (deficit)	(194,599,679)	(85,795,572)	(21,469,336)	(26,976,813)	(49,395,683)	(86,357,996)
Total primary government net assets	\$ (100,453,178)	\$ 9,908,250	\$ 109,581,318	\$ 191,711,127	\$ 286,451,524	\$ 331,555,552

Source: Finance Department

¹Fiscal year 2004 was the first year that SANDAG presented financial statements since the consolidation required by Senate Bill 1703. The consolidation significantly changed the structure of SANDAG and therefore it is not deemed useful to present the prior fiscal years for comparative analysis.

San Diego Association of Governments
Change in Net Assets
Last Six Fiscal Years¹
(accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Expenses						
Governmental activities:						
General government	\$ 24,300,428	\$ 22,562,221	\$ 24,285,698	\$ 26,852,026	\$ 28,935,867	\$ 29,506,295
Transit support activities	37,538,260	67,329,086	61,020,196	42,774,445	51,063,433	63,760,998
Regional planning	3,117,476	2,612,265	2,277,187	2,483,597	2,832,945	4,123,055
Transportation service and facility planning	1,271,961	1,509,487	1,264,772	1,530,219	1,799,546	1,969,902
Transportation development projects	4,832,865	5,116,224	4,924,015	6,614,060	4,586,455	3,974,971
Technical assistance to member agencies	626,845	377,564	-	-	-	-
Systems management	6,952,457	5,989,890	6,600,740	7,214,967	6,831,294	7,745,668
Program management, project monitoring, and external relations	4,717,871	5,450,563	2,940,238	2,741,834	3,674,813	4,605,874
Regional information systems	3,893,471	4,463,923	4,507,030	5,495,871	5,513,475	5,278,079
Criminal justice	1,096,441	1,088,667	1,219,117	1,379,305	1,470,916	1,442,777
Highway improvements	45,108,780	18,059,649	10,874,515	24,191,072	12,481	165,343
Local street and road improvements	63,104,173	67,952,014	72,981,602	76,885,657	62,766,695	10,228,989
Public transit improvements and operations	130,455,567	20,546,290	47,514,342	50,439,872	46,938,252	1,114,806
Bicycle facilities	2,264,080	307,053	2,028,225	1,233,516	2,314,739	4,238,080
Independent Taxpayer Oversight Committee	-	-	-	-	-	260,757
Major corridor capital projects	-	-	624,091	2,157,385	8,431,949	5,168,110
Major corridor environmental mitigation	-	-	-	-	-	9,243
Local project environmental mitigation	-	-	438,629	-	-	3,781
Local street improvements	-	-	-	-	-	29,711,553
Smart growth	-	-	-	-	-	4,412
New major corridor transit operations	-	-	-	-	-	71,628
Transit system improvement	-	-	-	-	-	34,359,194
Interest on long-term debt	19,557,908	16,151,787	12,722,427	9,051,666	10,774,960	25,589,285
Total governmental activities expenses	348,838,583	239,516,683	256,222,824	261,045,492	237,947,820	233,332,800
Business-type activities:						
Service Bureau	-	-	302,387	437,993	602,339	471,887
Interstate 15 FasTrak	-	2,211,003	1,616,934	1,495,881	1,161,859	2,128,490
Total business-type activities expenses	-	2,211,003	1,919,321	1,933,874	1,764,198	2,600,377
Total primary government expenses	\$ 348,838,583	\$ 241,727,686	\$ 258,142,145	\$ 262,979,366	\$ 239,712,018	\$ 235,933,177
Program Revenues						
Governmental activities:						
Charges for services:						
General government	\$ 547,426	\$ 547,426	\$ 547,426	\$ 547,426	\$ 547,426	\$ 547,425
Technical assistance to member agencies	32,846	92,065	-	-	-	-
Transit support activities	-	-	-	-	-	888,532
Criminal justice	170,000	170,000	200,000	200,000	200,000	200,000
Operating grants and contributions	52,031,844	83,068,940	79,279,568	65,314,690	72,589,286	86,646,372
Capital grants and contributions	35,567,529	50,334,267	30,687,025	33,615,281	33,432,790	35,229,222
Total governmental activities program revenues	88,349,645	134,212,698	110,714,019	99,677,397	106,769,502	123,511,551

San Diego Association of Governments
Change in Net Assets
Last Six Fiscal Years¹
(accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Business-type activities:						
Charges for services:						
Service Bureau	-	-	318,603	402,595	564,013	469,365
Interstate 15 FasTrak	-	2,224,610	1,540,841	1,384,779	1,771,295	2,164,606
Total business-type activities program revenues	-	2,224,610	1,859,444	1,787,374	2,335,308	2,633,971
Total primary government program revenues	<u>\$ 88,349,645</u>	<u>\$ 136,437,308</u>	<u>\$ 112,573,463</u>	<u>\$ 101,464,771</u>	<u>\$ 109,104,810</u>	<u>\$ 126,145,522</u>
Net (expense)/revenue						
Governmental activities	\$(260,488,938)	\$(105,303,985)	\$(145,508,805)	\$(161,368,095)	\$(131,178,318)	\$(109,821,249)
Business-type activities	-	13,607	(59,877)	(146,500)	571,110	33,594
Total primary government net expense	<u>\$(260,488,938)</u>	<u>\$(105,290,378)</u>	<u>\$(145,568,682)</u>	<u>\$(161,514,595)</u>	<u>\$(130,607,208)</u>	<u>\$(109,787,655)</u>
General Revenues and Other Change in Net Assets						
Governmental activities:						
Sales tax	\$ 214,304,334	\$ 229,576,284	\$ 244,103,489	\$ 248,467,503	\$ 244,535,119	\$ 219,173,861
Local Transportation Development Act funds	5,580,679	6,762,493	6,587,559	6,603,759	8,597,251	8,032,786
Contributions not restricted to specific programs	8,284,208	16,841,908	-	-	-	-
Investment earnings (loss)	4,016,659	3,540,867	6,209,416	5,805,048	(1,115,263)	24,947,560
Cost recovery	14,732,539	18,811,159	20,633,960	22,625,351	23,780,295	26,015,616
Other revenues	820,313	1,582,039	2,781,344	631,889	91,165	466,059
Transfers in (out)	-	13,607	-	-	-	(31,326)
Capital contributions not restricted						
to specific programs	(3,760,346)	(61,462,944)	(35,150,111)	(40,600,248)	(50,634,575)	(123,795,904)
Extraordinary item:						
Equity (deficit) acquisition due to SB 1703	(7,372,642)	-	-	-	-	-
Total governmental activities	<u>236,605,744</u>	<u>215,665,413</u>	<u>245,165,657</u>	<u>243,533,302</u>	<u>225,253,992</u>	<u>154,808,652</u>
Business-type activities:						
Investment earnings	-	-	76,093	111,102	93,613	51,705
Transfers in (out)	-	(13,607)	-	-	-	31,326
Total business-type activities	-	(13,607)	76,093	111,102	93,613	83,031
Total primary government	<u>\$ 236,605,744</u>	<u>\$ 215,651,806</u>	<u>\$ 245,241,750</u>	<u>\$ 243,644,404</u>	<u>\$ 225,347,605</u>	<u>\$ 154,891,683</u>
Change in Net Assets						
Governmental activities	\$ (23,883,194)	\$ 110,361,428	\$ 99,656,852	\$ 82,165,207	\$ 94,075,674	\$ 44,987,403
Business-type activities	-	-	16,216	(35,398)	664,723	116,625
Total primary government	<u>\$ (23,883,194)</u>	<u>\$ 110,361,428</u>	<u>\$ 99,673,068</u>	<u>\$ 82,129,809</u>	<u>\$ 94,740,397</u>	<u>\$ 45,104,028</u>

Source: Finance Department

¹Fiscal year 2004 was the first year that SANDAG presented financial statements since the consolidation required by Senate Bill 1703. The consolidation significantly changed the structure of SANDAG and therefore it is not deemed useful to present the prior fiscal years for comparative analysis. Certain amounts from prior years have been reclassified in order to present comparable results.

