

NEW ISSUE—BOOK-ENTRY ONLY**Rating: S&P: “A-”
(See “RATING” herein.)**

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), as described herein, interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.

\$335,000,000

**SAN DIEGO ASSOCIATION OF GOVERNMENTS
CAPITAL GRANT RECEIPTS REVENUE BONDS
(MID-COAST CORRIDOR TRANSIT PROJECT)**

**\$210,000,000
Series 2019A
(Green Bonds)**



**\$125,000,000
Series 2019B
(Green Bonds)**

Dated: Date of Delivery**Due: November 15, as shown on the inside cover**

The San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019A (Green Bonds) (the “Series 2019A Bonds”) and the San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019B (Green Bonds) (the “Series 2019B Bonds”) and together with the Series 2019A Bonds, the “Bonds”), are being issued by the San Diego Association of Governments (“SANDAG”) pursuant to a Trust Indenture, dated as of August 1, 2019 (the “Indenture”), between SANDAG and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds will be delivered as fixed rate bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be payable on May 15 and November 15 of each year, commencing November 15, 2019. The maturities, principal amounts, interest rates, yields, and CUSIP numbers of the Bonds of each series are set forth on the inside cover. The Bonds are subject to optional redemption and redemption or defeasance by operation of the Redemption Account prior to maturity, without premium, as described herein.

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of SANDAG, and the revenues of SANDAG (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State of California (the “State”) or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

The Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of Bonds will be made in book-entry form only through the facilities of DTC. Purchasers of Bonds will not receive physical certificates representing their beneficial ownership in the Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

The Bonds are offered when, as and if issued by SANDAG and received by the Underwriters, subject to the approval of legality thereof by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for SANDAG by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, as Disclosure Counsel to SANDAG and by the General Counsel to SANDAG; and for the Underwriters by Nixon Peabody LLP, Los Angeles, California, Underwriters’ Counsel. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about August 14, 2019.

Wells Fargo Securities**Citigroup Global Markets Inc.****Goldman Sachs & Co. LLC****J.P. Morgan Securities LLC**

Dated July 30, 2019.

MATURITY SCHEDULE

\$335,000,000
SAN DIEGO ASSOCIATION OF GOVERNMENTS
CAPITAL GRANT RECEIPTS REVENUE BONDS
(MID-COAST CORRIDOR TRANSIT PROJECT)

\$210,000,000 Series 2019A Bonds (Green Bonds)

Maturity (November 15)	Principal Amount	Interest Rate	Yield	Redeemable On or After [†] (November 15)	CUSIP Number ^{††}
2023	\$48,630,000	5.000%	1.180%	2022	797258AA8
2024	51,125,000	5.000	1.230	2023	797258AB6
2025	53,745,000	5.000	1.320	2024	797258AC4
2026	56,500,000	5.000	1.410	2025	797258AD2

\$125,000,000 1.800% Series 2019B Bonds (Green Bonds) due November 15, 2027[‡]

Yield 1.800% - CUSIP Number^{††} 797258AE0

[†] See “THE BONDS – Optional Redemption” and “Redemption or Defeasance by Operation of the Redemption Account; Turbo Redemption of Series 2019B Bonds.”

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[‡] Subject to redemption prior to maturity, including turbo redemption. See “THE BONDS – Optional Redemption” and “Redemption or Defeasance by Operation of the Redemption Account; Turbo Redemption of Series 2019B Bonds.”



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André Douzdzian

***TransNet* Director**
Jose Nuncio

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* Kim Kawada, former Chief Deputy Executive Director of SANDAG, submitted her resignation effective July 23, 2019. SANDAG expects existing staff will undertake various duties of the Chief Deputy Executive Director on an interim basis until SANDAG determines how to proceed in connection with a permanent replacement.

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the Bonds 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 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page of the Official Statement, and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by SANDAG or the Underwriters to give any information or to make any representation other than that contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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.

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Grant Receipts received, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by SANDAG that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of Grant Receipts received include, among others, receipt of the required local share under the Grant Agreement, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of SANDAG. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions “THE GRANT AGREEMENT” and “FEDERAL TRANSIT PROGRAM” and such statements speak only as of the date of this Official Statement. SANDAG disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in SANDAG’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this offering document for purposes of, and as that term is defined in, United States Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”).

