

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 2018 Short-Term Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2018 Short-Term Notes is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2018 Short-Term Notes. See “TAX MATTERS.”

\$537,480,000

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

SUBORDINATE SALES TAX REVENUE



SHORT-TERM NOTES (LIMITED TAX BONDS), 2018 SERIES A

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u>
\$100,000,000	3.00%	1.760%	797400KZ0
\$437,480,000	4.00%	1.760%	797400KY3

Dated: Date of Delivery

Due on April 1, 2021

The San Diego County Regional Transportation Commission (the “Commission”) will issue its Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A (the “2018 Short-Term Notes”) pursuant to the Subordinate Indenture, dated as of April 1, 2018 (amending and restating the Subordinate Indenture, dated as of August 1, 1991, as amended and restated by the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, as further supplemented and amended), as supplemented and amended by the First Supplement to the Subordinate Indenture, dated as of April 1, 2018 (collectively, the “Subordinate Indenture”), between the Commission and U.S. Bank National Association, as trustee (the “Trustee”).

The 2018 Short-Term Notes are limited obligations of the Commission secured by a subordinate 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 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 2018 SHORT-TERM NOTES” herein.

The Commission does not expect to hold Sales Tax Revenues in an amount sufficient to pay the principal of the 2018 Short-Term Notes at maturity. The Commission expects to pay the principal of the 2018 Short-Term Notes from the proceeds of a draw on the TIFIA Loan Agreement (as defined herein). See “JUNIOR SUBORDINATE TIFIA LOAN,” “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES – Best Efforts Undertaking to Draw on TIFIA Loan Agreement or Obtain Financing” and “RISK FACTORS – Availability of Funds to Pay 2018 Short-Term Notes” herein.

The Commission will apply the proceeds of the 2018 Short-Term Notes to: (i) finance or refinance certain costs of the Commission’s Mid-Coast Corridor Transit Project (as further described herein), (ii) retire a portion of outstanding San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds), Series B (the “Series B Notes”), and (iii) pay the costs of issuing the 2018 Short-Term Notes. See “FINANCING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2018 Short-Term Notes will be dated their date of delivery, and will mature on April 1, 2021. The Commission will pay interest on the 2018 Short-Term Notes on April 1 and October 1 of each year, commencing on October 1, 2018. Investors may purchase the 2018 Short-Term Notes in book-entry form only. See APPENDIX E – “BOOK-ENTRY ONLY SYSTEM.”

The 2018 Short-Term Notes are not subject to redemption by the Commission prior to maturity.

THE 2018 SHORT-TERM NOTES DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE COMMISSION TO THE EXTENT OF THE PLEDGE OF REVENUES DESCRIBED HEREIN, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. THE CREDIT OR TAXING POWER (OTHER THAN AS DESCRIBED IN THE SUBORDINATE INDENTURE) OF THE COMMISSION IS NOT PLEDGED FOR THE PAYMENT OF THE 2018 SHORT-TERM NOTES. THE 2018 SHORT-TERM NOTES ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE COMMISSION OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE SALES TAX REVENUES AND CERTAIN OTHER FUNDS PLEDGED UNDER THE SUBORDINATE INDENTURE.

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 2018 Short-Term Notes 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 on for the Commission by its General Counsel and by Norton Rose Fulbright US LLP, Disclosure Counsel to the Commission, and for the Underwriters by their counsel, Nixon Peabody LLP. PFM Financial Advisors LLC has served as Municipal Advisor to the Commission. It is expected that the 2018 Short-Term Notes will be available for delivery through the book-entry facilities of The Depository Trust Company on or about April 18, 2018.

Citigroup

BofA Merrill Lynch

Wells Fargo Securities

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2018 Short-Term Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by the San Diego County Regional Transportation Commission (the “Commission”) and other sources that are believed by the Commission to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

This Official Statement is not to be construed as a contract with the purchasers of the 2018 Short-Term Notes.

This Official Statement speaks only as of its date. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made in conjunction herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Commission or other matters described herein since the date hereof. This Official Statement is submitted with respect to the sale of the 2018 Short-Term Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Commission.

All descriptions and summaries of documents and statutes hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document and statute for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and statute. Certain capitalized terms used but not defined herein are defined in APPENDIX C-1 – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE” or APPENDIX C-2 – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE” or, if not defined in Appendices C-1 or C-2, in the Senior Indenture or Subordinate Indenture, respectively.

In connection with the offering of the 2018 Short-Term Notes, the Underwriters may overallocate or effect transactions which stabilize or maintain the market prices of such 2018 Short-Term Notes at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2018 Short-Term Notes to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Municipal Advisor or the Commission is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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

TransNet Ordinance Major Corridor Completed / In Progress Projects



January 2018

- 1 SR 76:** Widen highway*
- 2 SR 52:** Widen and extend highway*
- 3 Mid-Coast:**
Transit: Old Town-UCSD*
Transit: UTC *SuperLoop Rapid*
I-5/I-8 west to north connector
I-5/Genesee Ave interchange
- 4 I-15:**
HOV/Express Lanes
Transit: *Rapid 235*
Escondido-Downtown San Diego
Transit: *Rapid 237*
Rancho Bernardo-Sorrento Valley
- 5 I-805:**
HOV/Express Lanes
Transit: Otay Mesa-Downtown San Diego
SR 94 HOV Lanes Alternative Analysis
- 6 North Coast:**
I-5 HOV/Express Lanes
Coastal rail double-tracking
- 7 SPRINTER:** Oceanside-Escondido light rail
- 8 Blue and Orange Line Trolley:**
Low-floor vehicles
Station upgrades
- 9 Mid-City Rapid:**
Transit: Downtown San Diego-SDSU
- 10 Goods Movement:**
South Line rail upgrades
SR 905
SR 905/SR 125/SR 11 connector
SR 11
- 11 SR 94/SR 125:** South to east connector
- 12 SR 125:** Toll Road Purchase

*TransNet Lock-box projects

Highway Projects

- Completed
- Under Construction
- Preliminary Engineering

Transit Projects

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



SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

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Southern California Tribal Chairmen's Association

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Hon. Robert Smith, Chairman, Pala Band of Mission Indians

Mexico

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
General	1
Authority for Issuance.....	1
Application of 2018 Short-Term Note Proceeds.....	1
Repayment and Security for the 2018 Short-Term Notes	2
Issuance of Additional Subordinate Obligations	3
No Debt Service Reserve for 2018 Short-Term Notes	3
Outstanding Senior Obligations.....	3
The Commission and SANDAG.....	3
THE 2018 SHORT-TERM NOTES	4
The 2018 Short-Term Notes	4
SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES	4
Anticipated Repayment of Principal of 2018 Short-Term Notes From TIFIA Loan Draw	4
Pledge of Sales Tax Revenues	5
Limited Liability	5
Allocation of Sales Tax Revenues for 2018 Short-Term Notes.....	6
Best Efforts Undertaking to Draw on TIFIA Loan Agreement or Obtain Financing	6
Issuance of Additional Obligations.....	7
OUTSTANDING OBLIGATIONS	9
Senior Lien Debt	9
Interest Rate Swap Agreements	11
Liquidity Facilities	12
Subordinate Commercial Paper Notes and CP Letter of Credit.....	13
JUNIOR SUBORDINATE TIFIA LOAN	13
General.....	13
Disbursement Requirements	13
Events of Default and Remedies.....	14
FINANCING PLAN	19
ESTIMATED SOURCES AND USES OF FUNDS	20
PROJECTED DEBT SERVICE SCHEDULE	21
SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION	22
General.....	22
The Expenditure Plan.....	22
Future Financings	24
Executive Staff.....	25
Independent Examination of Measure A Revenue Estimates	26

TABLE OF CONTENTS
(continued)

THE SALES TAX	27
Authorization, Application and Collection of the Sales Tax	27
Historical Sales Tax Revenues.....	28
Other Sales Taxes Imposed in the County.....	30
COMMISSION INVESTMENT PORTFOLIO.....	30
RISK FACTORS	31
Availability of Funds to Pay the 2018 Short-Term Notes	31
Economy of the County and the State.....	32
Other Sales Taxes	32
Acceleration of Liquidity Facility Bonds.....	32
Variable Rate Bonds	32
Loss of Subsidy Payments	33
Loss of Tax Exemption.....	33
Bankruptcy Considerations	33
Proposition 218	34
Further Initiatives.....	35
Governance and Management – Changes in State Law.....	35
ABSENCE OF MATERIAL LITIGATION.....	35
TAX MATTERS.....	35
LEGAL MATTERS.....	37
CONTINUING DISCLOSURE.....	37
RATINGS	38
UNDERWRITING	38
Purchase of the 2018 Short-Term Notes	38
Retail Brokerage Arrangements.....	39
MUNICIPAL ADVISOR.....	40
FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS	40
MISCELLANEOUS	40

TABLE OF CONTENTS
(continued)

APPENDIX A – SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

APPENDIX B – INFORMATION REGARDING THE COUNTY OF SAN DIEGO

APPENDIX C-1 – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR
INDENTURE

APPENDIX C-2 – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE
SUBORDINATE INDENTURE

APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX E – BOOK-ENTRY ONLY SYSTEM

APPENDIX F – PROPOSED FORM OF OPINION OF BOND COUNSEL

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OFFICIAL STATEMENT

\$537,480,000

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION SUBORDINATE SALES TAX REVENUE SHORT-TERM NOTES (LIMITED TAX BONDS), 2018 SERIES A

INTRODUCTION

General

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 its Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A (the “2018 Short-Term Notes”) in the aggregate principal amount of \$537,480,000. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C-1 – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE” or APPENDIX C-2 – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE” or, if not defined in Appendices C-1 or C-2, in the Senior Indenture or Subordinate Indenture, respectively.

Authority for Issuance

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 2018 Short-Term Notes will be issued and secured pursuant to the Subordinate Indenture, dated as of April 1, 2018 (amending and restating the Subordinate Indenture, dated as of August 1, 1991, as amended and restated by the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, as further supplemented and amended), as supplemented and amended by the First Supplement to the Subordinate Indenture, dated as of April 1, 2018 (collectively, the “Subordinate Indenture”), between the Commission and U.S. Bank National Association, as trustee (the “Trustee”).

The Commission is a separate legal entity from the City of San Diego, California (the “City”) and the County of San Diego, California (the “County”). See “SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION.”

Application of 2018 Short-Term Note Proceeds

The Commission will apply the proceeds of the 2018 Short-Term Notes to: (i) finance or refinance certain costs of the Commission’s Mid-Coast Corridor Transit Project (as further described herein), (ii) retire a portion of outstanding San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds), Series B (the “Series B Notes”), and (iii) pay the costs of issuing the 2018 Short-Term Notes. See “FINANCING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Repayment and Security for the 2018 Short-Term Notes

The 2018 Short-Term Notes are limited obligations of the Commission secured by a subordinate 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 Section 7251 and following), net of an administrative fee paid to the California Department of Tax and Fee Administration (the “CDTFA”) in connection with the collection and disbursement of the Sales Tax. The Taxpayer Transparency and Fairness Act of 2017 restructured the California State Board of Equalization (the “BOE”) into three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The CDTFA handles most of the taxes and fees previously collected by the BOE, including, as of July 1, 2017, the Sales Tax.

The Commission does not expect to hold Sales Tax Revenues in an amount sufficient to pay the principal of the 2018 Short-Term Notes at maturity. The Commission expects to pay the principal of the 2018 Short-Term Notes from the proceeds of a draw on the loan agreement the Commission entered into, on June 27, 2017 (the “TIFIA Loan Agreement”), with the U.S. Department of Transportation, acting by and through the Executive Director of the Build America Bureau (the “TIFIA Lender”), pursuant to which the TIFIA Lender has agreed to extend credit to the Commission in an amount not to exceed \$537,484,439 (the “Junior Subordinate TIFIA Loan”). See “JUNIOR SUBORDINATE TIFIA LOAN” and “RISK FACTORS – Availability of Funds to Pay 2018 Short-Term Notes” herein.

The proceeds of the Junior Subordinate TIFIA Loan are expected to be fully drawn in a single disbursement no later than April 1, 2021, and such proceeds are expected to be applied to pay the 2018 Short-Term Notes on or prior to their maturity date. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES” and “RISK FACTORS – Availability of Funds to Pay the 2018 Short-Term Notes.”

The Subordinate Indenture provides that unless the 2018 Short-Term Notes have been previously paid or defeased pursuant to the provisions of the Subordinate Indenture, the Commission agrees to use its best efforts, on or before April 1, 2021, to draw on the TIFIA Loan Agreement or, to the extent sufficient funds are not available or eligible thereunder, to issue Senior Bonds under the Senior Indenture, or Notes or other Parity Debt under the Subordinate Indenture or to otherwise obtain financing to provide funds sufficient to pay the principal of the 2018 Short-Term Notes on April 1, 2021. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES – Best Efforts Undertaking to Draw on TIFIA Loan Agreement or Obtain Financing.”

On November 3, 1987, a majority of County voters approved the San Diego County Transportation Improvement Program Ordinance and Expenditure Plan (as amended, the “1987 Ordinance”) which imposed the Sales Tax in the County for a 20-year period. Under the 1987 Ordinance, the Sales Tax was scheduled to expire on April 1, 2008. On November 2, 2004, more than two-thirds of County voters approved the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (the “Sales Tax Extension Ordinance” and, together with the 1987 Ordinance, the “Ordinance”) which provided for an extension of the Sales Tax through March 31, 2048. The 2018 Short-Term Notes are further secured by a pledge of certain amounts held by the Trustee under the Subordinate Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES – Pledge of Sales Tax Revenues.”

The Sales Tax is scheduled to expire on March 31, 2048. Under the Subordinate Indenture, the Trustee is required to make monthly deposits of Sales Tax Revenues in the Interest Fund and Principal Fund in advance of the next semiannual or annual payment of debt service becoming due on the 2018 Short-Term Notes, in amounts sufficient to pay such debt service, including the final amount becoming

due on April 1, 2021. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES – Allocation of Sales Tax Revenues for 2018 Short-Term Notes” and “THE SALES TAX – Authorization, Application and Collection of the Sales Tax.” Notwithstanding the foregoing, the Commission expects to pay the principal of the 2018 Short-Term Notes from the proceeds of the Junior Subordinate TIFIA Loan or other financing as set forth above.

Issuance of Additional Subordinate Obligations

The Commission may issue additional San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Commercial Paper Notes (Limited Tax Bonds) (the “Subordinate Commercial Paper Notes”) and other Parity Debt (as defined herein) secured by Sales Tax Revenues on a parity with the 2018 Short-Term Notes and the Series B Notes and on a basis subordinate to the Commission’s Outstanding Senior Lien Debt (as defined herein). See SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES - Issuance of Additional Obligations.”

No Debt Service Reserve for 2018 Short-Term Notes

No debt service reserve will be funded for the 2018 Short-Term Notes.

Outstanding Senior Obligations

The Commission has outstanding \$1,725,705,000 aggregate principal amount of its Sales Tax Revenue Bonds (Limited Tax Bonds) with a lien on Sales Tax Revenues senior to the subordinate pledge securing the 2018 Short-Term Notes. The Commission is also party to Interest Rate Swap Agreements and Liquidity Facilities secured by a lien on Sales Tax Revenues senior to the pledge securing the 2018 Short-Term Notes. See “OUTSTANDING OBLIGATIONS – Senior Lien Debt,” “– Interest Rate Swap Agreements” and “– Liquidity Facilities.”

The Commission and SANDAG

The Board of Directors of the San Diego Association of Governments (“SANDAG”) is designated under State legislation to serve as the San Diego County Regional Transportation Commission (the “Commission”). The Commission is authorized, acting by motion, resolution or ordinance, to enter into contracts and, by a two-thirds vote to authorize the issuance of bonds payable from proceeds of the Sales Tax.

The Commission is responsible for the implementation and administration of transportation improvement programs funded with the Sales Tax known as “*TransNet*.” The Commission is authorized to receive sales tax revenues after deduction of required CDTFA costs, approve programs and projects for funding, and adopt implementing ordinances, rules, policies, and take such other actions as may be necessary and appropriate to carry out its responsibilities.

SANDAG is the statutorily created regional transportation planning agency. In 2003, State legislation 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. SANDAG is now responsible for transit planning, programming, project implementation, and construction of transit projects in the region and assists in the financing of transit projects. Neither SANDAG nor the Commission operates public transit services. MTS and NCTD operate such services within the County. SANDAG is the operator of certain express lanes on State Route 125 and has issued toll revenue debt to finance the acquisition of such toll road. The liabilities of SANDAG are not liabilities of the Commission. See “SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION.”

THE 2018 SHORT-TERM NOTES

The 2018 Short-Term Notes

The 2018 Short-Term Notes are being issued by the Commission pursuant to the Subordinate Indenture and the Act. The 2018 Short-Term Notes will be dated their date of delivery and will mature on the date and in the amount, and will bear interest at the rate, shown on the cover page of this Official Statement. Interest on the 2018 Short-Term Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Commission will issue the 2018 Short-Term Notes as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Commission will pay interest on the 2018 Short-Term Notes on April 1 and October 1 of each year, commencing on October 1, 2018 (each, an “Interest Payment Date”).

The 2018 Short-Term Notes will be issued in book-entry form only and will be registered in the name of a nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2018 Short-Term Notes. Investors may purchase 2018 Short-Term Notes in book-entry form only. Purchasers (“Beneficial Owners”) of the 2018 Short-Term Notes will not receive physical certificates representing their ownership interest in the 2018 Short-Term Notes purchased. Payments of principal of and interest on the 2018 Short-Term Notes will be made to DTC, and DTC will distribute such payments to its Direct Participants. “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 2018 Short-Term Note, including, without limitation, any Person holding 2018 Short-Term Notes through nominees or depositories, including DTC. Disbursement of such payments to Beneficial Owners of the 2018 Short-Term Notes is the responsibility of DTC’s Direct and Indirect Participants and not the Commission. See APPENDIX E – “BOOK-ENTRY ONLY SYSTEM.”

SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES

Anticipated Repayment of Principal of 2018 Short-Term Notes From TIFIA Loan Draw

The Commission does not expect to hold Sales Tax Revenues in an amount sufficient to pay the principal of the 2018 Short-Term Notes at maturity. The Commission expects to pay the principal of the 2018 Short-Term Notes from the proceeds of a draw on the TIFIA Loan Agreement, with the TIFIA Lender, pursuant to which the TIFIA Lender has agreed to extend credit to the Commission in an amount not to exceed \$537,484,439. See “JUNIOR SUBORDINATE TIFIA LOAN” and “RISK FACTORS – Availability of Funds to Pay 2018 Short-Term Notes” herein.

The Subordinate Indenture provides that unless the 2018 Short-Term Notes have been previously paid or defeased pursuant to the provisions of the Subordinate Indenture, the Commission agrees to use its best efforts, on or before April 1, 2021, to draw on the TIFIA Loan Agreement or, to the extent sufficient funds are not available or eligible thereunder, to issue Senior Bonds under the Senior Indenture, or Notes or other Parity Debt under the Subordinate Indenture or to otherwise obtain financing, at any interest rate not to exceed the Maximum Interest Rate (as defined in the Senior Indenture) and subject to the terms of the Senior Indenture and the Subordinate Indenture, to provide funds sufficient to pay the principal of the 2018 Short-Term Notes on April 1, 2021. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES – Best Efforts Undertaking to Draw on TIFIA Loan Agreement or Obtain Financing.”

Pledge of Sales Tax Revenues

The 2018 Short-Term Notes are limited obligations of the Commission and are payable as to principal and interest exclusively from Revenues as defined in the Subordinate Indenture, consisting of Sales Tax Revenues and any other amounts received by the Trustee after satisfaction of the Commission's obligation to pay principal of and interest on the Senior Lien Debt and any other requirements relating to the Senior Lien Debt. "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 CDTFA for costs and expenses for its services in connection with the Sales Tax. For a general discussion of the Sales Tax and historical and forecasted Sales Tax Revenues, see "THE SALES TAX" herein.

The Subordinate Indenture provides that the pledge of Revenues for the payment of the 2018 Short-Term Notes, the Subordinate Commercial Paper Notes, and any debt or other obligations of the Commission secured by Revenues on a parity with the 2018 Short-Term Notes (such debt being hereinafter referred to as "Parity Debt"), shall constitute a first lien on the Revenues pledged under the Subordinate Indenture and shall be valid and binding from and after delivery by the Trustee of the 2018 Short-Term Notes or Parity Debt, without any physical delivery thereof or further act. Under the Subordinate Indenture, the Commission has covenanted to cause the Sales Tax Revenues to be transmitted by the CDTFA directly to the trustee for the Senior Lien Debt (the "Senior Lien Bond Trustee"); the Commission has directed the Senior Lien Bond Trustee to remit all Sales Tax Revenues remaining after satisfaction of the requirements relating to the Senior Lien Debt to the Trustee. The Trustee is directed to deposit all Sales Tax Revenues received from the Senior Lien Bond Trustee in the Revenue Fund established under the Subordinate Indenture. All moneys at any time held in the Revenue Fund established under the Subordinate Indenture shall be held in trust for the benefit of the registered owners of the 2018 Short-Term Notes and Parity Debt and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Subordinate Indenture.

As of April 1, 2018, the Commission had outstanding \$1,725,705,000 aggregate principal amount of sales tax revenue bonds (the "Outstanding Senior Lien Debt") and may determine to issue additional sales tax revenue bonds or other indebtedness having a lien upon the Sales Tax Revenues that is senior to that of the 2018 Short-Term Notes (the Outstanding Senior Bonds and any additional bonds or other indebtedness secured by a lien on Sales Tax Revenues senior to lien securing the 2018 Short-Term Notes is referred to herein as the "Senior Lien Debt"). The Commission is also party to Interest Rate Swap Agreements and Liquidity Facilities secured by a lien on Sales Tax Revenues senior to the pledge securing the 2018 Short-Term Notes. See "OUTSTANDING OBLIGATIONS – Senior Lien Debt," "– Interest Rate Swap Agreements" and "– Liquidity Facilities."

See APPENDIX C-1 – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE."

Limited Liability

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE COMMISSION TO THE EXTENT OF THE PLEDGE OF REVENUES DESCRIBED HEREIN, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE 2018 SHORT-TERM NOTES. NEITHER THE CREDIT NOR THE TAXING POWER (OTHER THAN AS DESCRIBED IN THE SUBORDINATE INDENTURE) OF THE COMMISSION IS PLEDGED FOR THE PAYMENT OF THE 2018 SHORT-TERM NOTES. THE 2018 SHORT-TERM NOTES ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE,

LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE COMMISSION OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES.

Allocation of Sales Tax Revenues for 2018 Short-Term Notes

In accordance with the Subordinate Indenture, so long as any 2018 Short-Term Notes are Outstanding and all other amounts payable thereunder remain unpaid, the Trustee will set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following fund (which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the 2018 Short-Term Notes and Parity Debt) in the following amount, the requirements of 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 Subordinate Commercial Paper Notes and Parity Debt as provided in the Subordinate Indenture and the proceedings for such Parity Debt delivered to the Trustee pursuant to the Subordinate Indenture (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 2018 Short-Term Notes and Parity Debt).

2018 Short-Term Notes Interest Fund. Following receipt of the Sales Tax Revenues from the Senior Lien Bond Trustee in each month, the Trustee shall set aside in the 2018 Short-Term Notes Interest Fund as soon as practicable in such month an amount equal to one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the 2018 Short-Term Notes during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the 2018 Short-Term Notes Interest Fund from the proceeds of the 2018 Short-Term Notes 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 2018 Short-Term Notes is on deposit in such fund; provided that from the date of delivery of the 2018 Short-Term Notes until the first Interest Payment Date with respect to such 2018 Short-Term Notes the amounts set aside in such fund with respect to such 2018 Short-Term Notes 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. No deposit need be made into the 2018 Short-Term Notes Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Date falling within the next six (6) months upon the 2018 Short-Term Notes then Outstanding and on April 1 of each year any excess amounts in the 2018 Short-Term Notes Interest Fund not needed to pay interest on such date shall be transferred to the Commission (but excluding, in each case, any moneys on deposit in the 2018 Short-Term Notes Interest Fund to pay interest on any future Interest Payment Dates following such Interest Payment Dates).

Pursuant to the Subordinate Indenture, the principal payments for the 2018 Short-Term Notes constitute Excluded Principal Payments and no amounts need be on deposit in the 2018 Short-Term Notes Principal Fund with respect to such principal payments. See APPENDIX C-2 — “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE – FIRST SUPPLEMENT TO THE SUBORDINATE INDENTURE – Allocation of Sales Tax Revenues – 2018 Short-Term Notes Principal Fund.”

Best Efforts Undertaking to Draw on TIFIA Loan Agreement or Obtain Financing

The Subordinate Indenture provides that unless the 2018 Short-Term Notes have been previously paid or defeased pursuant to the provisions of the Subordinate Indenture, the Commission agrees to use its best efforts, on or before April 1, 2021, to draw on the TIFIA Loan Agreement or, to the extent sufficient funds are not available or eligible thereunder, to issue Senior Bonds under the Senior Indenture, or Notes or other Parity Debt under the Subordinate Indenture or to otherwise obtain financing, at any interest rate

not to exceed the Maximum Interest Rate (as defined in the Senior Indenture) and subject to the terms of the Senior Indenture and the Subordinate Indenture, to provide funds sufficient to pay the principal of the 2018 Short-Term Notes on April 1, 2021. See “RISK FACTORS – Availability of Funds to Pay the 2018 Short-Term Notes.”

Issuance of Additional Obligations

The 2018 Short-Term Notes will be issued and delivered as Subordinate Obligations under the Subordinate Indenture. Except to the extent restricted by the Subordinate Indenture, the Senior Indenture and the TIFIA Loan, the Commission may issue or incur obligations payable out of Sales Tax Revenues on a basis senior to, on a parity with, or on a basis junior and subordinate to the payment of the principal, interest and reserve fund requirements for the 2018 Short-Term Notes.

Issuance of Additional Senior Lien Obligations. The Commission may by an indenture supplemental to the Senior Indenture establish one or more series of Senior Bonds (as such term is defined herein) payable from Sales Tax Revenues and secured by the pledge made under the Senior Indenture on a basis senior to the 2018 Short-Term Notes, but only upon compliance by the Commission with certain provisions of the Senior Indenture, the Subordinate Indenture and the TIFIA Loan. Some applicable provisions of the Indenture are described below:

(a) No Event of Default (as such term is defined in the Senior Indenture) 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 established under the Senior Indenture be increased, forthwith upon the receipt of the proceeds of the sale of Senior Bonds of such series, to an amount at least equal to the Bond Reserve Requirement (as such term is defined in the Senior Indenture) with respect to such series of Senior Bonds and all other Senior Bonds secured by such bond reserve fund to be considered Outstanding (as such term is defined in the Senior Indenture) upon the issuance of such additional series of Senior Bonds, the supplemental indenture providing for the issuance of such additional series of Senior Bonds shall require deposit of the amount necessary. Said deposit may be made from the proceeds of the sale of Senior 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-1 – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE AND THE SENIOR 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 Senior Bond 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 Senior Bonds will become outstanding was equal to at least 2.0 times Maximum Annual Debt Service (as such term is defined in the Senior Indenture) on all series of Senior Bonds then Outstanding (as such term is defined in the Senior Indenture) and any indebtedness, installment sale obligation, lease obligation or other obligation of the Commission then Outstanding (as such term is defined in the Senior Indenture) for borrowed money or the Initial Swaps (as such term is defined in the Senior Indenture), the Basis Rate Swap Overlays, or any other Interest Rate Swap Agreement (as such term is defined in the Senior Indenture) (excluding, in each case, fees and expenses and termination payments on Interest Rate Swap Agreements (as such term is defined in the Senior Indenture) entered into in connection with a series of Senior Bonds, in each case incurred in accordance with the provisions of the Senior Indenture described herein and having an equal lien and charge upon the Sales Tax Revenues and therefore payable on a parity with the Senior Bonds (whether or not any Senior Bonds are Outstanding (as such term is defined

in the Senior Indenture)) (collectively, the “Senior Obligations”), and the additional series of Senior Bonds then proposed to be issued, which certificate shall also set forth the computations upon which such certificate is based. For purposes of calculating Maximum Annual Debt Service (as such term is defined in the Senior Indenture), principal and interest payments on Obligations (as such term is defined in the Senior Indenture) are excluded to the extent such payments are to be paid from Revenues (as such term is defined in the Senior Indenture) then held on deposit by the Senior Trustee or from other amounts on deposit, including Investment Securities (as such term is defined in the Senior Indenture) and interest to be payable thereon, with the Senior 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 (as such term is defined in the Senior Indenture), including Investment Securities (as such term is defined in the Senior Indenture) and interest to be payable thereon, held by the Senior Trustee or other fiduciary as capitalized interest specifically to pay such interest or from pledged Subsidy Payments (as such term is defined in the Senior Indenture) the Commission expects to receive.

(d) The Commission shall deliver to the Senior Trustee and the TIFIA Lender a certificate of the Commission to the effect that (i) no Event of Default (as defined in the TIFIA Loan Agreement) has occurred and is then continuing, and (ii) no event has occurred and is then continuing that with the passage of time or the giving of notice will become an Event of Default under the Senior Indenture or under the TIFIA Loan Agreement (as such terms are defined in the 2017 TIFIA Loan Agreement);

(e) While any TIFIA Bonds (as such term is defined in the Senior Indenture) are Outstanding (as such term is defined in the Senior Indenture), the Commission shall provide to the Senior Trustee and the TIFIA Lender, prior to the issuance of such additional series of Senior Bonds, a certificate of the Commission certifying that the amount of Sales Tax Revenues collected during any 12 consecutive calendar months specified by the Commission within the most recent 18 calendar months immediately preceding the date on which such additional series of Senior Bonds will become outstanding shall have been at least equal to 1.15 times Total Maximum Annual Debt Service (as such term is defined in the Senior Indenture) on all Senior Obligations (as such term is defined in the Senior Indenture), Subordinate Obligations (as such term is defined in the Senior Indenture) and Junior Subordinate Obligations (as such term is defined in the Senior Indenture) then Outstanding (as such term is defined in the Senior Indenture) and the additional series of Senior Bonds then proposed to be issued, which certificate shall also set forth the computations upon which such certificate is based; and

(f) The Commission shall certify to the Senior Trustee and the TIFIA Lender that the issuance of any additional Senior Bonds (other than Senior Bonds issued or incurred for purposes of refunding in compliance with the requirements for the issuance of Senior Refunding Bonds set forth in the Senior Indenture will not, in and of itself, result in a downgrade below “A-” or “A3” or withdrawal of the then-existing credit rating of any TIFIA Bonds (as such term is defined in the Senior Indenture), as confirmed by the Nationally Recognized Rating Agencies (as such term is defined in the Senior Indenture) that provided the most recent ratings of such TIFIA Bonds at the request of the Commission.

Nothing in the Senior Indenture will prevent or be construed to prevent the supplemental indenture providing for the issuance of an additional series of Senior Bonds and pledging or otherwise providing, in addition to the security given or intended to be given by the Senior Indenture, additional security for the benefit of such additional series of Senior Bonds or any portion thereof.

Issuance of Additional Subordinate Obligations. The Commission may by Supplemental Indenture to the Subordinate Indenture establish one or more additional Series of Subordinate Commercial Paper Notes or Parity Debt, payable from Revenues and secured by the pledge made under the Subordinate Indenture equally and ratably with the 2018 Short-Term Notes and any other Subordinate Commercial Paper Notes previously issued, and the Commission may issue, and the Issuing and Paying Agent may authenticate and deliver to the purchasers thereof, Subordinate Commercial Paper Notes of

any Series so established, in such principal amount as shall be determined by the Commission, but only, with respect to each such additional Series of Subordinate Commercial Paper Notes or Parity Debt, upon compliance by the Commission with the provisions of the Subordinate Indenture and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions:

(a) No Event of Default shall have occurred and then be continuing under the Subordinate Indenture.

(b) The aggregate principal amount of Subordinate Commercial Paper Notes or Parity Debt authorized to be issued under the Subordinate Indenture together with all outstanding Senior Lien Debt and Parity Debt shall not in combination with all outstanding debt obligations of the Commission exceed any limitation imposed by law or by any Supplemental Indenture or by Section 132309(b) of the Public Utilities Code of the State.

(c) The Commission shall place on file with the Trustee and each Administrative Agent 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 Subordinate Commercial Paper Notes or Parity Debt will become Outstanding shall have been at least equal to 1.5 times the amount of Maximum Annual Debt Service (as such term is defined in the Subordinate Indenture) on all Senior Lien Debt, Subordinate Commercial Paper Notes and Parity Debt then outstanding and the additional Series of Subordinate Commercial Paper Notes or Parity Debt then proposed, which Certificate shall also set forth the computations upon which such Certificate is based, which Certificate shall also set forth the computations upon which such Certificate is based. See APPENDIX C-2 – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE.”

OUTSTANDING OBLIGATIONS

Senior Lien Debt

Pursuant to the Indenture, dated as of March 1, 2008, between the Commission and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture, dated as of March 1, 2008, a Second Supplemental Indenture, dated as of July 1, 2008, a Third Supplemental Indenture, dated as of October 1, 2010, a Fourth Supplemental Indenture, dated as of June 1, 2012, a Fifth Supplemental Indenture, dated as of September 1, 2014, a Sixth Supplemental Indenture, dated as of August 1, 2016, and a Seventh Supplemental Indenture, dated as of June 1, 2017 (the “Seventh Supplemental Indenture”) and, as so supplemented and as further supplemented from time to time pursuant to its terms, is referred to herein as the “Senior Indenture,” the Commission has issued the senior lien sales tax revenue bonds summarized below. Such bonds and any additional bonds hereafter authorized by, and at any time Outstanding under, the Senior Indenture are referred to collectively herein as “Senior Bonds.”

The Commission may issue additional Senior 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 Senior Bonds and the regularly scheduled payments on the Initial Swaps (as defined herein), the Basis Swap Overlays (as defined herein) and any other Interest Rate Swap Agreements (as defined herein), subject to compliance with the terms and provisions set forth in the Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES – Issuance of Additional Obligations – Issuance of Additional Senior Lien Obligations.”

Series 2008 Bonds. On March 27, 2008, the Commission issued its \$600,000,000 Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (collectively, the “Series 2008 Bonds”) in the aggregate principal amount of \$600,000,000. The Series 2008 Bonds have a final stated maturity of April 1, 2038. The Series 2008 Bonds are currently Outstanding in the aggregate principal amount of \$402,300,000. The Series 2008 Bonds are variable rate demand obligations and currently bear interest at a weekly interest rate. The Commission entered into certain Initial Swaps in connection with the Series 2008 Bonds, pursuant to which the Commission pays fixed rates and receives variable rates. See “OUTSTANDING OBLIGATIONS – Interest Rate Swap Agreements.” A portion of the proceeds of the Series 2012 Bonds described below refunded \$151.5 million of the Series 2008 Bonds and a corresponding notional amount of the Initial Swaps were terminated. The Series 2008 Bonds are currently the only Series of Bonds secured by a Bond Reserve Fund.

Series 2008 Bonds Reserve Fund. Pursuant to the Indenture, there has been established the Series 2008 Bonds Reserve Fund to be maintained by the Trustee as a pooled reserve fund for the 2008 Reserve Fund Eligible Bonds. The Series 2008 Bonds Reserve Fund is currently funded in the amount of \$17,352,306. 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 Series 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 Series 2008 Bonds Reserve Fund. The Commission has not designated any outstanding Bonds, other than the Series 2008 Bonds as 2008 Reserve Fund Eligible Bonds.

Series 2010 Bonds. On November 10, 2010, the Commission issued its \$338,960,000 Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series A (Taxable Build America Bonds) (the “2010 Series A Bonds”). The 2010 Series A Bonds are currently outstanding in the aggregate principal amount of \$338,960,000. The 2010 Series A Bonds are fixed rate bonds and have a final stated maturity date of April 1, 2048.

On November 10, 2010, the Commission issued its \$11,040,000 Sales Tax Revenue Bonds (Limited Tax Bonds), 2010 Series B (the “2010 Series B Bonds” and, together with the 2010 Series A Bonds, the “Series 2010 Bonds”). The 2010 Series B Bonds are currently outstanding in the aggregate principal amount of \$6,235,000. The 2010 Series B Bonds are fixed rate bonds and have a final stated maturity date of April 1, 2030.

The 2010 Series A Bonds were issued as “Build America Bonds” bearing taxable interest rates that were expected to be offset by a cash subsidy from the United States Treasury (the “Subsidy Payments”) pledged thereto under the Senior Indenture. The amount of any Subsidy Payments to be received in connection with the 2010 Series A Bonds is subject to change by the federal government. On March 1, 2013, the federal government announced the implementation of certain automatic spending cuts known as “sequestration.” In Fiscal Year 2016-17, sequestration reduced Subsidy Payments to the Commission by approximately \$480,361. The Commission expects future reductions in Subsidy Payments to occur due to the sequester, but is unable to predict the amount or duration of such reductions. Further, Subsidy Payments will only be paid if the 2010 Series A Bonds continue to qualify as Build America Bonds. The Commission does not believe that failure to receive the Subsidy Payments in whole or in part will materially and adversely impact the Commission’s ability to pay debt service on the 2010 Series A Bonds or other obligations, including the 2018 Short-Term Notes. See “RISK FACTORS – Loss of Subsidy Payments.”

Series 2012 Bonds. On June 14, 2012, the Commission issued its \$420,585,000 Sales Tax Revenue Bonds (Limited Tax Bonds), 2012 Series A (the “Series 2012 Bonds”). The Series 2012 Bonds are currently Outstanding in the aggregate principal amount of \$324,400,000. The Series 2012 Bonds are fixed rate bonds and have a final stated maturity date of April 1, 2048. Proceeds of the Series 2012 Bonds refunded a portion of the Series 2008 Bonds in the aggregate principal amount of \$151,500,000.