San Diego Association of Governments
Fund Balances of Governmental Funds
Last Six Fiscal Years¹
(modified accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
General fund						
Reserved	\$ 48,211	\$ 39,704	\$ 46,703	\$ 48,521	\$ 200,437	\$ 68,342
Unreserved	235,514	810,052	1,970,106	3,151,595	2,767,664	4,252,570
Total general fund	\$ 283,725	\$ 849,756	\$ 2,016,809	\$ 3,200,116	\$ 2,968,101	\$ 4,320,912
All other governmental funds						
Reserved	\$ 33,185,785	\$ 34,528,258	\$ 33,318,208	\$ 55,596,655	\$ 52,228,642	\$ 55,536,856
Unreserved, reported in:						
Special revenue funds	57,416,996	99,959,794	100,141,773	20,980,805	90,942,421	178,822,011
Capital projects fund	(2,434,250)	(2,206,496)	(1,732,962)	(1,539,943)	(1,571,738)	(784,745)
Debt-service fund	11,967,224	200,215	2,289,435	-	436,251,098	298,173,715
Total all other governmental funds	\$ 100,135,755	\$ 132,481,771	\$ 134,016,454	\$ 75,037,517	\$ 577,850,423	\$ 531,747,837

Source: Finance Department

¹Fiscal year 2004 was the first year that SANDAG presented financial statements since the consolidation required by Senate Bill 1703. The consolidation significantly changed the structure of SANDAG and therefore it is not deemed useful to present the prior fiscal years for comparative analysis.

San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Six Fiscal Years¹
(modified accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Revenues						
Federal funds	\$ 23,889,031	\$ 53,790,232	\$ 45,638,791	\$ 32,430,708	\$ 33,237,437	\$ 33,735,151
State funds	5,028,695	25,934,441	15,338,196	15,581,022	16,639,723	24,041,976
Local <i>TransNet</i> sales tax	214,304,334	229,576,284	244,103,489	248,467,503	244,535,119	219,173,861
Local Transportation Development Act funds	7,234,935	9,765,475	8,910,257	6,603,759	8,597,251	8,032,786
Other local governmental funding	28,397,831	11,942,966	8,492,531	12,402,311	5,101,979	5,687,036
Prepaid fare media sales revenue	31,876,640	33,551,222	36,624,690	37,403,564	48,961,243	56,746,947
Member agency assessments	717,426	717,426	747,426	747,426	747,426	747,425
Investment earnings	6,173,063	3,890,417	6,894,094	6,263,513	(382,454)	24,947,560
Debt repayments from other governments	3,227,732	33,283,478	36,030,848	7,831,626	15,026,316	514,150
Other revenues	2,575,896	6,855,468	3,741,756	1,338,461	344,460	3,019,075
Cost recovery	14,732,539	18,811,159	20,633,960	22,625,351	23,780,295	26,015,616
Total revenues	338,158,122	428,118,568	427,156,038	391,695,244	396,588,795	402,661,583
Expenditures						
Current:						
General government	23,514,336	22,643,046	24,098,415	26,279,551	28,799,495	28,395,131
Transit support activities	37,538,260	61,829,086	61,020,196	42,774,445	51,063,433	63,780,998
Regional planning	3,117,476	2,612,265	2,277,187	2,483,597	2,832,945	4,123,055
Transportation service and facility planning	1,271,961	1,509,487	1,264,772	1,530,219	1,799,546	1,969,902
Transportation development projects	4,673,950	4,432,711	4,924,015	6,614,060	4,586,455	3,974,971
Technical assistance to member agencies	626,845	377,564	-	-	-	-
Systems management	6,952,457	5,989,890	6,600,740	7,214,967	6,831,294	7,745,668
Program management, project monitoring, and external relations	3,625,468	2,870,658	2,940,238	2,741,834	3,674,813	4,605,874
Regional information systems	3,893,471	4,309,335	4,507,030	5,495,871	5,513,475	5,278,079
Criminal justice	1,096,441	1,088,667	1,219,117	1,379,305	1,470,916	1,442,777
Highway improvements	45,074,993	17,603,111	10,874,515	24,191,072	102,795,165	165,343
Local street and road improvements	69,504,173	67,952,014	92,581,602	82,885,657	89,944,695	10,228,989
Public transit improvements and operations	158,955,567	13,210,120	47,514,342	50,439,872	60,964,568	1,114,806
Bicycle facilities	2,264,080	307,053	2,028,225	1,233,516	2,314,739	4,238,080
Independent Taxpayer Oversight Committee	-	-	-	-	-	260,757
Major corridor capital projects	-	-	-	-	-	5,168,110
Major corridor environmental mitigation	-	-	624,091	2,157,385	8,431,949	9,243
Local project environmental mitigation	-	-	438,629	-	-	3,781
Local street improvements	-	-	-	-	-	32,711,553
Smart growth	-	-	-	-	-	4,412
New major corridor transit operations	-	-	-	-	-	71,628
Transit system improvements	-	-	-	-	-	34,359,194
Capital outlay	29,989,124	59,159,968	96,061,674	128,328,361	149,676,575	203,674,807
Debt-service:						
Principal retirement	63,875,000	112,386,000	70,680,000	88,438,000	58,315,316	-
Debt issuance costs	-	-	533,633	-	797,218	10,800,000
Interest and other charges	20,088,071	16,939,153	14,136,581	9,303,162	10,359,957	26,272,874
Total expenditures	476,061,673	395,220,128	444,325,002	483,490,874	445,635,238	450,380,032
Excess of revenues over (under) expenditures	(137,903,551)	32,898,440	(17,168,964)	(91,795,630)	(65,500,889)	(47,718,449)

San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Six Fiscal Years¹
(modified accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Other financing sources (uses)						
Transfers in	99,297,159	107,222,686	125,845,108	195,423,779	303,161,848	388,388,597
Transfers out	(99,297,159)	(107,209,079)	(125,845,108)	(195,423,779)	(303,161,848)	(388,419,923)
Commercial paper issued	34,900,000	-	53,954,000	34,000,000	94,783,000	3,000,000
Bonds Issued	-	-	-	-	600,000,000	-
Payment to refunded debt agent	-	-	(33,415,000)	-	-	-
Call premium on early retirement of debt	-	-	(668,300)	-	-	-
Total other financing sources (uses)	34,900,000	13,607	19,870,700	34,000,000	566,700,130	2,968,674
Extraordinary Item						
Equity (deficit) acquisition due to Senate Bill 1703	(7,372,642)	-	-	-	-	-
Total extraordinary item	(7,372,642)	-	-	-	-	-
Net change in fund balances	<u>\$(110,376,193)</u>	<u>\$ 32,912,047</u>	<u>\$ 2,701,736</u>	<u>\$ (57,795,630)</u>	<u>\$ 501,199,241</u>	<u>\$ (44,749,775)</u>
Debt-service as a percentage of noncapital expenditures	18.82%	38.48%	24.51%	27.52%	23.47%	15.03%

Source: Finance Department

¹Fiscal year 2004 was the first year that SANDAG presented financial statements since the consolidation required by Senate Bill 1703. The consolidation significantly changed the structure of SANDAG and therefore it is not deemed useful to present the prior fiscal years for comparative analysis.

Note: Certain amounts from prior years have been reclassified in order to present comparable results.