Series 2014 Bonds. On September 10, 2014, the Commission issued its \$350,000,000 Sales Tax Revenue Bonds (Limited Tax Bonds) 2014 Series A (the “Series 2014 Bonds”). The Series 2014 Bonds are currently Outstanding in the aggregate principal amount of \$336,130,000. The Series 2014 Bonds are fixed rate bonds and have a final stated maturity date of April 1, 2048.

Series 2016 Bonds. On August 17, 2016, the Commission issued its \$325,000,000 Sales Tax Revenue Bonds (Limited Tax Bonds) 2016 Series A (the “Series 2016 Bonds”). The Series 2016 Bonds are currently Outstanding in the aggregate principal amount of \$317,680,000. The Series 2016 Bonds are fixed rate bonds and have a final stated maturity date of April 1, 2048.

Interest Rate Swap Agreements

Initial Swaps. In November 2005, the Commission entered into three interest rate swap agreements (the “Initial Swaps”) in an initial aggregate notional amount of \$600,000,000 or \$200,000,000 each. The Initial Swaps became effective as of April 1, 2008, and the notional amounts amortize in tandem with the amortization of the Series 2008 Bonds. The Commission’s obligation to make regularly scheduled payments to the counterparties under the Initial Swaps is payable from and secured by Sales Tax Revenues on a parity basis with the Senior Bonds. None of the Initial Swaps obligates the Commission to post any collateral.

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. Under certain conditions, the Initial Swaps may be terminated, at which time the Commission may be required to make a termination payment to the applicable counterparty. Termination payments payable in accordance with the provisions of the Initial Swaps are secured by a lien on the Sales Tax Revenues subordinate to the lien which secures the Senior Bonds, any parity obligations allowed pursuant to the Senior Indenture and other Subordinate Obligations, including the 2018 Short-Term Notes and the Subordinate Commercial Paper Notes. A portion of the proceeds of the Series 2012 Bonds refunded \$151.5 million of the Series 2008 Bonds and a corresponding notional amount of the Initial Swaps were terminated. As of April 9, 2018, if the Initial Swaps were terminated in full, the Commission would owe a termination payment of approximately \$69,551,092.42.

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

<u>Name of Counterparty</u>	<u>Current Notional Amount</u>	<u>Rate</u>	<u>Floating Rate Received by Commission</u>
Goldman Sachs Mitsui Marine Derivative Products, L.P.	\$134,100,000	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD SIFMA Swap Index thereafter
Bank of America, N.A.	\$134,100,000	3.8165%	65% of USD One-Month LIBOR until April 1, 2018; USD SIFMA Swap Index thereafter
Bank of America, N.A.	\$134,100,000	3.4100%	65% of USD One-Month LIBOR

Basis Rate Swap Overlays. In March 2009, the Commission entered into two SIFMA/LIBOR floating-to-floating swaps (the “Basis Rate Swap Overlays”), each with Barclays Bank PLC (“Barclays”) and each with the initial notional amount of \$156,600,000. Pursuant to the terms of the Basis Rate Swap Overlays, the Commission agreed to pay to Barclays the SIFMA Swap Index and Barclays agreed to pay the Commission 107.4% of 3-month LIBOR on the first day of each month, commencing on May 1, 2018. The Commission’s obligation to make regularly scheduled swap payments to Barclays under the Basis Rate Swap Overlays is payable from and secured by Sales Tax Revenues on parity with the Senior Bonds. Under certain circumstances, the Basis Rate Swap Overlays may be terminated, at which time the Commission may be required to make a termination payment to the applicable counterparty. As of April 9, 2018, if the Basis Rate Swap Overlays were terminated in full, the Commission would be owed approximately \$23,388,711.10. 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 Senior Bonds, any parity obligations and Subordinate Obligations, including the 2018 Short-Term Notes.

The Financial Conduct Authority (“FCA”) of the United Kingdom, which has regulated LIBOR since April of 2013, has announced its intention to retire the benchmark interest rate setting mechanism (“LIBOR Retirement”) by 2021. The FCA has suggested that there may be a transitional period following LIBOR Retirement during which LIBOR will be maintained as a shadow benchmark rate for use in current transactions. Certain agreements that rely on LIBOR without an alternative index upon LIBOR Retirement may need to be amended with the consent of the parties and/or bondholders. The Commission will review its agreements and take appropriate action as the situation with respect to LIBOR Retirement develops. The Commission cannot predict the financial implications, if any, from LIBOR Retirement.

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 Chase Bank, National Association, the Commission and the Trustee, as amended, including by a Sixth Amendment to Standby Bond Purchase Agreement, dated March 1, 2017 (as amended, the “JPMorgan Liquidity Facility”). The JPMorgan Liquidity Facility will expire on March 24, 2019, prior to the final maturity of the 2008 Series A Bonds and the 2008 Series B Bonds, unless extended or terminated in accordance with its terms.

The 2008 Series C Bonds are supported by a Standby Bond Purchase Agreement dated as of November 1, 2017 (the “Bank of America Liquidity Facility”), by and among Bank of America, N.A., the Commission and the Trustee. The Bank of America Liquidity Facility will expire on November 2, 2020, prior to the final maturity of the 2008 Series C Bonds, unless extended or terminated in accordance with its terms.

The 2008 Series D Bonds are supported by a Standby Bond Purchase Agreement by and among State Street Bank and Trust Company, the Commission and the Trustee (the “State Street Liquidity Facility” and, together with the JPMorgan Liquidity Facility and the Bank of America Liquidity Facility, the “2008 Liquidity Facilities” and each a “2008 Liquidity Facility”). The State Street Liquidity Facility will expire on June 4, 2019, prior to the final maturity of the 2008 Series D Bonds, unless extended or terminated in accordance with its terms.

The Commission is unable to predict the cost or availability of alternate credit or liquidity arrangements to replace any of the 2008 Liquidity Facilities upon their expiration or termination. See “RISK FACTORS – Acceleration of Liquidity Facility Bonds.”

Subordinate Commercial Paper Notes and CP Letter of Credit

In 2005, the Commission authorized the issuance from time to time of Subordinate Commercial Paper Notes secured by a lien on the Sales Tax Revenues that is subordinate to the lien of the Bonds and any Parity Obligations. The total principal amount of Subordinate Commercial Paper Notes that are authorized to be issued may not exceed \$100,000,000. As of April 4, 2018, \$33,862,000 in aggregate principal amount of Subordinate Commercial Paper Notes was outstanding. The Commission expects to issue \$19,586,000 in additional Subordinate Commercial Paper Notes on April 12, 2018, for a total outstanding amount of \$53,448,000 on the date of issuance of the Series 2018. The Commission expects to retire \$27,586,000 of the Subordinate Commercial Paper Notes with a portion of the proceeds of the 2018 Short-Term Notes. The payment of principal of and interest on the Subordinate Commercial Paper Notes up to \$75,000,000 is supported by an irrevocable, transferable direct-pay letter of credit issued by MUFG Union Bank, N.A. (the “CP Letter of Credit”). The CP Letter of Credit is stated to expire on September 16, 2018. The Commission’s obligation to reimburse MUFG Union Bank, N.A. for draws under the CP Letter of Credit is secured by a lien on the Sales Tax Revenues on a parity with the lien securing the Subordinate Commercial Paper Notes and the 2018 Short-Term Notes.

Under a Memorandum of Understanding, dated as of June 1, 2008 (the “Certificate Purchase MOU”), by and between the Commission and NCTD, the Commission agreed to issue \$34,000,000 in Subordinate Commercial Paper Notes to purchase outstanding Certificates of Participation evidencing payments by NCTD under a Lease Agreement, dated as of July 1, 2004 (the “NCTD Certificates”), the proceeds of which funded the NCTD “SPRINTER” rail line. Under the Certificate Purchase MOU, while the Commission holds the NCTD Certificates, they bear interest at a rate equal to the weighted average interest rate on the Subordinate Commercial Paper Notes and are subject to an amortization schedule of approximately level debt service payments through September 1, 2034, corresponding to the amortization schedule of an interest rate swap agreement NCTD entered into in connection with the NCTD Certificates. The Commission is not obligated to make any payments under such interest rate swap agreement. The NCTD Certificates are currently outstanding in an aggregate principal amount of \$25,550,000.

JUNIOR SUBORDINATE TIFIA LOAN

General

On June 27, 2017, the Commission entered into the TIFIA Loan Agreement, pursuant to which the TIFIA Lender has agreed to make the Junior Subordinate TIFIA Loan to the Commission in an amount not to exceed \$537,484,439. The proceeds of the Junior Subordinate TIFIA Loan are expected to be applied to the payment of federally eligible costs of the Project, including repayment of the 2018 Short-Term Notes. The Junior Subordinate TIFIA Loan will bear interest at a fixed rate of 2.72% and will mature no later than October 1, 2045. The Junior Subordinate TIFIA Loan will be secured by a lien and charge on Sales Tax Revenues that is subordinate to the liens and charges securing the Senior Lien Debt and the Subordinate Obligations. The Junior Subordinate TIFIA Loan is not secured by a springing lien. The TIFIA Loan Agreement may be found at: <http://www.sandag.org/organization/about/investors/BondDocuments/BondOfficialStatements/2017Agreement.pdf>.

Disbursement Requirements

The proceeds of the Junior Subordinate TIFIA Loan are expected to be fully drawn by the Commission in a single disbursement no later than April 1, 2021. Any requests to disburse the Junior Subordinate TIFIA Loan proceeds must be submitted by the Commission to the TIFIA Lender in the form of a requisition attached to the TIFIA Loan Agreement. Disbursement of Junior Subordinate TIFIA Loan proceeds is subject to certain conditions precedent, including, among others, the following:

- (a) the Commission shall have delivered all required invoices and records evidencing Eligible Project Costs relating to the Mid-Coast Corridor Transit Project;
- (b) all required insurance policies are in full force and effect;
- (c) no event of default or prospective event of default under the TIFIA Loan Agreement has occurred and is continuing;
- (d) all representations and warranties are true, correct and complete as of the date of disbursement; and
- (e) no material adverse effect, or any event or condition that could reasonably be expected to result in a material adverse effect, shall have occurred and be continuing.

Events of Default and Remedies

Certain Definitions used under this Caption.

“Pledged Revenues” means (a) all Sales Tax Revenues, (b) all regularly-scheduled amounts (but not termination payments) owed or paid to the Commission by any Qualified 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 Qualified Counterparty under such Interest Rate Swap Agreement, (c) any additional revenues or assets of the Commission to be included in the definition of Pledged Revenues pursuant to a Supplemental Indenture; provided, however, that after making the required monthly deposits of Pledged Revenues from the Revenue Fund pursuant to Section 5.02 of the Indenture and Section 8(d) (Security and Priority; Flow of Funds), any remaining amounts transferred to the Commission pursuant to Section 5.02(B) of the Indenture, shall continue to be subject to the lien of the Indenture as Revenues.

“Indenture Documents” means the Senior Indenture, the Seventh Supplemental Indenture, each Supplemental Indenture executed on or after the effective date of the TIFIA Loan Agreement, the Subordinate Indenture, each Interest Rate Swap Agreement, each Credit Enhancement, and each other agreement, instrument and document executed and delivered pursuant to or in connection with any of the foregoing.

“MTS” means the San Diego Metropolitan Transit System, a public agency in the State.

“MTS Direct Agreement” means the Direct Agreement, dated June 27, 2017, by and among the TIFIA Lender, the Borrower and MTS.

“SANDAG Direct Agreement” means the Direct Agreement, dated June 27, 2017, by and among the TIFIA Lender, the Commission and SANDAG.

“TIFIA Loan Documents” means the TIFIA Loan Agreement, the TIFIA Bond, each Direct Agreement, the Seventh Supplemental Indenture and the other Indenture Documents.

Events of Default. The following events constitute events of default under the TIFIA Loan Agreement:

- (i) **Payment Default.** The Commission shall fail to pay any of the principal amount of or interest on the TIFIA Loan, when and as the payment thereof shall be required under the TIFIA Loan Agreement or the TIFIA Bond (as defined herein) or on October 1, 2045, the final maturity date (each such failure, a “Payment Default”).

(ii) Covenant Default. (A) The Commission shall fail to observe or perform any covenant, agreement or obligation of the Commission under the TIFIA Loan Agreement, the TIFIA Bond or any other TIFIA Loan Document (other than in the case of any Payment Default or any Development Default), (B) SANDAG shall fail to observe or perform any covenant, agreement or obligation of SANDAG under the SANDAG Direct Agreement or (C) MTS shall fail to observe or perform any covenant, agreement or obligation of MTS under the MTS Direct Agreement, and any such failure described in clauses (A), (B) or (C) shall not be cured within thirty (30) days after receipt by the applicable Commission Related Party from the TIFIA Lender of written notice thereof; provided, however, that if such failure is capable of cure but cannot reasonably be cured within such thirty (30) day cure period, then no Event of Default shall be deemed to have occurred or be continuing under Section 20(a)(ii) of the TIFIA Loan Agreement (*Covenant Default*), and such thirty (30) day cure period shall be extended by up to one hundred fifty (150) additional days, if and so long as (x) within such thirty (30) day cure period the Commission, SANDAG or MTS, as applicable, shall commence actions reasonably designed to cure such failure and shall diligently pursue such actions until such failure is cured, and (y) such failure is cured within one hundred eighty (180) days of the date of the notice of default from the TIFIA Lender.

(iii) Development Default. A Development Default shall occur, in which case the TIFIA Lender may (A) suspend the disbursement of TIFIA Loan proceeds under the TIFIA Loan Agreement and (B) pursue such other remedies as provided in Section 20 of the TIFIA Loan Agreement (*Events of Default and Remedies*). If so requested by the TIFIA Lender in connection with a Development Default, the Commission shall immediately repay any unexpended TIFIA Loan proceeds previously disbursed to the Commission.

(iv) Misrepresentation Default. Any of the representations, warranties or certifications of (A) the Commission made in or delivered pursuant to the TIFIA Loan Documents (or in any certificates delivered by the Commission in connection with the TIFIA Loan Documents), (B) SANDAG made in or delivered pursuant to the SANDAG Direct Agreement (or in any certificates delivered by SANDAG in connection with the SANDAG Direct Agreement) or (C) MTS made in or delivered pursuant to the MTS Direct Agreement (or in any certificates delivered by MTS in connection with the MTS Direct Agreement), shall prove to have been false or misleading in any material respect when made or deemed made (or any representation and warranty that is subject to a materiality qualifier shall prove to have been false or misleading in any respect); provided that no Event of Default shall be deemed to have occurred under Section 20(a)(iv) of the TIFIA Loan Agreement (*Misrepresentation Default*) if and so long as:

- (1) such misrepresentation is not intentional;
- (2) in the case of the Commission, such misrepresentation is not a misrepresentation in respect of Section 14(h) (No Debarment), Section 14(j) (Compliance with Federal Requirements), Section 14(k) (Transportation Improvement Program), Section 14(p) (Information), Section 14(q) (OFAC; Anti-Corruption Laws), Section 14(x) (Financial Statements) or Section 14(cc) (Patriot Act);
- (3) in the case of SANDAG, such misrepresentation is not a misrepresentation in respect of Sections 5(g), 5(i), 5(m) or 5(n) of the SANDAG Direct Agreement;
- (4) in the case of MTS, such misrepresentation is not a misrepresentation in respect of Sections 4(g), 4(i), 4(m) or 4(n) of the MTS Direct Agreement;

- (5) in the reasonable determination of the TIFIA Lender, such misrepresentation has not had, and would not reasonably be expected to result in, a material adverse effect;
- (6) in the reasonable determination of the TIFIA Lender, the underlying issue giving rise to the misrepresentation is capable of being cured;
- (7) the underlying issue giving rise to the misrepresentation is cured by the applicable Commission Related Party within thirty (30) days from the date on which such Commission Related Party first became aware (or reasonably should have become aware) of such misrepresentation; and
- (8) the applicable Commission Related Party diligently pursues such cure during such thirty (30) day period.

(v) Acceleration of Secured Obligations or Other Material Indebtedness.

Any acceleration shall occur of the maturity of any (A) Secured Obligations or (B) any indebtedness or other payment obligations of the Commission secured by Pledged Revenues in an aggregate principal amount equal to or greater than \$1,000,000 that is senior to, or in parity with, the TIFIA Loan in right of payment or in right of security (“Other Material Indebtedness”), or any other indebtedness shall not be paid in full upon the final maturity thereof. For the avoidance of doubt, swap termination payments and term-outs of Secured Obligations that occur in accordance with the terms of such Secured Obligations shall not be considered acceleration.

(vi) Cross Default.

(A) Any of the representations, warranties or certifications of the Commission made in or delivered pursuant to the Indenture Documents, or made in or delivered pursuant to the documents (the “Other Loan Documents”) under which any Secured Obligations is created or incurred, shall prove to be false or misleading in any material respect (each an “Other Indebtedness Misrepresentation Default”), or any default shall occur in respect of the performance of any covenant, agreement or obligation of the Commission under the Indenture Documents or the Other Loan Documents, and such default shall be continuing after the giving of any applicable notice and the expiration of any applicable grace period specified in the Indenture Documents or the Other Loan Documents (as the case may be) with respect to such default (each an “Other Indebtedness Covenant Default”), if the effect of such Other Indebtedness Misrepresentation Default or Other Indebtedness Covenant Default shall be to permit the immediate acceleration of the maturity of any or all of the Secured Obligations, and, in the case of any such Other Indebtedness Misrepresentation Default or Other Indebtedness Covenant Default, the Commission shall have failed to cure such Other Indebtedness Misrepresentation Default or Other Indebtedness Covenant Default or to obtain an effective written waiver thereof in accordance with the terms of such Secured Obligations. For the avoidance of doubt, swap termination payments and term-outs of Secured Obligations that occur in accordance with the terms of such Secured Obligations shall not be considered acceleration.

(B) A Commission Related Party shall default in the timely performance of any covenant, agreement or obligation under any Related Document to which it is party or any Related Document shall be terminated prior to its scheduled expiration (unless in any case such default or termination could not reasonably be expected to have a material adverse effect), and the applicable Commission Related Party shall have failed to cure such default or to obtain an effective written waiver or revocation thereof prior to the expiration of the applicable grace period specified in any such Related Document, or to obtain an effective revocation of such termination (as the case may be); provided, however, that no Event of Default shall be deemed to have occurred or be continuing under Section 20(a)(vi)(B) of the TIFIA Loan Agreement (*Cross*

Default) if, in the case of any termination of a Principal Project Contract, the applicable Commission Related Party replaces such Principal Project Contract with a replacement agreement (1) entered into with another counterparty that (x) is of similar or greater creditworthiness and experience as the counterparty being replaced was at the time the applicable Principal Project Contract was originally executed (or otherwise reasonably acceptable to the TIFIA Lender) and (y) is not, at the time of such replacement, suspended or debarred or subject to a proceeding to suspend or debar from bidding, proposing or contracting with any federal or state department or agency, (2) on substantially the same terms and conditions as the Principal Project Contract being replaced (or otherwise reasonably acceptable to the TIFIA Lender) and (3) effective as of the date of termination of the Principal Project Contract being replaced. For the avoidance of doubt, swap termination payments and term-outs of Secured Obligations that occur in accordance with the terms of such Secured Obligations shall not be considered acceleration.

(vii) Judgments. One or more judgments (A) for the payment of money that are payable from Sales Tax Revenues and the aggregate amount not otherwise fully covered by insurance (for which the insurer has acknowledged and not disputed coverage) is in excess of \$1,000,000 (inflated annually by CPI) or (B) that would reasonably be expected to result in a material adverse effect shall, in either case, be rendered against a Commission Related Party, and the same shall remain undischarged for a period of thirty (30) consecutive days during which time period execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon all or any portion of the Trust Estate to enforce any such judgment.

(viii) Failure to Maintain Existence. The Commission shall fail to maintain its existence as a public entity, unless at or prior to the time the Commission ceases to exist in such form a successor public agency or governing body has been created by the State pursuant to a valid and unchallenged State law and has succeeded to the assets of the Commission and has assumed all of the obligations of the Commission under the TIFIA Loan Documents and the Indenture Documents, including the payment of all secured obligations.

(ix) Occurrence of a bankruptcy related event. (A) A bankruptcy related event shall occur with respect to the Commission or (B) a bankruptcy related event shall occur with respect to any Commission Related Party (other than the Commission) or any Principal Project Party; provided, that: (1) a bankruptcy related event in connection with a Principal Project Party shall not constitute an Event of Default if the relevant Commission Related Party shall have promptly provided evidence satisfactory to the TIFIA Lender demonstrating that any substitute Principal Project Party has sufficient financial resources and operating expertise to complete the Principal Project Contract to which such principal project party was a party; and (2) after the substantial completion date, the occurrence of a bankruptcy related event in connection with any Principal Project Party shall not constitute an Event of Default if at the time of such occurrence, (x) each applicable warranty period shall have ended and no claim against any warranty under the applicable principal project contract shall exist or remain outstanding, or (y) if any applicable warranty period has not yet ended or any claim against any warranty remains outstanding, the Commission promptly provides evidence satisfactory to the TIFIA Lender showing that SANDAG or MTS has (I) sufficient moneys to correct any defect or nonconforming work of such principal project party, and (II) a plan to carry out such works referred to in clause (I) hereof.

(x) Project Abandonment. Any Commission Related Party shall abandon the Project.

(xi) Invalidity of TIFIA Loan Documents. (A) Any TIFIA Loan Document ceases to be in full force and effect (other than as a result of the termination thereof in accordance with its terms) or becomes void, voidable, illegal or unenforceable, or any Commission Related Party contests in any manner the validity or enforceability of any TIFIA Loan Document to which it is a party or denies it has any further liability under any TIFIA Loan Document to which it is a party, or purports to revoke, terminate or rescind any TIFIA Loan Document to which it is a party; or (B) any Indenture Document ceases (other than as expressly permitted thereunder) to be effective to grant a valid and binding security interest on any material portion of the Trust Estate other than as a result of actions or a failure to act by, and within the control of, the Trustee or any Secured Party, and with the priority purported to be created thereby.

(xii) Cessation of Operations. Operation of the Project shall cease for a continuous period of not less than one hundred eighty (180) days unless such cessation of operations shall occur by reason of an Uncontrollable Force that is not due to the fault of any Commission Related Party (and which none of the Commission Related Parties could reasonably have avoided or mitigated).

Remedies. Upon the occurrence of an Event of Default described in Section 20(a)(iii) of the TIFIA Loan Agreement (Development Default), all obligations of the TIFIA Lender thereunder with respect to the disbursement of any undisbursed amounts of the TIFIA Loan shall immediately be deemed terminated.

Upon the occurrence of any bankruptcy related event with respect to the Commission, all obligations of the TIFIA Lender thereunder with respect to the disbursement of any undisbursed amounts of the TIFIA Loan shall automatically be deemed terminated, and, if an Event of Default described in the TIFIA Loan Agreement (Acceleration of Secured Obligations or Other Material Indebtedness) shall occur or if the TIFIA Lender has a right to accelerate the TIFIA Loan pursuant to the TIFIA Loan Agreement (Additional Rights), the Outstanding TIFIA Loan Balance, together with all interest accrued thereon and all fees, costs, expenses, indemnities and other amounts payable under the TIFIA Loan Agreement, the TIFIA Bond or the other TIFIA Loan Documents, shall automatically become immediately due and payable, without presentment, demand, notice, declaration, protest or other requirements of any kind, all of which are hereby expressly waived. Upon the occurrence of any other Event of Default, the TIFIA Lender, by written notice to the Commission, may (i) suspend or terminate all of its obligations thereunder with respect to the disbursement of any undisbursed amounts of the TIFIA Loan and (ii) if an Event of Default described in Section 20(a)(v) of the TIFIA Loan Agreement (Acceleration of Secured Obligations or Other Material Indebtedness) shall occur or if the TIFIA Lender has a right to accelerate the TIFIA Loan pursuant to Section 17(n) of the TIFIA Loan Agreement (Additional Rights), declare the unpaid principal amount of the TIFIA Bond to be, and the same shall thereupon forthwith become, immediately due and payable, together with the interest accrued thereon and all fees, costs, expenses, indemnities and other amounts payable under the TIFIA Loan Agreement, the TIFIA Bond or the other TIFIA Loan Documents, all without presentment, demand, notice, protest or other requirements of any kind, all of which are hereby expressly waived.

Whenever any Event of Default thereunder shall have occurred and be continuing, the TIFIA Lender shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of any sums due and unpaid thereunder or under the TIFIA Bond or the other TIFIA Loan Documents, and may prosecute any such judgment or final decree against the Commission and collect in the manner provided by law out of the property of the Commission the moneys adjudged or decreed to be payable, and the TIFIA Lender shall have all of the rights and remedies of a creditor, including all rights and remedies, to the extent applicable to the Trust Estate, of a secured creditor under the Uniform Commercial Code and may take such other actions at law or in equity as may appear necessary or desirable to collect all amounts payable by Commission under the TIFIA Loan Agreement, the TIFIA

Bond or the other TIFIA Loan Documents then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Commission under the TIFIA Loan Agreement, the TIFIA Bond or the other TIFIA Loan Documents; provided, however, that any monetary judgment against the Commission shall be payable solely from the Trust Estate or from any other funds made available by the Commission, in its discretion. Whenever any Event of Default under the TIFIA Loan Agreement shall have occurred and be continuing, the TIFIA Lender may suspend or debar the Commission from further participation in any Government program administered by the TIFIA Lender and to notify other departments and agencies of such default. No action taken pursuant to this Section of the TIFIA Loan Agreement (Events of Default and Remedies) shall relieve Commission from its obligations pursuant to the TIFIA Loan Agreement, the TIFIA Bond or the other TIFIA Loan Documents, all of which shall survive any such action. The parties to the TIFIA Loan Agreement acknowledge and agree that the rights and remedies of the TIFIA Lender as the Holder of the TIFIA Bond, including any rights and remedies with respect to the payment thereof, shall be governed exclusively by the Senior Indenture.

In addition to the rights and remedies of Holders set forth in the Senior Indenture, the parties further acknowledge and agree in the TIFIA Loan Agreement that the TIFIA Loan shall be made under and subject to, the terms and conditions set forth in the TIFIA Loan Agreement and the rights and remedies of the TIFIA Lender, including the right to enforce the representations, warranties and covenants made by the Commission exclusively for the benefit of the TIFIA Lender, shall be governed exclusively by those remedies set forth in TIFIA Loan Agreement. In the event of a conflict between the Senior Indenture and the TIFIA Loan Agreement, the provisions of the TIFIA Loan Agreement shall be given precedence; provided, however, in the event there exists a conflict between the provisions of the TIFIA Loan Agreement and the Senior Indenture and performance with the provisions of the TIFIA Loan Agreement is contrary to or inconsistent with the rights of the Holders of other secured obligations under the Senior Indenture, then the provisions of the Senior Indenture shall be given precedence and performance with the provisions thereof shall not constitute a violation of the TIFIA Loan Agreement. Subject to the immediately previous sentence, the Commission shall comply with all provisions of the Senior Indenture and with all documents entered into or delivered in connection with this transaction.

FINANCING PLAN

The Commission will apply the proceeds of the 2018 Short-Term Notes to: (i) finance or refinance certain costs of the Commission's Mid-Coast Corridor Transit Project, including all or a portion of (a) upgrades to signaling and traction power systems along existing trolley tracks from the Santa Fe Depot to the Old Town Transit Center, (b) construction of new double track between the Old Town Transit Center and the UTC Transit Center in University City, (c) construction of new stations; (d) construction of park-and ride facilities with parking spaces; (e) construction of transfer facilities; and (f) acquisition of new low-floor light rail transit vehicles (collectively, the "Project"), (ii) retire a portion of outstanding Series B Notes, and (iii) pay the costs of issuing the 2018 Short-Term Notes. See "ESTIMATED SOURCES AND USES OF FUNDS." Construction for the Project commenced in the fall of 2016 and is expected to be completed by 2021.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2018 Short-Term Notes are shown below:

Estimated Sources of Funds:

Principal Amount of 2018 Short-Term Notes	\$537,480,000.00
Premium	<u>31,625,091.60</u>
Total	<u>\$569,105,091.60</u>

Estimated Uses of Funds:

Deposit to Project Fund	\$539,942,037.33
Retirement of Series B Notes	27,586,000.00
Underwriters' Discount	823,804.27
Costs of Issuance ⁽¹⁾	<u>753,250.00</u>
Total	<u>\$569,105,091.60</u>

⁽¹⁾ Includes rating agency, municipal advisory, legal and Trustee fees, printing costs and other miscellaneous expenses.

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PROJECTED DEBT SERVICE SCHEDULE

The table on the following page shows the annual debt service requirements with respect to the Senior Bonds and the 2018 Short-Term Notes (treating the principal thereof as Excluded Principal Payments as defined in the Subordinate Indenture).

Fiscal Year Ending June 30	Total Senior Lien Debt Service ⁽¹⁾	Commercial Paper Notes ⁽²⁾	Interest on 2018 Short-Term Notes ⁽³⁾	Total Subordinate Lien Debt Service	Total Debt Service
2019	\$ 105,232,145	\$ 6,505,000	\$19,531,182.22	\$26,036,182	\$131,268,327
2020	105,238,595	6,504,750	20,499,200.00	27,003,950	132,242,545
2021	105,236,845	6,505,750	20,499,200.00	27,004,950	132,241,795
2022	105,235,045	6,502,750	-	6,502,750	111,737,795
2023	105,236,534	6,505,750	-	6,505,750	111,742,284
2024	105,236,487	6,504,250	-	6,504,250	111,740,737
2025	105,243,113	6,503,250	-	6,503,250	111,746,363
2026	105,235,211	6,502,500	-	6,502,500	111,737,711
2027	105,237,360	6,506,750	-	6,506,750	111,744,110
2028	105,233,745	6,505,500	-	6,505,500	111,739,245
2029	105,239,999	6,503,750	-	6,503,750	111,743,749
2030	105,236,323	6,506,250	-	6,506,250	111,742,573
2031	105,234,269	6,507,500	-	6,507,500	111,741,769
2032	105,233,635	6,507,250	-	6,507,250	111,740,885
2033	105,233,532	6,505,250	-	6,505,250	111,738,782
2034	105,236,848	6,506,250	-	6,506,250	111,743,098
2035	105,241,194	6,504,750	-	6,504,750	111,745,944
2036	105,237,118	6,505,500	-	6,505,500	111,742,618
2037	105,239,870	6,503,000	-	6,503,000	111,742,870
2038	105,236,859	6,507,000	-	6,507,000	111,743,859
2039	105,231,882	6,506,750	-	6,506,750	111,738,632
2040	105,193,591	6,507,000	-	6,507,000	111,700,591
2041	105,158,734	6,507,250	-	6,507,250	111,665,984
2042	105,110,417	6,507,000	-	6,507,000	111,617,417
2043	105,072,402	6,505,750	-	6,505,750	111,578,152
2044	105,022,654	6,503,000	-	6,503,000	111,525,654
2045	104,974,339	6,503,250	-	6,503,250	111,477,589
2046	104,927,668	6,505,750	-	6,505,750	111,433,418
2047	104,885,164	6,504,750	-	6,504,750	111,389,914
2048	104,828,481	6,504,750	-	6,504,750	111,333,231
Total	\$3,155,140,055	\$195,158,000	\$60,529,582.22	\$255,687,582	\$3,410,827,637

⁽¹⁾ 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%. Net of Subsidy Payments on 2010 Series A Bonds after accounting for sequestration of 6.6%.

⁽²⁾ Assuming amortization of the full \$100 million authorized under the Commercial Paper program.

⁽³⁾ See "SECURITY AND SOURCES OF PAYMENT FOR THE 2018 SHORT-TERM NOTES - Anticipated Repayment of Principal of 2018 Short-Term Notes From TIFIA Loan Draw."

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

General

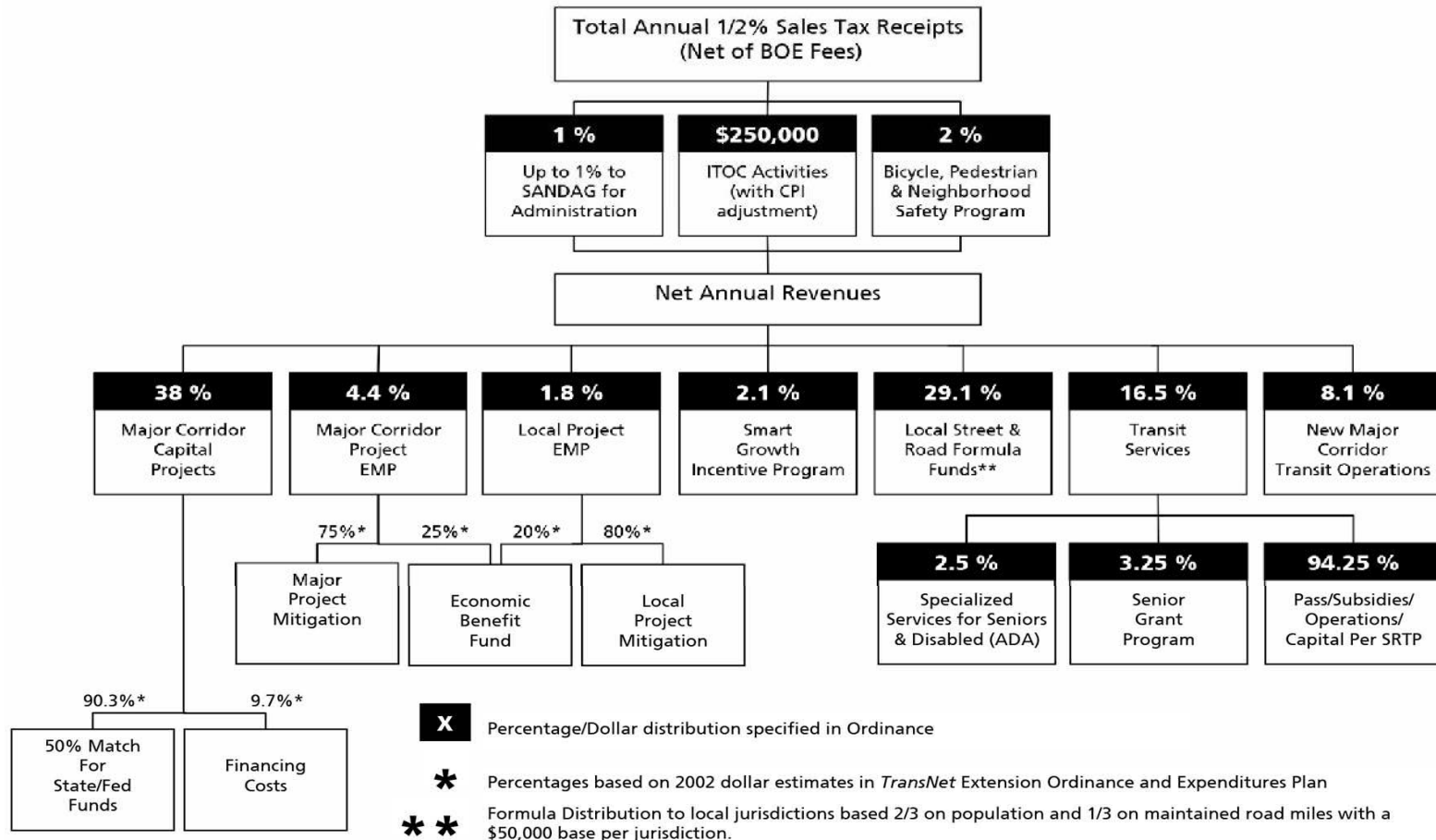
The Commission was organized pursuant to the Act and is responsible for providing improvements to the transportation system and other public infrastructure systems in the County funded with the Sales Tax. To carry out this responsibility, the Commission adopted in 1987 the initial San Diego County Transportation Improvement Program Ordinance (Commission Ordinance 87-1 – Proposition A, 1987) (referred to herein as the “1987 Ordinance”). In 2004, the Commission adopted the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (Commission Ordinance 04-01), referred to herein as the “2004 Sales Tax Extension Ordinance,” which provides for an extension of the retail transactions and use tax implemented by the initial 1987 Ordinance for a 40-year period commencing on April 1, 2008. See “– The Expenditure Plan” below. The Commission Board is composed of the SANDAG Board of Directors. However, the liabilities of SANDAG are not liabilities of the Commission. SANDAG employees carry out the work of the Commission. The Commission has no employees.

On January 1, 2003, Senate Bill 1703 took effect, changing the structure of SANDAG from a Joint Powers Authority to a State-created regional government agency. The effect of this legislation was to make SANDAG a permanent rather than voluntary association of local governments and to increase SANDAG’s responsibilities and powers. The SANDAG Board of Directors consists of voting representatives from the County and 18 incorporated cities within the County. On October 11, 2017, Governor Jerry Brown signed into law Assembly Bill 805, which will change the voting mechanisms of the Board of Directors of SANDAG and provide additional audit requirements. Supplementing the voting members of the SANDAG Board of Directors are advisory representatives from Imperial County, the U.S. Department of Defense, Caltrans, San Diego Unified Port District, MTS, NCTD, San Diego County Water Authority, Southern California Tribal Chairmen’s Association, and Mexico. Policy Advisory Committees assist the SANDAG Board of Directors in carrying out the agency’s work program. The SANDAG Board of Directors is also assisted by a professional staff of approximately 250 planners, engineers, research specialists, and supporting staff. Senate Bill 1703 also required the consolidation of the planning, programming, project development, and construction functions of MTS and NCTD into SANDAG. SANDAG is responsible for transit planning, project implementation, and construction of regional transit projects in the County. Neither the Commission nor SANDAG operates transit services. Transit operations in the County are the responsibility of MTS and NCTD.

On October 28, 2011, the SANDAG Board of Directors adopted the 2050 Regional Transportation Plan and its Sustainable Communities Strategy (“2050 RTP”), which describes a plan for investing local, State and federal transportation funds expected to come into the region over the next 40 years. The Commission issued a progress report regarding the 2050 RTP in April 2015. Pending litigation against SANDAG broadly alleges that the programmatic Environmental Impact Report (“EIR”) prepared for the 2050 RTP is inconsistent with the California Environmental Quality Act. Among other things, the Plaintiffs’ request injunctive relief, which, if granted, could stay construction of projects listed in the 2050 RTP until after SANDAG corrects any alleged deficiencies in the EIR. Certain projects managed by the Commission are included in the 2050 RTP. The Commission believes that the likelihood of any stay prohibiting work on projects already under construction is remote.

The Expenditure Plan

The 1987 Ordinance and the 2004 Sales Tax Extension Ordinance each outline a series of projects (together, the “Expenditure Plan”) to be completed during the term of the Sales Tax. The Expenditure Plan may be found at: <http://www.sandag.org/index.asp?publicnoticeid=227&fuseaction=notices.detail>. The Expenditure Plan is not incorporated herein by reference. The Ordinance specifies that Sales Tax Revenues are to be applied according to the following diagram.



To implement the Expenditure Plan, the Commission annually adopts finance plan updates (each, a “*TransNet* Plan of Finance”) that describe major program revenue, cost and project budget and schedule assumptions. Each *TransNet* Plan of Finance adopted by the Commission sets forth projected cash flow and borrowing requirements during the term of the program covered by such plan. The *TransNet* Early Action Program (depicted in the map entitled “*TransNet* Early Action Program at the front of this Official Statement) includes various highway and transit improvements in the Interstates 5, 15, 805 corridors; State Route 52 and 76 corridors; implementation of the Mid-Coast Light Rail Project; trolley vehicle and station upgrades along the Blue and Orange Lines; and double tracking improvements in the coastal rail corridor to be financed by the proceeds of Bonds, Sales Tax Revenues, and eligible federal, state, and local revenues.

In response to changing conditions, the *TransNet* Plan of Finance is updated on an annual basis. The update includes the latest project cost estimates, actual revenues received, and estimated revenue projections. The update allows the Commission to assess the strength of the program and appropriate changes to the implementation of the Project. In response to economic conditions during which costs have decreased while sales tax collections have increased, the Board has accelerated projects to take advantage of a construction bid environment offering bids significantly below engineering estimates. During periods when costs were rising faster than revenues, the Commission has deferred the implementation of certain projects to allow the *TransNet* Plan of Finance to remain focused on the highest priority projects.

At its October 27, 2017 meeting, the SANDAG Board unanimously approved the 2016-17 *TransNet* Plan of Finance continuing the implementation of major transportation projects in the region.

As a guiding principle, the Commission’s primary borrowing is focused on capital programs: (1) Major Corridor Capital Projects; (2) Major Corridor Environmental Mitigation Program (“EMP”); and (3) Local Project EMP. The remaining Sales Tax Revenues are allocated to current expenses for the remaining programs. From time to time, at the request of member agencies (local jurisdictions), the Commission may borrow for local street and road capital improvements, with the debt service for these improvements paid from each respective agency’s share of Local Street & Road Formula Funds.

Future Financings

The Commission manages the implementation of its capital program based on project readiness and the availability of federal and State funds, and may advance or slow down the delivery of projects in response to current conditions. No assurance can be given regarding the amount of additional Senior Bonds that may be issued by the Commission in the future, subject to the limitations of the Indenture. However, the Commission anticipates issuing additional Senior Bonds or other obligations from time to time to fund transportation projects authorized under the Expenditure Plan. The Commission currently expects to issue an aggregate amount of additional Senior Bonds or Subordinate Bonds in the range of \$200 to \$300 million through calendar year 2023. The issuance of additional Senior Bonds or other obligations is subject to the requirements of the Indenture. In addition, the Commission expects to issue \$537.48 million in Parity Debt, including the 2018 Short-Term Notes, through calendar year 2021.

The Commission is also authorized to issue up to \$100,000,000 in the aggregate principal amount of Subordinate Commercial Paper Notes. See “OUTSTANDING OBLIGATIONS – Subordinate Commercial Paper Notes and CP Letter of Credit.”

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 are set forth below. The office of Executive Director is vacant following the retirement of Gary L. Gallegos on August 18, 2017. The Commission is currently conducting a search for its next Executive Director. Under the Commission's Board of Directors' policy, the Chief Deputy Executive Director has all of the authority of the Executive Director.

Kim Kawada, *Chief Deputy Executive Director*. Ms. Kawada's major responsibilities include managing the ongoing operations of SANDAG. She is responsible for overseeing the day-to-day activities of an agency with more than a \$1 billion budget and about 350 employees, including the Administration, Finance, Land Use and Transportation Planning, Mobility Management and Project Implementation, Operations, Technical Services, and *TransNet* Departments. She joined SANDAG in 1995, serving in a variety of leadership roles at the agency for more than 23 years. Ms. Kawada works with other local, regional, state, and federal agencies on regional infrastructure planning, programming and implementation issues. She has extensive experience working with elected leaders throughout the region to build consensus to achieve wide-ranging regional goals. Prior to her current role, Ms. Kawada served as *TransNet* and Legislative Affairs Program Director managing and directing the operations of the SANDAG *TransNet* program and federal and state legislative affairs. Ms. Kawada has played an instrumental role in many of the agency's programs and projects, ranging from long-term transportation planning to budgeting to setting public policy priorities. Her leadership on legislative efforts enabled SANDAG to operate new toll and managed lanes to expand travel choices, and to use innovative project delivery methods to save money and accelerate completion. She is a graduate of Brown University with a Bachelor of Arts in American History.

John F. Kirk, *General Counsel*. Mr. Kirk was appointed General Counsel for SANDAG and the Commission in January 2012. Mr. Kirk was originally hired by SANDAG as Deputy General Counsel in June 2006. Between 1990 and 2006 Mr. Kirk served the City of San Diego as a Deputy City Attorney. Mr. Kirk holds a Bachelors' degree from Wabash College and a Juris Doctorate from Pepperdine University's School of Law.

André Douzdjian, *Director of Finance*. Mr. Douzdjian serves as SANDAG's Chief Financial Officer and directs all financial and budgeting functions for SANDAG and the Commission. Mr. Douzdjian returned to SANDAG in June of 2012. During the previous 12 years, Mr. Douzdjian worked in the capacity of Chief Financial Officer for two privately-held staffing companies, where he was a co-founder and shareholder of those businesses. Prior to that, Mr. Douzdjian was the Financial Services Manager at SANDAG, a position that he held for almost ten years, from 1991 to 2000. Prior to his employment at SANDAG, Mr. Douzdjian was a Senior Accountant for KPMG, LLP, a certified accounting firm. Mr. Douzdjian received a Bachelor of Business Administration (B.A.) degree in Accounting in 1988 from the University of San Diego and a Master's degree in Business Administration (M.B.A.) with an emphasis in Finance in 1996 from San Diego State University and is a Certified Public Accountant. Mr. Douzdjian is a member of the Government Finance Officers Association.

Jim Linthicum, *Director of Mobility Management and Project Implementation*. Mr. Linthicum is directly responsible for the implementation of all capital improvement projects, including *TransNet* funded projects, under the control of the Commission. He is accountable for the scope, schedule, and cost of regional transportation projects and coordinates these efforts with federal, State, and local transportation agencies. Mr. Linthicum transferred to SANDAG from MTS in 2003 as a result of the consolidation of project development and construction functions into SANDAG. Prior to his employment

at MTS, Mr. Linthicum worked for the California Department of Transportation for 24 years. Mr. Linthicum holds a B.S. degree in Civil Engineering from Pennsylvania State University.

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

Ray Major, *Chief Economist*. Mr. Major originally joined SANDAG in 1987 as a Research Analyst and economist responsible for SANDAG’s econometric and economic impact models, custom analytic research projects, and for developing the San Diego region’s comprehensive Economic Prosperity Strategy. He left SANDAG in 1994 and joined the Nielsen companies where he served as a senior executive holding numerous positions including Chief Marketing Officer, Chief Customer Officer, and product strategist. Mr. Major oversaw the product development of Claritas, a major provider of demographic and segmentation data. As General Manager of Integras, he ran the division of Claritas specializing in Business Intelligence (BI) and predictive analytics, geo-spatial and economic modeling services. In 2010, Mr. Major moved to Halo BI, a state-of-the-art business intelligence and predictive modeling software and service provider where he served as CMO, COO, and CEO. Mr. Major rejoined SANDAG in 2015 where he now serves as the Chief Economist. Mr. Major holds both graduate and undergraduate degrees in economics from San Diego State University, with an emphasis in developmental economics, and econometrics.

José Nuncio, *TransNet Director*. Mr. Nuncio manages and directs the operations of the SANDAG TransNet Department and is responsible for the programming of federal, state, local and TransNet funds, revenue forecasts for the agency’s long-range transportation plans, internal and external accountability and communication through the TransNet Dashboard and staffing for the Independent Taxpayer Oversight Committee. Mr. Nuncio joined SANDAG in April 2002 after spending more than 10 years with the California Department of Transportation at its San Diego District Office where he gained experience in the areas of programming, project management and development, and international border affairs. Mr. Nuncio received a Bachelor of Science (B.S.) in Aerospace Engineering from the University of Michigan in 1989 and a Master of Science (M.S.) in Structural Engineering in 1991 from the University of California at San Diego. Mr. Nuncio has been a Registered Civil Engineer in the State of California since 1995.

Independent Examination of Measure A Revenue Estimates

In November 2016, the Commission’s Board of Directors endorsed Measure A, which sought to establish a new half-cent retail sales tax for the San Diego region. The supporters of Measure A campaigned for its passage with the representation that the additional sales tax would generate roughly \$18 billion in revenue, which would be used for transportation needs throughout the region. The estimates

of potential revenue from the passage of Measure A were over-estimated, a fact that was reported by the press in October 2016. The following month, Measure A was defeated at the polls.

The Commission's Board of Directors commissioned an independent inquiry on April 14, 2017, to determine which individuals within Commission knew that the revenue estimates were overstated, when those individuals gained that knowledge, and with whom that information was shared. A report on the independent inquiry was presented to the Commission's Board of Directors on August 4, 2017. The report found that a computer input error in 2004 caused projections of sales tax receipts to be erroneously high. Several staff members questioned the projections and advised against using them. However, it was not until two days after the November 2016 election that staff discovered the source of the error. The report found that no one at Commission intended to misrepresent the revenue forecast and makes a series of policy and procedural recommendations to avoid such issues in the future. The Commission's Board of Directors subsequently implemented a 7-Point Data Accuracy and Modeling Work Plan as well as a "Plan of Excellence" to carry out ideas discussed by the Board of Directors and recommendations from the report as well as from the San Diego Taxpayers Association regarding improvements to SANDAG operations. The report is available on the Commission website as part of the Commission's Board of Directors' special meeting agenda minutes for the August 4, 2017, and information regarding the 7-Point Data Accuracy and Modeling Work Plan as well as a "Plan of Excellence" can be found at <http://www.sandag.org/index.asp?subclassid=125&fuseaction=home.subclasshome>.

The public reaction to the circumstances surrounding the November 2016 election has had an impact on the Commission. On October 11, 2017, Governor Jerry Brown signed into law AB 805 which made changes including modifications to the Commission's voting mechanisms. In addition, Executive Director Gary L. Gallegos retired effective August 18, 2017. Under the Board of Directors' policy, the Chief Deputy Executive Director of the Commission has all of the authority of the Executive Director. The Commission is currently conducting a search for its new Executive Director. It remains possible that the Commission will continue to experience additional changes as a result of the reaction, including in the governance or management of the Commission. See "RISK FACTORS - Governance and Management – Changes in State Law."

THE SALES TAX

Authorization, Application and Collection of the Sales Tax

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

Collection of the Sales Tax is administered by the CDTFA, which replaced the BOE for this purpose. The CDTFA, after deducting a fee for administering the Sales Tax, remits the remaining Sales Tax Revenues to the Trustee which are then applied to satisfy the Commission's obligations with respect to the Bonds and Parity Obligations. The remaining Sales Tax Revenues are then remitted to the Trustee for the Commission's Subordinate Obligations, including the 2018 Short-Term Notes and the Subordinate Commercial Paper Notes. After payment of debt service requirements on the Subordinate Obligations,

any remaining unapplied Sales Tax Revenues are then remitted to the Trustee for payment of certain fees and expenses and the Junior Subordinate TIFIA Loan and thereafter to the Commission. The fee charged by the CDTFA is determined by the CDTFA pursuant to statute. The fee charged by the CDTFA to the Commission for collection of the Sales Tax for Fiscal Year 2017 was \$3,300,880. The fee that the CDTFA is authorized to charge for collection of the Sales Tax is determined by State legislation and may be increased or decreased by legislative action. There can be no assurances that the amount of this fee or the method for determining the amount of the fee will remain the same.

The CDTFA disburses collected sales tax monthly to sales taxing jurisdictions such as the Commission through a five-step procedure. First, the CDTFA calculates 90% of the same quarter disbursement from the prior year. Second, the CDTFA multiplies this number by the quarterly growth rate provided by the State Department of Finance. Third, the CDTFA divides the quarterly projection into three monthly disbursements of 30%, 30% and 40%. Fourth, the disbursement for the first month of each quarter is adjusted by a true-up for the previous quarter to reconcile actual sales tax collections with the disbursements made in accordance with the preceding formula. Fifth, a quarterly administration fee is subtracted from the first month's disbursement. From time to time there will be corrections made by the CDTFA for prior periods.

The Sales Tax is imposed in addition to a 7.25 percent sales and use tax levied statewide by the State and local sales tax measures enacted by cities, as described below under “– Other Sales Taxes Imposed in the County.” In general, the statewide sales tax applies to the gross receipts of retailers from the sale of tangible personal property. The statewide use tax is imposed on the storage, use or other consumption in the State of property purchased from a retailer for such storage, use or other consumption. Since the use tax does not apply to cases where the sale of the property is subject to the sales tax, the application of the use tax generally is to purchases made outside of the State for use within the State, subject to certain exceptions. Many categories of transactions are exempt from the Statewide sales and use tax and from the Sales Tax. The most important are: sales of food products for home consumption; prescription medicine; edible livestock and their feed; seed and fertilizer used in raising food for human consumption; and gas, electricity and water when delivered to consumers through mains, lines, and pipes. In addition, “Occasional Sales” (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the statewide sales and use tax and from the Sales Tax. Action by the State legislature or by voter initiative could change the transactions and items upon which the Statewide sales and use tax and the Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial impact on the Sales Tax Revenues. The Commission is not currently aware of any proposed legislative change, which would have a material adverse effect on Sales Tax Revenues. See also “RISK FACTORS – Proposition 218.”

Historical Sales Tax Revenues

The Commission began receiving distributions of the Sales Tax from the BOE in June, 1988. The CDTFA now handles most of the taxes and fees previously collected by the BOE. The following table shows the Sales Tax remitted to the Commission during the Fiscal Years ended June 30, 1990 through June 30, 2017.

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

<u>Fiscal Year Ended June 30</u>	<u>Sales Tax Revenues⁽¹⁾</u>	<u>% Change From Prior Fiscal Year</u>
1990	\$113,758,624	--
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)
2011	221,304,014	8.4
2012	236,947,113	7.1
2013	247,221,162	4.3
2014	260,114,931	5.2
2015	268,840,549	3.4
2016	275,500,023	2.5
2017	284,456,260	3.3

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

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

Source: San Diego County Regional Transportation Commission.

Sales Tax Revenues received by the Commission through January of the Fiscal Year ending June 30, 2018 were \$169,816,579, compared with \$162,462,515 for the same period during the Fiscal Year ended June 30, 2017.

Other Sales Taxes Imposed in the County

With limited exceptions, the Sales Tax is imposed upon the same transactions and items subject to the 7.25 percent sales and use tax levied statewide by the State. The State Legislature or the voters of 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. See “RISK FACTORS – Other Sales Taxes.”

In addition to the statewide sales and use tax and the Sales Tax, the following sales and use taxes are imposed in certain cities within the County. No portion of the statewide sales and use tax or the following taxes imposed in certain cities within the County are pledged to the repayment of the 2018 Short-Term Notes.

<u>Sales and Use Tax</u>	<u>Tax Rate</u>	<u>Effective Date</u>	<u>Termination Date</u>
City of Chula Vista Temporary Transactions and Use Tax	0.50%	04/01/17	04/01/27
City of Del Mar Transactions and Use Tax	1.00	07/01/17	N/A
City of El Cajon Service Preservation Transactions and Use Tax	0.50	04/01/09	03/31/29
City of La Mesa Transactions and Use Tax	0.75	04/01/09	03/31/29
City of National City Transactions and Use Tax	1.00	10/01/06	09/30/36
City of Vista Transactions and Use Tax	0.50	04/01/07	03/31/37

Source: *California City and County Sales and Use Tax Rates* (July 1, 2017), CDTFA.

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.”

COMMISSION INVESTMENT PORTFOLIO

Funds of the Commission are invested pursuant to an investment policy adopted by the Commission Board, which permits the Commission to invest in some (but not all) of the types of securities authorized by State law for the investment of funds of local agencies. 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, bankers acceptances, commercial paper of prime quality, certificates of deposit, medium term corporate notes, shares of beneficial interest issued by a California joint powers authority, the State’s local agency investment fund, the San Diego County local agency investment fund, 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, 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 Board described above (except that the Trustee is permitted to invest a greater percentage of funds in specific securities than the investment policy would otherwise permit).

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 December 31, 2017. Accordingly, there can be no assurance that if these securities had been sold on December 31, 2017, the portfolio would have received the values specified. In addition, under certain provisions of the Indenture, funds and accounts held under the Indenture must be invested in certain specified Investment Securities that include investment agreements and other investments not described above.

As of December 31, 2017, the average maturity of the Commission's portfolio was 389 days, with an average yield of approximately 1.33 percent.

INVESTMENT PORTFOLIO INFORMATION
as of December 31, 2017

	Percent of Portfolio (Market Value)	Par Value	Market Value
Cash or Cash Equivalents	22.7%	\$127,853,022	\$127,853,022
State of California Local			
Agency Investment Fund	1.6	9,118,027	9,118,027
United States Agencies	39.6	225,346,744	223,319,996
Corporate Medium Term Notes	19.3	109,911,998	109,079,900
Commercial Paper	0.8	4,218,928	4,230,204
Supra-National Agency Bonds/Notes	2.5	14,175,404	14,029,005
Certificates of Deposit	6.7	37,995,027	37,880,619
Asset-Backed Securities	2.3	13,202,607	13,136,318
Certificates of Participation	4.5	25,550,000	25,550,000
TOTAL	100.0%	\$567,371,757	\$564,197,091

Source: San Diego County Regional Transportation Commission.

RISK FACTORS

Availability of Funds to Pay the 2018 Short-Term Notes

The Subordinate Indenture provides that unless the 2018 Short-Term Notes have been previously paid or defeased pursuant to the provisions of the Subordinate Indenture, the Commission agrees to use its best efforts, on or before April 1, 2021, to draw on the TIFIA Loan Agreement or, to the extent sufficient funds are not available or eligible thereunder, to issue Senior Lien Bonds, or Notes or other Parity Debt under the Senior Indenture or the Subordinate Indenture, as applicable, or to otherwise obtain financing to provide funds sufficient to pay the principal of the 2018 Short-Term Notes on April 1, 2021. No assurance can be given that the Commission will satisfy all conditions to disbursement under the TIFIA Loan Agreement, or that the TIFIA Lender will honor a properly presented disbursement request under the TIFIA Loan Agreement. In addition, if the Commission is unable to obtain proceeds of the Junior Subordinate TIFIA Loan, no assurances can be given that capital markets access will be available for the

Commission to issue Senior Bonds under the Senior Indenture, or Notes or other Parity Debt under the Subordinate Indenture, to repay the principal of the 2018 Short-Term Notes on April 1, 2021.

Economy of the County and the State

The 2018 Short-Term Notes are secured by a subordinate pledge of Revenues, including Sales Tax Revenues, which consist of the Sales Tax less an administrative fee paid to the CDTFA. The level of Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have an 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 2018 Short-Term Notes. For information relating to economic conditions within the County and the State, see APPENDIX B – “INFORMATION REGARDING THE COUNTY OF SAN DIEGO.”

Other Sales Taxes

With limited exceptions, the Sales Tax is imposed upon the same transactions and items subject to the 7.25% sales and use tax levied statewide by the State. The State Legislature or the voters of 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. In addition, the Sales Tax is imposed generally on the same transactions and items subject to sales and use taxes levied by certain cities within the County. See “THE SALES TAX – Other Sales Taxes Imposed in the County.”

Acceleration of Liquidity Facility Bonds

The amortization period applicable to the Liquidity Facility Bonds may be accelerated under certain circumstances. “Liquidity Facility Bonds” are Series 2008 Senior Lien Bonds tendered for purchase and not successfully remarketed, that are then purchased by a Liquidity Provider pursuant to the applicable 2008 Liquidity Facility. Such Liquidity Provider purchases may occur as a result of, among other things, adverse market conditions leading to failed remarketings or the Commission’s inability to obtain replacement credit or liquidity arrangements upon the expiration or termination of the existing 2008 Liquidity Facilities. See “OUTSTANDING OBLIGATIONS – Liquidity Facilities.” The Commission’s obligation to reimburse the Liquidity Providers on account of their purchase of any of the Series 2008 Bonds may, under specified circumstances, be paid over a period of five years or, if earlier, by no later than the last day of the purchase period, and may, under certain circumstances, become immediately due and payable on the one hundred eightieth (180th) day following the date on which any Series 2008 Senior Lien Bond became a Liquidity Facility Bond. Liquidity Facility Bonds are payable on a parity with the Senior Lien Bonds.

Variable Rate Bonds

The Series 2008 Bonds are variable rate 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 for such Series 2008 Bonds. Upon a failure to remarket the Series 2008 Bonds, the Series 2008 Bonds will be purchased pursuant to the 2008 Liquidity Facilities, in which event the Series 2008 Bonds could bear interest at materially higher interest rates. Furthermore, in the event of early termination of the Initial Swaps, the Commission would no longer receive the variable rate payments from the counterparties thereunder and the Commission may be liable for substantial termination fees

which, though subordinate to the 2018 Short-Term Notes, could have a material adverse effect on the Commission.

Loss of Subsidy Payments

The 2010 Series A Bonds were issued as “Build America Bonds.” The amount of any Subsidy Payments are subject to legislative changes by the United States Congress. On March 1, 2013, the federal government announced the implementation of certain automatic spending cuts known as “sequestration.” In Fiscal Year 2016-17, sequestration reduced Subsidy Payments to the Commission by approximately \$480,361. The Commission expects future reductions in Subsidy Payments to occur due to the sequester, but is unable to predict the amount or duration of such reductions. Further, Subsidy Payments will only be paid if the 2010 Series A Bonds continue to qualify as Build America Bonds. For the 2010 Series A Bonds to remain Build America Bonds, the Commission must comply with certain covenants with respect to the 2010 Series A Bonds, the use and investment of proceeds thereof and the use of property financed thereby. Thus, it is possible that the Commission may not receive the Subsidy Payments. Subsidy Payments are also subject to offset against amounts that may, for unrelated reasons, be owed by the Commission to any agency of the United States of America. The Commission does not believe that failure to receive all or a portion of the Subsidy Payments or any offset to the Subsidy Payments will materially and adversely impact the Commission’s ability to pay interest on the 2010 Series A Bonds or other obligations. The failure to receive all or any portion of the Subsidy Payment does not affect the Commission’s obligation to pay debt service on the 2010 Series A Bonds.

Loss of Tax Exemption

As discussed under “TAX MATTERS,” interest on the 2018 Short-Term Notes could become includable in federal gross income, possibly from the date of issuance of the 2018 Short-Term Notes, including as a result of acts or omissions of the Commission subsequent to the issuance of the 2018 Short-Term Notes. Should interest become includable in federal gross income, the 2018 Short-Term Notes are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

Bankruptcy Considerations

The Commission may be authorized to file for Chapter 9 municipal bankruptcy under certain circumstances. Should the Commission file for bankruptcy, there could be adverse effects on the holders of the 2018 Short-Term Notes.

If the Sales Tax Revenues are “special revenues” under the Bankruptcy Code, then Sales Tax Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. “Special revenues” are defined to include taxes specifically levied to finance one or more projects or systems, excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the governmental entity. The Sales Tax was levied to finance the projects described in the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (under this caption, the “Projects”), and some of these Projects are described in broad terms. In addition, the Projects are not owned by the Commission. No assurance can be given that a court would not hold that the Sales Tax Revenues are not special revenues. Were the Sales Tax Revenues determined not to be “special revenues,” then Sales Tax Revenues collected after the commencement of a bankruptcy case would likely not be subject to the lien of the Indenture. The holders of the 2018 Short-Term Notes may not be able to assert a claim against any property of the Commission other than the Sales Tax Revenues, and were these amounts no longer subject to the lien of the Indenture following commencement of a

bankruptcy case, then there could thereafter be no amounts from which the holders of the 2018 Short-Term Notes are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system from which the special revenues are derived, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. The law is not clear as to whether, or to what extent, Sales Tax Revenues would be considered to be “derived” from the Projects. To the extent that Sales Tax Revenues are determined to be both special revenues and derived from the Projects, the Commission may be able to use Sales Tax Revenues to pay necessary operating expenses connected with the Projects, before the remaining Sales Tax Revenues are turned over to the Trustee to pay amounts owed to the holders of the 2018 Short-Term Notes. It is not clear precisely which expenses would constitute necessary operating expenses.

If the Commission is in bankruptcy, the parties (including the holders of the 2018 Short-Term Notes) may be prohibited from taking any action to collect any amount from the Commission or to enforce any obligation of the Commission, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the 2018 Short-Term Notes from funds in the Trustee’s possession. The procedure pursuant to which Sales Tax Revenues are paid directly by the CDTFA to the Trustee may no longer be enforceable, and the Commission may be able to require the CDTFA to pay Sales Tax Revenues directly to the Commission.

The Commission as a debtor in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including Sales Tax Revenues), which lien could have priority over the lien of the Indenture, or to cause some Sales Tax Revenues to be released to it, free and clear of lien of the Indenture, in each case provided that the bankruptcy court determines that the rights of the Trustee and the holders of the 2018 Short-Term Notes will be adequately protected. The Commission may also be able, without the consent and over the objection of the Trustee and the holders of the 2018 Short-Term Notes, to alter the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the 2018 Short-Term Notes, provided that the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2018 Short-Term Notes while the court considers any of these issues. There may be other possible effects of a bankruptcy of the Commission that could result in delays or reductions in payments on the 2018 Short-Term Notes, or result in losses to the holders of the 2018 Short-Term Notes. Regardless of any specific adverse determinations in a Commission bankruptcy proceeding, the fact of a Commission bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2018 Short-Term Notes.

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act (“Proposition 218”). Proposition 218 added Articles XIIC and XIID to the California Constitution. Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Commission. In 2004, the Sales Tax Extension Ordinance received the approval of more than 2/3 of the voters as required by Article XIIC. However, Article XIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Commission, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the Sales Tax in a manner which would

prevent the payment of debt service on the 2018 Short-Term Notes 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 this provision of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

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

Governance and Management – Changes in State Law

SANDAG was created in the 1970s as a Joint Powers Authority made up of various cities in the County of San Diego that desired to voluntarily carry out regional planning activities as a joint enterprise. SANDAG's governance structure was codified into State Law by State statute in 2002. The State Legislature can alter the governance and structure of SANDAG. On October 11, 2017, Governor Jerry Brown signed into law AB 805 which changed the voting mechanisms of the Board of Directors of SANDAG and provide additional audit requirements. The State Legislature can adopt further statutory changes that could materially impact the composition of the Board of Directors or composition of management, or impose new requirements or standards, any of which could cause material changes for SANDAG policy objectives or how it operates.

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 2018 Short-Term Notes. The Commission is not aware of any litigation pending or threatened against the Commission questioning the political existence of the Commission or contesting the Commission's ability to impose and collect the Sales Tax.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Commission ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2018 Short-Term Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2018 Short-Term Notes is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2018 Short-Term Notes is less than the amount to be paid at maturity of such 2018 Short-Term Notes (excluding amounts stated to be interest and payable at least annually over the term of such 2018 Short-Term Notes), 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 2018 Short-Term Notes which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2018 Short-Term Notes is the first price at which a substantial amount of such maturity of the 2018 Short-Term Notes 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 2018 Short-Term Notes accrues daily over

the term to maturity of such 2018 Short-Term Notes 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 2018 Short-Term Notes to determine taxable gain or loss upon disposition (including sale or payment on maturity) of such 2018 Short-Term Notes. Beneficial Owners of the 2018 Short-Term Notes should consult their own tax advisors with respect to the tax consequences of ownership of 2018 Short-Term Notes with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2018 Short-Term Notes in the original offering to the public at the first price at which a substantial amount of such 2018 Short-Term Notes is sold to the public.

2018 Short-Term Notes purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium 2018 Short-Term Notes”) 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 2018 Short-Term Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a 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 2018 Short-Term Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2018 Short-Term Notes. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2018 Short-Term Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2018 Short-Term Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2018 Short-Term Notes. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the 2018 Short-Term Notes may adversely affect the value of, or the tax status of interest on, the 2018 Short-Term Notes. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2018 Short-Term Notes is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2018 Short-Term Notes may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2018 Short-Term Notes to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2018 Short-Term Notes. Prospective purchasers of the 2018 Short-Term Notes should consult their own tax

advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express 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 2018 Short-Term Notes for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Commission, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Commission has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2018 Short-Term Notes ends with the issuance of the 2018 Short-Term Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the 2018 Short-Term Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission and their appointed counsel, including the 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 2018 Short-Term Notes 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 2018 Short-Term Notes, and may cause the Commission or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the 2018 Short-Term Notes 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 attached as Appendix F 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 Norton Rose Fulbright US LLP, as Disclosure Counsel, and for the Underwriters by their counsel, Nixon Peabody LLP. Compensation paid to Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent on the successful issuance of the 2018 Short-Term Notes.

CONTINUING DISCLOSURE

The Commission has agreed to execute a continuing disclosure agreement (the "Continuing Disclosure Agreement"), which provides for disclosure obligations on the part of the Commission while the 2018 Short-Term Notes remain Outstanding. Under the Continuing Disclosure Agreement, the Commission will covenant for the benefit of owners of the 2018 Short-Term Notes to provide certain financial information and operating data relating to the Commission by not later than two hundred and ten (210) days after the end of the prior fiscal year, commencing with the fiscal year ending June 30, 2018 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notice Events") in a timely manner. The Annual Reports and the Notice Events will be filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. These covenants will be made to assist the Underwriters of the 2018 Short-Term Notes in complying with the Rule 15c-12, as amended (the "Rule") adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

RATINGS

S&P Global Ratings and Fitch Ratings have assigned ratings on the 2018 Short-Term Notes of “AA” and “AA,” 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: S&P Global Ratings, 55 Water Street, New York, New York 10041 and Fitch Ratings, 33 Whitehall Street, New York, New York 10004. Such ratings are not recommendations to buy, sell or hold securities. 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 the 2018 Short-Term Notes.

UNDERWRITING

Purchase of the 2018 Short-Term Notes

The Commission has entered into a Note Purchase Agreement (the “Purchase Agreement”) with respect to the 2018 Short-Term Notes with Citigroup Global Markets Inc., on behalf of itself and as representative of the underwriters named therein and set forth on the cover page hereof (collectively, the “Underwriters”), pursuant to which the Underwriters will agree, subject to certain conditions, to purchase the 2018 Short-Term Notes for reoffering at a price of \$568,281,287.33, which represents the aggregate principal amount of the 2018 Short-Term Notes of \$537,480,000.00, plus an original issue premium of \$31,625,091.60, less an Underwriters’ discount of \$823,804.27. Citigroup Global Markets Inc. is a dealer for the Subordinate Commercial Paper Notes and is an Underwriter of the 2018 Short-Term Notes. Bank of America, N.A. is a swap counterparty and provider of the Bank of America Liquidity Facility. Merrill Lynch, Pierce, Fenner & Smith Incorporated is an Underwriter of the 2018 Short-Term Notes. Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are both subsidiaries of BAC North America Holding Company.

The Purchase Agreement provides that the Underwriters will purchase all of the 2018 Short-Term Notes if any are purchased. The 2018 Short-Term Notes may be offered and sold by the Underwriters to certain dealers and others at yields higher than the public offering yields indicated on the inside cover hereof, and such public offering yields may be changed from time to time by the Underwriters. The Underwriters agree to make a public offering of the 2018 Short-Term Notes. The Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2018 Short-Term Notes at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

In June 2013, the Commission commenced an action against a number of banks, including entities affiliated with Citigroup Global Markets Inc., one of the Underwriters of the 2018 Short-Term Notes, alleging that the defendants conspired to suppress U.S. dollar London Interbank Offered Rate (“LIBOR”) by collectively submitting U.S. dollar LIBOR rates to the British Bankers’ Association that were artificially low between August 2007 and March 2011. The Commission alleges that the suppression of U.S. dollar LIBOR deprived it of its rightful rate of return on various interest rate swap transactions, and asserts a variety of claims including antitrust claims seeking treble damages. The defendants deny such allegations. Since it was commenced in June 2013, this action has been stayed pending a final determination on motions to dismiss that were filed in similar U.S. dollar LIBOR actions pending before Judge Naomi Reice Buchwald in New York federal district court. On August 4, 2015, Judge Buchwald issued a decision, following which the parties agreed all claims by the Commission against the Citigroup

and J.P. Morgan defendants would be dismissed either on the merits or for lack of personal jurisdiction. On May 23, 2016, however, the U.S. Court of Appeals for the Second Circuit vacated the dismissal of the antitrust claims and remanded for further consideration of the issue by the district court.

The following two paragraphs have been provided by and are being included in this Official Statement at the request of the Underwriters. The Commission 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. Certain of the Underwriters or their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such securities and instruments.

Retail Brokerage Arrangements

The following two paragraphs have been provided by and are being included in this Official Statement at the request of Wells Fargo Securities. The Commission does not assume any responsibility for the accuracy or completeness of such statements or information.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934. Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the 2018 Short-Term Notes, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the 2018 Short-Term Notes. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2018 Short-Term Notes with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the 2018 Short-Term Notes. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

MUNICIPAL ADVISOR

The Commission has retained PFM Financial Advisors LLC, San Francisco, California, as municipal advisor (the "Municipal Advisor") in connection with the 2018 Short-Term Notes. The Municipal Advisor is an independent registered municipal advisor. The Municipal 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.

FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS

Financial information relating to the Commission is included in the Commission's Audited Basic Financial Statements for the Fiscal Year Ended June 30, 2017, which are included as part of Appendix A to this Official Statement. The financial statements of the Commission included in Appendix A have been audited by Davis Farr LLP, Certified Public Accountants (the "Auditors"), as stated in their report appearing in Appendix A. The Auditors were not requested to consent to the inclusion of their report in Appendix A, nor have they undertaken to update their report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditors with respect to any event subsequent to the date of their report.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Commission and holders of any of the 2018 Short-Term Notes. All quotations from and summaries and explanations of the Indenture, the Act 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.

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

By:



Chief Deputy Executive Director

APPENDIX A

**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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2017

*San Diego County
Regional Transportation Commission*

Basic Financial Statements

For the Fiscal Year Ended
June 30, 2017

San Diego, CA



**San Diego County Regional
Transportation Commission
(A Component Unit of the
San Diego Association of
Governments)**

San Diego, California

Basic Financial Statements

For the year ended June 30, 2017

PREPARED BY THE SAN DIEGO ASSOCIATION OF GOVERNMENTS

FINANCE DEPARTMENT

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San Diego Regional Transportation Commission

Table of Contents Year Ended June 30, 2017

<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Letter of Transmittal	i
SANDAG Board of Directors.....	xi
SANDAG Executive Staff	xii
SANDAG Organization Chart.....	xiii
 <u>FINANCIAL SECTION</u>	
Independent Auditors' Report	3
Management's Discussion and Analysis (Required Supplementary Information)	7
 <u>Basic Financial Statements</u>	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	19
Statement of Activities	20
 <u>Fund Financial Statements</u>	
<i>Governmental Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	25
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities.....	28
 <u>Notes to the Basic Financial Statements</u>	
San Diego County Regional Transportation Commission Notes to the Basic Financial Statements for the Fiscal Year Ended June 30, 2017	31
 <u>Required Supplementary Information</u>	
Sales Tax Projects Special Revenue Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	59
Notes to Required Supplementary Information	60
 <u>Supplementary Information</u>	
Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	63

San Diego Regional Transportation Commission

Table of Contents, Continued

<u>STATISTICAL SECTION</u>	<u>Page</u>	
Financial Trends:		
Fund Balances of Governmental Funds – Last Ten Fiscal Years.....	67	
Change in Fund Balances of Governmental Funds – Last Ten Fiscal Years	68	
Revenue Capacity:		
Tax Revenues by Source, Governmental Funds – Last Ten Fiscal Years	69	
Direct and Overlapping Sales Tax Rates – Last Ten Fiscal Years	70	
Debt Capacity:		
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	71	
Pledged-Revenue Coverage – Last Ten Fiscal Years	72	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....		73

INTRODUCTORY SECTION

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 sandag.org

December 15, 2017

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

We are pleased to present the basic financial statements of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), for the fiscal year ended June 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management of SANDAG. A comprehensive framework of internal controls has been designed and implemented to ensure the assets of the Commission are protected from loss, theft, or misuse, and to ensure that financial information is accurate and complete. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

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 changes in financial position including results of the Commission's operations. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

Davis Farr, LLP, has issued an unmodified ("clean") opinion on the Commission's financial statements for the fiscal year ended June 30, 2017.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Reporting Entity

SANDAG is the San Diego region's Council of Governments (COG). Local elected officials throughout the United States have joined together to form similar COGs to deal cooperatively with issues that go beyond jurisdictional boundaries, such as transportation, growth management, environmental quality, and other 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. Caltrans, United States Department of Defense, San Diego Unified Port District, San Diego Metropolitan Transit System (MTS), North County Transit District (NCTD), San Diego County Water Authority, Imperial County, Southern California Tribal Chairmen's Association, and Mexico (Consulate General of Mexico) are nonvoting advisory members of SANDAG.