San Diego Association of Governments
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Sales Tax	Total
2000	\$ 173,294,919	\$ 173,294,919
2001	191,330,688	191,330,688
2002	192,665,399	192,665,399
2003	201,156,786	201,156,786
2004	214,304,334	214,304,334
2005	229,576,284	229,576,284
2006	244,103,489	244,103,489
2007	248,467,503	248,467,503
2008	244,535,119	244,535,119
2009	219,173,861	219,173,861

Source: Finance Department

San Diego Association of Governments
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Fiscal Year	TransNet Sales Tax Proposition A ¹	County of San Diego ²
2000	0.50%	7.75%
2001	0.50%	7.75%
2002	0.50%	7.75%
2003	0.50%	7.75%
2004	0.50%	7.75%
2005	0.50%	7.75%
2006	0.50%	7.75%
2007	0.50%	7.75%
2008	0.50%	7.75%
2009	0.50%	8.75%

Source: California State Board of Equalization

¹TransNet sales tax was extended another 40 years to 2048 in 2004 under Proposition A.

²The following four cities within the County of San Diego have a sales tax rate other than 8.75%

El Cajon	9.75%
La Mesa	9.50%
National City	9.75%
Vista	9.25%

San Diego Association of Governments
San Diego Region Taxable Sales by Jurisdiction
Fiscal Year 2008¹

	FY 2008 ¹		
	Taxable Sales (thousands of dollars)	Rank	Percentage of Total
San Diego	\$ 20,073,731	1	42.6%
Chula Vista	2,583,971	3	5.5%
Escondido	2,572,790	4	5.5%
Carlsbad	2,380,006	5	5.1%
El Cajon	2,023,048	6	4.3%
Oceanside	1,590,986	7	3.4%
San Marcos	1,364,476	8	2.9%
National City	1,325,559	9	2.8%
Vista	1,182,793	10	2.5%
Poway	1,063,662	11	2.3%
La Mesa	1,003,415	12	2.1%
Encinitas	982,843	13	2.1%
Santee	721,420	14	1.5%
Lemon Grove	373,064	15	0.8%
Solana Beach	260,087	16	0.6%
Coronado	223,088	17	0.5%
Del Mar	132,966	18	0.3%
Imperial Beach	73,460	19	0.2%
Incorporated	39,931,365		
Unincorporated	7,140,612	2	15.2%
San Diego Region Total	\$ 47,071,977		100.0%

Source: California Board of Equalization

¹ Sum of data for third and fourth quarters of 2007 and first and second quarters of 2008. Annual data for 2008 is not yet available.

San Diego Association of Governments
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	Sales Tax Revenue	Sales Tax Commercial			
	Bonds	Paper			
2000	\$ 529,130,000	\$ 22,400,000	\$ 551,530,000	0.449%	196
2001	473,730,000	62,000,000	535,730,000	0.436%	187
2002	415,790,000	64,900,000	480,690,000	0.390%	165
2003	354,845,000	66,200,000	421,045,000	0.341%	142
2004	290,970,000	101,100,000	392,070,000	0.305%	130
2005	223,795,000	55,889,000	279,684,000	0.215%	92
2006	119,700,000	75,707,000	195,407,000	0.147%	64
2007	57,765,000	83,204,000	140,969,000	0.103%	46
2008	600,000,000	34,000,000	634,000,000	0.463%	202
2009	589,200,000	37,000,000	626,200,000	n/a	n/a

Source: Finance Department

Note: Details regarding the outstanding debt can be found in the Notes to the Basic Financial Statements, Note IV.F

¹See the Schedule of Demographic and Economic Statistics for personal income and population data.

n/a: 2009 data not available per the Schedule of Demographic and Economic Statistics.

San Diego Association of Governments
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Sales Tax Revenue	Sales Tax Revenue Bonds		Sales Tax Commercial Paper		Total		Coverage
		Debt-Service		Debt-Service		Debt-Service		
		Principal	Interest	Principal	Interest	Principal	Interest	
2000	\$ 173,294,919	\$ 52,845,000	\$ 30,303,776	\$ -	\$ 1,341,003	\$ 52,845,000	\$ 31,644,779	2.05
2001	191,330,688	55,400,000	27,910,220	-	1,603,895	55,400,000	29,514,115	2.25
2002	192,665,399	57,940,000	25,339,276	-	98,823	57,940,000	25,438,099	2.31
2003	201,156,786	60,945,000	22,139,070	-	135,316	60,945,000	22,274,386	2.42
2004	214,304,334	63,875,000	18,915,890	-	1,100,003	63,875,000	20,015,893	2.55
2005	229,576,284	67,175,000	15,408,362	-	1,489,252	67,175,000	16,897,614	2.73
2006	244,103,489	70,680,000	11,800,125	-	1,912,165	70,680,000	13,712,290	2.89
2007	248,467,503	61,935,000	6,124,476	26,503,000	1,961,803	88,438,000	8,086,279	2.57
2008	244,535,119	57,765,000	6,704,350	32,604,000	796,370	90,369,000	7,500,720	2.50
2009	219,173,861	10,800,000	23,664,091	-	497,799	10,800,000	24,161,890	6.27

Source: Finance Department

Note: Details regarding the outstanding debt can be found in the Notes to the Basic Financial Statements, Note IV.F.

San Diego Association of Governments
Demographic and Economic Statistics
Last Ten Available Calendar Years

Calendar Year	Population	Personal Income (millions of dollars) ¹	Per Capita Personal Income ¹	Median Age	Unemployment Rate ¹
1999	2,751,000	\$ 118,278	\$ 42,990	32.6	3.1%
2000	2,813,833	122,819	43,650	33.2	3.9%
2001	2,864,539	122,943	42,920	33.3	4.2%
2002	2,920,806	123,245	42,200	33.4	5.1%
2003	2,970,899	123,494	41,570	33.5	5.2%
2004	3,007,285	128,743	42,810	34.0	4.7%
2005	3,034,388	130,117	42,880	34.4	4.3%
2006	3,058,413	133,290	43,580	34.7	4.0%
2007	3,088,891	136,568	44,210	35.0	4.6%
2008	3,131,552	137,039	43,760	34.8	6.0%

Source: SANDAG Service Bureau

¹Data for 2009 is not yet available, therefore, 2008 data is the most current year provided

Note: Dollar values are inflation-adjusted to 2008

San Diego Association of Governments
San Diego Region Employment by Industry
Calendar Year 2008¹ and Nine Years Prior

Industry Type	2008 ¹		1999	
	Average Annual Employment	% of Total Employment	Average Annual Employment	% of Total Employment
Agriculture	10,800	0.8%	11,200	1.0%
Natural Resources and Mining	300	0.0%	300	0.0%
Construction	76,200	5.8%	67,000	5.8%
Manufacturing	102,300	7.8%	122,900	10.6%
Wholesale Trade	44,500	3.4%	36,800	3.2%
Retail Trade	142,200	10.9%	128,200	11.0%
Transportation, Warehousing and Utilities	29,300	2.2%	29,200	2.5%
Information	38,700	3.0%	36,200	3.1%
Financial Activities	75,800	5.8%	70,400	6.0%
Professional and Business Services	217,000	16.6%	185,000	15.9%
Educational and Health Services	135,500	10.3%	112,200	9.6%
Leisure and Hospitality	163,600	12.5%	124,400	10.7%
Other Services	48,800	3.7%	40,900	3.5%
Government (civilian)	225,200	17.2%	199,300	17.1%
Total, All Industries	1,310,000	100.0%	1,164,000	100.0%

Source: California Employment Development Department
Employment figures may not add up to totals due to rounding
¹Data for 2009 is not yet available, therefore, 2008 data is provided.