MEMBER AGENCIES

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

ADVISORY MEMBERS

- Imperial County*
- California Department of Transportation*
- Metropolitan Transit System*
- North County Transit District*
- United States Department of Defense*
- San Diego Unified Port District*
- San Diego County Water Authority*
- Southern California Tribal Chairmen's Association*
- Mexico*

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

The Commission is a blended component unit of SANDAG and therefore, is considered part of the SANDAG primary government. The SANDAG 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 one-half percent sales tax. This tax became effective on April 1, 1988, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program, known as *TransNet*. The sales tax funds were used for highway, public transit, local street and road improvements, bicycle and pedestrian facilities, and administration.

In November 2004, the voters of San Diego County extended the one-half cent sales tax another 40 years to 2048. The extension of *TransNet* will help SANDAG continue to implement the region's transportation program, as well as provide funding for bicycle, pedestrian, and neighborhood safety projects; major corridor capital projects; environmental mitigation projects; smart growth projects; local street and road projects; transit system projects; and operation of the new transit services. The Extension Ordinance includes a mandate that an Independent Taxpayer Oversight Committee (ITOC) for *TransNet* be formed to provide an enhanced level of accountability for the expenditure of funds under the *TransNet* expenditure plan. The ITOC also helps ensure that all voter mandates are carried out as required and develops recommendations for improvements to the financial integrity and performance of the program. The Commission is authorized to issue limited tax bonds payable from the sales tax receipts, the proceeds of which can be used to finance approved *TransNet* projects. The Commission has created a Plan of Finance (POF) for the *TransNet* program, which is updated at least annually. A summary of the most recent POF is provided near the end of this letter.

San Diego's Regional Economy

Basics of the San Diego Economy

San Diego is a diverse, growing region of 3.2 million people, who are younger than the national average, richer in terms of per capita income, and better educated with more college and advanced degrees. The \$220 billion economy is also diverse and well positioned for the future in innovative and recession-resilient sectors.

Blessed with a beautiful natural environment, 70 miles of coastline, mild weather, and a plethora of outdoor activities, the city is often referred to as “America’s Finest City.” This moniker pays tribute to the natural amenities that make San Diego one of the most desirable places to live and work in the nation, and one to which most people would consider relocating.

This offers employers a highly skilled workforce, and forecasts for the next 20 years show a growing population, adding roughly 30,000 residents annually. The San Diego job base and economy continue to diversify over the forecast period, and the housing market that took a significant hit during the great recession has recovered to pre-recession levels.

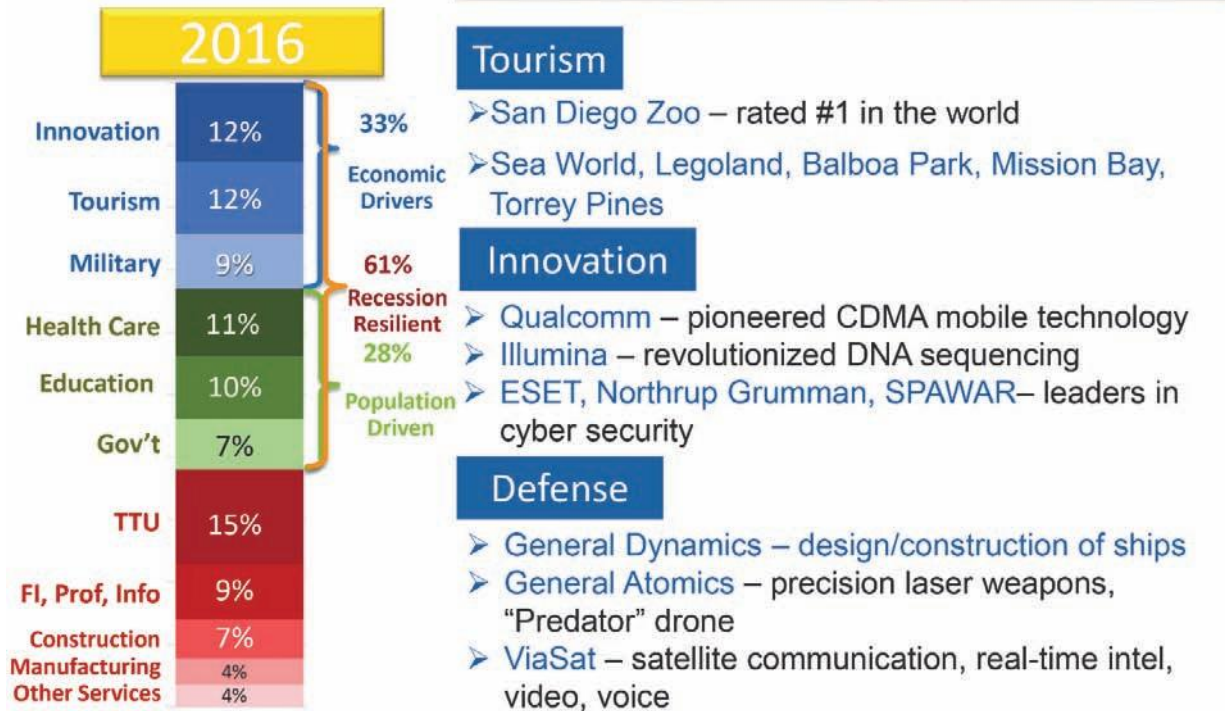
History of the San Diego Economy

Once characterized as a sleepy Navy town, and later as a tourist destination, San Diego’s economy has diversified and matured over the last 75 years. The population has increased from under 300,000 to over 3.2 million residents. Before WWII, 70 percent of jobs in the local economy were in traditional sectors such as the Military, Manufacturing, Construction, Finance, and Retail and Wholesale Trade; today it is less than 50 percent. The military accounted for about 20 percent of the region’s employment in 1940 (and ballooned to nearly half during the early 1950s) and stayed prominent throughout the Cold War.

The 1960s brought the emergence of the Tourism and Hospitality industry, the opening of UC San Diego (which became a key economic engine), as well as the approval of maquiladoras in Mexico, allowing U.S. firms access to low-cost manufacturing. By the 1980s, tourism was booming, and the nascent life sciences sector was beginning to take root. Base Re-alignment and Closure (BRAC), shuttered the Naval Training Center in the early 1990s and helped reduce the Military sector to today’s 9 percent, despite a steady military presence. The 2000s brought the dot-com bust, 9/11, and the Great Recession.

Today, San Diego boasts an economy that is not dominated by any one sector and, in fact, no sector accounts for more than 15 percent of the regional economy. Several sectors are “economic drivers,” specifically Tourism, the Military, and the “Innovation” sectors, which together make up a third of the regional economy. Tourism is a clear winner, with the weather, beaches, San Diego Zoo, and Convention Center. The Military is pivoting toward Asia and has committed to San Diego, as have many military contractors, like General Dynamics (makers of the Predator drone) and ViaSat (satellite communications leaders). Moreover, Innovation will continue to drive San Diego’s economy, with forward-looking technologies with massive growth potential from companies like Qualcomm (pioneers in mobile phone technology), Illumina (revolutionized DNA sequencing with tremendous potential to improve health care and quality of life), and ESET (cybersecurity experts).

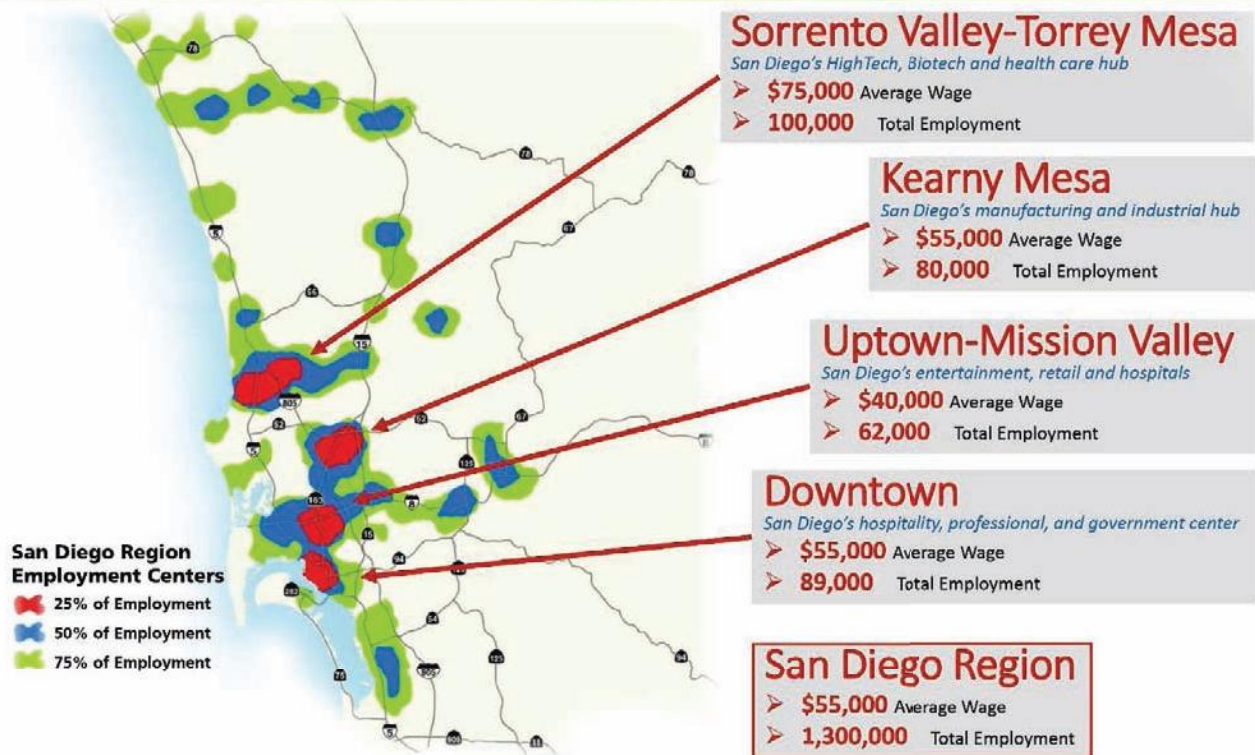
SAN DIEGO 2017: DIVERSE AND EXPANDING ECONOMIC BASE



San Diego also fares well in industries like Health Care, Education, and a lean Government sector. These sectors are generally population driven (rising in tandem with population), and together with the economic driver sectors, have proven through the Great Recession to be less affected by economic cycles. In sum, “recession-resilient” sectors account for over 60 percent of the San Diego economy.

Many of these sectors are physically clustered in San Diego’s “employment centers,” which allow opportunities to develop a more compact development pattern. And in analyzing the travel patterns, regional agencies can plan for improved transportation options, such as the in-progress Mid-Coast Corridor Transit Project.

EMPLOYMENT CENTERS: 25%, 50% AND 75% OF TOTAL EMPLOYMENT



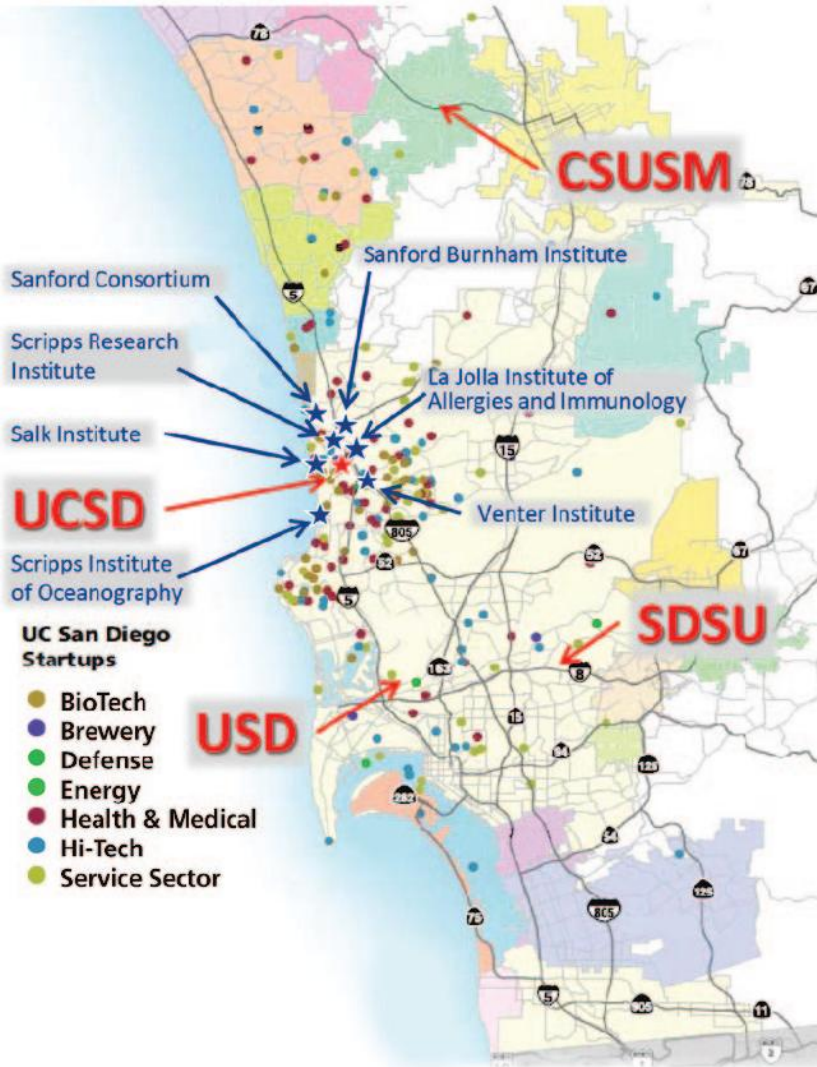
Sectors of the San Diego Economy

As mentioned, the San Diego economy is balanced and not reliant on any one industry, with no single sector accounting for more than 15 percent of regional employment. The diverse distribution of employment helps buffer San Diego from economic downturns, with 60 percent of regional employment in recession-resilient sectors (i.e., sectors less impacted by national business cycles). The Military and Tourism sectors provide a stable and diverse employment base, but the economy is also well-positioned for the 21st century, fueled by the next wave of business drivers, our "Innovation Sector": Biotech and Biomedical, Information Technology, Cleantech, and Aerospace.

Much of San Diego's forward-looking economy can be traced back to our higher learning institutions and research facilities, like the Salk Institute, Scripps Institute of Oceanography, San Diego State University, the University of San Diego, Cal State San Marcos, and UC San Diego. Nineteen different institutions of higher education enroll 270,000 students in the region. UC San Diego specifically is a highly ranked research university that has spawned hundreds of businesses, many of which remain important local employers, and which together employ about 4 percent of San Diego workers. Moreover, UC San Diego's commitment to generating economic opportunity is evident through their business-friendly approach to licensing technologies to new startup companies that simplifies the transfer of copyrights and licenses for a minimal equity in the company.

SAN DIEGO: HIGHER EDUCATION AND RESEARCH

19 institutions of higher education enroll over 270,000 students



University of California San Diego

- Office of Innovation and Commercialization
- “Open Flow” process simplifies copyright and licensing of inventions

Statistics:

- #14 university in the world
- #5 globally for R&D
- \$1 billion invested in research
- 200+ active local companies

UCSD companies contribute:

- \$31 billion in annual sales
- 30,000 direct jobs
- 4% of San Diego employment

Incubated by world-class research institutions, San Diego’s Innovation sector has grown considerably over the last 25 years, posting a growth rate ten times that of the rest of the economy. It now represents nearly 12 percent of our local economy and employs almost 170,000 people in high-paying jobs. The Innovation sector is also itself diverse, featuring Information and Communication Technology, Biotechnology and Biomedical, Aerospace and Navigation, and CleanTech. San Diego is the most patent-intensive region in the United States, the top destination for National Institutes of Health research funding, first in life-sciences laboratory space, and the number one place in the United States to launch a startup.

As noted, San Diego has a long and successful relationship with the military. San Diego's economy will benefit from the decision (dubbed the "Pacific Pivot") to reallocate 60 percent of military assets to the West Coast over the next decade. During the next few years, 50 percent more ships will be berthed in San Diego, and billions of dollars will be invested by the Navy in infrastructure like the Seal training facility. The presence of the military also attracts \$8.4 billion in government contracts each year, and 125,000 jobs, about 1 in 11 San Diegans, are directly employed by the military or Department of Defense. Many of these jobs are highly skilled, and all generate indirect employment effects in many other sectors throughout the economy. With a large deepwater port, a dozen military installations, and a well-developed support economy, San Diego is an irreproducible ecosystem for the military.

When most people think about San Diego, they think about it as a tourism destination, and in large part, they are correct. San Diego is routinely listed as the number one domestic travel destination, such as in Money magazine's 2016 assessment. And as a result, San Diego's Hospitality sector grew four times as fast as our overall economy during the past 27 years. Nearly 35 million visitors come to San Diego annually, bringing almost \$10 billion into the regional economy. While tourism jobs pay slightly less than the average, they do provide ample entry-level employment.

International Trade

San Diego is home to the largest land crossing in the western hemisphere, and the economic impact is significant. Over the past 14 years, trade through the border has doubled but increased only one percent from 2015 to 2016. This increase was in large part due to the North American Free Trade Agreement, but also because the maquiladoras provide highly skilled workers in technologically advanced factories where costs average a fraction of the cost in the United States; this keeps companies in San Diego.

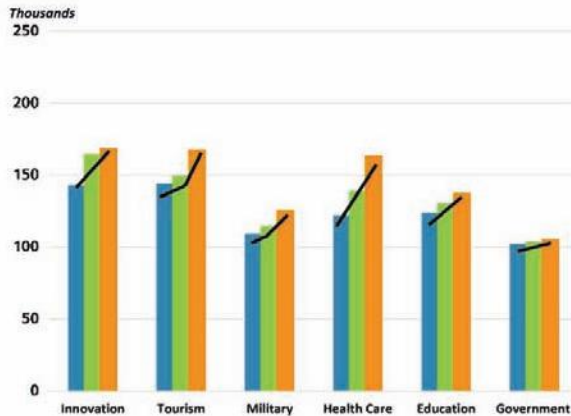
Jobs, Wages, and Housing

The diverse and robust San Diego economy presented above has resulted in strong job growth and low unemployment for San Diegans, and also in a regional economy that is less susceptible to traditional business cycles. San Diego's unemployment rate stands at 4.2 percent, lower than both California (4.8%) and the United States as a whole (4.4%). The brutal Great Recession and the protracted national recovery that saw San Diego and the nation take six and a half years to regain the employment level of December 2007 highlighted the importance of San Diego's recession-resilient sectors. Locally, Innovation, Tourism, Military, Health Care, Education, and Government sectors (representing 60% of all jobs in the region) continued to grow through the recession; other traditional sectors like Retail, Professional Services, Construction, Finance, and Manufacturing, endured deep employment contractions, and several sectors (e.g., Construction) have not recovered yet.

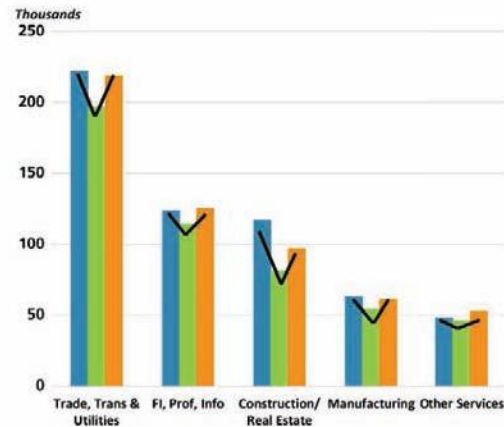
SAN DIEGO REGIONAL EMPLOYMENT BY SECTOR

2007 Peak, 2010 Trough, 2015 Recovery

Recession Resilient Sectors



Recession Susceptible Sectors



The San Diego region is in the midst of a reassessment of past housing and development practices. In prior eras, it was assumed that housing would continue to spread east into the back-country, but jurisdictions throughout the county have responded to residents' concerns about sprawl and adjusted their general plans to concentrate growth in existing communities. On the positive side, much of the recent development has been in multifamily housing in downtown areas, which is generally both less expensive and attractive to younger, high-skill workers (and some senior buyers) who prefer active, vibrant communities. As open land acceptable for residential development is in short supply, demand continues to outstrip the pace of building, and while San Diego housing costs are less than those of comparable coastal metros, prices and rents are higher than California or the United States as whole and represent a challenge to additional economic growth and to the economic well-being of many residents.

Outlook

The San Diego economy is healthy, but it is tethered to the global, national, and state economies. Globally, the economies of both advanced and emerging nations have begun to retain momentum. Still, global growth looks to be in the 3.5 percent range in 2017 according to the Organization for Economic Cooperation and Development, which is an improvement over previous years. Nationally, growth continues slow and steady, with the Federal Open Market Committee revising their growth forecast for 2017 up to 2.2 percent, with the national economy seeming to shrug off political tensions. Wage growth has also begun to move forward, after a decade of stasis. In California, the economy also continues to overcome challenges, with significant increases in High-Tech, Health Care, and Tourism more than offsetting lagging sectors.

In San Diego, economic drivers like the Innovation sector should continue to thrive, the Travel and Hospitality sector will see expenditures outpace gross domestic product growth in 2017, and the Military will begin to expand its strong presence. For population-driven Sectors, the Health Care sector, both in the United States and globally, is expected to see continued growth as the population

ages, and as new therapies and treatments are available to more people. Education remains both a stable sector and a long-term driver of economic growth, and Government typically grows proportional to population and is forecast to increase. Traditional Economic sectors like Trade, Transportation, and Utilities are dominated by retail where the outlook is relatively weak. The Financial, Professional, and Information sector (excluding Innovation sectors), is expected to see slow but steady growth. Construction and Real Estate is expecting continued strong growth through 2018, with rises in new homes starts for single and multifamily, and new and existing home sales. Manufacturing should continue its steady recovery, and Other Services, which includes many types of businesses, will continue to see slow growth through 2018.

***TransNet* Plan of Finance Update**

The *TransNet* 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 *TransNet* ITOC and the SANDAG Transportation Committee and is approved by the SANDAG Board of Directors. The most recent POF was approved by the SANDAG Board of Directors on January 22, 2016. A *TransNet* Program Update was conducted in December 2016. Draft assumptions for the next POF Update were provided to the SANDAG Transportation Committee in March 2017. The next POF Update is scheduled for early fall 2017. The December 2016 Program Update focused mainly on updated costs, specifically costs based on the region's long-range Regional Transportation Plan and updated sales tax revenues, including a consensus-based average of three nationally recognized sales tax forecasts. The *TransNet* Program Update allowed for continued progress on the *TransNet* Early Action Program (EAP). The EAP is a set of projects identified in the Ordinance considered a priority for early implementation, including projects such as Mid-Coast Trolley extension to the University City area, the South Bay Bus *Rapid* Transit, and the Interstate 5 (I-5) North Coast Corridor. The advance delivery of major projects has allowed the region to benefit from congestion relief and better mobility choices. The ability to advance major projects as discussed below is through the issuance of bonds against the sales tax receipts.

Financial Highlights

TransNet sales tax collections increased by \$8,956,237, or 3.25 percent, between 2016 and 2017.

Through the use of timely and prudent debt financing, the Commission was able to provide the financial resources necessary to fund the programmed projects and accumulate a Sales Tax Projects Fund restricted fund balance for future project expenditures of \$479.6 million.

This past year alone, the Commission funded approximately \$12.4 million in bicycle facilities, \$46.5 million in public transit projects and operations, and \$85.2 million in local street and road improvements. In addition, the Commission funded projects of approximately \$287.5 million in major corridors, including I-5, Interstate 805, Mid-Coast Corridor Transit, and the South Line Rail projects, and approximately \$21.8 million of the Environmental Mitigation Program. In total, \$471.0 million in public transportation and other infrastructure improvements were funded this past year.

Acknowledgments

The preparation of this report was accomplished with the cooperation of SANDAG management, financial staff, and SANDAG independent auditors, Davis Farr, LLP. We express our appreciation to the staff members and the auditors who contributed to the preparation of this report.

Respectfully submitted,



ANDRÉ DOUZDJIAN
Director of Finance



RAY MAJOR
Chief Economist

BOARD OF DIRECTORS



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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(A) Mark Baza, Imperial County Transportation Commission

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(A) Laurie Berman, District 11 Director
(A) Ann Fox, Deputy Director

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(A) Hon. Mona Rios

NORTH COUNTY TRANSIT DISTRICT

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(A) Hon. Ed Gallo
(A) Hon. Jewel Edson

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Executive Director
(A) Steve Chung, Navy Region Southwest

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(A) Vacant
Deputy Cónsul General of Mexico
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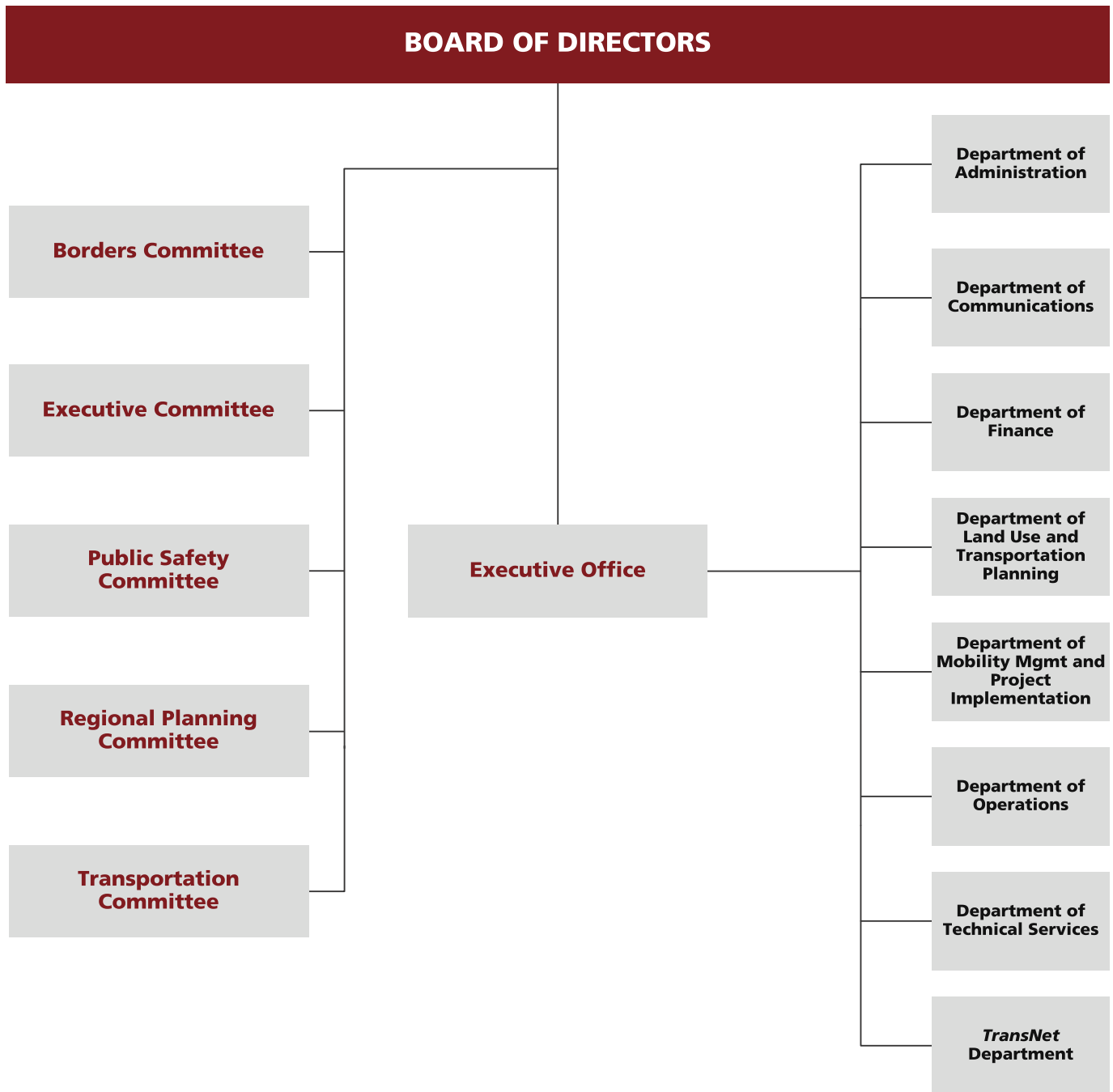
SAN DIEGO ASSOCIATION OF GOVERNMENTS

Executive Staff

As of June 30, 2017

Executive Director	Gary L. Gallegos
Chief Deputy Executive Director	Kim Kawada
General Counsel	John Kirk
Director of Administration	Laura Coté
Director of Finance	André Douzdjian
Director of Land Use and Transportation Planning and Director of Communications, Acting	Charles “Muggs” Stoll
Director of Mobility Management and Project Implementation	Jim Linthicum
Director of Operations	Ray Traynor
Director of Technical Services and Chief Economist	Ray Major
<i>TransNet</i> Department Director	José Nuncio
Principal Government Relations Analyst	Victoria Stackwick

San Diego Association of Governments Organization Chart



FINANCIAL SECTION

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Commission as of June 30, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Commission's 2016 financial statements, and we expressed unmodified opinions on the respective governmental activities and each major fund in our report dated December 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *budgetary comparison information* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The *introductory section*, *individual fund schedule* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *individual fund schedule* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *individual fund schedule* is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The *introductory section* and the *statistical section* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a flourish.

Irvine, California
December 15, 2017

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Management's Discussion and Analysis

As management of the San Diego County Regional Transportation Commission (Commission), we provide this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2017. The intent of this analysis is to assist the readers of the Commission's financial statements in better understanding the overall financial condition of the Commission. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the letter of transmittal.

Financial Highlights

- Liabilities of the Commission exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year, resulting in a current year net deficit of \$1,182,477,809. A significant factor related to the net deficit is the issuance of \$2,045,585,000 in bonds issued in 2008, 2011, 2012, 2014, and 2016 as part of the San Diego Association of Governments (SANDAG) Early Action Program (EAP) to expedite congestion relief projects focusing on jump-starting construction of the region's top priority transportation infrastructure projects.
- The Commission's total net position decreased in the current fiscal year by \$247,109,509. The decrease is mostly due to the issuance of the 2016 Series A tax-exempt bonds for \$325 million in long-term debt and *TransNet* program payments to SANDAG for major corridor projects utilizing proceeds from the bond issuances.
- As of the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$706,390,148, an increase of \$78,523,987 in comparison with the prior year. The total balance is restricted for purposes related to the *TransNet* Extension Ordinance.
- The Commission's total debt balance at the close of the current fiscal year increased by \$325,891,133 compared to that of fiscal year 2016. This is primarily due to the issuance of \$325,000,000 2016 Series A tax-exempt bonds with a \$78,818,562 premium offset by bond principal payment of \$24,260,000 and the \$48,250,000 principal repayment of commercial paper notes.

Overview of the Financial Statements

The Commission's annual financial report consists of five parts: (1) management's discussion and analysis; (2) basic financial statements; (3) required supplementary information; (4) an optional section that presents additional supplementary information; and (5) a statistical section, which furnishes relevant statistical data of the agency.

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

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

The *statement of net position* presents financial information on all the Commission's assets and liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing changes in the Commission's net position during the most recent fiscal year. All changes in net position 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 for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 19 to 20 of this report.

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

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

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

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

Notes to the basic financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found on pages 31 to 55 of this report.

Other information. In addition to the basic financial statements, required supplementary information which includes budgetary information of the special revenue fund can be found on pages 59 to 60 of this report.

The Commission's debt service fund budgetary comparison statement is presented immediately following the required supplementary information and can be found on page 63 of this report.

The basic governmental fund financial statements can be found on pages 25 to 28 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, liabilities exceeded assets and deferred outflows of resources at the close of the most recent fiscal year, resulting in a current year deficit of \$1,182,477,809 for total net position, as shown in Table 1:

Table 1
Net Position
Governmental Activities

	2017	2016
Current and other assets	\$ 744,472,875	\$ 659,452,662
Restricted assets	73,671,995	67,205,896
Total assets	<u>818,144,870</u>	<u>726,658,558</u>
Deferred outflows of resources	<u>97,082,648</u>	<u>140,610,764</u>
Current liabilities	139,304,663	172,888,893
Restricted liabilities	36,557,541	33,672,843
Noncurrent liabilities	1,921,843,123	1,596,075,886
Total liabilities	<u>2,097,705,327</u>	<u>1,802,637,622</u>
Net Position		
Restricted	37,114,454	33,533,053
Unrestricted (deficit)	<u>(1,219,592,263)</u>	<u>(968,901,353)</u>
Total net position	<u>\$ (1,182,477,809)</u>	<u>\$ (935,368,300)</u>

A significant factor contributing to the net position deficit of \$1,182,477,809 at June 30, 2017, is \$1.9 billion of outstanding debt of the Commission. The debt is issued to advance fund various *TransNet* projects in the region as part of the SANDAG EAP and is repaid using annual sales tax revenue. Funds are set aside each month to cover monthly 2008 bond interest and swap payments, one-sixth of upcoming interest payments on all other bonds, and one-twelfth of upcoming principal payments.

Offsetting the outstanding debt balance are \$69.8 million of related balances of cash and investments from debt proceeds used for future debt service payments and a reserve account for the 2008 sales tax bond; due from other governments for debt proceeds passed through to another government, net of principal payment for a balance of \$53.5 million; \$2.8 million of cash and investments held as receipt of collateral to the 2018 basis rate swaps; and \$573.4 million of cash and investments related to *TransNet* balances not yet requested by recipient agencies.

The restricted liabilities are not available for spending and consist of funds held for the following purposes:

- \$6,805,263 will be used to repay outstanding bonds.
- \$26,750,000 will be used to repay a portion of the outstanding commercial paper notes issued to buy the North County Transit District (NCTD) Certificates of Participation (COP) investment.

- \$252,278 is a restricted deposit payable from NCTD for commercial paper interest payments related to the COPs.
- \$2,750,000 is a restricted deposit payable from Barclays Bank PLC, which is held as collateral on the 2018 basis rate swaps (see Note II.E.2 for further information).

Restricted net position includes resources subject to externally imposed restrictions that must be used for debt repayments and environmental mitigation projects.

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

Governmental activities. Governmental activities decreased the Commission's net position by \$247,109,509 during fiscal year 2017, as shown in Table 2:

Table 2
Change in Net Position
Governmental Activities

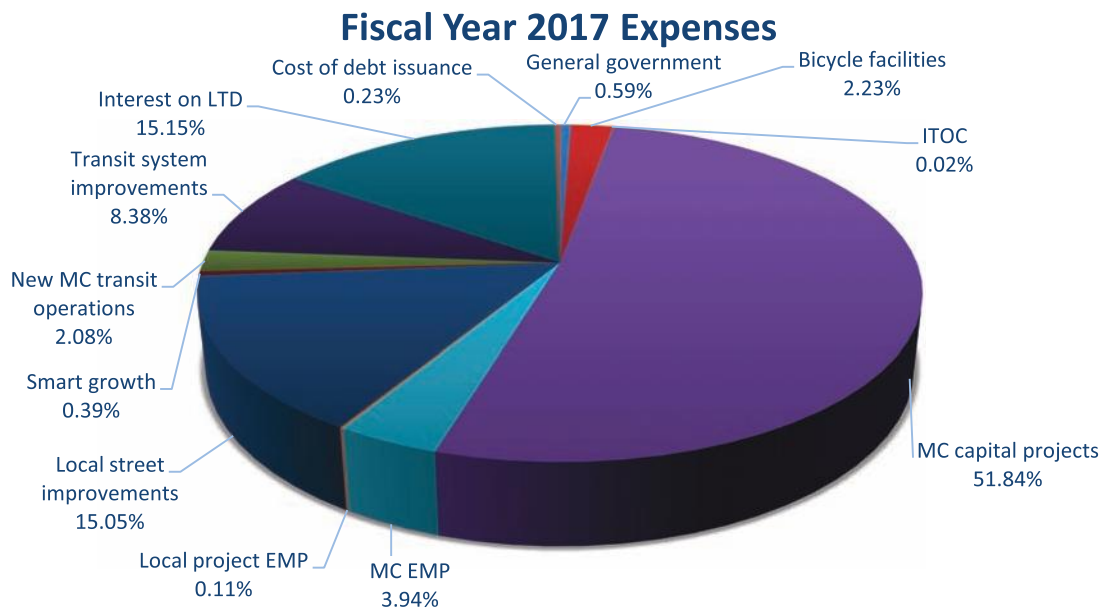
	2017	2016
Revenues:		
Program revenues:		
Operating contributions	\$ 6,554,147	\$ 6,545,583
General revenues:		
Sales tax	286,965,955	276,383,787
Investment earnings	13,965,782	477,361
Total revenues	<u>307,485,884</u>	<u>283,406,731</u>
Expenses:		
General government	3,253,760	2,834,638
Bicycle facilities	12,359,549	7,629,790
Independent Taxpayer Oversight Committee	100,853	98,320
Major corridor capital projects	287,491,607	210,648,700
Major corridor environmental mitigation	21,833,308	25,774,110
Local project environmental mitigation	599,181	405,130
Local street improvements	83,488,712	111,073,314
Smart growth	2,144,441	5,700,803
New major corridor transit operations	11,530,015	11,803,461
Transit system improvements	46,501,493	44,664,969
Interest on long-term debt	84,007,523	71,155,521
Cost of debt issuance	1,284,951	-
Total expenses	<u>554,595,393</u>	<u>491,788,756</u>
Change in net position	(247,109,509)	(208,382,025)
Net position (deficit) - beginning of year	<u>(935,368,300)</u>	<u>(726,986,275)</u>
Net position (deficit) - end of year	<u>\$ (1,182,477,809)</u>	<u>\$ (935,368,300)</u>

Program revenues stayed relatively level with a slight increase of \$8,564 and are comprised of rental income for property purchased with major corridor capital projects funds and the federal subsidy received for the 2010 Series A Build America Bond (BAB) interest payments.