San Diego Association of Governments

Operating Indicators: Employees by Functional Department

Last Six Fiscal Years¹

Functional Department	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Regular Full-Time Equivalent (FTE) Employees²:						
Administrative Services	28	31	34	34	35	35
Finance	17	18	19	19	19	19
Executive	17	16	15	16	16	16
Technical Services	36	41	42	44	47	47
Land Use and Transportation Planning	25	30	31	31	30	30
Mobility Management and Project Implementation	38	33	36	37	39	45
Total Regular FTE Employees	161	169	177	181	186	192
Limited Term FTE Employees³:						
Executive	0	0	0	0	1	1
Administrative Services	0	2	1	3	1	2
Finance	0	0	0	0	0	1
Technical Services	3	3	2	8	6	7
Land Use and Transportation Planning	2	1	1	3	3	3
Mobility Management and Project Implementation	3	2	0	8	17	12
Total Limited Term FTE Employees	8	8	4	22	28	26
Temporary, Interns, Part-time, or Seasonal (TIPS) Employees⁴:						
Executive	0	0	1	1	1	2
Administrative Services	0	0	0	0	1	2
Finance	0	0	0	0	1	0
Technical Services	0	0	18	14	13	9
Land Use and Transportation Planning	0	0	4	3	5	7
Mobility Management and Project Implementation	0	0	6	5	7	11
Total TIPS Employees	0	0	29	23	28	31
Total Employees	169	177	210	226	242	249

¹Fiscal year 2004 was the first year that SANDAG presented financial statements since the consolidation required by Senate Bill 1703. The consolidation significantly changed

²Regular positions make up the core board authorized positions. Most regular positions are full-time.

³Limited Term positions are considered part of the contingent workforce, hired to fill a short-term need for additional staff. Most Limited Term positions are full-time positions authorized for a term of one year.

⁴TIPS positions are determined by the number of authorized positions on the active payroll as of June 30 each year. TIPS employees are part of the contingent workforce, the majority of which are interns working on a part-time basis.

Note: The number of government employees is more appropriately represented by functional department than the functional levels used in the government-wide statement of activities due to the cross functional nature of SANDAG's employees and activities. Individual employees generally work on several functions.

Note: Operating indicators of demand or level of service by functions used in the government-wide statement of activities are not available due to the nature of functional services provided by SANDAG, a special-purpose government.

Note: Indicators of the volume, usage, or nature of capital assets is not applicable since upon construction-in-progress (CIP) project completion, the project's entire amount of the CIP, as well as the legal title of the property and equipment, if applicable, is transferred as contributed capital to other governmental agencies to reflect the other government's custodial accountability for the operations and maintenance of the assets. The remaining capital assets balance is for the general government function, for which indicators are not available.

San Diego Association of Governments
Capital Asset Statistics by Program
Last Six Fiscal Years¹

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Functions/Programs						
Transit capital funding - construction-in-progress (CIP):						
Major improvements - light rail transit	\$ 15,127,187	\$ 9,120,854	\$ 7,264,394	\$ 2,490,567	\$ 1,998,814	\$ 3,538,273
Major improvements - bus	47,712,611	59,200,404	61,823,550	73,330,339	63,808,075	14,924,821
Operations capital - Metropolitan Transit System	922,935	48,440	55,537	-	-	-
Operations capital - light rail transit	20,463,590	15,700,838	2,253,421	2,162,969	2,920,025	5,803,140
Operations capital - bus	9,600,776	10,976,622	18,376,467	847,343	2,000,213	-
Major corridor projects	-	-	40,789,242	136,712,330	236,207,294	349,655,143
Operations capital - SANDAG	-	-	-	-	10,202,367	11,621,959
Major improvements - SANDAG	-	-	-	-	195,936	636,813
Goods movement projects	-	-	-	-	-	1,484,923
Total transit capital funding - CIP	93,827,099	95,047,156	130,562,611	215,543,548	317,332,724	387,665,072
Transit capital funding - land	-	-	-	-	-	2,932,171
Transit support activities-Compass Card equipment	-	-	-	-	-	5,673,636
General government	319,402	656,666	488,043	397,216	312,544	118,714
Total capital assets	\$ 94,146,501	\$ 95,703,822	\$ 131,050,654	\$ 215,940,764	\$ 317,645,268	\$ 396,389,593

Source: Finance Department

¹Fiscal year 2004 was the first year that SANDAG presented financial statements since the acquisition due to Senate Bill 1703. The acquisition significantly changed the structure of SANDAG and therefore it is not deemed useful to present the prior fiscal years for comparative analysis.

Note: No capital asset indicators are available for the general government function; the transit capital funding function as this represents CIP projects that have not yet been completed or put into service; or the transit support activities function as the Compass Card program was in the beginning phase with limited implementation in Fiscal Year 2009.

APPENDIX B

INFORMATION REGARDING THE COUNTY OF SAN DIEGO

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

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

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

The County possesses a diverse economic base consisting of high technology, manufacturing, tourism, agriculture, government and the largest uniformed military presence in the nation, which contributes approximately \$10 billion annually to the retail and service businesses of the area.

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

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

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

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

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. In the 1990s the population of the County grew at a greater rate than that of either the State or the nation. The County population as of January 2010 was estimated to be approximately 3,224,432, making it the second largest County by population in California. As of July 1, 2009, the U.S. Census Bureau ranked San Diego County the seventeenth largest Metropolitan Statistical Area in the United States. The 2009 population increased 1.1% from 2008. By the year 2020, the County's population is projected to exceed 3.5 million.

The following table shows changes in the population in the County, the State and the United States for the years 1996 to 2010.

POPULATION⁽¹⁾ (In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States ⁽²⁾	Percent Change
1996	2,621	0.31%	31,837	0.70%	265,229	0.96%
1997	2,653	1.23	32,207	1.16	267,784	0.92
1998	2,703	1.88	32,657	1.40	270,248	0.90
1999	2,751	1.78	33,140	1.48	272,691	0.90
2000	2,813	2.25	33,873	2.22	282,193	3.48
2001	2,864	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	37,883	1.26	301,140	0.58
2008	3,131	1.5	38,292	1.1	304,374	0.96
2009	3,173	1.3	38,255	0.28	307,006	0.86
2010	3,224	1.2	38,648	1.0	⁽³⁾	

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

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

⁽²⁾ As of July 1 of the year shown.

⁽³⁾ National data for July 1, 2010 not yet available.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,557,400 in 2009. The number of employed workers in the labor force averaged approximately 1,406,100. The following table sets forth information regarding the size of the civilian labor force, employment and unemployment rates for the County, the State and the United States for the full years 2005 through 2009. 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 June of 2010.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 2005-2010
By Place of Residence
(In Thousands)

	2005	2006	2007	2008	2009	2010**
County of San Diego Labor Force	1,507.8	1,518.0	1,524.5	1,555.1	1,557.4	1,571.5
Employment	1,442.7	1,457.5	1,455.4	1,462.3	1,406.1	1,406.6
Unemployment Rate	4.3%	4.0%	5.6%	6.0%	9.7%	10.5%
State of California Labor Force	17,740.4	17,901.9	17,970.8	18,251.6	18,250.2	18,280.4
Employment	16,782.3	17,029.3	17,011.0	16,938.3	16,163.9	16,051.2
Unemployment Rate	5.4%	4.9%	5.3%	7.2%	11.4%	12.2%
United States Labor Force	149,320.0	151,428.0	153,124.0	154,287.0	154,142.0	154,767.0
Employment	141,730.0	144,427.0	146,047	145,362.0	139,877.0	139,882.0
Unemployment Rate	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%

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 2009 benchmark.

** As of June 2010.

The following table sets forth the annual average employment within the County by employment sector for 2004 through 2009. Industry employment in the County has decreased by a total of 32,200 jobs since 2004. The largest growth industries were: education and health sciences; leisure and hospitality; and government. During the years profiled, these industries gained a total of 26,300 jobs. The largest growth occurred in education and health sciences (21,300 jobs).

**SAN DIEGO COUNTY
LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
2004-2009**

Employment Sector	2004	2005	2006	2007	2008	2009
Total, All Industries	1,271,500	1,292,800	1,310,900	1,319,700	1,309,300	1,239,300
Agriculture	11,100	10,700	11,000	10,900	10,500	9,700
Natural Resources & Mining	400	400	500	400	400	400
Construction	87,700	90,800	92,600	87,000	76,100	61,100
Manufacturing	104,300	104,500	103,600	102,500	102,800	95,400
Trade, Transportation & Utilities	215,300	219,400	221,000	222,300	215,900	198,300
Wholesale Trade	41,900	43,600	45,100	45,500	44,900	40,700
Retail Trade	144,900	147,400	147,600	148,100	142,000	130,500
Transportation, Warehousing & Utilities	28,400	28,400	28,300	28,800	29,000	27,100
Information	36,600	37,400	37,200	37,600	38,500	37,000
Financial Activities	81,900	83,200	83,700	80,300	75,200	70,300
Finance & Insurance	52,800	53,500	53,300	50,200	46,100	43,800
Real Estate, Rental & Leasing	29,100	29,700	30,400	30,100	29,200	26,500
Professional & Business Services	204,500	210,400	213,800	216,800	215,100	197,300
Education & Health Services	121,700	122,500	124,700	129,500	137,300	143,000
Leisure & Hospitality	145,700	149,600	156,200	161,800	164,000	155,200
Other Services	47,900	48,800	48,900	48,300	48,400	47,000
Government	214,300	215,000	217,700	222,400	225,100	224,700

Source: California Employment Development Department.

Regional Economy

The table below sets forth the County's Gross Metropolitan Product, which is an estimate of the value for all goods and services produced in the region, from 2002 through 2010.

COUNTY OF SAN DIEGO GROSS METROPOLITAN PRODUCT 2002-2010

<u>Year</u>	Gross Metropolitan Product (In Billions)	Annual Percent Change	
		Current Dollars <u>San Diego</u>	Constant Dollars* <u>San Diego</u>
2002	\$120.2	NA	NA
2003	126.9	5.6%	3.5%
2004	138.6	9.3	6.5
2005	148.4	7.0	4.2
2006	157.5	6.1	3.3
2007	163.7	3.9	1.4
2008	168.7	3.1	1.0
2009 ⁽¹⁾	168.3	(0.3)	(2.0)
2010 ⁽¹⁾	174.0	3.4	2.1

Sources: 2001-2006 Data - Bureau of Economic Analysis; U.S. Department of Commerce; 2007-2010 Data - National University System Institute for Policy Research; reflects data as of August 2009

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

⁽¹⁾ Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. 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. The military presence in the County is anticipated to remain relatively stable and may increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States.

Building Activity

Annual total building permit valuation and the annual unit total of new residential permits from 2006 through June of 2010 are shown in the following table.

**COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2006 – June 2010
(In Thousands)**

	2006	2007	2008	2009	2010*
Valuation:					
Residential	\$2,470,685	\$1,852,381	\$1,339,204	\$464,005	\$590,577
Non-Residential	<u>\$1,621,608</u>	<u>\$1,416,823</u>	<u>\$1,061,841</u>	<u>\$344,084</u>	<u>\$306,277</u>
Total	\$ 4,092,293	\$ 3,269,204	\$2,401,045	\$808,089	\$896,854
New Housing Units:					
Single Family	4,753	3,503	2,347	936	1,381
Multiple Family	<u>6,024</u>	<u>3,942</u>	<u>2,806</u>	<u>742</u>	<u>767</u>
Total	10,777	7,445	5,153	1678	2,148

Source: Construction Industry Research Board.

* Through June of 2010.

Commercial Activity

Consumer spending for 2009 resulted in approximately \$9.7 billion in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for the years 2005 through 2009.

**COUNTY OF SAN DIEGO
TAXABLE SALES
2005-2009
(In Thousands)**

Type of Business	2005	2006	2007	2008	2009⁽¹⁾
Apparel Stores	\$1,798,104	\$1,909,011	\$ 2,034,512	\$ 2,205,568	\$1,767,733
General Merchandise	5,406,091	5,594,621	5,673,538	5,305,252	2,903,833
Specialty Stores ⁽²⁾	4,728,028	4,926,656	-	-	-
Food Stores	1,858,152	1,928,274	1,994,237	1,868,466	1,425,746
Eating and Drinking Establishments	4,267,302	4,521,392	4,784,500	4,869,497	3,590,870
Home Furnishings/Appliances	1,566,046	1,511,389	1,420,933	1,590,329	602,527
Building Materials	3,376,009	3,331,161	2,768,385	2,183,006	1,404,900
Automotive	9,739,136	9,819,932	6,321,987	5,010,084	3,199,174
Service Stations ⁽³⁾	-	-	3,755,121	4,154,465	2,317,031
All Other Retail Stores	1,045,927	1,076,631	5,285,332	4,529,006	3,128,433
Business and Personal Services	2,239,304	2,302,057	2,298,265	2,255,309	⁽⁴⁾
All Other Outlets	<u>10,655,372</u>	<u>10,914,390</u>	<u>11,149,178</u>	<u>11,358,155</u>	<u>8,787,121</u>
TOTAL ALL OUTLETS	\$46,679,471	\$47,835,514	\$47,485,988	\$45,329,136	\$29,127,368

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

(1) Information available through Third Quarter of 2009 only.

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

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

(4) Quarterly Reports do not have a category for Business and Personal Services.

Personal Income

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

MEDIAN HOUSEHOLD INCOME⁽¹⁾
2003 through 2009⁽²⁾

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

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

(1) Estimated in inflation-adjusted dollars.

(2) Data for 2010 is not currently available.

Transportation

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

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

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

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

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

Visitor and Convention Activity

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

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$6.96 billion in 2009, according to an estimate by the San Diego Convention and Visitors Bureau, a decrease of approximately \$958 million from the prior year. The County hosted 71 conventions and trade shows in 2009, attended by approximately 519,418 delegates. 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 Nazarene University; California State University - San Marcos; Alliant International University; the University of Phoenix; Thomas Jefferson School of Law, and California Western School of Law.

APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions

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

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

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

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

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

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

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

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

Authorized Denominations means, with respect to Series 2010 Bonds, \$5,000 and any integral multiple thereof.

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

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

Board means the Board of Directors of the Commission.

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

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

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

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

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

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

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

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

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

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

Comparable Treasury Issue means the United States Treasury security selected by the Designated Banking Institution as having a maturity comparable to the remaining term to maturity of the 2010 Series A Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the 2010 Series A Bond being redeemed.

Comparable Treasury Price means, with respect to any date on which a 2010 Series A Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Designated Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Designated Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Designated Banking Institution, at 2:00 p.m. New York City time on a Business Day at least two Business Days but no more than 45 calendar days preceding the applicable date fixed for redemption.

Comparable Treasury Yield means the yield appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Designated Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the 2010 Series A Bond being redeemed. The Comparable Treasury Yield will be determined at least two Business Days but no more than 45 calendar days preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the 2010 Series A Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the 2010 Series A Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the 2010 Series A Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable

Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price as of the date fixed for redemption.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Obligations, minus (ii) the fixed interest rate receivable by the Commission under such Interest Rate Swap Agreement, plus (iii) the average interest rate of the index on which the Interest Rate Swap Agreement is based, as identified in a Certificate of the Commission, or, if not based on an identifiable index, then the SIFMA Swap Index, in each case, over the five (5) years preceding the date of calculation;

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

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

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

Designated Banking Institution means an investment banking institution of national standing which is a primary United States government securities dealer designated by the Commission.

Dissemination Agent means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12(b)(5), the dissemination agent under the Continuing Disclosure Agreement delivered in connection with such Series of Bonds, or any successor dissemination agent

designated in writing by the Commission and which has entered into a Continuing Disclosure Agreement with the Commission.