General revenues increased \$24,070,589, which is 8.7 percent more than the prior year:

- Investment earnings provided about one-third of the overall increase with an additional \$15.9 million for the annual derivative adjustment on the interest rate swaps over fiscal year 2016 offset with a decrease in earnings on investments of about \$2.4 million. While interest rates continued to climb during fiscal year 2017, they did so at a very slow pace and ended the year 18 basis points over fiscal year 2016.
- Sales tax revenues increased \$10,582,168 or 3.8 percent, in fiscal year 2017, which was more than the 2.5 percent growth that was forecasted. This was the result of the continued improvement in the San Diego economy, with unemployment continuing to fall to near-historic lows and wages beginning to rise.

TransNet expenses increased \$62,806,637, or 12.8 percent, which is primarily due to a 36.5 percent increase in payments made for major corridor capital projects as well as increases in several other expense categories.



- The major corridor capital projects increase of \$76,842,907 is primarily due to the continued progress of several regularly scheduled projects, most notably the South Bay Bus *Rapid* Transit project which will continue for the next several years and spent approximately \$14.7 million over fiscal year 2016; and the Mid-Coast Corridor Transit Project which is well underway in its construction phases and spent approximately \$82 million more in fiscal year 2017 than in fiscal year 2016. Bond proceeds are used as the primary revenue source for major corridor expenses.
- The Local Street Improvement (LSI) expenses decreased 24.8 percent, or \$27,584,602, and are based on activity of the County of San Diego and 18 cities that are allocated and receive these LSI funds for their street and road projects. Most notable are the County of San Diego's San Vicente Road and State Route 67/Highland/Dye projects which were completed in fiscal years 2016 and 2017, respectively; the City of Oceanside's Street Overlay Program decreased funds due to changes in the scope; and the City of San Diego shifted a majority of its expenditures for the State Route 163/Friars Road project and resurfacing of city streets to non-*TransNet* sources in fiscal year 2017.

- The major corridor Environmental Mitigation Program (EMP) expended \$3,940,802 or 15.3 percent less than the prior year which is primarily due to the decrease in land acquisitions as the prior year acquisitions have satisfied all EAP mitigation needs. The EMP will now shift toward restoration and enhancement of these properties.

Financial Analysis of the Government's Funds

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

Governmental funds. Both Commission's funds are governmental funds, the focus of which is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements.

As of the end of the fiscal year, the Commission's governmental funds reported combined ending fund balances of \$706,390,148, an increase of \$78,523,987 from the prior year.

The Commission's special revenue fund had a fund balance of \$480,737,721, all of which was restricted. The fund balance of this fund during the current fiscal year decreased by \$78,040,251, with key factors contributing to this decrease as follows:

- Total expenditures exceeded revenue by \$179,276,762 due to increased SANDAG EAP project costs offset by net interfund transfers in of \$101,236,511, which is primarily transfers with the debt service fund for the use of debt proceeds toward expenditures of the major corridor and major corridor environmental mitigation programs and for principal and interest payments on outstanding debt. The transfers in of \$213,609,610, which are predominantly bond proceeds, are reduced by sales tax receipts transfers out of \$112,373,099 that are transferred to the debt service fund for payment of debt principal and interest.

The Commission's debt service fund had a fund balance of \$225,652,427, all of which was restricted. The fund balance of this fund during the current fiscal year increased by \$156,564,238, with key factors as follows:

- Expenditures in the current year exceeded revenues by \$146,017,813 due to required debt payments of commercial paper and the 2008, 2010, 2012, 2014, and 2016 bond issuances that may have included principal and interest payments and other charges, offset with the receipt of federal subsidy revenue for the 2010 BABs net interest payment. Majority of the funding for the debt service payments is transferred from the special revenue fund.
- Net interfund transfers out of \$101,236,511 were primarily transfers with the special revenue fund for the use of debt proceeds toward expenditures of the major corridor and major corridor environmental mitigation programs and to meet required principal and interest payments on outstanding debt obligations.
- Issuance of the \$325,000,000 2016 tax revenue bonds in August 2016, including premium of \$78,818,562.

Debt Administration

Long-term debt. At the end of the current fiscal year, the Commission had total debt outstanding of \$1,955,398,386, which is comprised of \$1,413,865,000 tax-exempt sales tax revenue bonds, \$338,960,000 taxable BABs, net premium on the 2010 tax-exempt bonds of \$560,143, net premium on the 2012 tax-exempt bonds of \$47,968,639, net premium on the 2014 tax-exempt bonds of \$50,651,062, net premium on the 2016 tax-exempt bonds of \$76,643,543, and \$26,750,000 of commercial paper notes:

	2017	2016	Change	% Change
Sales tax bonds	\$ 1,928,648,386	\$ 1,554,507,253	374,141,133	24.07%
Commercial paper	26,750,000	75,000,000	(48,250,000)	-64.33%
Total	\$ 1,955,398,386	\$ 1,629,507,253	\$ 325,891,133	20.00%

Total debt increased by \$325,891,133, which is primarily due to the issuance of \$325,000,000 of the 2016 Series A bonds offset by bond principal payment of \$24,260,000 and \$48,250,000 principal repayments on the commercial paper notes. Most of the commercial paper repaid was used for SANDAG EAP projects in advance of the 2016 Series A sales tax revenue bonds issued in August 2016. Upon issuance of the bonds, the portion of commercial paper used by SANDAG was repaid.

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

Economic Factors and Next Year’s Budgets and Rates

- Actual cash basis sales tax collections have increased in 19 of the last 22 years of collections, with decreases occurring in fiscal years 2008, 2009, and 2010. Actual sales tax receipts in fiscal year 2017 came in 3.25 percent higher over fiscal year 2016 actual receipts. The Commission is forecasting a 3.33 percent growth in sales tax revenue for fiscal year 2018 over the fiscal year 2017 estimated receipts.
- For the fiscal year 2018 budget, \$292.1 million in *TransNet* sales tax receipts is budgeted. The sales tax revenue budget will fund general government administration; bicycle, pedestrian, and neighborhood safety projects; the 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; and transit system improvements.
- The Commission is expecting fiscal year 2018 disbursements of \$27.1 million in bond principal repayments and approximately \$78.1 million, net of BABs subsidy, in interest expenditures related to the 2008 variable-rate revenue bonds and the 2010, 2012, 2014, and 2016 revenue bonds. The Commission is also expecting commercial paper principal repayments of \$1.2 million with \$350,832 of estimated commercial paper interest costs. NCTD will be funding the commercial paper principal repayment and most of the interest payments, with the balance paid with sales tax funds.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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San Diego County Regional Transportation Commission
Statement of Net Position
June 30, 2017
(With comparative information for the prior year)

	Governmental Activities	
	2017	2016
ASSETS		
Cash and investments	\$ 573,112,161	\$ 490,866,785
Prepaid items and other assets	31,287	32,083
Interest receivable	5,526,983	5,200,909
Due from other governments	107,115,705	104,662,203
Due from SANDAG	248	4,191
Loans to SANDAG	58,686,491	58,686,491
Restricted assets:		
Cash and investments restricted for debt service	72,547,462	66,086,840
Cash and investments restricted for environmental mitigation	1,124,533	1,119,056
Total assets	818,144,870	726,658,558
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging swap agreements	86,180,381	127,413,283
Deferred refunding charge	10,902,267	13,197,481
Total deferred outflows of resources	97,082,648	140,610,764
LIABILITIES		
Accounts payable	910,936	665,787
Retentions payable	5,921	-
Due to SANDAG	47,714,785	36,120,561
Due to other governments	2,944,952	4,532,530
Accrued interest payable	18,778,808	14,981,919
Derivative instrument - swap liability	68,949,261	116,588,096
Liabilities payable from restricted assets:		
Deposits payable	3,002,278	241,476
Long-term debt payable - due within one year	33,555,263	33,431,367
Noncurrent liabilities:		
Long-term debt payable - due within one year	20,314,737	63,063,633
Long-term debt payable - due in more than one year	1,901,528,386	1,533,012,253
Total liabilities	2,097,705,327	1,802,637,622
NET POSITION		
Restricted for:		
Debt service	35,989,921	32,413,997
Environmental mitigation	1,124,533	1,119,056
Unrestricted (deficit)	(1,219,592,263)	(968,901,353)
Total net position	\$ (1,182,477,809)	\$ (935,368,300)

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Statement of Activities
For the year ended June 30, 2017
(With comparative information for the prior year)

Functions	Expenses	Program Revenues Operating Contributions	Net Revenue (Expenses) and Changes in Net Position	
			Governmental Activities	
			2017	2016
Primary government:				
Governmental activities:				
General government	\$ 3,253,760	\$ -	\$ (3,253,760)	\$ (2,834,638)
Bicycle facilities	12,359,549	-	(12,359,549)	(7,629,790)
Independent Taxpayer Oversight Committee	100,853	-	(100,853)	(98,320)
Major corridor capital projects	287,491,607	21,934	(287,469,673)	(210,621,304)
Major corridor environmental mitigation	21,833,308	-	(21,833,308)	(25,774,110)
Local project environmental mitigation	599,181	-	(599,181)	(405,130)
Local street improvements	83,488,712	-	(83,488,712)	(111,073,314)
Smart growth	2,144,441	-	(2,144,441)	(5,700,803)
New major corridor transit operations	11,530,015	-	(11,530,015)	(11,803,461)
Transit system improvements	46,501,493	-	(46,501,493)	(44,664,969)
Interest on long-term debt	84,007,523	6,532,213	(77,475,310)	(64,637,334)
Cost of debt issuance	1,284,951	-	(1,284,951)	-
Total governmental activities	554,595,393	6,554,147	(548,041,246)	(485,243,173)
Total primary government	\$ 554,595,393	\$ 6,554,147	\$ (548,041,246)	\$ (485,243,173)
General revenues:				
Sales tax			286,965,955	276,383,787
Investment earnings			13,965,782	477,361
Total general revenues			300,931,737	276,861,148
Change in net position			(247,109,509)	(208,382,025)
Net position (deficit) - beginning of year			(935,368,300)	(726,986,275)
Net position (deficit) - end of year			\$ (1,182,477,809)	\$ (935,368,300)

See accompanying Notes to the Basic Financial Statements.

FUND FINANCIAL STATEMENTS

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GOVERNMENT FUND FINANCIAL STATEMENTS

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San Diego County Regional Transportation Commission
Balance Sheet
Governmental Funds
June 30, 2017
(With comparative information for the prior year)

	Major Governmental Funds			
	Sales Tax	Commercial Paper	Total	
	Projects Special Revenue	and Sales Tax Revenue Bonds Debt Service	Governmental Funds	
		2017	2016	
ASSETS				
Cash and investments	\$ 417,012,690	\$ 156,099,471	\$ 573,112,161	\$ 490,866,785
Prepaid items and other assets	31,287	-	31,287	32,827
Interest receivable	5,199,556	327,427	5,526,983	5,200,909
Due from other funds	1,616	-	1,616	-
Due from SANDAG	248	-	248	4,191
Due from other governments	53,605,874	53,472,073	107,077,947	104,646,413
Loans to SANDAG	58,686,491	-	58,686,491	58,686,491
Cash and investments - restricted	1,124,533	72,547,462	73,671,995	67,205,896
Total assets	\$ 535,662,295	\$ 282,446,433	\$ 818,108,728	\$ 726,643,512
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 592,897	\$ 318,039	\$ 910,936	\$ 665,787
Retentions payable	5,921	-	5,921	-
Due to SANDAG	47,714,785	-	47,714,785	36,120,561
Due to other funds	-	1,616	1,616	744
Due to other governments	2,944,952	-	2,944,952	4,532,530
Deposits payable	-	2,750,000	2,750,000	-
Liabilities payable from restricted assets	-	252,278	252,278	241,476
Total liabilities	51,258,555	3,321,933	54,580,488	41,561,098
Deferred inflows of resources:				
Unavailable revenues	3,666,019	53,472,073	57,138,092	57,216,253
Total deferred inflows of resources	3,666,019	53,472,073	57,138,092	57,216,253
Fund Balances:				
Nonspendable:				
Prepaid items	31,287	-	31,287	32,083
Total nonspendable	31,287	-	31,287	32,083
Restricted for:				
Debt-service	-	72,295,184	72,295,184	65,845,364
Environmental mitigation	1,124,533	-	1,124,533	1,119,056
TransNet-eligible projects	479,581,901	153,357,243	632,939,144	560,869,658
Total restricted	480,706,434	225,652,427	706,358,861	627,834,078
Total fund balances	480,737,721	225,652,427	706,390,148	627,866,161
Total liabilities, deferred inflows of resources and fund balances	\$ 535,662,295	\$ 282,446,433	\$ 818,108,728	\$ 726,643,512

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2017

Total Fund Balances - Total Governmental Funds	\$	706,390,148
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Amounts reported for governmental activities in the statement of net position are different because:

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

Interest receivable - commercial paper		37,758
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Some revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are not reported in the governmental funds.

		57,138,092
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Derivative instruments are not reported in the funds but must be reported in the statement of net position.

Accumulated decrease in fair value of hedging swap agreements		86,180,381
Derivative instrument - swap liability		(68,949,261)

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

Accrued interest payable - bond		(18,737,332)
Interest payable - commercial paper		(41,476)
Commercial paper payable		(26,750,000)
Bond premium		(175,823,386)
Deferred refunding charge		10,902,267
Bonds payable		(1,752,825,000)

Net position of governmental activities

	\$	(1,182,477,809)
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See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017
(With comparative information for the prior year)

	Major Governmental Funds		Total Governmental Funds	
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt Service	2017	2016
REVENUES:				
Sales tax	\$ 286,965,955	\$ -	\$ 286,965,955	\$ 276,383,787
Investment earnings	4,767,061	2,770,820	7,537,881	9,986,050
Debt repayments from other governments	-	1,806,954	1,806,954	1,879,752
Federal funds	-	6,532,213	6,532,213	6,518,187
Other revenues	21,934	-	21,934	27,396
Total revenues	291,754,950	11,109,987	302,864,937	294,795,172
EXPENDITURES:				
Current:				
General government	3,253,760	-	3,253,760	2,834,638
Bicycle facilities	12,359,549	-	12,359,549	7,629,790
Independent Taxpayer Oversight Committee	100,853	-	100,853	98,320
Major corridor capital projects	287,491,607	-	287,491,607	210,648,700
Major corridor environmental mitigation	21,833,308	-	21,833,308	25,774,110
Local project environmental mitigation	599,181	-	599,181	405,130
Local street improvements	85,217,505	-	85,217,505	113,824,414
Smart growth	2,144,441	-	2,144,441	5,700,803
New major corridor transit operations	11,530,015	-	11,530,015	11,803,461
Transit system improvements	46,501,493	-	46,501,493	44,664,969
Debt service:				
Principal retirement	-	72,510,000	72,510,000	22,455,000
Debt issuance costs	-	1,284,951	1,284,951	-
Interest and other charges	-	83,332,849	83,332,849	72,279,578
Total expenditures	471,031,712	157,127,800	628,159,512	518,118,913
REVENUES OVER (UNDER) EXPENDITURES	(179,276,762)	(146,017,813)	(325,294,575)	(223,323,741)
OTHER FINANCING SOURCES (USES):				
Transfers in	213,609,610	112,373,099	325,982,709	309,040,484
Transfers out	(112,373,099)	(213,609,610)	(325,982,709)	(309,040,484)
Commercial paper issued	-	-	-	46,445,000
Bonds issued	-	325,000,000	325,000,000	-
Premium on bonds issued	-	78,818,562	78,818,562	-
Total other financing sources (uses)	101,236,511	302,582,051	403,818,562	46,445,000
Change in fund balances	(78,040,251)	156,564,238	78,523,987	(176,878,741)
FUND BALANCES:				
Beginning of year	558,777,972	69,088,189	627,866,161	804,744,902
End of year	\$ 480,737,721	\$ 225,652,427	\$ 706,390,148	\$ 627,866,161

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Government-Wide Statement of Activities
For the year ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	78,523,987
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Amounts reported for governmental activities in the statement of activities are different because:

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

Commercial paper accrued interest revenue		21,968
Change in fair value of derivative instrument		6,405,933

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 position. 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.

Revenue bond principal retirement		24,260,000
Bond pass-through payments to other governments		1,728,793
Debt repayments from other governments - bond		(1,284,042)
Debt repayments from other governments - commercial paper		(522,912)
Commercial paper repayments		48,250,000
Bonds issued		(325,000,000)
Premium on bonds issued		(78,818,562)
Amortization expense on unamortized premium on bonds issued		5,417,429
Amortization expense on unamortized loss on bond refunding		(2,295,214)

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.

		(3,796,889)
Change in net position of governmental activities	\$	(247,109,509)

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

The Commission and the San Diego Association of Governments (SANDAG) share the same Board of Directors (Board). SANDAG was formed under a Joint Powers Agreement dated September 10, 1972, and was originally named the Comprehensive Planning Organization. The Joint Powers Agreement was amended on November 5, 1980, to change the agency's name to SANDAG.

On January 1, 2003, SANDAG became a legislatively created regional government agency pursuant to the San Diego Regional Transportation Consolidation Act (Public Utilities Code Section 132350, *et seq.*). The Board includes representatives from the 18 incorporated cities in the San Diego region and the County of San Diego. The effect of this legislation was to make SANDAG a permanent, rather than voluntary, association of local governments, and to increase the SANDAG responsibilities and powers.

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

B. Government-wide and fund financial statements

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

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

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

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.

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

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

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 are recorded only when payment is due.

Revenues which are considered to be susceptible to accrual include sales tax and interest. These accruals have been recognized as revenue of the current fiscal period.

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

The Commission reports the following major governmental funds:

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

The *commercial paper and sales tax revenue bonds debt service fund (debt service fund)* accounts for the activities and resources accumulated for principal and interest payments on the long-term debt sales tax revenue bonds and commercial paper. Revenues are derived from interest earned on the investments accumulated for the payment of principal and interest on the revenue bonds, proceeds of bonds, debt repayments from other governmental agencies, and the federal subsidy related to the 2010 Build America Bonds (BABs) issuance.

Amounts reported as program revenues include: (1) return of funds upon completion of projects; and (2) federal subsidy on the 2010 BABs. General revenues include sales tax and other general revenues not restricted to specific programs.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

D. Budgetary information

1. Budgetary basis of accounting

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the special revenue fund and debt service fund.

2. Expenditures in excess of appropriations

The special revenue fund ended the year with \$188,313,588 of expenditures in excess of appropriations, which is primarily the result of bond proceeds used for major corridor capital projects and major corridor environmental mitigation program projects; and large payments of sales tax to the local jurisdictions for their local street improvements projects. This fund is budgeted based on estimated sales tax revenues and does not include the use of debt proceeds or unspent revenue received in prior years.

The debt service fund had an excess of \$58,780,347 expenditures over appropriations at June 30, 2017, which was primarily the result of the principal repayment of \$48,250,000 in commercial paper, which are not budgeted, and excess of variable-rate interest and swap payments and other costs on the 2008 Series bonds.

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts and funds, and short-term investments with original maturities of three months, or less, from the date of acquisition. Securities purchased with a maturity date greater than three months at the date of acquisition have been classified as investments.

The Commission's investment policies are consistent with SANDAG policies and in accordance with California Government Code Section 53601. The Commission is authorized to invest in the following:

- Treasury obligations
- Federal agencies and United States government-sponsored enterprises
- State obligations
- Local agency obligations
- Repurchase Agreements
- Bankers' acceptances
- Commercial paper
- Medium-term notes
- Negotiable and nonnegotiable certificates of deposit

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

- State of California's Local Agency Investment Fund (LAIF)
- San Diego County Treasurer's pooled investment fund
- Savings/money market accounts
- California Asset Management Program (CAMP)
- Money market funds
- Mortgage and asset-backed obligations
- Supranationals

The Commission participates in an investment pool managed by the State of California, titled LAIF, which has invested 2.25 percent of the pool funds in medium-term and short-term structured notes and asset-backed securities. The LAIF investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares. The fair value of LAIF was calculated by applying a factor of 0.998940671 to total investments held by LAIF. LAIF is classified under investments and is not rated.

The Commission is a voluntary participant in the CAMP, which is an investment pool, offered by the California Asset Management Trust. The trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500, *et seq.*) for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. In accordance with Section 53601(p) of the California Government Code, CAMP's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601. The Commission reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2017, fair value approximated cost and had an average maturity of 49 days.

The Commission also participates in the San Diego County Treasurer's Pooled Money Fund (Pool), which is administered by the Treasurer-Tax Collector's Office. The fair value of the Commission's investment in the Pool is reported at amounts based upon the Commission's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). Earnings realized on investments based on amortized cost are distributed to Investment Pool participants. Section 27013 of the California Government Code authorizes the Treasurer's Office to deduct administrative fees related to investments. The net realized earnings on investments are apportioned to Pool participants quarterly, based on the participants' average daily balances. The County's annual financial report for the Pool can be obtained from the Treasurer-Tax Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101, and also can be accessed at www.sdttc.com.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

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

- Interest rate risk
- Credit risk
 - Overall
 - Custodial
 - Concentration

2. Fair value measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are inactive.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Commission’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission’s own data.

3. Interfund receivables and payables

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

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

4. *Restricted assets*

Certain resources 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 separate bank accounts. The accounts are used to segregate resources accumulated for debt service principal and interest payments.

Other resources set aside for North County Transit District Certificates of Participation are classified as restricted assets because they are maintained in separate bank accounts held by a trustee and their use is limited to paying down the equivalent amount of commercial paper.

In addition, certain environmental mitigation funds are classified as restricted assets because they are in separate bank accounts, and the endowment set aside portion may not be used, and any interest earnings may only be used for certain project costs.

Other resources set aside for *TransNet*-eligible projects are classified as restricted assets. Their use is limited by specific purposes stipulated in the Proposition A – San Diego County Transportation Improvement Program (*TransNet* Ordinance).

5. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, which represents a consumption of assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has two items that qualify for reporting in this category: the accumulated decrease in fair value of the hedging swap agreement, and the deferred charge on refunding loss reported in the government-wide statement of net position. See Note II.G for more information on the Commission's long-term liabilities.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for the revenues collected in a future period for the repayment of long-term debt proceeds issued to the local agencies for their local street improvement projects. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

6. *Net position*

The difference between fund assets and deferred outflows of resources, and liabilities and deferred inflow of resources is "Net Position" on government-wide financial statements.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

Net position is reported as restricted when constraints are placed on net position use by creditors or by law or enabling legislation. The following terms are used in the reporting of net position:

Restricted for debt service – Net position restricted for payments of future debt service.

Restricted for environmental mitigation – Net position restricted for funding of various environmental mitigation projects.

Unrestricted net position – Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that is not included in the above restricted categories of net position.

The governmental activities unrestricted net deficit of \$1.2 billion results primarily from the issuance of the \$2.0 billion sales tax revenue bonds in 2008, 2010, 2012, 2014, and 2016 for transportation-related projects, primarily major corridor and environmental mitigation. The Commission plans to repay the bonds with future sales tax revenue which is dedicated for transportation projects. See Note II.G on long-term debt for further information.

7. Net position flow assumption

Sometimes the Commission will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund balance

Fund balances are reported in the fund statements in the following classifications:

Nonspendable fund balance

Nonspendable fund balance – This includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable fund balance

Restricted fund balance – This includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed fund balance – This includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Commission considers a resolution to constitute a formal action of the Board for the purposes of establishing committed fund balance.

Assigned fund balance – This includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board has not delegated to any other persons or bodies the authority to assign fund balance to specific purposes.

Unassigned fund balance – This includes the remaining spendable amounts which are not included in one of the other classifications.

It is SANDAG policy that when both restricted and unrestricted resources are available for use, restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

9. Fund balance flow assumptions

Sometimes the Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Long-term liabilities

The Commission's long-term liabilities consist of debt obligations:

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

See Note II.G for more information on the Commission's long-term liabilities.

11. Other financing sources and uses

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

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

12. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of 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.

13. Prior year comparative information

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Commission's prior year financial statements, from which this selected financial data was derived.

II. DETAILED NOTES ON ALL FUNDS

A. Cash and investments

Cash, cash equivalents, and investments consisted as follows on June 30, 2017:

	Fair Value	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:			
Cash - demand deposits	\$ 5,784,139	1	Not rated
Cash equivalents - Certificates of Participation (NCTD)	26,750,000	40	NR,A1
Total cash and cash equivalents	32,534,139	33	
Investments:			
State of California Local Agency Investment Fund	26,158,161	194	Not rated
California Asset Management Program	155,930,439	49	AAAm
San Diego County Treasurer's Pooled Money Fund	354,426	417	AAAf/S1
U.S. Agencies	263,931,036	624	AA+/Aaa
Corporate Medium Notes	111,395,901	442	A- - Aaa
Commercial Paper	7,179,230	118	A-1/P-1
Municipal Bonds/Notes	229,961	93	AA/Aa2
Certificates of Deposit	40,181,259	403	AA-/A1
Asset-Backed Securities	8,889,604	1246	AAA/Aaa
Total investments	614,250,017	415	
Total cash, cash equivalents, and investments	\$ 646,784,156		

At year end, the Commission's carrying amount of deposits and bank balance was \$5,784,139. This balance was covered by federal depository insurance or by collateral held in the SANDAG name.

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

1. Swap investments

The Commission is invested in two forward contract pay-variable, receive-variable investment derivatives with notional amounts of \$156,600,000 each. At the effective date of April 1, 2018, the Commission will make monthly variable payments to the counterparty based on the current Securities Industry and Financial Markets Association (SIFMA) Swap Index and receive variable payments based on 107.4 percent of three-month London Interbank Offered Rate (LIBOR). At June 30, 2017, these investment derivatives had a fair value of \$17,231,120 and are not rated. Other applicable risks (credit risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with the Commission's derivative investments are described in Note II.E.

2. 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, the SANDAG investment policy, which is adopted by the Commission, limits investments to a maximum maturity of 5 years or 1,825 days from purchase date. The total portfolio shall not exceed the Commission's anticipated liquidity needs for operations for the next six months. The Commission does not have callable step up United States Agency securities that are highly sensitive to interest rate changes. The Commission is in compliance with all maturity provisions of the investment policy.

3. 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 ranking by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO). The Commission's investment policy limits investments to the following: State and local agency obligations must be rated "A-1" or its equivalent or better short-term; or in a rating category of "AA" or its equivalent or better long-term by at least one of the NRSROs; repurchase agreements must be with (1) primary dealers in United States Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of \$1 billion and in the highest short-term rating category, as provided by one of the NRSROs; 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 one of the NRSROs; 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 in a rating category of "A" or its equivalent or better by one of the NRSROs; 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 53635.2; CAMP of which the portfolio is rated among the top two rating categories by one of the NRSROs; money market funds must either (1) attain the highest ranking letter or numerical rating provided by not less than two of

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

the three largest NRSROs, or (2) 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; mortgage and asset-backed obligations must be rated in a rating category of "A" or its equivalent or higher for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO; and supranationals must be rated in a rating category of "AA" or its equivalent or better by NRSRO.

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

The Commission'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.

4. Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. The Commission'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 the Commission's 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 the Commission's investments; medium-term notes may not exceed 30 percent of the Commission's investments or no more than 10 percent in any one corporation; certificates of deposit may not exceed 30 percent of the Commission's investments; money markets fund shares may not exceed 20 percent of the Commission's investments; and mortgage and asset-backed obligations may not exceed 20 percent of the Commission's investments.

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

5. Custodial credit risk

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

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

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

B. Receivables

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

The 'due from other governments' were as follows:

Sales tax receivable - State of California Board of Equilization	\$ 53,600,391
Rental income receivable	5,483
Advance to County of San Diego for local street and road improvements	18,096,073
Advance to City of Del Mar for local street and road improvements	2,805,122
Advance to City of National City for local street and road improvements	978,626
Advance to City of San Marcos for local street and road improvements	16,164,627
Advance to City of Santee for local street and road improvements	9,927,625
Advance to City of Solana Beach for local street and road improvements	<u>5,500,000</u>
Total due from other governments	<u>\$ 107,077,947</u> *

* Total 'due from other governments' on the Statement of Net Position includes \$37,758 of interest receivable.

C. Loans to SANDAG

SANDAG financed the State Route 125 (SR 125) Toll Road acquisition in fiscal year 2012 by assuming existing debt obligations and entering into promissory notes for the remaining funds necessary to complete the purchase. SANDAG borrowed *TransNet* funds totaling \$254,068,974 from the Commission through a promissory note, which was later reduced by \$192 million through a project swap approved by the Board on March 23, 2012.

The terms of the *TransNet* promissory note call for SANDAG to borrow the principal amount of \$254,068,974 from the Commission. As required by the *TransNet* Extension Ordinance, the Commission will be required to ensure the *TransNet* revenues are made whole; therefore, a 4.25 percent interest rate was charged based on *TransNet* borrowing history. The promissory note was a permitted subordinated debt under the bond transaction documents for *TransNet* and requires that the proceeds of the promissory note only be used for costs associated with the SR 125 Toll Road franchise.

At its March 23, 2012, meeting, the Board amended the *TransNet* Extension Ordinance Expenditure Plan such that the improvements on Interstate 805, valued at a remaining \$134 million in 2002 dollars (or \$192 million in 2010 dollars), would be removed. As a result, the initial amount borrowed of \$254 million was reduced by \$192 million. As of June 30, 2017, the outstanding principal on the *TransNet* loan to SANDAG was \$58,686,491 and outstanding accrued interest receivable was \$3,666,019.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

The scheduled principal requirements to maturity for the *TransNet* promissory note are as follows:

Maturity (Jan 1, July 1)	Principal Amount ¹	Interest Amount
2018	\$ -	\$ 2,649,982
2019	-	2,649,982
2020	-	2,649,982
2021	549,306	2,649,982
2022	1,135,284	2,614,685
2023 - 2027	15,457,198	12,063,362
2028 - 2032	14,372,300	8,434,225
2033 - 2037	30,383,422	4,101,404
Total	<u>\$ 61,897,510</u>	<u>\$ 37,813,604</u>

¹ The principal amount includes the initial principal balance of \$58,686,491 and total deferred interest of \$3,666,019 added to the principal balance over the life of the loan.

D. Transfers in/out

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

Transfers from the sales tax projects fund totaling \$112,373,099:

To the debt service fund consists of the following items:

- Transfer of \$109,957,457 in *TransNet* sales tax revenue for bond and commercial paper principal and interest payments.
- Transfer of \$2,415,642 for debt-related costs.

Transfers from the debt service fund totaling \$213,609,610:

To the sales tax projects fund consists of the following items:

- \$1,806,954 of bond and commercial paper repayments for the County of San Diego and cities of Del Mar, La Mesa, National City, and Santee.
- \$6,532,213 return of *TransNet* sales tax funds that were advanced to the trustee for debt service payments and returned upon receipt of the 2010 Series A BABs federal subsidy.
- \$203,020,329 of bond proceeds used to fund *TransNet*-eligible capital projects.
- \$201,007 of bond proceeds used for reimbursement to the City of Del Mar for *TransNet*-eligible projects.
- \$1,966,518 of bond proceeds used for reimbursement to the City of Santee for *TransNet*-eligible projects.
- \$82,589 of administrative transactions transferred for reporting purposes.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

E. Derivative instruments

1. 2008 interest rate swaps

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

On May 23, 2012, the Commission refunded \$151.5 million of the outstanding variable-rate bonds with fixed-rate bonds and terminated the associated interest rate swaps. The low fixed municipal interest rates at that time provided the opportunity for the Commission to refund the 2013 through 2022 maturities of the Series 2008 variable-rate bonds (\$151.5 million in par) and terminate the associated swaps (also equal to \$151.5 million in notional amount) without increasing annual debt service. The purpose of this transaction was to reduce variable-rate exposure and swap counterparty risk at no additional cost to the Commission. The current notional amounts of the swaps are, following the refunding described above, \$134.1 million each, totaling \$402.3 million.

Fair values. The fair value balances and notional amount of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year ended are as follows:

		Changes in Fair Value		Fair Value at June 30, 2017		
		Classification	Amount	Classification	Amount	Notional
Governmental activities						
Cash flow hedges:						
Pay-fixed interest	Deferred					
rate swaps	outflows		(\$41,232,902)	Debt	(\$86,180,381)	\$402,300,000
Investment derivatives:						
Pay-floating						
Receive floating						
interest rate	Investment					
swaps	revenue		\$6,405,933	Investment	\$17,231,120	\$313,200,000

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, 2017. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

Objective and terms of hedging derivative instruments

The following table displays the objective and terms of the Commission's hedging derivative instruments outstanding at June 30, 2017, along with the credit rating of the associated counterparty (amounts in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating Moody's/S&P
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series A and B bonds	\$134,100,000	5/23/2012	4/1/2038	Pay 3.8165%; received 65% of USD-LIBOR	A1/A+
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B and C bonds	\$134,100,000	5/23/2012	4/1/2038	Pay 3.8165%; received 65% of USD-LIBOR	Aa2/AA-
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series C and D bonds	\$134,100,000	5/23/2012	4/1/2038	Pay 3.41%; received 65% of USD-LIBOR	A1/A+

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2017, 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 and Goldman Sachs Mitsui Marine Derivative Products) mitigate this risk. As of June 30, 2017, Bank of America was rated A1 by Moody's and A+ by Standard and Poor's; and Goldman Sachs Mitsui Marine Derivative Products was rated Aa2 by Moody's and AA- by Standard and Poor's. The ratings are monitored by staff on a weekly basis. In addition, the fair value of the swaps will be fully collateralized by the counterparty with cash or U.S. government securities if the counterparty's credit quality falls below a rating of Baa2 by Moody's or BBB by Standard & Poor's. Collateral would be posted with a third-party custodian.

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

Basis risk. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable-rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on historical experience, the expectation is that the payments received under the agreements will approximate the expected

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

bond payments over the 30-year term of the swaps. Due to the unfavorable market conditions during fiscal year 2017, the Commission was 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.

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 variable-rated demand bond (VRDBs) would no longer be hedged.

Given the negative fair value of June 30, 2017, the Commission was not in a favorable termination position relative to the market. The Commission effectively reduced the ongoing termination risk by refunding \$151.5 million in VRDBs and terminating the same amount of the outstanding interest rate swaps in May 2012 under favorable market conditions with low fixed rates. Refunding additional maturities and terminating more of the interest rate swaps would have led to a net increase in debt service under a fixed-rate structure, which was contrary to the Commission's programmatic objectives. Consequently, the reduced amount of variable-rate bonds and interest rate swaps was left in place.

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

Reset rates paid and received by the Commission. The weekly variable interest rates paid on the 2008 *TransNet* bonds by the Commission to the bondholders for the period July 1, 2016, through June 30, 2017, ranged from 0.37 percent to 0.89 percent for Barclays Bank; 0.37 percent to 0.90 percent for Goldman, Sachs & Co.; 0.40 percent to 0.92 percent for J.P. Morgan Securities, Inc.; and 0.37 percent to 0.90 percent for Stifel, Nicolaus & Company, Inc.

Fixed rates paid by the Commission to the swap provider counterparties were 3.41 percent to Bank of America for one of the swaps, 3.8165 percent to Bank of America for another one of the swaps, and 3.8165 percent to Goldman Sachs Mitsui Marine Derivative Products. Sixty-five percent of LIBOR received by the Commission from the swap provider counterparties ranged from 0.29682 percent to 0.64675 percent during the same time period.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

Actual debt service requirements versus the projected debt service on the swap transaction. For the fiscal year ending June 30, 2017, actual debt service was more than projected resulting in excess variable-rate payments made on the bonds as compared to the variable-rate payments received from the swap in the amount of \$747,269 for fiscal year 2017:

Counterparty	Actual Debt Service	Projected Debt Service
Bank of America	\$ 4,822,836	\$ 4,572,811
Bank of America	5,357,888	5,117,926
Goldman Sachs Mitsui Marine Derivative Products	5,375,208	5,117,926
	<u>\$ 15,555,932</u>	<u>\$ 14,808,663</u>

Over the life of the swaps from the issuance of the bonds through June 30, 2017, the cumulative excess of the variable-rate payments made on the bonds as compared to the variable-rate payments received from the swap counterparties is \$4,288,759. This means that the net variable rates that the Commission is paying on the 2008 *TransNet* bonds is more than the variable rate that the Commission is receiving; these rates originally were intended to offset and net to zero.