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

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

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

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 B authorized by, and at any time Outstanding pursuant to, the Subordinate Indenture.

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

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.

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.

Initial Swaps means the following Interest Rate Swap Agreements:

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

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

c. ISDA Master Agreement, dated as of November 22, 2005, between 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 Swap Agreement means an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement or security, however denominated, entered into between the Commission and a Counterparty, in connection with, or incidental to, the issuance or carrying of Bonds, including, without limitation, an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement or security entered into in advance of the issuance of Bonds.

Investment Securities means the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

14. shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (13) of this definition of Investment Securities and which companies have either the highest rating by both Moody's and Standard & Poor's or have an investment advisor registered with the Securities and Exchange

Commission with not less than five (5) years experience investing in such securities and obligations and with assets under management in excess of \$500,000,000;

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

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

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

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

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

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

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

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

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

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

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

Make-Whole Premium means, with respect to any 2010 Series A Bond to be redeemed pursuant to the Indenture, an amount calculated by a Designated Banking Institution (as defined herein) equal to the positive difference, if any, between:

(1) The sum of the present values, calculated as of the date fixed for redemption of:

(a) Each interest payment that, but for the redemption, would have been payable on the 2010 Series A Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such 2010 Series A Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled Interest Payment Date with respect to such 2010 Series A Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such 2010 Series A Bond to the date fixed for redemption; plus

(b) The principal amount that, but for such redemption, would have been payable on the maturity date of the 2010 Series A Bond or portion thereof being redeemed; minus

(2) The principal amount of the 2010 Series A Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (1) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined herein), plus the applicable spread specified in the Indenture. See “DESCRIPTION OF THE SERIES 2010 BONDS—Redemption Terms of the Series 2010 Bonds—Optional Redemption of the 2010 Series A Bonds” and “—Extraordinary Optional Redemption of the 2010 Series A Bonds” in the main body of this Official Statement.

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.

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 Annual Interest means the maximum amount of interest on one or more Series of Bonds becoming due and payable during the period from the date of such calculation through the final maturity date of such Bonds, 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.

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.

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).

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 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.

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, with respect to the Series 2010 Bonds, the fifteenth (15th) day (whether or not a Business Day) of the month preceding the month in which such Interest Payment Date occurs.

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.

Reference Treasury Dealer means a primary United States Government securities dealer appointed by the Commission and reasonably acceptable to the Designated Banking Institution.

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."

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.

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 2010 Bonds means, collectively, the 2010 Series A Bonds and the 2010 Series B Bonds.

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.

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.

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

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

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

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

Tax 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.

Tax Law Change means legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Commission of the United States, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Commission, would be to suspend, reduce or terminate the Subsidy Payments from the United States Treasury to the Commission with respect to the 2010 Series A Bonds, or payments to state or local government issuers generally with respect to obligations of the general character of, and issued in the same calendar year as, the 2010 Series A Bonds; provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by the Commission to comply with the requirements under the Code to receive such Subsidy Payments.

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.

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

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

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

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

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

2008 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 Reserve Fund Eligible Bonds means the 2008 Bonds and any other Series of Additional Bonds or Refunding Bonds or portions thereof (in each case, payable on a parity with the 2008 Bonds from, and secured as to payment on a parity with the 2008 Bonds by, the Revenues and other funds described in the Indenture) issued and designated, by a Supplemental Indenture adopted by the Commission, to be secured by and entitled to the pledge and benefit of the 2008 Bonds Reserve Fund; provided, that no Bond or Series of Bonds shall hereafter be so designated unless, upon the issuance of such Bond or Series of Bonds and after giving effect to such issuance, the amount then on deposit in the 2008 Bonds Reserve Fund will at least equal the 2008 Bonds Reserve Requirement.

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

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

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

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

2010 Bonds Tax Certificate means the Tax Certificate executed on behalf of the Commission in connection with the issuance of the Series 2010 Bonds.

2010 Costs of Issuance Account means the 2010 Costs of Issuance Account established pursuant to the Indenture.

2010 Project Fund means the 2010 Project Fund established pursuant to the Indenture.

2010 Series A Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds), authorized by the Indenture.

2010 Series B Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series B (Tax-Exempt Bonds), authorized by the Indenture.

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 Subsidy Payments received with respect to the 2010 Series A Bonds and all Swap Revenues received with respect to the Interest Rate Swap Agreements that are Parity Obligations shall be deposited in the Interest Fund and credited to the above-required deposits.

Principal Fund; Sinking Accounts. Following receipt of the Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series

for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

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

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

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

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

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

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

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

Establishment and Application of Funds and Accounts

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

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

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

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

Funding and Application of Bond Reserve Funds. The Commission may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond

Reserve Fund so established by the Commission shall be available to secure one or more Series of Bonds as the Commission shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve Fund or, if the Supplemental Indenture establishing any Bond Reserve Fund also establishes a pooled Bond Reserve Requirement that is applicable to an initial Series of Bonds together with any one or more subsequently-issued eligible Series of Bonds with the same pooled Reserve Requirement, in such subsequent Supplemental Indenture. Any Bond Reserve Fund established by the Commission shall be held by the Trustee and shall comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Commission), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Commission may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of both Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit shall have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in this caption. At least one (1) year prior to the stated expiration of such letter of credit, the Commission shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Commission. If the Commission shall fail to deposit a replacement Reserve Facility with the Trustee, the Commission shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

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

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from a Reserve Facility on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee; (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates; or (ii) together with any other moneys available therefor, (x) for the payment or redemption of all Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, (y) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, provided, however, that if funds on deposit in any Bond Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which such Bond Reserve Fund relates, the amount on deposit in the Bond Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption, or (z) for the payment of the final principal and interest payment of the Bonds of such Series. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of, and if so provided by, the terms of the Reserve Facility, if any, securing the Bonds of such Series, shall so notify the issuer thereof and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal and interest so recovered.

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

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

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

Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the Commission in connection with the Bonds or any Parity Obligations or Subordinate Obligations as such amounts shall become due and payable.

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

Rebate Fund. Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Commission. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the applicable Tax Certificates. The Commission covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Commission delivered to the Trustee pursuant to each Tax Certificate (which

instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto).

Payment Provisions Applicable to Interest Rate Swap Agreements

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

Investment in Funds and Accounts

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

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

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Costs of Issuance Fund shall be transferred to the Revenue Fund; (iv) all interest, profits and other income received from the investment of moneys in a Project Fund shall be

retained in such Project Fund, unless the Commission shall direct that such earnings be transferred to the Rebate Fund; (v) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; (vi) all interest, profits and other income received from the investment of moneys in any Purchase Fund shall be retained in such Purchase Fund; and (vii) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund.

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

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Commission may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

Issuance of Additional Bonds and Other Obligations

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

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

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

from the proceeds of the sale of such Series of Bonds or from other funds of the Commission or from both such sources or may be made in the form of a Reserve Facility.

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

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

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

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

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

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

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

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

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

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

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

- (1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;
- (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;
- (3) any termination payment owed by the Commission to a Counterparty after offset for any payments made to the Commission from such Counterparty under any Interest Rate Swap Agreement that was entered into in connection with the Bonds or Parity Obligations to be refunded;
- (4) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;
- (5) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and
- (6) funding a Bond Reserve Fund for the Refunding Bonds, if required.

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

- (1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Commission.
- (2) A Certificate of the Commission certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds or that the Commission expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds; and (ii) that the requirements of the Indenture

described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

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

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

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

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

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

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

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

(6) 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;

(7) 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

(8) 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:

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

(10) 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;

(11) 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

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

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

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

(F) The Initial Swaps have been entered into by the Commission and the obligation of the Commission to make payments required under the Initial Swaps (excluding fees and expenses and termination payments under the Initial Swaps) constitutes a Parity Obligation under the Indenture. The obligation of the Commission to pay fees, expenses and termination payments under the Initial Swaps is

secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon the Sales Tax Revenues that secures the Bonds, Parity Obligations and payment of principal of and interest on Subordinate Obligations.

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

Certain Covenants of the Commission

Punctual Payments. The Commission will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of Revenues as provided in the Indenture.

Against Encumbrances. The Commission will not create or permit to exist any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted pursuant to the provisions of the Indenture described above under the caption "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations".

Accounting Records and Financial Statements. The Commission will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Commission will furnish the Trustee, with copies to each Credit Provider and each Liquidity Provider, within two hundred ten (210) days after the end of each Fiscal Year or as soon thereafter as they can practically be furnished, the financial statements of the Commission for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of an Authorized Representative stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Commission to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Commission, which copy of the financial statements may, at the sole discretion of the Commission, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

Collection of Sales Tax Revenues. The Commission covenants and agrees that it has duly levied a retail transaction and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Commission. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Commission will continue to levy and collect such retail transactions and use tax to the full amount permitted by law. The Commission further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of said retail transactions and use tax and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of any Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any Bonds are Outstanding. The Commission will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Commission by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the Commission in accordance with the provisions of the Indenture described above under the caption "Allocation of Sales Tax Revenues"; provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied as described below under the caption "Application of the Revenues and Other Funds After Default; No Acceleration".

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

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

Tax Covenants. The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Commission may exclude the application of the covenants contained in this caption "Tax Covenant" and the caption "Rebate Fund" above to such Series of Bonds. The Commission will exclude the 2010 Series A Bonds from these covenants in accordance with the provisions of the Indenture described below under the caption "Tax Covenants for 2010 Series A 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:

(13) 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;

(14) 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;

(15) 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

(16) 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.

Third Supplemental Indenture

General. Under the Third Supplemental Indenture, the Commission has authorized the Series 2010 Bonds for the purpose of providing funds to pay the Costs of the Project and all as provided in the Third Supplemental Indenture.

Effectiveness of Amendments. The amendments to the Indenture will become effective on the date which is the later of: (i) November 6, 2010, the date 30 days after the date on which notice of the proposed amendments was given to the Holders of the 2008 Bonds, and (ii) the date on which the Commission and the Trustee receive consents to such amendments from each Credit Provider, the Series B Bank and each Counterparty.

Tax Covenants for 2010 Series A Bonds. (A) The Commission irrevocably elects to apply the provisions of Section 54AA(d) of the Code to the 2010 Series A Bonds and intends that the 2010 Series A Bonds be treated as Build America Bonds. In addition, the Commission irrevocably elects to treat the 2010 Series A Bonds as "Qualified Bonds" within the meaning of Section 54AA(g)(2) of the Code such that the 2010 Series A Bonds will be eligible for direct payment by the federal government of the Subsidy Payments with respect to the 2010 Series A Bonds.

(B) The Commission is obligated not to use or permit the use of any proceeds of the 2010 Series A Bonds or any funds of the Commission, directly or indirectly, to acquire any securities or

obligations that would adversely affect the receipt of the Subsidy Payments, and is obligated not to take or permit to be taken any other action or actions, which would cause any such 2010 Series A Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder. The Commission is obligated to observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Commission is obligated to comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the 2010 Series A Bonds.

(C) The Commission is obligated to comply with the provisions and procedures of the 2010 Bonds Tax Certificate.

(D) The Commission is obligated to not use or permit the use of any proceeds of the 2010 Series A Bonds or any funds of the Commission (so long as such proceeds or other funds are under its control) or any funds held by the Trustee under the Indenture, directly or indirectly, in any manner, and is obligated not to take or omit to take any action, that would adversely affect the receipt of the Subsidy Payments.

(E) Notwithstanding any provisions described under this heading "Tax Covenants for 2010 Series A Bonds" or the 2010 Bonds Tax Certificate, if the Commission provides to the Trustee an Opinion of Bond Counsel to the effect that any specified action required as described under this heading is no longer required or that some further or different action is required to maintain the receipt of the Subsidy Payments with respect to the 2010 Series A Bonds, the Trustee and the Commission may conclusively rely on such opinion in complying with the requirements described under this caption, and, notwithstanding any other provision of the Indenture or the 2010 Bonds Tax Certificate, the covenants described under this heading will be deemed to be modified to that extent.

Pledge of Subsidy Payments. As additional security for the payment of all amounts owing on the Bonds, there are irrevocably pledged to the Trustee all Subsidy Payments received with respect to the 2010 Series A Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Such Subsidy Payments shall immediately be subject to such pledge, and such pledge shall constitute a first lien on and security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the Commission and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act. The pledge of Subsidy Payments with respect to the 2010 Series A Bonds made in the Indenture will be irrevocable until all of the Bonds are no longer Outstanding and no amounts are owed in connection with the Bonds. The Commission will cause the Subsidy Payments with respect to the 2010 Series A Bonds to be sent directly to the Trustee, and the Trustee will deposit the Subsidy Payments, when received, to the Interest Fund and each such deposit shall be credited against the deposits of Sales Tax Revenues that the Trustee is required to set aside in the Interest Fund pursuant to the Indenture.

Establishment of Funds and Accounts and Application Thereof

Funds and Accounts. The following funds and accounts are established under the Indenture in connection with the Series 2010 Bonds:

(A) To ensure the proper application of such portion of proceeds from the sale of the Series 2010 Bonds to be applied to pay Costs of the Project, there is established the 2010 Project Fund, such fund to be held by the Trustee.

(B) To ensure the proper application of such portion of proceeds from the sale of the Series 2010 Bonds to be applied to pay Costs of Issuance of the Series 2010 Bonds, there is established the 2010 Costs of Issuance Account, such account to be established within the 2010 Project Fund and held by the Trustee.

2010 Project Fund. The Trustee will establish separate subaccounts within the 2010 Project Fund called the “2010A Project Subaccount” and the “2010B Project Subaccount.” The monies set aside and placed in each such subaccount within the 2010 Project Fund and in the 2010 Project Fund itself will remain therein until from time to time expended for the purpose of paying the Costs of the Project with respect to the Series 2010 Bonds and will not be used for any other purpose whatsoever.

(A) Before any payment from the 2010 Project Fund or any subaccount therein shall be made by the Trustee, the Commission will file or cause to be filed with the Trustee a Requisition of the Commission, such Requisition to be signed by an Authorized Representative and to include: (i) the item number of such payment; (ii) the name and address of the person to whom each such payment is due, which may be the Commission in the case of reimbursement for costs theretofore paid by the Commission; (iii) the respective amounts to be paid; (iv) the purpose by general classification for which each obligation to be paid was incurred; (v) that obligations in the stated amounts have been incurred by the Commission and are presently due and payable and that each item thereof is a proper charge against the 2010 Project Fund, including the particular subaccount, if applicable, and has not been previously paid from said fund; and (vi) that there has not been filed with or served upon the Commission notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen’s or mechanics’ liens accruing by mere operation of law.

(B) When the Commission determines that the portion of the Project funded with the Series 2010 Bonds has been completed, a Certificate of the Commission will be delivered to the Trustee by the Commission stating: (i) the fact and date of such completion; (ii) that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the 2010 Project Fund is to be maintained in the full amount of such claims until such dispute is resolved); and (iii) that the Trustee is to transfer the remaining balance in the 2010 Project Fund, less the amount of any such retention, and then to the Revenue Fund or, if so directed by the Commission, to the Rebate Fund.