The total net cost of the program includes liquidity facilities with J.P. Morgan (Series A and B), Mizuho Corporate Bank, Ltd. (Series C), and State Street Bank and Trust Company (Series D). Standby Bond Purchase Agreement (SBPA) costs at year end for the Series A and B bonds is 39 basis points, the Series C bonds is 32 basis points, and the SBPA cost for the Series D bonds is 34 basis points.

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

San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017

Fair values. The swaps had a total combined positive fair value of \$17,231,120 at fiscal year end. 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, 2017. 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, 2017, the Commission was exposed to credit risk on these swaps in the amount of \$17,231,120, which is the fair value of the derivatives. 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, 2017, the swap counterparty, Barclays Bank PLC, was rated A1 by Moody's and A- by Standard & Poor's.

To further mitigate this risk, under terms of the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, dated March 19, 2009, by and between the Commission and Barclays Bank PLC, upon a demand by either party, collateral may be posted by Barclays to the Commission's Trust account or returned to Barclays; dependent upon the valuation amount each day. Collateral can be posted on amounts over \$15,000,000 as long as the minimum daily valuation change is at least \$250,000. Interest earned on collateral held by the Commission is due to Barclays monthly. The Commission reports collateral holdings, including interest earned, as deposits payable. At June 30, 2017, there was \$2,750,000 reported as deposits payable.

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

Basis risk. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable-rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on 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, 2017, the Commission was in a favorable termination position relative to the market.

SANDAG Board Policy No. 032: San Diego County Regional Transportation Commission Interest Rate Swap Policy requires contingency plan to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. Should a swap be

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

terminated, the excellent credit rating of Commission would allow it to assign the swap to another counterparty. Alternatively, if a swap is terminated and it has a negative fair value, the Commission could use *TransNet* sales tax receipts to fund the termination payment.

F. Fair value measurement

The Commission categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Commission has the following recurring fair value measurements as of June 30, 2017:

	June 30, 2017	Fair Value Measurements		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Agencies	\$ 263,931,036	\$ 21,439,987	\$ 242,491,049	\$ -
Corporate Medium-Term Notes	111,395,902	-	111,395,902	-
Commercial Paper	7,179,230	-	7,179,230	-
Municipal Bond/Note	229,960	-	229,960	-
Certificates of Deposit	40,181,259	-	40,181,259	-
Asset-Backed Securities	8,889,604	-	8,889,604	-
Total investments by fair value level	431,806,991	21,439,987	410,367,004	-
Investments not measured at fair value				
State of California Local Agency Investment Fund	26,158,161			
San Diego County Treasurer's Pooled Money Fund	354,426			
California Asset Management Program	155,930,439			
Total investments not measured at fair value	182,443,026			
Total investments measured	<u>\$ 614,250,017</u>	<u>\$ 21,439,987</u>	<u>\$ 410,367,004</u>	<u>\$ -</u>
Investment derivative instruments				
Interest rate swaps	<u>\$ (68,949,261)</u>		<u>\$ (68,949,261)</u>	
Total investment derivative instruments	<u>\$ (68,949,261)</u>		<u>\$ (68,949,261)</u>	

Investment securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investment securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Investment derivative instruments is comprised of three forward interest rate swaps valued at (\$86,180,381) and two basis swap overlays valued at \$17,231,120.

G. Long-term debt

1. The 2008 Series ABCD bonds

In March 2008, the Commission issued \$600,000,000 of variable-rate bonds to fund some of the major projects identified in the *TransNet* reauthorization (approved by voters in November 2004) under the *TransNet* EAP. In June 2012, the Commission refunded \$151,500,000 of the Series 2008 bonds and terminated a corresponding portion of the interest rate swaps relating to the Series 2008 bonds through the issuance of the 2012 Series A tax-exempt bonds.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

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

Maturity (April 1)	Principal Amount	Interest on Debt	Hedging Derivatives, Net	Total Interest
2018	\$ -	\$ 10,560,375	\$ 12,061,638	\$ 22,622,013
2019	-	10,560,375	12,061,638	22,622,013
2020	-	10,560,375	12,061,638	22,622,013
2021	-	10,560,375	12,061,638	22,622,013
2022	-	10,560,375	12,061,638	22,622,013
2023 - 2027	100,200,000	47,072,812	53,764,684	100,837,496
2028 - 2032	121,500,000	32,710,781	37,360,946	70,071,727
2033 - 2037	147,300,000	15,303,093	17,478,582	32,781,675
2038	33,300,000	655,594	748,793	1,404,387
Total	\$ 402,300,000	\$ 148,544,155	\$ 169,661,195	\$ 318,205,350

The bonds bear interest at a variable rate, which is reset weekly. See Note II.E for the annual reset rate ranges for each remarketing agent. The above table incorporates the net receipts/payments of the hedging derivative instruments that are associated with this debt. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note II.E for additional information regarding the derivative instruments associated with the debt of the Commission.

2. The 2010 Series A and B bonds

On November 10, 2010, the Commission issued \$350,000,000 Series 2010 A and B fixed-rate bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$7,316,000 in outstanding commercial paper notes, and to pay the costs of issuing the Series 2010 bonds. The Series A BABs totaled \$338,960,000 and carry a fixed interest rate of 5.911 percent (net interest rate of 3.991 percent after deducting the BABs federal subsidy) with a maturity date of April 1, 2048. The Series B tax-exempt bonds totaled \$11,040,000 with a fixed interest rate of 3.14 percent, based on an interest rate range of 2.00 to 5.00 percent and a maturity date of April 1, 2030.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

The principal requirements to maturity for the 2010 Series A bonds, net of the federal subsidy, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2018	\$ -	\$ 13,556,307
2019	-	13,556,307
2020	-	13,556,307
2021	-	13,556,308
2022	-	13,556,308
2023 - 2027	-	67,781,536
2028 - 2032	-	67,781,536
2033 - 2037	-	67,781,536
2038 - 2042	120,485,000	60,780,417
2043 - 2047	178,550,000	29,944,377
2048	39,925,000	1,596,754
	<u>\$ 338,960,000</u>	<u>\$ 363,447,693</u>

The principal requirements to maturity for the 2010 Series B bonds are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2018	\$ 690,000	\$ 281,950
2019	720,000	254,350
2020	750,000	225,550
2021	395,000	195,550
2022	410,000	179,750
2023 - 2027	2,320,000	637,900
2028 - 2030	1,640,000	133,000
	<u>\$ 6,925,000</u>	<u>\$ 1,908,050</u>

3. The 2012 Series A bonds

On June 14, 2012, the Commission issued \$420,585,000 of 2012 Series A fixed-rate bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to refund \$151,500,000 of the Series 2008 bonds, terminate a corresponding portion of the interest rate swaps relating to the Series 2008 bonds, and pay the costs of issuing the Series 2012 bonds. The Series A sales tax revenue bonds (limited tax bonds) totaled \$420,585,000 and carry a fixed interest rate of 3.703 percent with a maturity date of April 1, 2048.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

The principal requirements to maturity for the 2012 Series A bonds, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2018	\$ 17,055,000	\$ 16,485,250
2019	17,855,000	15,682,500
2020	18,700,000	14,839,750
2021	19,970,000	13,954,750
2022	20,965,000	12,956,250
2023 - 2027	19,435,000	57,695,500
2028 - 2032	24,680,000	52,410,750
2033 - 2037	31,965,000	45,436,750
2038 - 2042	63,450,000	35,072,000
2043 - 2047	87,410,000	16,993,963
2048	19,970,000	918,000
Total	\$ 341,455,000	\$ 282,445,463

4. The 2014 Series A bonds

On September 10, 2014, the Commission issued \$350,000,000 Series 2014 A sales tax revenue bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$42,725,000 in outstanding commercial paper notes, and to pay the costs of issuing the Series 2014 bonds. The Series A sales tax revenue bonds include a premium of \$55.4 million and carry an overall all-in interest rate of 3.85 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2014 Series A bonds, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2018	\$ 4,820,000	\$ 16,942,450
2019	5,060,000	16,701,450
2020	5,315,000	16,448,450
2021	5,580,000	16,182,700
2022	5,860,000	15,903,700
2023 - 2027	34,000,000	74,819,000
2028 - 2032	43,385,000	65,426,750
2033 - 2037	55,375,000	53,439,500
2038 - 2042	70,670,000	38,140,750
2043 - 2047	90,130,000	18,687,538
2048	20,755,000	1,007,987
Total	\$ 340,950,000	\$ 333,700,275

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

5. The 2016 Series A bonds

On August 17, 2016, the Commission issued \$325,000,000 Series 2016 A sales tax revenue bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$46,445,000 in outstanding commercial paper notes, and to pay the costs of issuing the Series 2016 bonds. The Series A sales tax revenue bonds include a premium of \$78.8 million and carry an overall all-in interest rate of 3.283 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2016 Series A bonds, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2018	\$ 4,555,000	\$ 16,111,750
2019	4,780,000	15,884,000
2020	5,020,000	15,645,000
2021	5,270,000	15,394,000
2022	5,535,000	15,130,500
2023 - 2027	32,120,000	71,213,500
2028 - 2032	40,990,000	62,339,000
2033 - 2037	52,315,000	51,015,250
2038 - 2042	66,765,000	36,561,250
2043 - 2047	85,205,000	18,116,250
2048	19,680,000	984,000
Total	\$ 322,235,000	\$ 318,394,500

6. The 2017 Transportation Infrastructure Finance and Innovation Act loan

On June 27, 2017, the Commission entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement with the United States Department of Transportation to finance the Commission's continued implementation of the *TransNet* program for up to \$537,484,439 of costs to complete the Mid-Coast Corridor Transit Project. Under terms of the agreement, the Commission will pay an interest rate of 2.72 percent with anticipated disbursement of loan proceeds in 2021. The Commission expects to issue short-term financing during the period of project construction and use the TIFIA loan proceeds to repay the short-term borrowing. At June 30, 2017, there was no outstanding obligation due.

7. Commercial paper notes

At June 30, 2014, the Commission had a \$75,000,000 tax-exempt commercial paper program available (Series B). In September 2012, the Commission reduced the maximum amount of funding available under the commercial paper program from \$100,000,000 to the current \$75,000,000 and moved from a Line of Credit to a Direct-Pay Letter of Credit, based on anticipated financing needs and to reduce liquidity fees. Under the Reimbursement Agreement

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

relating to the Series B notes, dated September 1, 2012, the commercial paper would be available through September 16, 2017. The Reimbursement Agreement with MUFG Union Bank, N.A. was extended for another year, through September 16, 2018, including a fee rate increase from 38 basis points to 40 basis points.

During the fiscal year, the balance of notes issued and outstanding was \$26,750,000. Interest rates during the current year have varied from 0.4288 percent to 0.9200 percent, with maturities from 14 days to 96 days. The interest rate on the outstanding amount at June 30, 2017, was 0.9200 percent, with a maturity of 96 days.

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

Scheduled Repayment	Principal Amount	Interest Amount
2018	\$ 1,200,000	\$ 350,832
2019	1,250,000	350,832
2020	1,250,000	350,832
2021	1,300,000	350,832
2022	1,300,000	350,832
2023 - 2027	7,050,000	1,754,160
2028 - 2032	8,100,000	1,754,160
2033 - 2035	5,300,000	1,754,160
Total	<u>\$ 26,750,000</u>	<u>\$ 7,016,640</u>

8. Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance July 1, 2016	Debt Issued	Debt Retired	Ending Balance June 30, 2017	Due Within One Year
Sales Tax Revenue Bonds:					
2008 Series ABCD tax-exempt	\$ 402,300,000	\$ -	\$ -	\$ 402,300,000	\$ -
2010 Series A Build America Bonds	338,960,000	-	-	338,960,000	-
2010 Series B tax-exempt	7,590,000	-	(665,000)	6,925,000	690,000
2012 Series A tax-exempt	357,695,000	-	(16,240,000)	341,455,000	17,055,000
2014 Series A tax-exempt	345,540,000	-	(4,590,000)	340,950,000	4,820,000
2016 Series A tax-exempt	-	325,000,000	(2,765,000)	322,235,000	4,555,000
Premium	102,422,253	78,818,562	(5,417,429)	175,823,386	-
Commercial Paper Notes	75,000,000	-	(48,250,000)	26,750,000	26,750,000
Total long-term debt	<u>\$ 1,629,507,253</u>	<u>\$ 403,818,562</u>	<u>\$ (77,927,429)</u>	<u>\$ 1,955,398,386</u>	<u>\$ 53,870,000</u>

On June 30, 2017, long-term debt consisted of 2008 variable-rate, tax-exempt revenue bonds, 2010 fixed-rate BABs, 2010 fixed-rate, tax-exempt revenue bonds, 2012 fixed-rate, tax-exempt revenue bonds, 2014 fixed-rate, tax-exempt revenue bonds, and 2016 fixed-rate, tax-exempt 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 as well as 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.

**San Diego County Regional Transportation Commission
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2017**

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

9. Pledged revenue

The Commission has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity table presented in the accompanying notes. The following table provides the pledged future revenue information for the Commission's debt for which a pledge exists:

<u>Description of Pledged Revenue</u>	<u>Fiscal Year 2017 Amount of Pledged Revenue</u>	<u>Fiscal Year 2017 Debt Service Payments</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Sales Tax	\$ 286,965,955	\$ 153,191,102	53%

H. Risk management

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

I. Subsequent events

On November 21, 2017, SANDAG repaid the outstanding *TransNet* loan as follows:

Principal	\$ 58,686,491
Accrued interest:	
Fiscal year 2017	3,666,019
Fiscal year 2018	<u>375,414</u>
	<u>\$ 62,727,924</u>

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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San Diego County Regional Transportation Commission
Sales Tax Projects Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Sales tax	\$ 287,988,717	\$ 282,718,124	\$ 286,965,955	\$ 4,247,831
Investment earnings	4,080,000	9,600,000	4,767,061	(4,832,939)
Other revenues	-	-	21,934	21,934
Total revenues	292,068,717	292,318,124	291,754,950	(563,174)
EXPENDITURES:				
Current:				
General government	2,879,887	2,827,181	3,253,760	(426,579)
Bicycle facilities	5,759,774	5,654,362	12,359,549	(6,705,187)
Independent Taxpayer Oversight Committee	-	-	100,853	(100,853)
Major corridor capital projects	106,170,304	104,209,901	287,491,607	(183,281,706)
Major corridor environmental mitigation	12,273,696	12,066,410	21,833,308	(9,766,898)
Local project environmental mitigation	5,028,283	4,936,258	599,181	4,337,077
Local street improvements	81,290,575	79,802,845	85,217,505	(5,414,660)
Smart growth	5,866,330	5,758,968	2,144,441	3,614,527
New major corridor transit operations	22,627,274	22,213,163	11,530,015	10,683,148
Transit system improvements	46,092,594	45,249,036	46,501,493	(1,252,457)
Total expenditures	287,988,717	282,718,124	471,031,712	(188,313,588)
REVENUES OVER (UNDER) EXPENDITURES	4,080,000	9,600,000	(179,276,762)	(188,876,762)
OTHER FINANCING SOURCES (USES):				
Transfers in	118,444,000	116,276,311	213,609,610	(97,333,299)
Transfers out	(84,223,634)	(98,347,453)	(112,373,099)	14,025,646
Total other financing sources (uses)	34,220,366	17,928,858	101,236,511	(83,307,653)
Net change in fund balances	\$ 38,300,366	\$ 27,528,858	(78,040,251)	\$ (105,569,109)
FUND BALANCES:				
Beginning of year			558,777,972	
End of year			<u>\$ 480,737,721</u>	

See accompanying Notes to Required Supplementary Information.

**San Diego County Regional Transportation Commission
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017**

Budgetary Information

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

After the annual budget is adopted, the San Diego Association of Governments Board of Directors (Board) 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 with monthly reporting of these delegated budget amendments to the Board. 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.

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

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

SUPPLEMENTARY INFORMATION

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San Diego County Regional Transportation Commission
Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment earnings	\$ -	\$ -	\$ 2,770,820	\$ 2,770,820
Debt repayments from other governments	-	-	1,806,954	1,806,954
Federal funds	6,479,618	6,479,618	6,532,213	52,595
Total revenues	6,479,618	6,479,618	11,109,987	4,630,369
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	21,495,000	24,260,000	72,510,000	(48,250,000)
Debt issuance costs	-	-	1,284,951	(1,284,951)
Interest and other charges	62,728,634	74,087,453	83,332,849	(9,245,396)
Total expenditures	84,223,634	98,347,453	157,127,800	(58,780,347)
REVENUES OVER (UNDER) EXPENDITURES	(77,744,016)	(91,867,835)	(146,017,813)	(54,149,978)
OTHER FINANCING SOURCES (USES):				
Transfers in	84,223,634	98,347,453	112,373,099	(14,025,646)
Transfers out	(118,444,000)	(116,276,311)	(213,609,610)	97,333,299
Bonds issued	-	-	325,000,000	(325,000,000)
Premium on bonds issued	-	-	78,818,562	(78,818,562)
Total other financing sources (uses)	(34,220,366)	(17,928,858)	302,582,051	(320,510,909)
Net change in fund balances	\$ (111,964,382)	\$ (109,796,693)	156,564,238	\$ 266,360,931
FUND BALANCES:				
Beginning of year			69,088,189	
End of year			<u>\$ 225,652,427</u>	

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STATISTICAL SECTION

This part of the San Diego County Regional Transportation Commission’s basic financial statements presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commission’s overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the Commission’s financial performance and well-being changed over time.	67
Revenue Capacity These schedules contain information to help the reader assess the Commission’s most significant local revenue source, the sales tax.	69
Debt Capacity These schedules present information to help the reader assess the affordability of the Commission’s current levels of outstanding debt and the Commission’s ability to issue additional debt in the future.	71

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

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San Diego County Regional Transportation Commission
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2008	2009	2010	2011 ¹	2012
Reserved					
Special revenue fund	\$ -	\$ -	\$ 1,190,744	\$ -	\$ -
Debt service fund	52,201,939	55,523,955	55,324,637	-	-
Total reserved	\$ 52,201,939	\$ 55,523,955	\$ 56,515,381	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	\$ 87,979,722	\$ 177,558,071	\$ 283,589,217	\$ -	\$ -
Debt service fund	436,251,098	298,173,715	157,891,614	-	-
Restricted, reported in:					
Special revenue funds	-	-	-	380,945,586	447,198,151
Debt service fund	-	-	-	436,660,863	393,359,255
Total all other governmental funds	\$ 524,230,820	\$ 475,731,786	\$ 441,480,831	\$ 817,606,449	\$ 840,557,406

	Fiscal Year				
	2013	2014	2015	2016	2017
Nonspendable, reported in:					
Special revenue funds	\$ -	\$ -	\$ -	\$ 32,083	\$ 31,287
Restricted, reported in:					
Special revenue funds	416,962,635	502,568,971	573,714,521	558,745,889	480,706,434
Debt service fund	291,362,816	62,883,888	231,030,381	69,088,189	225,652,427
Total all other governmental funds	\$ 708,325,451	\$ 565,452,859	\$ 804,744,902	\$ 627,866,161	\$ 706,390,148

Source: Finance Department

¹ The Commission adopted GASB Statement 54 in fiscal year 2011.

San Diego County Regional Transportation Commission
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010 ¹	2011	2012	2013	2014	2015	2016	2017
Revenues										
Local <i>TransNet</i> sales tax funds	\$ 244,535,119	\$ 219,173,861	\$ 208,504,753	\$ 223,939,663	\$ 239,071,064	\$ 249,520,133	\$ 261,732,291	\$ 270,482,476	\$ 276,383,787	\$ 286,965,955
Investment earnings	(665,050)	24,797,641	9,212,254	4,640,961	5,148,699	4,328,023	6,393,467	7,057,123	9,986,050	7,537,881
Debt repayments from other governments	15,026,316	514,150	1,182,228	1,430,353	943,177	1,624,727	1,593,525	1,729,969	1,879,752	1,806,954
Federal funds	-	-	-	2,746,591	7,012,574	7,012,574	6,455,074	6,504,162	6,518,187	6,532,213
Other revenues	1,381,650	2,435,240	91,664	35,168	82,920	4,476,536	21,934	21,934	27,396	21,934
Total revenues	260,278,035	246,920,892	218,990,899	232,792,736	252,258,434	266,961,993	276,196,291	285,795,664	294,795,172	302,864,937
Expenditures										
Current:										
General government	2,407,000	2,205,000	1,997,922	2,035,283	2,251,010	2,428,258	2,624,782	2,699,655	2,834,638	3,253,760
Highway improvements	142,941	368,533	-	-	-	-	-	-	-	-
Local street and road improvements	62,766,695	10,248,842	-	-	-	-	-	-	-	-
Public transit improvements and operations	50,141,200	555,690	-	-	-	-	-	-	-	-
Bicycle facilities	2,314,739	4,238,080	1,006,807	1,146,136	2,389,972	1,790,439	7,341,136	9,903,097	7,629,790	12,359,549
Independent Taxpayer Oversight Committee	-	260,757	126,063	85,510	356,159	83,071	96,017	367,036	98,320	100,853
Major corridor capital projects	114,528,612	150,957,210	127,632,511	110,766,113	287,803,173	189,116,968	249,053,945	140,687,406	210,648,700	287,491,607
Major corridor environmental mitigation	6,503,772	17,972,789	19,388,696	22,224,499	40,962,875	1,999,891	18,362,651	32,491,051	25,774,110	21,833,308
Local project environmental mitigation	-	3,781	1,913	33,793	1,744	7,917,042	508,632	157,593	405,130	599,181
Local street improvements	-	36,612,939	32,927,959	33,306,399	94,405,896	78,188,231	62,038,187	76,876,715	113,824,414	85,217,505
Smart growth	-	4,412	875,303	934,697	1,841,385	2,372,485	2,545,943	4,188,347	5,700,803	2,144,441
New major corridor transit operations	-	71,628	2,180,492	1,630,633	1,912,773	2,972,076	3,368,969	11,857,463	11,803,461	11,530,015
Transit system improvements	-	34,525,375	54,038,344	35,848,596	37,723,736	39,734,615	40,308,350	43,690,447	44,664,969	46,501,493
Debt service:										
Principal retirement	202,302,316	10,800,000	11,962,000	20,048,000	165,460,000	20,260,000	16,585,000	60,050,000	22,455,000	72,510,000
Debt issuance costs	797,218	-	-	2,864,732	2,296,858	-	-	553,594	-	1,284,951
Interest and other charges	10,359,957	26,272,874	26,678,486	33,107,476	69,284,878	53,909,872	56,961,271	66,587,190	72,279,578	83,332,849
Total expenditures	452,264,450	295,097,910	278,816,496	264,031,867	706,690,459	400,772,948	459,794,883	450,109,594	518,118,913	628,159,512
Excess of revenues over (under) expenditures	(191,986,415)	(48,177,018)	(59,825,597)	(31,239,131)	(454,432,025)	(133,810,955)	(183,598,592)	(164,313,930)	(223,323,741)	(325,294,575)
Other financing sources (uses)										
Transfers in	173,642,467	205,519,393	197,740,119	179,635,644	443,933,392	193,538,830	348,973,909	296,214,096	309,040,484	325,982,709
Transfers out	(173,642,467)	(205,519,393)	(197,740,119)	(179,635,644)	(443,933,392)	(193,538,830)	(348,973,909)	(296,214,096)	(309,040,484)	(325,982,709)
Commercial paper issued	94,783,000	3,000,000	5,450,000	-	921,000	1,579,000	40,726,000	1,999,000	46,445,000	-
Bonds issued	600,000,000	-	-	350,000	420,585,000	-	-	350,000,000	-	325,000,000
Premium on bonds issued	-	-	-	849,368	55,876,982	-	-	55,305,483	-	78,818,562
Total other financing sources (uses)	694,783,000	3,000,000	5,450,000	1,199,368	477,382,982	1,579,000	40,726,000	407,304,483	46,445,000	403,818,562
Net change in fund balances	\$ 502,796,585	\$ (45,177,018)	\$ (54,375,597)	\$ (30,039,763)	\$ 22,950,957	\$ (132,231,955)	\$ (142,872,592)	\$ 242,990,553	\$ (176,878,741)	\$ 78,523,987
Debt service as a percentage of noncapital expenditures	60.19%	17.14%	14.10%	22.83%	34.04%	14.32%	21.90%	28.78%	18.28%	24.81%

Source: Finance Department

¹ Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. Prior years are not restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

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

San Diego County Regional Transportation Commission
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Sales Tax
2008	\$ 244,535,119
2009	239,071,064
2010 ¹	208,504,753
2011	223,939,663
2012	239,071,064
2013	249,520,133
2014	261,732,291
2015	270,482,476
2016	276,383,787
2017	286,965,955

Source: Finance Department

¹ Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. Prior years are not restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

San Diego Regional County Transportation Commission

Direct and Overlapping Sales Tax Rates

Last Ten Fiscal Years

Fiscal Year	<i>TransNet</i> Sales Tax Proposition A ¹	County of San Diego ²
2008	0.50%	7.75%
2009	0.50%	8.75%
2010	0.50%	8.75%
2011	0.50%	8.75%
2012	0.50%	7.75%
2013	0.50%	8.00%
2014	0.50%	8.00%
2015	0.50%	8.00%
2016	0.50%	8.00%
2017 ³	0.50%	7.75%

Source: California Department of Tax and Fee Administration

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

² The following four cities within the County of San Diego have a sales tax rate other than 7.75%:

Chula Vista	8.25%
Del Mar	8.75%
El Cajon	8.25%
La Mesa	8.50%
National City	8.75%
Vista	8.25%

³ Rates Effective 10/1/17

San Diego County Regional Transportation Commission
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Percentage of Personal Income ¹	Debt Per Capita ¹
	Sales Tax Revenue	Sales Tax Commercial	Total		
	Bonds	Paper			
2008	\$ 600,000,000	\$ 34,000,000	\$ 634,000,000	0.409%	209
2009	589,200,000	37,000,000	626,200,000	0.417%	204
2010	577,800,000	41,888,000	619,688,000	0.406%	200
2011	916,463,741	34,000,000	950,463,741	0.599%	305
2012	1,228,392,144	33,821,000	1,262,213,144	0.760%	403
2013	1,208,152,472	33,989,000	1,242,141,472	0.739%	394
2014	1,191,472,800	73,001,000	1,264,473,800	0.736%	396
2015	1,578,319,665	30,440,000	1,608,759,665	0.936%	504
2016	1,554,507,253	75,000,000	1,629,507,253	0.947%	505
2017	1,928,648,386	26,750,000	1,955,398,386	1.053% ²	595 ²

Source: Finance Department..

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

¹ See the Schedule of Demographic and Economic Statistics located in the SANDAG Comprehensive Annual Financial Report for personal income and population data.

² Used the most recent data available (2016).

San Diego County Regional Transportation Commission
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	
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
2010	208,504,753	11,400,000	21,583,544	562,000	221,555	11,962,000	21,805,099	6.17
2011	223,939,663	12,160,000	29,792,943	572,000	381,768	12,732,000	30,174,711	5.22
2012	239,071,064	164,360,000	42,798,432	1,100,000	737,393	165,460,000	43,535,825	1.14
2013	249,520,133	18,640,000	50,723,216	1,620,000	584,452	20,260,000	51,307,668	3.49
2014	261,732,291	15,080,000	54,038,836	1,505,000	370,577	16,585,000	54,409,413	3.69
2015	270,482,476	15,490,000	63,254,010	1,835,000	401,719	17,325,000	63,655,729	3.34
2016	276,383,787	20,570,000	70,123,201	1,885,000	415,880	22,455,000	70,539,081	2.97
2017	286,965,955	24,260,000	80,450,441	48,250,000	581,493	72,510,000	81,031,934	1.87

Source: Finance Department

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

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

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis" followed by a stylized flourish.

Irvine, California
December 15, 2017



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 other 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 large sectors in high technology, tourism, health care, government, and a large military presence.

San Diego has several important job centers, including its downtown, which is currently undergoing a building boom and features tourism, professional, and government jobs; Sorrento Valley/Torrey Mesa, a hub for high-tech and health care; Kearney Mesa, the manufacturing and industrial center, and Uptown-Mission Valley, with a concentration of retail.

The San Diego Convention Center includes 2.6 million total gross square feet and estimates by the San Diego Convention Center Corporation indicate that the San Diego Convention Center generated approximately \$654 million in direct attendee spending during fiscal year 2017. In fiscal year 2017, there were 109 events held at the Convention Center (comprising 62 City-wide events and 47 secondary events) with approximately 793,960 people in attendance. The San Diego Convention Center Corporation estimates that the Convention Center's operations generate more than a \$1.1 billion of regional economic activity.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including 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 community colleges and colleges, universities, and graduate level schools, referenced below under "Education."

In addition to the City, 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 ornamental products and avocados, 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. The County population as of January 1, 2017 was estimated to be approximately 3,316,192, making it the second largest County by population in California. The County's 2017 population increased 0.90% from 2016. January 2018 figures are not yet available. By the year 2025, 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 2006 to 2017.

POPULATION⁽¹⁾						
(In Thousands)						
Year	San Diego County	Percent Change	State of California	Percent Change	United States	Percent Change
2006	2,976	0.30%	37,086	1.12%	299,398	1.01%
2007	2,998	0.74	37,472	1.04	301,140	0.58
2008	3,033	1.17	37,884	1.10	304,374	1.07
2009	3,064	1.02	38,293	1.08	307,006	0.86
2010	3,095	1.01	37,224	(2.79)	310,408	1.11
2011	3,121	0.84	37,537	0.92	312,720	0.74
2012	3,153	1.03	37,881	0.92	315,058	0.75
2013	3,195	1.33	38,239	0.95	317,288	0.71
2014	3,230	1.10	38,567	0.86	319,672	0.75
2015	3,264	1.05	38,908	0.88	321,931	0.71
2016	3,286	0.77	39,189	0.89	324,142	0.69
2017	3,316	0.90	39,523	0.90	326,359 ⁽²⁾	0.68 ⁽²⁾

⁽¹⁾ For 2006-2009 and 2011-2017, population statistics are as of January 1. For 2010, population statistics are as of April 1.

⁽²⁾ Projected.

Source: California State Department of Finance for 2006-2009, 2011-2016, and 2016-17; U.S. Census Bureau, Population Division.

Employment

The County's total annual average labor force, the number of persons who work or are available for work, during 2016 was approximately 1,570,400. The annual average number of employed civilian workers in the labor force for the same year was approximately 1,497,000. 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 2012 through 2016. This employment data shows that San Diego has been adding jobs and is trending towards a lower unemployment rate faster than the rest of the State. In 2016, the County enjoyed a lower unemployment than the State at 4.7%, which was an improvement from the 2015 unemployment rate of 5.2%. 2017 figures are not yet available.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES 2012-2016⁽¹⁾
By Place of Residence
(In Thousands)**

	2012	2013	2014	2015	2016
County of San Diego					
Labor Force	1,540.4	1,543.2	1,543.7	1,554.8	1,570.4
Employment	1,399.9	1,422.5	1,444.5	1,474.4	1,497.0
Unemployment Rate	9.1%	7.8%	6.4%	5.2%	4.7%
State of California					
Labor Force	18,523.8	18,624.3	18,755.0	18,983.2	19,102.7
Employment	16,607.7	16,958.7	17,348.6	17,723.3	18,065.0
Unemployment Rate	10.4%	8.9%	7.5%	6.2%	5.4%
United States of America					
Labor Force	154,975.0	155,389.0	155,904.0	157,126.0	159,640.0
Employment	142,469.0	143,929.0	146,306.0	148,839.0	152,111.0
Unemployment Rate	8.1%	7.4%	6.2%	5.3%	4.7%

⁽¹⁾ Data not seasonally adjusted. Unemployment rate is based on unrounded data. March 2016 Benchmark.

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

The following table sets forth the annual average civilian employment within the County by employment sector for 2012 through 2016. 2017 figures are not yet available.

**SAN DIEGO COUNTY
LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
2012-2016**

Employment Sector	2012	2013	2014	2015	2016
Total, All Industries	1,289,000	1,327,500	1,355,900	1,395,500	1,431,600
Total Farm	9,800	9,800	9,400	9,100	9,000
Total Nonfarm	1,279,200	1,317,700	1,346,500	1,386,800	1,422,600
Total Private	1,051,400	1,088,200	1,114,600	1,150,700	1,180,500
Goods Producing	151,600	160,300	165,800	176,400	184,200
Construction	56,900	60,900	63,800	70,200	76,100
Manufacturing	94,300	99,000	101,600	106,200	107,800
Service Providing	1,127,600	1,157,400	1,180,700	1,210,400	1,238,400
Private Service Providing	899,800	928,000	948,700	974,200	996,300
Trade, Transportation & Utilities	207,700	212,400	215,000	219,200	221,600
Retail Trade	137,200	141,300	144,300	146,800	147,400
Transportation, Warehousing & Utilities	27,300	27,200	27,000	28,400	29,400
Information	24,500	24,300	24,400	23,800	23,600
Financial Activities	70,100	70,800	69,400	71,200	73,000
Professional & Business Services	216,200	221,600	224,900	230,200	234,000
Professional, Scientific & Technical Services	120,700	121,500	124,400	126,300	129,200
Educational & Health Services	170,400	181,000	186,000	192,700	198,500
Health Care & Social Assistance	141,400	151,500	156,400	163,300	168,600
Leisure & Hospitality	161,700	168,600	177,000	183,900	190,700
Accommodation & Food Services	136,900	142,700	150,400	156,300	161,900
Government	227,800	229,500	231,900	236,200	242,100
Federal Government	46,800	46,500	45,800	46,000	46,500
State Government	42,600	43,100	44,100	45,700	47,500
Local Government	138,500	139,900	142,000	144,500	148,100

Source: California Employment Development Department - San Diego County (San Diego-Carlsbad MSA) Historical Annual Average Data.

Major Employers

The County is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, military, financial services, retail trade and amusement and recreation. The following table lists the County's major employers.

COUNTY OF SAN DIEGO MAJOR EMPLOYERS

<u>Rank</u>	<u>Employer</u>	<u>Organization Description</u>	<u>Employees</u>
1	University of California, San Diego	Higher education, research, healthcare	32,500
2	U.S. Department of Defense	Defense	24,000
3	Sharp Healthcare	Health care, hospitals, medical groups, health services, health plans	18,000
4	County of San Diego	Municipal government	17,400
5	Scripps Health	Hospitals, hospice, home health care services, outpatient centers and clinics, physicians' offices	15,200
6	Qualcomm		12,600
7	City of San Diego	Municipal government, public agency	11,500
8	Kaiser Permanente	Nonprofit health maintenance hospital, outpatient medical, urgent care, medical offices	9,000
9	UC San Diego Health	Academic health system	8,900
10	San Diego Community College District	Higher education institution that includes City, Mesa and Miramar colleges and continuing education	6,800
11	General Atomics	Remotely piloted aircraft systems, radars and electro-optic and related missions systems solutions	5,900
12	San Diego State University	Higher education	5,900
13	Wal-Mart	Retail business	5,400
14	Rady Children's Hospital	Health care for children of all ages – newborns to young adults; regional pediatric center	5,300
15	YMCA of San Diego County	Programs and services focused on youth development, healthy living and social responsibility	5,200
16	Costco Wholesale	Retail business	5,000
17	Northrop Grumman Corp.	Unmanned systems, Cyber solutions, C4ISR, Logistics	5,000
18	Sempra Energy	Energy services holding company	4,800
19	The Home Depot	Retail business	4,300
20	U.S. Customs and Border Protection	Customs and border protection	4,100
21	BD (Becton, Dickinson and Co.)	Medical technology company	4,000
22	Poway Unified School District	Public school district	4,000
23	Veteran Affairs San Diego Healthcare System	Health care for veterans in inpatient, outpatient settings	3,800
24	Sea World San Diego	Marine park	3,700
25	University of San Diego	Private university	3,600

Source: Source: San Diego Business Journal 2018 Book of Lists, SANDAG 2017 Employment Estimates.

Regional Economy

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of many industries, including Biotechnology, Wireless Communications, Defense Manufacturing and Uniformed Personnel, and Leisure and Hospitality. The table below sets forth the San Diego-Carlsbad Metropolitan Statistical Area's Gross Domestic Product, which is an estimate of the value for all goods and services produced in the region, from 2012 through 2016. Annual figures for 2017 are not yet available.

SAN DIEGO-CARLSBAD METROPOLITAN STATISTICAL AREA GROSS DOMESTIC PRODUCT 2012-2016

Year	Gross Domestic Product (In Billions) ⁽¹⁾	Annual Percent Change (year over year)
2012	\$189.2	3.3%
2013	198.5	4.9
2014	205.1	3.3
2015	210.7	2.7
2016	215.3	2.2

⁽¹⁾ Shown in current dollars reflecting the Census Bureau's midyear population estimates available as of March 2017.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

The table below sets forth the assessed valuation of property within the County subject to taxation for Fiscal Years 2008-09 through 2016-17.

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION Fiscal Years 2008-09 through 2016-17 (In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption ⁽¹⁾	Net Assessed Valuation for Tax Purposes ⁽²⁾
2008-09	\$184,573,765	\$217,641,565	\$14,496,587	\$416,711,917	\$10,336,971	\$406,374,945
2009-10	177,035,056	215,309,621	15,194,665	407,539,342	11,244,820	396,294,522
2010-11	173,642,233	214,286,031	14,639,554	402,567,818	11,790,769	390,777,049
2011-12	174,658,242	216,383,122	14,483,422	405,524,786	12,537,490	392,987,296
2012-13	173,840,948	217,588,947	14,693,957	406,123,852	13,165,008	392,958,844
2013-14	179,943,404	224,701,971	15,195,049	419,840,424	13,856,802	405,983,622
2014-15	192,003,349	236,234,389	15,347,042	443,584,780	14,344,037	429,240,743
2015-16	203,701,281	249,298,560	15,491,395	468,491,236	15,175,726	453,315,510
2016-17	215,835,633	261,594,164	16,324,650	493,754,447	19,514,046	474,240,401

⁽¹⁾ Exemption figures include veterans, church, welfare, religious, college and cemetery exemptions.