2010 Costs of Issuance Account. The Trustee will establish separate subaccounts within the 2010 Costs of Issuance Account called the “2010A Costs of Issuance Subaccount” and the “2010B Costs of Issuance Subaccount.” All money on deposit in each such subaccount within the 2010 Costs of Issuance Account and in the 2010 Costs of Issuance Account itself will be applied solely for the payment of authorized Costs of Issuance. Before any payment from the 2010 Costs of Issuance Account or any subaccount therein is made by the Trustee, the Commission will file or cause to be filed with the Trustee a Requisition of the Commission, such Requisition to be signed by an Authorized Representative and to include: (i) the item number of such payment; (ii) the name and address of the person to whom each such payment is due, which may be the Commission in the case of reimbursement for costs theretofore paid by the Commission; (iii) the respective amounts to be paid; (iv) the purpose by general classification for which each obligation to be paid was incurred and, if applicable, the subaccount from which such payment is to be made; (v) that obligations in the stated amounts have been incurred by the Commission and are presently due and payable and that each item thereof is a proper charge against the applicable subaccount of the 2010 Costs of Issuance Account and has not been previously paid from said account.

Any amounts remaining in the 2010A Costs of Issuance Subaccount one hundred eighty (180) days after the date of issuance of the 2010 Bonds shall be transferred to the 2010A Project Subaccount. Any amounts remaining in the 2010B Costs of Issuance Subaccount one hundred eighty (180) days after the date of issuance of the 2010 Bonds shall be transferred to the 2010B Project Subaccount.

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 2010 Bonds. The Series 2010 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 2010 Bond certificate will be issued for each maturity of each Series of the Series 2010 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.

Purchases of the Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2010 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 2010 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 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 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 2010 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 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 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 2010 Bonds.

Redemption notices shall be sent to DTC. If less than all of the Series 2010 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 2010 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 2010 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 2010 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 2010 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 2010 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 2010 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2010 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2010 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 2010 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 2010 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 2010 BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL SERIES 2010 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 2010 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 2010 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 2010 Bonds, and the Commission does not select another qualified securities depository, the Commission shall deliver one or more Series 2010 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 2010 Bonds will be governed by the provisions of the Indenture.

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

San Diego County Regional Transportation Commission
San Diego, California

San Diego County Regional Transportation Commission
Sales Tax Revenue Bonds (Limited Tax Bonds)
2010 Series A (Taxable Build America Bonds) and
2010 Series B (Tax-Exempt Bonds)

(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 \$350,000,000 aggregate principal amount of San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds) (the "2010 Series A Bonds") and 2010 Series B (Tax-Exempt Bonds) (the "2010 Series B Bonds") (collectively, the "Bonds"), issued pursuant to an Indenture, dated as of March 1, 2008, as previously supplemented, and as supplemented by a Third Supplemental Indenture, dated as of October 1, 2010 (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 speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy 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 2010 Series B 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 2010 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2010 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. Interest on the 2010 Series A Bonds is not excludable from gross income for federal income tax purposes. 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.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties that may be imposed under the Code, or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), dated November 10, 2010, is executed and delivered by the San Diego County Regional Transportation Commission (the "Issuer") and Digital Assurance Certification LLC, as dissemination agent (the "Dissemination Agent") in connection with the issuance of \$350,000,000 San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds) and 2010 Series B (Tax-Exempt Bonds) (hereinafter collectively referred to as the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of March 1, 2008, as supplemented and amended by a First Supplemental Indenture (the "First Supplemental Indenture") thereto, dated as of March 1, 2008, a Second Supplemental Indenture (the "Second Supplemental Indenture") thereto, dated as of July 1, 2008, and a Third Supplemental Indenture (the "Third Supplemental Indenture") thereto, dated as of October 1, 2010 (hereinafter collectively referred to as the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). Pursuant to Section 24.01 of the Indenture, the Issuer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the Holders (as such term is defined in the Indenture) and the Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Disclosure Agreement, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

Beneficial Owner shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Commission means the Securities and Exchange Commission.

Disclosure Representative shall mean the designee of the Issuer designated to act as the Disclosure Representative, or such other person as the Issuer shall designate in writing to the Trustee from time to time.

Dissemination Agent shall mean an entity selected and retained by the Issuer, or any successor thereto selected by the Issuer. The initial Dissemination Agent shall be Digital Assurance Certification LLC.

Listed Events shall mean any of the events listed in Section 5(a) of this Disclosure Agreement and any other event legally required to be reported pursuant to the Rule.

Participating Underwriters shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the Securities and Exchange Commission as of the date of this Disclosure Agreement are currently set forth at the following website: <http://emma.msrb.org/>.

Rule shall mean 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.

State shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall provide to each Repository, or shall cause the Dissemination Agent to provide to each Repository, not later than two hundred ten (210) days after the end of the Issuer's fiscal year, commencing with the fiscal year ending June 30, 2010, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. Not later than one (1) Business Day prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Issuer hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer.

(b) If by one (1) Business Day prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent has not received an Annual Report by the date required in the first sentence of subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository; and

(ii) (if the Dissemination Agent is other than the Issuer), to the extent appropriate information is available to it, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to

governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, dated October 28, 2010, relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The amount of Sales Tax Revenues (as such term is defined in the Official Statement) received as of the most recently ended fiscal year of the Issuer.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the 2010 Series B Bonds;
7. modifications to rights of Holders;
8. bond calls;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds; and
11. rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would constitute material information for Holders of Bonds.

(c) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the Issuer gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of Listed Events described in subsections (a)(4) and (5) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

(e) Termination of Reporting Obligation. The obligations of the Issuer, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(f) hereof.

SECTION 6. Dissemination Agent; Electronic Filing.

(a) The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least thirty (30) days' notice in writing to the Issuer and the Trustee.

(b) All Annual Reports and reports of Listed Events shall be filed with the Repository in an electronic format as prescribed by the Repository. All documents provided to the Repository shall be accompanied by identifying information as prescribed by the Repository.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Disclosure Agreement, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Agreement may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Issuer, the Trustee and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual

Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. The Issuer and the Dissemination Agent hereby represents and warrants that it is currently not in default under any other continuing disclosure arrangement entered into in connection with the Rule.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer and the Trustee agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Trustee, the Holders, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Notices. All notices or communications herein required or permitted to be given shall be in writing and shall be delivered in such manner and to such addresses as are specified in the Indenture.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SAN DIEGO COUNTY REGIONAL
TRANSPORTATION COMMISSION

By: _____
Director of Finance

DIGITAL ASSURANCE CERTIFICATION LLC,
as Dissemination Agent

By _____
Authorized Officer

Receipt Acknowledged By:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Diego County Regional Transportation Commission
Name of Bond Issue: \$350,000,000 San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2010 A (Taxable Build America Bonds) and 2010 Series B (Tax-Exempt Bonds)
Date of Issuance: November 10, 2010

NOTICE IS HEREBY GIVEN that the San Diego County Regional Transportation Commission (the "Issuer") has not provided an Annual Report with respect to the above-referenced Bonds as required by Section 24.01 of that certain Indenture, dated as of March 1, 2008, as supplemented and amended by a First Supplemental Indenture (the "First Supplemental Indenture") thereto, dated as of March 1, 2008, a Second Supplemental Indenture (the "Second Supplemental Indenture") thereto, dated as of July 1, 2008, and a Third Supplemental Indenture (the "Third Supplemental Indenture") thereto, dated as of October 1, 2010, between the Issuer and U.S. Bank National Association, as trustee. The Issuer anticipates that the Annual Report will be filed by Digital Assurance Certification LLC.

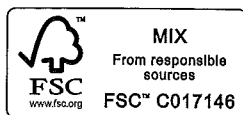
Dated:

Digital Assurance Certification LLC,
as dissemination agent on behalf of the Issuer

By: _____
Its: _____

cc: San Diego County Regional Transportation Commission

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