⁽²⁾ Figures include local secured, unsecured manufactured home and possessory interest, state unitary and redevelopment valuation, if any.

Source: County of San Diego, Auditor and Controller.

Building Activity

Annual total building permit valuation and the annual unit total of new residential permits from 2012 through 2016 are shown in the following table. Annual 2017 figures are not yet available.

COUNTY OF SAN DIEGO BUILDING PERMIT ACTIVITY 2012 – 2016

	2012	2013	2014	2015	2016
Valuation (\$ in Millions):					
Residential	\$1,610	\$2,060	\$1,818	\$2,447	\$2,472
Non-Residential	<u>1,222</u>	<u>1,401</u>	<u>1,921</u>	<u>1,863</u>	<u>1,782</u>
Total ⁽¹⁾	\$2,832	\$3,461	\$3,739	\$4,310	\$4,254
New Housing Units:					
Single Family	2,100	2,539	2,276	3,136	2,420
Multiple Family	<u>4,319</u>	<u>5,803</u>	<u>4,327</u>	<u>6,869</u>	<u>7,680</u>
Total ⁽¹⁾	6,419	8,342	6,603	10,005	10,100

⁽¹⁾ Totals may not sum due to rounding.

Source: Construction Industry Research Board.

Commercial Activity

The following table sets forth information regarding taxable sales in the County for the years 2012 through 2016. 2017 figures are not yet available.

COUNTY OF SAN DIEGO TAXABLE SALES 2012 through 2016 (\$ in Thousands)

Type of Business	2012	2013	2014	2015	2016
Motor Vehicle and Parts Dealers	\$ 5,851,723	\$ 6,355,973	\$ 6,753,234	\$ 7,294,830	\$ 7,552,836
Home Furnishings and Appliance Stores	962,420	1,015,878	1,047,805	2,431,314	2,555,889
Electronics and Appliance Stores ⁽¹⁾	1,261,183	1,297,063	1,272,567	-(1)	-(1)
Bldg. Materials. And Garden Equip & Supplies	2,204,608	2,376,043	2,474,612	2,631,077	2,744,043
Food and Beverage Stores	2,087,821	2,179,811	2,291,807	2,456,465	2,427,634
Health and Personal Care Stores ⁽¹⁾	876,663	915,651	919,455	-(1)	-(1)
Gasoline Stations	4,595,421	4,515,941	4,514,898	3,795,002	3,359,889
Clothing and Clothing Accessories Stores	3,208,810	3,425,325	3,482,100	3,562,794	3,573,188
Sporting Goods, Hobby, Book, and Music Stores ⁽¹⁾	1,003,947	1,031,505	1,033,870	-(1)	-(1)
General Merchandise Stores	4,695,436	4,784,812	4,845,900	4,398,638	4,305,597
Miscellaneous Store Retailers	1,473,767	1,539,376	1,594,890	-(1)	-(1)
Nonstore Retailers	265,508	556,994	641,091	-(1)	-(1)
Other Retail Group ⁽¹⁾	-(1)	-(1)	-(1)	4,463,781	4,682,868
Food Services and Drinking Places	5,665,929	5,954,220	6,385,266	6,955,660	7,374,383
Total Retail and Food Services	34,153,236	35,948,592	37,257,495	37,989,566	38,576,363
All Other Outlets	13,793,799	14,348,737	15,454,144	16,196,021	16,831,504
TOTAL ALL OUTLETS	<u>\$47,947,035</u>	<u>\$50,297,329</u>	<u>\$52,711,639</u>	<u>\$54,185,588</u>	<u>\$55,407,866</u>

⁽¹⁾ Beginning in 2015, the taxable sales report combines Electronics, Health, Sporting Goods, and Miscellaneous Retailers into a broad Other Retail Group.

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

Personal Income

The following table summarizes the median household income for the County, the State, and the United States for the years 2013 through 2017. Annual 2017 figures are not yet available.

MEDIAN HOUSEHOLD INCOME⁽¹⁾ 2013 through 2017⁽¹⁾

Year	San Diego County	California	United States
2013	\$48,634	\$47,307	\$41,358
2014	49,302	48,340	43,715
2015	51,447	50,072	45,445
2016	55,146	53,589	46,738
2017 ⁽¹⁾	58,408	55,681	48,043

⁽¹⁾ As of August 2017.
Source: Claritas, LLC.

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 beyond. 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, serving over 20 million passengers annually, and served by 18 passenger carriers and three 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 transportation in the County is provided by two transit operators, the San Diego Metropolitan Transit System ("MTS") and North County Transit District (NCTD). MTS operates the light rail system that provides transportation for commuters and tourists from Downtown San Diego to San Ysidro (adjacent to Tijuana), and from Downtown San Diego to the southern part of the County and East County and includes the newest connection at San Diego State University. MTS also provides fixed route and paratransit services. NCTD operates the 43-mile Coaster Commuter rail line from Oceanside to downtown San Diego as well as the Sprinter light rail that runs from Oceanside to Escondido. Like MTS, NCTD also provides fixed route and paratransit bus services.

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 rail corridor is part of the Los Angeles-San Luis Obispo-San Diego Corridor which is the second busiest rail corridor in the nation. 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 visitor and convention business each year. 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 have contributed to the growth in tourism. The visitor business is expected to continue to increase steadily.

The following table depicts total visitor spending in San Diego County since 2008.

**TOTAL VISITOR SPENDING
SAN DIEGO COUNTY
2006 – 2017
(\$ billions)**

<u>Year</u>	<u>Amount</u>
2008	\$ 7.91
2009	6.96
2010	7.08
2011	7.49
2012	7.98
2013	8.39
2014	9.21
2015	9.92
2016	10.40
2017	10.41

Source: San Diego Tourism Authority.

Contributing to the growth in total visitor spending has been an increase in convention activity, as displayed in the table below. The convention center has hosted the annual Comic-Con International Convention, the 1996 Republican National Convention and the 2007 California Democratic Party Convention.

**SAN DIEGO CONVENTION CENTER
2008 – 2017**

<u>Calendar Year</u>	<u>Estimated Spending</u>	<u>Number of Conventions</u>	<u>Total Delegate Attendance</u>
2008	\$666,328,990	68	633,900
2009	541,904,169	71	519,400
2010	567,413,270	64	543,900
2011	578,931,514	74	566,700
2012	621,304,790	67	561,500
2013	559,947,727	75	524,400
2014	593,105,421	76	527,600
2015	620,092,228	71	553,300
2016	721,000,000	67	697,518
2017	653,500,000	62	793,960

Note: Table includes only the San Diego Convention Center, it does not include other sources of convention activity in the San Diego region.

Source: San Diego Tourism Authority.

Major attractions located in the County include the world-renowned San Diego Zoo, the San Diego Zoo Safari Park, Legoland, California and Sea World. The San Diego Padres play home games at PETCO Park, a \$449.4 million project, located on 18 acres, with a capacity of 42,000. Other attractions include the Cabrillo National Monument on Point Loma, Balboa Park, home to the Zoo and a host of other cultural and recreational activities, downtown’s historic Gaslamp Quarter, and the Old Town State Park. The cruise ship industry is another important sector of the local visitor industry.

There are over 90 golf courses in the County, including the La Costa Golf Course, scene of the Tournament of Champions in 2006 and the championship Torrey Pines Golf Course, where the U.S. Open was held in 2008. Torrey Pines is also slated to host the U.S. Open for the second time in 2021.

The County benefits from its proximity to Mexico, with its sporting attractions such as Jai Alai, thoroughbred racing and ocean fishing, as well as the shopping and entertainment venues of Tijuana. Tijuana may be reached from downtown San Diego by the Red Trolley, and within a short drive from the center of the City, visitors may take in the many beaches, mountains and desert areas within the County.

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.

Additionally, there are five community college districts in the County that 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. These community college districts have students at numerous campuses, 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.

Impact of Military Spending

Military and related defense spending are significant factors in the County economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot; Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

The San Diego Military Economic Impact Study (the “Military Study”) released in October 2017 by the San Diego Military Advisory Council estimates that approximately 22% of the jobs in the County for the federal fiscal year ending September 30, 2017 were directly and indirectly related to the military. According to the Military Study, as of September 30, 2017, there were approximately 115,700 active duty and reserve military personnel and 24,100 full-time civilian workers directly employed by the military throughout the County. The Military Study concludes that overall spending in the County related to the military in the federal fiscal year ended September 30, 2017 represented approximately 22% of the County’s total gross regional product.

Given the substantial role that the military plays in the local economy, significant reductions in defense spending or the relocation of military bases out of the area could negatively impact the local economy and, in turn, reduce revenues to the Commission from such major sources as property taxes, sales taxes and transient occupancy taxes. Any direct impact on the Commission operations or finances is uncertain and the Commission is unable to predict the extent of any negative impact on the area economy as a result of reduced military spending.

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APPENDIX C-1

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE

The following is a brief summary of certain provisions of the Indenture, dated as of March 1, 2008, between the San Diego County Regional Transportation Commission (the "Commission") and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented and amended by the First Supplemental Indenture, dated as of March 1, 2008, the Second Supplemental Indenture, dated as of July 1, 2008, the Third Supplemental Indenture, dated as of October 1, 2010, the Fourth Supplemental Indenture, dated as of June 1, 2012, the Fifth Supplemental Indenture, dated as of September 1, 2014, the Sixth Supplemental Indenture, dated as of August 1, 2016, and the Seventh Supplemental Indenture, dated as of June 1, 2017 (hereinafter collectively referred to as the "Indenture"), each between the Commission and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

DEFINITIONS

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

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

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

Additional Interest Rate Swap Agreement has the meaning ascribed thereto in the 2017 TIFIA Loan Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

Board means the Board of Directors of the Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(C) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such Obligations shall be calculated at an interest rate equal to twelve percent (12%) per annum;

(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 interest on which is included or expected to be included in gross income for federal income tax purposes, interest rate on such Obligations shall be calculated at an interest rate equal to twelve percent (12%) per annum;

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

which such Interest Rate Swap Agreement relates (i.e., if such Interest Rate Swap Agreement is an “off-market” Interest Rate Swap Agreement), then, in such instance, such excess amounts payable by the Commission under such Interest Rate Swap Agreement shall be included in the calculation of Debt Service;

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

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

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

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

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

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

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

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

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

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

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

Existing Hedging Termination Obligations Fund means the fund by that name established pursuant to the Indenture.

Existing Interest Rate Swap Agreement has the meaning ascribed thereto in the 2017 TIFIA Loan Agreement.

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

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

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

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

Fifth Supplemental Indenture means the Fifth Supplemental Indenture, dated as of September 1, 2014, between the Commission and the Trustee, as amended and supplemented from time to time.

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

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

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

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

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

Fourth Supplemental Indenture means the Fourth Supplemental Indenture, dated as of June 1, 2012, between the Commission and the Trustee, as amended and supplemented from time to time.

Hedging Termination Obligations has the meaning ascribed thereto in the 2017 TIFIA Loan Agreement.

Highest Priority Obligations means, as of any date, the Bonds, unless and until there are no Bonds Outstanding under the Indenture, in which case it means the TIFIA Bonds.

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.

Indenture Bonds means, collectively, the Bonds and the TIFIA Bonds Outstanding.

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

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

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

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

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

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

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

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

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

Initial Swaps means the following Interest Rate Swap Agreements:

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, as amended and restated by an Amended and Restated Confirmation, dated May 23, 2012, between SANDAG and BofA;

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, as amended and restated by an Amended and Restated Confirmation, dated May 23, 2012, between SANDAG and Goldman; and

c. ISDA Master Agreement, dated as of November 22, 2005, between BofA (as successor to Merrill Lynch Capital Services, Inc. ("MLCS")) and the Commission, as supplemented by the Schedule, dated as of November 22, 2005 and the confirmation of a transaction entered into on November 22, 2005 between BofA (as successor to MLCS) and the Commission, as amended and restated by an Amended and Restated Confirmation, dated May 23, 2012, between SANDAG and BofA.

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

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

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

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

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

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

Investment Securities means the following:

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

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

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

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

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

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

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

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

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

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

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

(11) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (1), (2), (3) or (4) above, which shall have a market value (exclusive of accrued

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

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

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

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

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

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

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

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

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

Issue Date means, with respect to the 2008 Bonds, March 27, 2008.

Junior Subordinate Obligations means the TIFIA Bonds, and any other bonds of the Commission issued in accordance with the Indenture and, for so long as the 2017 TIFIA Bond is outstanding, the 2017 TIFIA Loan Agreement, and secured by a lien and charge on the Trust Estate that is subordinate to the liens and charges securing the Senior Obligations and the Subordinate Obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mid-Coast Corridor Transit Project means the Project as defined in the 2017 TIFIA Loan Agreement.

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.

MTS means the San Diego Metropolitan Transit System, a public agency created under the laws of the State.

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.

Other Hedging Termination Obligations Fund means the fund by that name established pursuant to the Indenture.

Outstanding, when used as of any particular time in reference to Indenture Bonds, means (subject to the provisions of the Indenture) all Indenture Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Indenture Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Indenture 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,” (3) Indenture Bonds for the transfer or exchange of or in lieu of or in substitution for which other Indenture Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture, and (4) for purposes of exercising rights under the Indenture, Indenture Bonds held by or for the benefit of the Commission or any Related Party; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Commission and the pledge of Revenues and all covenants, agreements and other obligations of the Commission to the Holders shall continue to exist and shall run to the benefit of such Credit Provider and such Credit Provider shall be subrogated to the rights of such Holders.

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

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

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

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

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

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

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

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

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

Proportionate Basis, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory

Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of a portion of Bonds, “Proportionate Basis” shall have the same meaning set forth above except that “pay” or “purchase” shall be substituted for “redeem” or “redemption” and “paid” or “purchased” shall be substituted for “redeemed.”

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Related Party means, individually or collectively, the Commission, SANDAG and MTS.

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

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

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

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

Reserve Facility Provider means any issuer of a Reserve Facility.

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

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

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

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

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

SANDAG means the San Diego Association of Governments, a public agency created under the laws of the State.

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

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

Senior Obligations means, collectively, Bonds and Parity Obligations at any time outstanding.

Semi-Annual Payment Date means each April 1 and October 1 or if such day is not a Business Day, then the Business Day succeeding such April 1 or October 1.

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

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

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

Seventh Supplemental Indenture means the Seventh Supplemental Indenture, dated as of June 1, 2017, between the Commission and the Trustee, as amended and supplemented from time to time.

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.

Sixth Supplemental Indenture means the Sixth Supplemental Indenture, dated as of August 1, 2016, between the Commission and the Trustee, as amended and supplemented from time to time.

Spread Premium has the meaning specified in the Indenture.

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

State means the State of California.

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

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

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

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

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

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

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

Subsequent Interest Rate Swap Agreement has the meaning ascribed thereto in the 2017 TIFIA Loan Agreement.

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

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

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

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

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

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

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

Third Supplemental Indenture means the Third Supplemental Indenture, dated as of October 1, 2010, between the Commission and the Trustee, as amended and supplemented from time to time.

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

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

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

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

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

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

Three-Month LIBOR Rate means the rate for deposits in U.S. dollars with a three-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the Index Rate

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

TIFIA Bond or **TIFIA Bonds** means any bond or bonds issued by the Commission to the TIFIA Lender as described in the related TIFIA Loan Agreement and Supplemental Indenture and which constitute Junior Subordinate Obligations for purposes of the Indenture.

TIFIA Debt Service means Debt Service on all TIFIA Bonds then outstanding.

TIFIA Lender means the U.S. Department of Transportation, an agency of the United States of America, acting by and through the Executive Director of the Build America Bureau, and its successors and assigns.

TIFIA Loan Agreement means any TIFIA Loan Agreement between the Commission and the TIFIA Lender relating to a TIFIA Bond.

Total Maximum Annual Debt Service means the maximum aggregate amount of Debt Service (as such term is defined in the 2017 TIFIA Loan Agreement) becoming due and payable in any Fiscal Year on all Senior Obligations, all Subordinate Obligations and all Junior Subordinate Obligations Outstanding (and, as applicable, to be Outstanding) during the period from the date of such calculation through the final maturity date of such obligations, calculated utilizing the assumptions set forth under the definition of Debt Service in the 2017 TIFIA Loan Agreement.

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

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

2008 Bonds means the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2008 Series A Bonds, 2008 Series B Bonds, 2008 Series C Bonds and 2008 Series D Bonds, authorized by, and at any time Outstanding pursuant to, the Indenture.

2008 Bonds 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, among the Commission, the Trustee 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, the Standby Bond Purchase Agreement, dated as of November 1, 2017, among the Commission, the Trustee and Bank of America, 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 C Bonds, and means, with respect to the 2008 Series D Bonds, the Standby Bond Purchase Agreement, dated September 28, 2011, among the Commission, the Trustee and State Street Bank and Trust Company, 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 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 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 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 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 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.

2010 Bonds shall mean the 2010 Series A Bonds and 2010 Series B Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

2012 Series A Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2012 Series A, authorized by the Indenture.

2014 Series A Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2014 Series A, authorized by the Indenture.

2016 Series A Bonds shall mean the San Diego County Regional Transportation Commission Sales Tax Revenue Bonds (Limited Tax Bonds), 2016 Series A, authorized by the Indenture.

2017 TIFIA Bond means the San Diego County Regional Transportation Commission Junior Subordinate Sales Tax Revenue Bond (Limited Tax Bond), 2017 TIFIA Series, authorized by the Seventh Supplemental Indenture.

2017 TIFIA Loan Agreement means the TIFIA Loan Agreement, dated as of June 27, 2017, by and between the Commission and the TIFIA Lender, relating to the Mid-Coast Corridor Transit Project, as amended in accordance with its terms.

2017 TIFIA Reserve Event means a TIFIA Reserve Event as defined in the 2017 TIFIA Loan Agreement.

2017 TIFIA Reserve Fund means the fund by that name established within the Junior Subordinate Obligations Reserve Fund.

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

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

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

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

PLEDGE OF REVENUES; REVENUE FUND

As security for the payment of all amounts owing on the Senior Bonds, Parity Obligations and Junior Subordinate Obligations, there are irrevocably pledged to the Trustee, with the lien priority specified by under provisions of the Indenture described here: (i) all Revenues; and (ii) all amounts, including proceeds of the Indenture 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 provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture; provided that Senior Obligations shall have a first priority lien on the pledge set forth under the provisions of the Indenture described under this caption, Subordinate Obligations shall have a second priority lien on the pledge set forth under the provisions of the Indenture described under the caption "Allocation of Sales Tax Revenues," subject to the application of Revenues under the Indenture and Junior Subordinate Obligations shall have a lien on the pledge set forth under the provisions of the Indenture described under this caption that is junior and subordinate in all respects to the lien securing the Senior Obligations, the Subordinate Obligations and any deposits required to be made to the Fees and Expenses Fund and the Existing Hedging Termination Obligations Fund. The collateral identified above shall immediately be subject to the pledge described above, and such pledge shall constitute a 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 Indenture Bonds, all Parity Obligations and amounts owed in connection with the Indenture 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. All Junior Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Junior Subordinate Obligations over any other Junior Subordinate Obligations.

As long as any Indenture 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 Indenture Bonds and the Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Holders of the Indenture Bonds and the holders of Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

As additional security for the payment of all amounts owing on the Bonds, there are irrevocably pledged to the Trustee all Subsidy Payments received with respect to the 2010 Series A Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Such Subsidy Payments shall immediately be subject to such pledge, and such pledge shall constitute a first lien on and security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the Commission and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act. The pledge of Subsidy Payments with respect to the 2010 Series A Bonds made in the Indenture will be irrevocable until all of the Bonds are no longer Outstanding and no amounts are owed in connection with the Bonds. The Commission will cause the Subsidy Payments with respect to the 2010 Series A Bonds to be sent directly to the Trustee, and the Trustee will deposit the Subsidy Payments, when received, to the Interest Fund.

The Indenture 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, Junior 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 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 or the 2017 TIFIA Loan Agreement. The Commission shall notify the Trustee of such amounts, in writing, on or prior to the first Business Day of each month.

Existing Hedging Termination Obligations Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Existing Hedging Termination Obligations Fund.” As long as any Junior Subordinate Obligations remain Outstanding, any Revenues remaining in the Revenue Fund after the deposits to the Interest Fund, the Principal Fund, the Bond Reserve Fund, the Subordinate Obligations Fund and the Fees and Expenses Fund described above have been made shall be transferred at the direction of the Commission on the same Business Day to the Existing Hedging Termination Obligations Fund, to pay any Hedging Termination Obligation due and payable in the current month with respect to any Existing Interest Rate Swap Agreement. The Commission shall notify the Trustee of any such amount, in writing, on or prior to the first Business Day of each month. After the Trustee has made such transfer, in the amount specified by the Commission, the Trustee shall transfer any remaining Revenues back to the Revenue Fund.

Junior Subordinate Obligations Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Junior Subordinate Obligations Fund.” As long as any Junior Subordinate Obligations remain Outstanding, any Revenues remaining in the Revenue Fund after the deposits to the Interest Fund, the Principal Fund, the Bond Reserve Fund, the Subordinate Obligations Fund, the Fees and Expenses Fund and the Existing Hedging Termination Obligations Fund described above have been made shall be transferred on the same Business Day to the Junior Subordinate Obligations Fund. After the Trustee has made any deposit or payment of Revenues as in the current month required by the 2017 TIFIA Loan Agreement or any other instrument or instruments creating Junior Subordinate Obligations to pay principal thereof or interest thereon, the Trustee shall transfer any remaining Revenues back to the Revenue Fund.

Junior Subordinate Obligations Reserve Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Junior Subordinate Obligations Reserve Fund.” Within the Junior Subordinate Obligations Fund the Trustee shall establish, maintain and hold in trust the 2017 TIFIA Reserve Fund (and any other fund or account as may be specified in a Supplemental Indenture). As long as any Junior Subordinate Obligations remain Outstanding, any Revenues remaining in the Revenue Fund after the deposits to the Interest Fund, the Principal Fund, the Bond Reserve Fund, the Subordinate Obligations Fund, the Fees and Expenses Fund and the Existing Hedging Termination Obligations Fund described above have been made shall be transferred on the same Business Day to the Junior Subordinate Obligations Reserve Fund. After the Commission has notified the Trustee of the occurrence of a 2017 TIFIA Reserve Event (or similar event) and the amount of Revenues required to be deposited in the Junior Subordinate Obligations Reserve Fund as a result, and the Trustee has made any such deposit of Revenues as in the current month required by the 2017 TIFIA Loan Agreement and any other instrument or instruments creating Junior Subordinate Obligations, the Trustee shall transfer any remaining Revenues back to the Revenue Fund.

Other Hedging Termination Obligations Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Other Hedging Termination Obligations Fund.” As long as any Junior Subordinate Obligations remain Outstanding, any Revenues remaining in the Revenue Fund after the deposits to the Interest Fund, the Principal Fund, the Bond Reserve Fund, the Subordinate Obligations Fund, the Fees and Expenses Fund, Existing Hedging Termination Obligations Fund, Junior Subordinate Obligations Fund and Junior Subordinate Obligations Reserve Fund described above have been made shall be transferred at the direction of the Commission on the same Business Day to the Other Hedging Termination Obligations Fund, to pay any Hedging Termination Obligation due and payable in the current month with respect to any Additional Interest Rate Swap Agreement or any Subsequent Interest Rate Swap Agreement. The Commission shall notify the trustee of any such amount, in writing, on or prior to the first Business Day of each month. After the Trustee has made such transfer, in the amount specified by the Commission, the Trustee shall transfer any remaining Revenues back to the Revenue Fund.

Any Revenues remaining in the Revenue Fund after the foregoing deposits in the funds and accounts described under the captions “Interest Fund,” “Principal Fund; Sinking Accounts,” “Bond Reserve Fund,” “Subordinate Obligations Fund,” “Fees and Expenses Fund,” “Existing Hedging Termination Obligations Fund,” “Junior Subordinate Obligations Fund,” “Junior Subordinate Obligations Reserve Fund” and “Other Hedging Termination Obligations Fund” above, shall be transferred to the Commission on the same Business Day or as soon as practicable thereafter, except as otherwise provided in a Supplemental Indenture or as the Commission may otherwise direct in writing (which direction will not be inconsistent with any other provision of the Indenture), to be used by the Commission for any lawful

purpose and after such transfer to the Commission will be released from the lien of the Indenture and will no longer constitute “Revenues” under the Indenture.

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 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, Subordinate Obligations or the 2017 TIFIA Loan Agreement 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 any Junior Subordinate Obligations Reserve Fund shall be invested in Investment Securities available on demand for the purpose of payment of the Junior Subordinate Obligations to which such Junior Subordinate Obligations Reserve Fund relates as provided herein; provided, however, that moneys in any fund or account within the Junior Subordinate Obligations Reserve Fund established for the 2017 TIFIA Bond shall be invested in Permitted Investments (as such term is defined in the 2017 TIFIA Loan Agreement) available on demand for the purpose of payment of the 2017 TIFIA Bond.

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.

APPLICATION OF JUNIOR SUBORDINATE OBLIGATIONS FUND

All moneys in the Junior Subordinate Obligations Fund shall be allocated, in accordance with any Supplemental Indenture relating to Junior Subordinate Obligations, ratably on a parity basis, to pay when due the principal of and interest on any Junior Subordinate Obligations, including all TIFIA Bonds.

APPLICATION OF JUNIOR SUBORDINATE OBLIGATIONS RESERVE FUND

All moneys in the Junior Subordinate Obligations Reserve Fund shall be applied, ratably on a parity basis, to make up any shortfall in the payment of principal or interest with respect to the 2017 TIFIA Bond and any other Junior Subordinate Obligations when due (or to be released to the Commission in accordance with the terms of the 2017 TIFIA Loan Agreement or other instrument relating to Junior Subordinate Obligations). If the Commission satisfies the requirements for release of amounts in the 2017 TIFIA Reserve Fund set forth in the 2017 TIFIA Loan Agreement, the Commission may, by written notice to the Trustee and the TIFIA Lender at least ten Business Days in advance, direct the Trustee to release any balance in the 2017 TIFIA Reserve Fund to the Commission.

The Commission may replace all or a portion of the required balance of the 2017 TIFIA Reserve Fund with a Credit Enhancement provided by a financial institution with an Acceptable Credit Rating (as such terms are defined in the 2017 TIFIA Loan Agreement), in accordance with the with the terms of the Indenture and the 2017 TIFIA Loan Agreement.

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 2.0 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.

(F) The Commission shall deliver to the Trustee and the TIFIA Lender a Certificate of the Commission to the effect that (i) no Event of Default (as defined in the 2017 TIFIA Loan Agreement) has occurred and is then continuing, and (ii) no event has occurred and is then continuing that with the passage of time or the giving of notice will become an Event of Default hereunder or under the TIFIA Loan Agreement (as such terms are defined in the 2017 TIFIA Loan Agreement);

(G) While any TIFIA Bonds are Outstanding, the Commission shall provide to the Trustee and the TIFIA Lender, prior to the issuance of such additional Series of Bonds, a Certificate of the Commission certifying that the amount of Sales Tax Revenues collected during any 12 consecutive calendar months specified by the Commission within the most recent 18 calendar months immediately preceding the date on which such additional Series of Bonds will become outstanding shall have been at least equal to 1.15 times Total Maximum Annual Debt Service on all Senior Obligations, Subordinate Obligations and Junior Subordinate 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; and

(H) The Commission shall certify to the Trustee and the TIFIA Lender that the issuance of any additional Bonds (other than Bonds issued or incurred for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described below under the caption “Issuance of Refunding Bonds”) will not, in and of itself, result in a downgrade below “A-” or “A3” or withdrawal of the then-existing credit rating of any TIFIA Bonds, as confirmed by the Nationally Recognized Rating Agencies that provided the most recent ratings of such TIFIA Bonds at the request of the Commission.

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.

(5) The proceeds of the sale of the Refunding Bonds shall be applied by the Trustee according to the written direction of the Commission to the retirement of the Outstanding Bonds or Parity Obligations for the refunding of which said Refunding Bonds are to be issued. All Bonds or Parity Obligations purchased, redeemed or retired by use of funds received from the sale of Refunding Bonds, and all Bonds surrendered to the Trustee against the issuance of Refunding Bonds, shall be forthwith canceled and shall not be reissued.

(6) The Commission shall deliver to the Trustee and the TIFIA Lender a Certificate of the Commission to the effect that (i) no Event of Default (as defined in the 2017 TIFIA Loan Agreement) has occurred and is then continuing, and (ii) no event has occurred and is then continuing that with the passage of time or the giving of notice will become an Event of Default hereunder or under the TIFIA Loan Agreement (as such terms are defined in the 2017 TIFIA Loan Agreement).

(7) The Commission shall certify to the Trustee and the TIFIA Lender that the issuance of any Refunding Bonds will not, in and of itself, result in a downgrade below “A-” or “A3” or withdrawal of the then-existing credit rating of any TIFIA Bonds, as confirmed by the Nationally Recognized Rating Agencies that provided the most recent ratings of such TIFIA Bonds at the request of the Commission.

Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations

The Commission will not, so long as any Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues except the following:

- (A) Bonds authorized pursuant to provisions in the Indenture described above under the caption “Issuance of Additional Bonds;”
- (B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption “Issuance of Refunding Bonds;”
- (C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:
 - (1) Such Parity Obligations have been duly and legally authorized by the Commission for any lawful purpose;
 - (2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery of a Certificate of the Commission to that effect, which Certificate of the Commission shall be filed with the Trustee;
 - (3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption “Issuance of Refunding Bonds” or (ii) the Commission shall have placed on file with the Trustee a Certificate of the Commission, upon which

the Trustee may conclusively rely certifying (on the basis of calculations made no later than the date of sale or incurrence of such Parity Obligations, as applicable) that the requirements of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate shall also set forth the computations upon which such Certificate is based; and

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

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

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

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

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

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

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

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

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

Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations

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

CERTAIN COVENANTS OF THE COMMISSION

Punctual Payments

The Commission will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Indenture Bonds, in strict conformity with the terms of the Indenture 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 transactions 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 Indenture 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 Indenture Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Indenture 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 Indenture Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Tax Covenants

The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Commission may exclude the application of the covenants contained in this caption "Tax Covenant" and the caption "Rebate Fund" above to such Series of Bonds. The Commission will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Commission, or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Commission will comply with all requirements of the Tax Certificate relating to each Series of the Bonds. In the event that at any time the Commission is of the opinion that for purposes

of this caption “Tax Covenants” it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Commission shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The Commission specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

Notwithstanding any provision of this caption “Tax Covenant” and the caption “Rebate Fund” above and any Tax Certificate, if the Commission shall receive an Opinion of Bond Counsel to the effect that any action required under this caption “Tax Covenant” and the caption “Rebate Fund” above or any Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Notwithstanding any provisions of the Indenture, including particularly Article X, the covenants and obligations set forth in this caption shall survive the defeasance of the Bonds or any Series thereof.

Continuing Disclosure

Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Commission covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the provisions of any Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Commission to comply with its obligations under the Indenture.

EVENTS OF DEFAULT AND REMEDIES

Events of Default

The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Highest Priority Obligations 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 Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 132301 to 132308, inclusive, of the Public Utilities Code of the State, unless the Commission has reasonably determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

Application of the Revenues and Other Funds After Default; No Acceleration

If an Event of Default shall occur and be continuing, the Commission shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference;

(3) to the extent Revenues are available therefor, to be transferred to the trustee for the Subordinate Obligations in the amount necessary for payment of Subordinate Obligations;

(4) to the extent Revenues are available therefor, to be transferred to the Trustee to pay any Hedging Termination Obligations then due and payable on Existing Interest Rate Swap Agreements;

(5) to the payment of the whole amount then due on the TIFIA Bonds and other Junior Subordinate Obligations, subject to the provisions of the Indenture, with interest on such TIFIA Bonds, at the rate or rates of interest borne by the respective TIFIA Bonds and on other Junior Subordinate Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal of any TIFIA Bonds and other Junior Subordinate 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 TIFIA Bonds and other Junior Subordinate Obligations at the rate borne by the respective TIFIA Bonds and other Junior Subordinate Obligations, and, if the amount available shall not be sufficient to pay in full all the TIFIA Bonds and other Junior Subordinate Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference; and

(6) to the payment of all other obligations payable under the Indenture.

Upon any distribution to creditors of the Commission following an Event of Default under the provisions of the Indenture described in paragraphs (E), (F) or (G) under the caption "Events of Default" above:

(A) Holders of the Senior Obligations shall be entitled to receive payment, pursuant to the provisions of the Indenture described under this caption, in cash, of the interest on and principal or Redemption Price, if applicable, of such Senior Obligations then due and payable and other amounts then payable with respect thereto, then holders of the Subordinate Obligations shall be entitled to receive payment, pursuant the provisions of the Indenture described under this caption, in cash, of the interest on and principal or Redemption Price, if applicable, of such Subordinate Obligations then due and payable and other amounts then payable with respect thereto, then any deposits required to be paid into the Fees and Expenses Fund or the Existing Hedging Termination Obligations Fund must be made, in each case before any Holder of Junior Subordinate Obligations shall be entitled to receive any payment of principal of or

interest on such Junior Subordinate Obligations, pursuant to the provisions of the Indenture described under this caption; and

(B) until the interest and principal or Redemption Price, if applicable, of Senior Obligations and Subordinate Obligations then due and payable are paid, and any deposits required to be paid into the Fees and Expenses Fund or the Existing Hedging Termination Obligations Fund are made, in accordance with the provisions of the Indenture described under this caption, in cash, any distribution to which Holders of Junior Subordinate Obligations would be entitled but for the provisions of the Indenture described under this caption shall be made to the Trustee for the benefit of the Holders of the Senior Obligations and holders of Subordinate Obligations and creditors of the Fees and Expenses Fund as their interests may appear.

For purposes of the provisions of the Indenture described under this caption, a distribution may consist of cash, securities or other property, by set-off or otherwise.

Trustee to Represent Holders of Indenture Bonds

The Trustee is irrevocably appointed (and the successive respective Holders of the Indenture 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 Indenture 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 Indenture 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 Holders of Indenture Bonds, 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 Indenture 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 Indenture 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 Indenture Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Indenture 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 Indenture Bonds, subject to the provisions of the Indenture. Notwithstanding the foregoing, so long as any Bond remains Outstanding, all references in this section to “a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding” shall be deemed to read “a majority in aggregate amount of Highest Priority Obligations then Outstanding”.

Holders of the Indenture Bonds’ 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 Holders of Indenture Bonds or holders of Parity Obligations not parties to such direction. Notwithstanding the foregoing, so long as any Bond remains Outstanding, all references in this section to “a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding” shall be deemed to read “a majority in aggregate amount of Highest Priority Obligations then Outstanding”.

Limitation on Holders of Indenture Bonds’ Right to Sue

No Holder of any Indenture 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 Indenture 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 Indenture Bond Obligation of the Indenture 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 Indenture Bonds shall be required if the Credit Enhancement with respect to such Series of Indenture 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 Indenture Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Indenture 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 Indenture Bonds, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Indenture 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 Indenture Bonds, subject to the provisions of the Indenture. Notwithstanding the foregoing, so long as any Bond remains Outstanding, all references in this section to “a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding” shall be deemed to read “a majority in aggregate amount of Highest Priority Obligations then Outstanding”.

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 Indenture Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Indenture Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the Indenture 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

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 Indenture Bond Obligations of and interest on such Outstanding Indenture 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 Indenture Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Indenture Bonds.

If the Commission shall pay all Series for which any Indenture 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 Indenture 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 Indenture 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.

TIFIA Bonds Not Subject to Defeasance

Notwithstanding the provisions of the Indenture described in paragraph (B) under the caption “Discharge of Indenture” and the provisions of the Indenture described under the captions “Discharge of Liability on Bonds” and “Deposit of Money or Securities,” TIFIA Bonds shall not be subject to defeasance by depositing with a trustee, escrow agent or other fiduciary, in trust, before maturity, money or securities to pay or redeem such TIFIA Bonds. TIFIA Bonds may be paid by the Commission and their liability under the Indenture discharged only in accordance with the provisions of the Indenture described in paragraphs (A) or (C) under the caption “Discharge of Indenture.”

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APPENDIX C-2

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE INDENTURE

The following is a brief summary of certain provisions of the Subordinate Indenture, dated as of April 1, 2018, between the San Diego County Regional Transportation Commission (the "Commission") and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented and amended by the First Supplement to the Subordinate Indenture, dated as of April 1, 2018, (hereinafter collectively referred to as the "Indenture"), between the Commission and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

Board means the Board of Directors of the Commission.

Bond Indenture means that certain Indenture, dated as of March 1, 2008, by and between the Commission and the Trustee, as amended and supplemented.

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

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 Bond Indenture.

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

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

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

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

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

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Commission and related to the authorization, execution, sale and delivery of a Series of Notes or Parity Debt, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning the Notes or Parity Debt, initial fees and charges of the Trustee and the Issuing and Paying Agent, legal fees and charges, fees and disbursements of consultants and professionals, including fees of the Dealers, underwriters fees and discounts, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Notes or other evidences of Parity Debt, surety, insurance, liquidity and credit enhancements costs, including without limitation fees and expenses payable to a Bank under a Support Agreement, and any other cost, charge or fee in connection with the issuance of a Series of Notes or Parity Debt.

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

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

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

Debt Service means, when used with respect to all Senior Lien Debt, Notes and Parity Debt (for purposes of this definition of “Debt Service,” therein collectively referred to as “Obligations”), 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 will cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for the 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) will be excluded from such calculation and Assumed Debt Service will be included in such calculation;

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

(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 will be calculated at an interest rate equal to twelve percent (12%) per annum;

(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 interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Obligations will be calculated at an interest rate equal to twelve percent (12%) per annum;

(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 will 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 will 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 will 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 will be ignored and not treated as a principal maturity; and

(h) principal and interest payments on Obligations will 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 will 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 S&P, provided, however, that if such municipal bonds are rated only by S&P, then such pre-refunded municipal bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or “AAA” rated pre-refunded municipal bonds; (v) obligations issued by the following agencies, which are backed by the full faith and credit of the United States: (a) Farmers Home Administration (FmHA) - certificates of beneficial ownership; (b) General Services Administration - participation certificates; (c) U.S. Maritime Administration - Guaranteed Title XI financing; (d) Small Business Administration guaranteed participation certificates and guaranteed pool certificates; (e) GNMA guaranteed MSB and participation certificates; and (f) U.S. Department of Housing and Urban Development (HUD) Local Authority Bonds, or (vi) certain obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States limited to: (a) Federal Home Loan Mortgage Corp. (FHLMC) debt obligations; (b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) consolidated system-wide bonds and notes; (c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; (d) Federal National Mortgage Association (FNMA) debt obligations; (e) Student Loan Marketing Association (SLMA) debt obligations; and (f) Financing Corp. (FICO) debt obligations.

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

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

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

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

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

Holder or Noteholder or Owner, whenever used in the Indenture with respect to a Note, means the person in whose name such Note is registered, and whenever used in the Indenture with respect to any evidence of Parity Debt, means the person in whose name such Parity Debt is registered.

Indenture means the Subordinate Indenture, dated as of April 1, 2018, between the Trustee and the Commission, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

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

Interest Payment Date means, with respect to the 2018 Short-Term Notes, each April 1 and October 1, commencing October 1, 2018.

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, Notes or Parity Debt, 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, Notes or Parity Debt.

Investment Securities means the following:

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

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

(iii) senior unsubordinated obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration, Federal Home Loan Mortgage Corporation International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank;

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

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

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

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

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's and S&P in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than one (1) year, rated by Moody's and S&P in one of their respective two highest long-term Rating Categories, for comparable types of debt obligations;

(viii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which 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;

(ix) taxable commercial paper or tax-exempt commercial paper rated in the highest Rating Category by Moody's and S&P;

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

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

Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above, which 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;

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

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

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

(xv) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended;

(xvi) bankers’ acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody’s and S&P, which purchases may not exceed two hundred seventy (270) days maturity or forty percent (40%) of the Commission’s surplus money;

(xvii) the pooled investment fund of the County of San Diego, California, which is administered in accordance with the investment policy of said County as established by the Treasurer/Tax Collector thereof, as permitted by Section 53684 of the Government Code of the State, copies of which policy are available upon written request to said Treasurer/Tax Collector;

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

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

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

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

Issuing and Paying Agent Agreement means the Amended and Restated Issuing and Paying Agent Agreement, dated as of November 1, 2005, between the Commission and the Issuing and Paying Agent, and any and all modifications, alterations, amendments and supplements thereto, including that certain First Supplement to the Amended and Restated Issuing and Paying Agent Agreement, dated as of March 27, 2008, between the Commission and the Issuing and Paying Agent, or any other Issuing and Paying Agent Agreement entered into by the Commission and an Issuing and Paying Agent with respect to the Notes or a Series of Notes.

Law means the San Diego County Regional Transportation Commission Act, Chapter 2 of Division 12.7 (Section 132000 et seq.) of the Public Utilities Code of the State and Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 et seq.) of the Government Code of the State as referenced in said San Diego County Regional Transportation Commission Act and Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 (Section 53570 et seq.) of the Government Code of the State, in each case as now in effect and as it may from time to time hereafter be amended or supplemented.

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

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

Mid-Coast Project means the Mid-Coast Corridor Transit Project, comprising a portion of the Project.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal Office of the Issuing and Paying Agent means the office thereof designated in writing to the Commission, the Trustee, each Administrative Agent and each Dealer.

Project means transportation facility and service improvements within the County of San Diego, including transportation and service improvements for highways, rail transit services, bus services, local streets and roads, bicycle and pedestrian facilities, transportation-related community infrastructure to support smart growth development and related environmental mitigation and enhancement projects, and the payment of all costs incidental to or connected with the accomplishment of such purposes, including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond or note interest estimated to accrue during construction and for a period not to exceed one year thereafter and expenses for all proceedings for the authorization, issuance and sale of Notes and Parity Debt.

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

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

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

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

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

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

Revenues means all (i) all Sales Tax Revenues; (ii) all Swap Revenues and (iii) such additional sources of revenue pledged to pay the Senior Lien Debt under the Bond Indenture; but excluding all amounts which are required by the terms of the Bond Indenture to be used to pay the principal of or interest on, or reserve requirements with respect to, Senior Lien Debt; provided that the Commission by Supplemental Indenture may provide for additional revenues or assets of the Commission to be included in the definition of Revenues under the Indenture.

Sales Tax Extension 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 Law after deducting amounts payable by the Commission to the California Department of Tax and Fee Administration, as statutorily created and designated successor to the California State Board of Equalization, for costs and expenses for its services in connection with the retail transactions and use taxes collected pursuant to the Law.

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

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

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

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.

Standard & Poor’s or S&P means S&P Global Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” or “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

State means the State of California.

Subsidy Payments means payments to be made by the United States Treasury to the 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 Senior Lien Debt issued as 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 Bond Indenture means any indenture, duly executed and delivered, supplementing, modifying or amending the Bond Indenture, but only if and to the extent such Supplemental Bond Indenture is specifically authorized under the Bond Indenture.

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

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

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

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

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

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

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

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

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

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

2018 Short-Term Notes means the San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A, authorized by the Subordinate Indenture.

2018 Short-Term Notes Costs of Issuance means the fund by that name established pursuant to the Indenture.

2018 Short-Term Notes Interest Fund means the fund by that name established pursuant to the Indenture.

2018 Short-Term Notes Principal Fund means the fund by that name established pursuant to the Indenture.

2018 Short-Term Notes Project Fund means the fund by that name established pursuant to the Indenture.

THE NOTES

Terms of the Notes

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

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

Notwithstanding the provisions set forth regarding terms of the Notes: (i) in the event that the Commission determines to issue a taxable Series of Notes, the terms of such taxable Series of Notes will be set forth in the Supplemental Indenture creating such taxable Series of Notes; and (ii) in the event that a Series of Notes is issued in the form of a Master Note or Master Notes in book-entry form, such Notes will be payable at maturity without the necessity of physical presentation or surrender in accordance with the procedures of the Depository for such Series of Notes.

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

Transfer of Notes

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

Noteholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

ISSUE AND SALE OF NOTES

Issuance and Sale of Notes

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

Proceedings for Issuance of Additional Series of Notes or Parity Debt

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

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

- (1) An executed copy of the Supplemental Indenture authorizing such Series of Notes or Parity Debt.

(2) An executed copy of the Dealer Agreement, the Support Agreement and the Support Facility, and, as and to the extent applicable, the Issuing and Paying Agent Agreement executed in connection with the issuance and delivery of such additional Series of Notes.

(3) A Certificate of the Commission stating that no Event of Default has occurred and is then continuing; and that upon the delivery of such Series of Notes or Parity Debt the aggregate principal amount of Notes or Parity Debt then Outstanding will not exceed the amount permitted by law or by the Indenture.

(4) An Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the Commission in accordance with the Indenture and that such Series, when duly executed by the Commission and authenticated and delivered by the Issuing and Paying Agent, will be valid and binding limited tax bond obligations of the Commission.

(5) A Certificate certifying (on the basis of calculations as of the date of sale of such Series of Notes or Parity Debt, which calculations will be set forth in such Certificate) that the requirement of the Indenture that Sales Tax Revenues collected during the Fiscal Year for which audited financial statements are available preceding the date on which such additional Series of Notes or Parity Debt will become Outstanding shall have been at least equal to 1.5 times the amount of Maximum Annual Debt Service on all Senior Lien Debt, Notes and Parity Debt then outstanding and the additional Series of Notes or Parity Debt then proposed is satisfied.

(6) A Certificate certifying that upon delivery of such additional Series of Notes or Parity Debt, the aggregate principal amount of debt of the Commission then outstanding will not exceed the amount permitted by Section 132309(b) of the Public Utilities Code of the State.

(7) A Certificate of the Commission, if appropriate, designating any Excluded Principal Payments.

Before an additional Series of Parity Debt will be issued and delivered, the Commission will file with the Trustee and each Administrative Agent an Opinion of Bond Counsel, addressed to the Trustee, to the effect that such Parity Debt has been duly authorized in accordance with this Indenture.

The Commission will also deliver to the Trustee and each Administrative Agent a transcript of the proceedings providing for the issuance of such Parity Debt.

Issuance of Refunding Debt

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

(1) A transcript of the proceedings providing for the issuance of such refunding debt.

(2) An Opinion of Bond Counsel to the effect that such refunding debt has been duly authorized by the Commission in accordance with the Indenture.

(3) If any of the Senior Lien Debt or Parity Debt to be refunded is to be redeemed prior to its stated maturity date, irrevocable instructions to the trustee for such debt to give the applicable notice of redemption or a waiver of the notice of redemption signed by the owners of all or the portion of such debt to be redeemed, or proof that such notice has been given by the Commission; provided, however, that

in lieu of such instructions or waiver or proof of notice of redemption, the Commission may cause to be deposited with the trustee for such debt all of the debt proposed to be redeemed (whether cancelled or uncanceled) with irrevocable instructions to the trustee for such debt to cancel said debt so to be redeemed upon the exchange and delivery of said refunding debt; and provided further that no provision of the Indenture will be construed to require the redemption of such debt prior to the maturity date thereof due to the refunding thereof.

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

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

Limitations on the Issuance of Obligations Payable from Revenues

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

- (a) Notes of any additional Series authorized pursuant to the Indenture;
- (b) Refunding debt authorized pursuant to the Indenture;
- (c) Parity Debt authorized pursuant to the Indenture or as refunding debt pursuant to the Indenture.
- (d) Obligations which are junior and subordinate to the payment of the principal, premium, if any, interest and reserve fund requirements, if any, for the Notes and all Parity Debt, and which junior and subordinate obligations are payable as to principal, premium, if any, interest and reserve fund requirements, if any, only out of the Revenues after the prior payment of all amounts then required to be paid under the Indenture from the Revenues for principal, premium, if any, interest and reserve fund requirements, if any, for the Notes and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

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

PROJECT FUNDS

Establishment and Application of Project Funds

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

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

REVENUES

Pledge of Revenues

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

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

Allocation of Revenues

So long as any Notes are Outstanding, the Trustee will set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Owners of the Notes) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee will set aside or transfer amounts with respect to outstanding Parity Debt, as provided in the proceedings for such Parity Debt delivered to the Trustee pursuant to the Indenture, including, without limitation, all amounts owed to each Bank pursuant to a Support Agreement, which amounts will be set forth by each Bank in an invoice delivered to the Commission and the Trustee or represented by an Advance or Bank Loan, and which amounts will be deposited in the Support Agreement Fund established pursuant to the Indenture, which deposits and amounts will be proportionate in the event such Revenues are insufficient to provide for all deposits and amounts required as of any date to be made with respect to the Notes and such Parity Debt:

(1) Interest Fund. The Trustee will set aside in the Interest Fund as soon as practicable in each month an amount which would be sufficient to cause the amount on deposit in the Interest Fund on such day to equal the accrued and unpaid interest, if any, on the Notes Outstanding on such date plus the interest which would accrue on such Notes from such date to and including the next 40 calendar days, or such longer period as will be established in any Supplemental Indenture, if such Notes were outstanding at all times during such period, calculated (i) at the actual rate of interest on the Notes for any day interest is to accrue at a rate known on the date such deposit is made and (ii) at the rate of twelve percent (12%) for any day interest is to accrue at a rate unknown on the date such deposit is made. On April 1 of each year any excess amounts in the Interest Fund not needed to pay interest on the Notes on such date will be transferred to the Commission; provided, however, that in each case, any moneys on deposit in the Interest Fund to pay interest on Notes maturing on any dates no later than 40 calendar days following such April 1 will be retained on deposit in the Interest Fund.

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

Any Revenues remaining in the Revenue Fund after the foregoing transfers described above, except as otherwise provided in the Indenture, or in a Supplemental Indenture, will be transferred on the same Business Day to the Bond Trustee for application in accordance with the provisions of the Bond Indenture and, until expended by the Commission, will continue to be "Revenues" as such term is used in the Bond Indenture and in the Indenture and be subject to the lien of the Bond Indenture and the lien granted in the Indenture.

If 5 days prior to any principal payment date or interest payment date the amounts on deposit in the Interest Fund and Principal Fund, with respect to the payments to be made on such upcoming date from Revenues are insufficient to make such payments, the Trustee will immediately notify the Commission, in writing, of such deficiency and direct that the Commission transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Commission covenants and agrees to transfer to the Trustee

from any Revenues in its possession the amount of such deficiency on or prior to the principal or interest payment date referenced in such notice.

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

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

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

Support Agreement Funds

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

Note Funds

In connection with the issuance of each Series of Notes, the Issuing and Paying Agent will establish and maintain a separate fund, which will be designated the “_____ Note Fund” (inserting therein the Series designation of such Note Fund). Within each such Note Fund, the Issuing and Paying Agent will establish two separate accounts to be known as the “_____ Note Principal Account” (inserting therein the Series designation of such Note Principal Account) and the “Note Interest Account” (inserting therein the Series designation of such Note Interest Account). The Issuing and Paying Agent will not have a lien

on any Note Fund for the payment of any fees or expenses or other obligations owing to the Issuing and Paying Agent and each such Note Fund will only be used for the purposes set forth in the Indenture and in the Issuing and Paying Agent Agreement.

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

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

Investment of Moneys in Funds and Accounts

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

Moneys in the funds and accounts will be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee or the Issuing and Paying Agent.

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

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

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

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

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

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

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

COVENANTS OF THE COMMISSION

Punctual Payment

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

Extension of Payment of Notes

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

Waiver of Laws

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

Further Assurances

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

Against Encumbrances

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

Accounting Records and Financial Statements

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

The Commission will furnish the Trustee and each Administrative Agent within 210 days after the end of each Fiscal Year, the financial statements of the Commission relating to the Revenues for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and

that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the Commission stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Commission to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Notes upon written request to the Commission.

Collection of Sales Tax Revenues

The Commission covenants and agrees that it has duly levied a retail transactions and use tax in accordance with the Law, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Commission. Said Ordinance has not and will not be amended, modified or altered so long as any of the Notes or Parity Debt 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 Board of Equalization, or the California Department of Tax and Fee Administration, as statutorily created and designated successor to the former California 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 Bond Trustee. Said agreement will be continued in effect so long as any of the Senior Lien Debt remains unpaid and any of the Notes or Parity Debt are Outstanding and will not be amended, modified or altered without the written consent of the Bond Trustee so long as any of the Senior Lien Debt remains unpaid. The Commission will receive and hold in trust for (and remit immediately to) the Bond Trustee any Sales Tax Revenues paid to the Commission by the State Board of Equalization or the California Department of Tax and Fee Administration, as statutorily created and designated successor to the California State Board of Equalization.

In the event that the Bonds are discharged in accordance with the provisions set forth in the Bond Indenture and no other Senior Lien Debt remains outstanding, the Commission covenants and agrees that it will amend and restate said agreement with the State Board of Equalization to provide for the California Department of Tax and Fee Administration, as statutorily created and designated successor to the California State Board of Equalization, to transmit Sales Tax Revenues to the Trustee. If such agreement is so amended and restated, the Commission covenants and agrees that said agreement will be continued in effect so long as any of the Notes or Parity Debt are Outstanding and that said agreement will not be further amended, modified or altered without the written consent of the Trustee so long as any of the Notes or Parity Debt are Outstanding.

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

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

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

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

Rebate Fund

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

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

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

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

Tax Covenants

The Commission covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Notes under Section 103 of the Code; provided that, prior to the issuance of any Series of Notes, the Commission may exclude the application of the covenants regarding the Rebate Fund and taxability to such Series of Notes. Without limiting the generality of the foregoing, the Commission will comply with all requirements and covenants contained in each Tax Certificate. In the event that at any time the Commission

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

Notwithstanding any provision of the Indenture, if the Commission will receive an Opinion of Bond Counsel to the effect that any action required under any Tax Certificate or the tax provisions of the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Notes pursuant to Section 103 of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

Support Facilities; Alternate Facilities

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

Appointment of Dealers

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

EVENTS OF DEFAULT AND REMEDIES

Events of Default

The following events will be Events of Default:

(a) default in the due and punctual payment of the principal of any Note when and as the same will become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Note when and as such interest installment will become due and payable;

(c) if the Commission will fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (a) or (b), for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Commission by the Trustee; except that, if such failure can be remedied but not within such 60 day period and if the Commission has taken all action reasonably possible to remedy such failure within such 60 day period, such failure will not become an Event of Default for so long as the Commission will diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if any default will exist under any agreement governing any Parity Debt and such default will continue beyond the applicable grace period, if any, provided for with respect to such default or if the holder of any Parity Debt exercises a right under the Parity Debt or the corresponding instruments pursuant to which such Parity Debt was issued to declare the principal thereof to be accelerated and payable immediately;

(e) if the Commission files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(f) if a court of competent jurisdiction will enter an order, judgment or decree declaring the Commission insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Commission, or approving a petition filed against the Commission seeking reorganization of the Commission under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree will not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(g) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Commission or of the Revenues, and such custody or control will not be terminated within 60 days from the date of assumption of such custody or control;

(h) if the Legislature of the State will repeal or amend all or any portion of the provisions of the Law relating to the retail transactions and use tax, being Sections 132301 to 132308, inclusive, of the Public Utilities Code of the State unless the Commission has determined that said repeal or amendment does not materially and adversely affect the rights of Noteholders; or

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

Application of the Revenues and Other Funds After Default

If an Event of Default will occur and be continuing, the Commission will immediately transfer to the Bond Trustee all Revenues held by it. The Trustee will apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Notes and Parity Debt, including the costs and expenses of the Trustee, the Noteholders and the Owners of any Parity Debt in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture; and

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

Trustee to Represent Noteholders and Owners of Parity Debts

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

Holders' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Notes and Parity then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken

by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Noteholders or Owners of Parity Debt that are not parties to such direction.

Limitation on Holders' Right to Sue

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

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

Absolute Obligation of the Commission

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

Termination of Proceedings

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

Remedies Not Exclusive

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

No Waiver of Default

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

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted

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

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

No such modification or amendment will: (a) extend the fixed maturity of any Note or Parity Debt, or reduce the amount of principal thereof, or extend the time of payment provided for any Note or Parity Debt, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Note or Parity Debt so affected, or (b) reduce the aforesaid percentage of principal the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Notes or Parity Debt of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in

the Indenture), without the consent of the Owners of all of the Notes and Parity Debt then Outstanding. It will not be necessary for the consent of the Noteholders or Holders of Parity Debt to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof.

The Indenture and the rights and obligations of the Commission, of the Trustee and of the Owners of the Notes and Parity Debt may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Commission may adopt without the consent of any Noteholders or Holders of Parity Debt but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Commission in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Notes or Parity Debt (or any portion thereof, as applicable), or to surrender any right or power in the Indenture reserved to or conferred upon the Commission;

(2) to make provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Notes and Parity Debt;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Parity Debt with such interest rate, payment, maturity and other terms as the Commission may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Notes or Parity Debt in book-entry form, provided that no such provision will materially and adversely affect the interests of the Owners of the Notes and Parity Debt;

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

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

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

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

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

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

DEFEASANCE

Discharge of Indenture

Notes of any Series or a portion thereof may be paid by the Commission in any of the following ways: (a) by paying or causing to be paid the principal of and interest on such Outstanding Notes, as and when the same become due and payable; (b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay such Outstanding Notes; or (c) by delivering to the Trustee, for cancellation by it, such Outstanding Notes.

If the Commission will pay all Series for which any Notes are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Commission including, without limitation, all Parity Debt, if any, then and in that case, at the election of the Commission (evidenced by a Certificate of the Commission, filed with the Trustee, signifying the intention of the Commission to discharge all such indebtedness and the Indenture), and notwithstanding that any Notes or evidences of Parity Debt will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Commission under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Commission, the Trustee will cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and will execute and deliver to the Commission all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Commission all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of independent certified public accountants, or other firm acceptable to the Trustee, are not required for the payment of Notes or Parity Debt not theretofore surrendered for such payment.

Discharge of Liability on Notes and Parity Debt

Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Note or Parity Debt (whether upon or prior to maturity of the redemption date of such Outstanding Note or Parity Debt), provided that, if such Note or Parity Debt is to be redeemed prior to maturity, notice of such redemption will have been given as provided in the Indenture or other evidence of Parity Debt or provision satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Commission in respect of such Note or Parity Debt will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of such principal of and interest on the Notes or Parity Debt, and the Commission will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the continuing duties of the Trustee under the Indenture including, without limitation, the provisions relating to the exchange of Notes and the investment of moneys in funds and accounts.

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

Deposit of Money or Securities with Trustee

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay any Notes or Parity Debt, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

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

(b) Defeasance Securities the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal of and all unpaid interest to maturity, on the Notes or Parity Debt to be paid, as such principal and interest become due; provided, however, that, with respect to the Notes, no such opinion will be required and a Certificate of the Commission will suffice in lieu thereof if the Defeasance Securities to be deposited will mature within 90 days of the date of such deposit and if the Commission will have delivered to the Trustee a Certificate to the effect that the Commission will provide such additional funds as are necessary to pay all unpaid interest to maturity on the Notes or Parity Debt to be paid should such Defeasance Securities be insufficient; provided, in each case, that the Trustee, escrow agent or other fiduciary will have been irrevocably instructed (by the terms of the Indenture or by Request of the Commission) to apply such money to the payment of such principal and interest with respect to such Notes or Parity Debt.

Payment of Notes or Parity Debt After Discharge of Indenture

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

FIRST SUPPLEMENT TO THE SUBORDINATE INDENTURE

General. Under the First Supplement to the Subordinate Indenture, the Commission has authorized the 2018 Short-Term Notes for the purpose of providing funds to (i) finance or refinance certain costs of the Mid-Coast Project, (ii) refund a portion of the outstanding Series B Notes, (ii) retire a portion of its outstanding Subordinate Commercial Paper Notes, and (iii) pay for the Costs of Issuance as provided in the First Supplement to the Subordinate 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 2018 Short-Term Notes:

(a) To ensure the proper application of such portion of proceeds from the sale of the 2018 Short-Term Notes to be applied to pay the costs of the Mid-Coast Project, there is established the 2018 Short-Term Notes 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 2018 Short-Term Notes to be applied to pay the Costs of Issuance of the 2018 Short-Term Notes, there is established the 2018 Short-Term Notes Costs of Issuance Fund, such fund to be held by the Trustee.

2018 Short-Term Notes Project Fund. The monies set aside and placed in the 2018 Short-Term Notes Project Fund from the proceeds of the 2018 Short-Term Notes, and any other moneys deposited in the 2018 Short-Term Notes Project Fund by the Commission, will remain therein until from time to time expended for the purpose of paying the costs of the Mid-Coast Project. The Trustee will invest amounts on deposit in the 2018 Short-Term Notes Project Fund in Investment Securities pursuant to the written direction of the Commission. All investment earnings on funds held in the 2018 Short-Term Notes Project Fund will be deposited in the 2018 Short-Term Notes Project Fund unless the Commission instructs the Trustee to deposit such investment earnings in the Rebate Fund.

(a) Before any payment from the 2018 Short-Term Notes Project Fund will be made by the Trustee, the Commission shall 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 or a constituent thereof and are presently due and payable and that each item thereof is a proper charge against the 2018 Short-Term Notes Project Fund 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. Each such Requisition of the Commission will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

(b) When the Commission determines that the portion of the Project to be financed with the proceeds of the 2018 Short-Term Notes has been completed, a Certificate of the Commission will be delivered to the Trustee by the Commission stating (i) the fact and date of such completion, (ii) that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the 2018 Short-Term Notes 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 2018 Short-Term Notes Project Fund to the Revenue Fund or, if so directed by the Commission, to the Rebate Fund.

2018 Short-Term Notes Costs of Issuance Fund. The monies set aside and placed in the 2018 Short-Term Notes Costs of Issuance Fund will be expended for the purpose of paying the Costs of Issuance of the 2018 Short-Term Notes. Before any payment from the 2018 Short-Term Notes Costs of Issuance Fund will 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; and (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 2018 Short-Term Notes Costs of Issuance Fund and has not been previously paid from said fund. Each such Requisition of the Commission will be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On October 1, 2018 any remaining amounts in the 2018 Short-Term Notes Costs of Issuance Fund shall be transferred to the 2018 Short-Term Notes Project Fund and the 2018 Short-Term Notes Costs of Issuance Fund shall be closed.

Allocation of Sales Tax Revenues

(a) In accordance with the Indenture, so long as any 2018 Short-Term Notes are Outstanding and all other amounts payable under the Indenture remain unpaid, the Trustee will set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Holders of the 2018 Short-Term Notes) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Notes and Parity Debt as provided in the Indenture and the proceedings for such Parity Debt delivered to the Trustee pursuant to the Indenture (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 2018 Short-Term Notes and such Notes and Parity Debt):

2018 Short-Term Notes Interest Fund. Following receipt of the Sales Tax Revenues in each month, the Trustee will set aside in the 2018 Short-Term Notes Interest Fund as soon as practicable in such month an amount equal to one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the 2018 Short-Term Notes during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the 2018 Short-Term Notes Interest Fund from the proceeds of the 2018 Short-Term Notes 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 2018 Short-Term Notes is on deposit in such fund; provided that from the date of delivery of the 2018 Short-Term Notes until the first Interest Payment Date with respect to such 2018 Short-Term Notes the amounts set aside in such fund with respect to such 2018 Short-Term Notes will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date. No deposit need be made into the 2018 Short-Term Notes Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Date falling within the next six (6) months upon the 2018 Short-Term Notes then Outstanding and on April 1 of each year any excess amounts in the 2018 Short-Term Notes Interest Fund not needed to pay interest on such date shall be transferred to the Commission.

2018 Short-Term Notes Principal Fund. Following receipt of the Sales Tax Revenues in each month, the Trustee will deposit in the 2018 Short-Term Notes Principal Fund as soon as practicable in such month an amount equal to at least one-twelfth of the aggregate yearly amount of principal payments becoming due and payable on the 2018 Short-Term Notes having annual maturity dates within the next twelve (12) months; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded, or constitute Excluded Principal Payments to be paid from sources of funds

other than Revenues, on or prior to their respective due dates, no amounts need be set aside towards such principal to be so refunded or paid.

No deposit need be made into the 2018 Short-Term Notes Principal Fund so long as there is in such fund (i) moneys sufficient to pay the principal payments of the 2018 Short-Term Notes issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months; provided that if the Commission certifies to the Trustee that any principal payments are expected to be refunded, or constitute Excluded Principal Payments to be paid from sources of funds other than Revenues, on or prior to their respective due dates, 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 will 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 or as soon as practicable thereafter any excess amounts in the 2018 Short-Term Notes Principal Fund not needed to pay principal on such date will be transferred to the Commission.

(b) If five (5) days prior to any Interest Payment Date the amounts on deposit in the 2018 Short-Term Notes Interest Fund with respect to the payments to be made on such upcoming date from Revenues are insufficient to make such payments, the Trustee will immediately notify the Commission, in writing, of such deficiency and direct that the Commission transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Commission covenants and agrees to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the Interest Payment Date referenced in such notice.

(c) If forty-five (45) days prior to any principal payment date the amounts on deposit in the 2018 Short-Term Notes Principal Fund with respect to the payments to be made on such upcoming date from Revenues are insufficient to make such payments, the Trustee will immediately notify the Commission, in writing, of such deficiency and direct that the Commission transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Commission covenants and agrees to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal payment date referenced in such notice.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the San Diego County Regional Transportation Commission (the “Commission”) and Digital Assurance Certification LLC, as dissemination agent (the “Dissemination Agent”), in connection with the issuance of \$537,480,000 San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A (the “2018 Short-Term Notes”). The 2018 Short-Term Notes are being issued pursuant to the Subordinate Indenture, dated as of April 1, 2018 (amending and restating the Subordinate Indenture, dated as of August 1, 1991, as amended and restated by the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, as further supplemented and amended), as supplemented and amended by the First Supplement to the Subordinate Indenture, dated as of April 1, 2018 (collectively, the “Subordinate Indenture”), between the Commission and U.S. Bank National Association, as trustee. Pursuant to the Indenture, the Commission 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 Commission for the benefit of the Beneficial Owners of the 2018 Short-Term Notes and in order to assist the Participating Underwriter in complying with the Rule (as defined herein).

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 Commission pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Audited Financial Statements” means the audited financial results of the Commission for the applicable Fiscal Year.

“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 2018 Short-Term Notes (including persons holding 2018 Short-Term Notes through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2018 Short-Term Notes for federal income tax purposes.

“Business Day” shall mean a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city in which the Principal Office of the Trustee is located are authorized or required by law to be closed, and (c) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed.

“Disclosure Representative” shall mean the designee of the Commission designated to act as the Disclosure Representative, or such other person as the Commission shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” means an entity selected and retained by the Commission, or any successor thereto selected by the Commission. The initial Dissemination Agent shall be Digital Assurance Certification LLC.

“EMMA” shall mean the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for Municipal Securities disclosures, maintained on the internet at <http://emma.msrb.org>.

“Listed Events” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean any original underwriter of the 2018 Short-Term Notes required to comply with the Rule in connection with offering of the 2018 Short-Term Notes.

“Repository” shall mean, until otherwise designated by the SEC, EMMA.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended from time to time.

“State” shall mean the State of California.

“SEC” shall mean the Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The Commission shall, or shall cause the Dissemination Agent to, not later than two hundred ten (210) days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2018, provide to the Repository 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. If the Commission’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) Not later than one Business Day prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the Commission shall provide the Annual Report to the Dissemination Agent (if other than the Commission). The Commission shall provide, or cause the preparer of the Annual Report to provide, a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Report.

(c) If the Commission is unable to provide to the Repository an Annual Report by the date required in subsection (a), the Commission shall send, or shall cause the Dissemination Agent to send, a notice to the Repository or to the MSRB, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) file a report with the Commission certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The Commission Annual Report shall contain or include by reference the following:

(a) The Audited Financial Statements of the Commission 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 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 April 4, 2018 relating to the 2018 Short-Term Notes (the "Official Statement") and the Audited Financial Statements shall be filed in the same manner as the Annual Report when such Audited Financial Statements become available.

(b) The outstanding principal amount of the 2018 Short-Term Notes, if there have been any unscheduled redemptions, retirements or defeasances, and the debt service on any additional parity bonds, notes or other obligations issued, in each case during the prior Fiscal Year.

(c) The amount of Sales Tax Revenues (as such term is defined in the Official Statement) received as of the most recently ended Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Commission or related public entities, which have been submitted to the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commission shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2018 Short-Term Notes in a timely manner not more than ten (10) Business Days after the event:

(1) principal and interest payment delinquencies;

(2) defeasances;

(3) tender offers;

(4) rating changes;

(5) adverse tax opinions or the issuance by the Internal Revenue Service of a proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax- status of the 2018 Short-Term Notes or other material events affecting the tax status of the 2018 Short-Term Notes;

(6) unscheduled draws on the debt service reserves reflecting financial difficulties;

(7) unscheduled draws on credit enhancements reflecting financial difficulties;

(8) substitution of credit or liquidity providers or their failure to perform; or

(9) bankruptcy, insolvency, receivership or similar proceedings.

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Commission in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commission, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commission.

(b) Pursuant to the provisions of this Section 5, the Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2018 Short-Term Notes, if material:

(1) consummation of a merger, consolidation or acquisition involving the Commission or the sale of all or substantially all of the assets of the obligated persons, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(2) appointment of a successor or additional trustee or the change of the name of a trustee;

(3) non-payment related defaults;

(4) modifications to the rights of Owners;

(5) optional, unscheduled or contingent bond calls; or

(6) release, substitution or sale of property securing repayment of the 2018 Short-Term Notes.

(c) Whenever the Commission obtains knowledge of the occurrence of a Listed Event, described in subsection (b) of this Section 5, the Commission shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Commission determines that knowledge of the occurrence of a Listed Event described in subsection (b) of this Section 5 would be material under applicable federal securities law, the Commission shall, in a timely manner not more than ten (10) Business Days after its occurrence, notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence to the Repository in a timely manner not more than ten (10) Business Days after occurrence of the Listed Event.

(e) If the Dissemination Agent has been instructed by the Commission to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

Section 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Commission's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2018 Short-Term Notes. If such termination occurs prior to the final maturity of the 2018 Short-Term Notes, the Commission shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 8. Dissemination Agent. The Commission 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 by providing thirty (30) days written notice to the Commission.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Commission may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commission 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 Commission 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 Commission shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Commission to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the 2018 Short-Term Notes 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 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 Commission or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. 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 Commission 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 Commission 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 Commission, the Trustee, the Holders, or any other party. The obligations of the Commission under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2018 Short-Term Notes.

Section 13. Notices. Any 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 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commission, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the 2018 Short-Term Notes, and shall create no rights in any other person or entity.

Date: April 18, 2018

SAN DIEGO COUNTY REGIONAL
TRANSPORTATION COMMISSION

By: _____
Chief Deputy Executive Director

DIGITAL ASSURANCE CERTIFICATION LLC
as Dissemination Agent

By: _____
Authorized Representative

Exhibit A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Diego County Regional Transportation Commission (the “Commission”)

Name of Issue: \$537,480,000 San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A

Date of Issuance: April 18, 2018

NOTICE IS HEREBY GIVEN that the Commission has not provided an Annual Report with respect to the above-captioned 2018 Short-Term Notes as required by the Subordinate Indenture, dated as of April 1, 2018 (amending and restating the Subordinate Indenture, dated as of August 1, 1991, as amended and restated by the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, as further supplemented and amended), as supplemented and amended by the First Supplement to the Subordinate Indenture, dated as of April 1, 2018 (collectively, the “Subordinate Indenture”), between the Commission and U.S. Bank National Association, as trustee thereunder. [The Commission anticipates that the Annual Report will be filed by [date].]

Dated: _____, 20__

Digital Assurance Certification LLC,
as Dissemination Agent

cc: San Diego County Regional Transportation Commission

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. The Commission makes no representations as to the accuracy or completeness of such information. Further, the Commission undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites as described under “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The Beneficial Owners of the 2018 Short-Term Notes should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2018 SHORT-TERM NOTES UNDER THE SUBORDINATE INDENTURE; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2018 SHORT-TERM NOTES, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2018 SHORT-TERM NOTES; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2018 SHORT-TERM NOTES; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2018 Short-Term Notes. The 2018 Short-Term Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2018 Short-Term Note certificate will be issued for each maturity of the 2018 Short-Term Notes and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which

are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). S&P Global Ratings has rated DTC “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2018 Short-Term Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Short-Term Notes on DTC’s records. The ownership interest of each actual purchaser of each 2018 Short-Term Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018 Short-Term Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2018 Short-Term Notes, except in the event that use of the book-entry system for the 2018 Short-Term Notes is discontinued.

To facilitate subsequent transfers, all 2018 Short-Term Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2018 Short-Term Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Short-Term Notes. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2018 Short-Term Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2018 Short-Term Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Short-Term Notes, such as redemptions, tenders, defaults, and proposed amendments to the 2018 Short-Term Note documents. For example, Beneficial Owners of the 2018 Short-Term Notes may wish to ascertain that the nominee holding the 2018 Short-Term Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices, if any, shall be sent to DTC. If less than all of the 2018 Short-Term Notes 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 2018 Short-Term Notes unless authorized by a Direct Participant in accordance with DTC’s MMI 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 2018 Short-Term Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2018 Short-Term Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 of, premium, if any, and interest on the 2018 Short-Term Notes 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.

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

The Commission, the Trustee and the Underwriters cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2018 Short-Term Notes paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Commission, the Trustee and the Underwriters are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2018 Short-Term Notes or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2018 Short-Term Notes at any time by giving reasonable notice to Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2018 Short-Term Note certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2018 Short-Term Note certificates will be printed and delivered to DTC.

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

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2018 SHORT-TERM NOTES AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date], 2018

San Diego County Regional
Transportation Commission
San Diego, California

San Diego County Regional Transportation Commission
Subordinate Sales Tax Revenue Short-Term Notes
(Limited Tax Bonds)
2018 Series A

 (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 \$537,480,000 aggregate principal amount of San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A (the “Short-Term Notes”), issued pursuant to a Subordinate Indenture (Amending and Restating the Subordinate Indenture, dated as of August 1, 1991, as previously amended and restated by the Amended and Restated Subordinate Indenture, dated as of November 1, 2005, as further supplemented and amended), dated as of April 1, 2018, as amended and supplemented by a First Supplement to the Subordinate Indenture, dated as of April 1, 2018 (herein collectively referred to as the “Subordinate Indenture”), each between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Subordinate Indenture.

In such connection, we have reviewed the Subordinate 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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Short-Term Notes 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 Subordinate 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 Short-Term Notes to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Short-Term Notes, the Subordinate Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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 Subordinate Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Short-Term Notes and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Short-Term Notes constitute the valid and binding limited obligations of the Issuer.
2. The Subordinate Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.
3. Interest on the Short-Term Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Short-Term Notes is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Short-Term Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per



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