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OFFICIAL STATEMENT

\$335,000,000

**SAN DIEGO ASSOCIATION OF GOVERNMENTS
CAPITAL GRANT RECEIPTS REVENUE BONDS
(MID-COAST CORRIDOR TRANSIT PROJECT)**

\$210,000,000
Series 2019A
(Green Bonds)

\$125,000,000
Series 2019B
(Green Bonds)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, and appendices hereto (the “Official Statement”), is to provide certain information concerning the issuance by the San Diego Association of Governments (“SANDAG”) of \$210,000,000 aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019A (Green Bonds) (the “Series 2019A Bonds”) and \$125,000,000 aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019B (Green Bonds) (the “Series 2019B Bonds” and together with the Series 2019A Bonds, the “Bonds”).

The Bonds are to be issued pursuant to the laws of the State of California (the “State”), including Section 132370.1 of the California Public Utilities Code. The Bonds are authorized by a resolution adopted by SANDAG Board on June 28, 2019, and are issued under and secured by a Trust Indenture, dated as of August 1, 2019 (the “Indenture”), between SANDAG and U.S. Bank National Association, as trustee (the “Trustee”) and are payable solely from Grant Receipts and funds deposited into the Indenture.

The Bonds are being issued to provide funds to finance a portion of the costs of the design and construction of a 10.92 mile extension of the Metropolitan Transit System’s San Diego Trolley Blue Line from the Santa Fe Depot in downtown San Diego to the University Town Center Transit Center in the University City community of San Diego, California, known as the Mid-Coast Corridor Transit Project (the “Project”). For more information, see “THE PROJECT” herein.

San Diego Association of Governments

SANDAG is a consolidated regional transportation agency organized and existing pursuant to the San Diego Regional Transportation Consolidation Act, Section 132350 *et seq.* of the California Public Utilities Code (the “Act”). SANDAG is governed by a Board of Directors composed of mayors, councilmembers, and county supervisors from each of the region’s 19 local governments. Supplementing these voting members are advisory representatives from Imperial County, the U.S. Department of Defense, Caltrans, San Diego Unified Port District, Metropolitan Transit System, North County Transit District, San Diego County Water Authority, Southern California Tribal Chairmen's Association, and Mexico. SANDAG serves as a regional decision-making forum for the San Diego area for issues including transportation, environmental management, housing, open space, air quality, energy, fiscal management, economic development, and public safety. See “SANDAG” herein.

Use of Bond Proceeds

The proceeds of the Bonds will be applied to finance a portion of the costs of the Project, to fund a Debt Service Reserve Fund under the Indenture, to fund capitalized interest on the Bonds, and to pay certain costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE PROJECT.”

Security for the Bonds

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts under the Indenture (except the Rebate Fund), and investment earnings thereon. See “SECURITY FOR THE BONDS,” “THE GRANT AGREEMENT,” “FEDERAL TRANSIT PROGRAM” and “APPENDIX A—THE GRANT AGREEMENT.”

The Bonds are not a general obligation of SANDAG, and the revenues of SANDAG (other than the Grant Receipts and certain investment earnings on amounts on deposit in the funds and accounts established under the Indenture, except the Rebate Fund, as described further herein) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

Capital Investment Grants Program

Under the Capital Investment Grants Program, 49 U.S.C. 5309 (“Section 5309”), the Secretary of Transportation may make grants to assist state and local governmental authorities in financing capital projects for new fixed guideway systems and extensions to existing guideway systems, including light rail, rapid rail (heavy rail), commuter rail, automated fixed guideway systems, busway/high occupancy vehicle facilities, or extensions of such projects. Pursuant to Section 5309, in September 2016, SANDAG entered into a Full Funding Grant Agreement (the “Grant Agreement”) with the U.S. Department of Transportation, Federal Transit Administration (the “FTA”), which provides for federal financial assistance in the form of grants to SANDAG (as more fully defined in the Indenture, the “Grant Receipts”) to fund a portion of the costs of the Project. The Grant Agreement sets forth requirements that must be satisfied by SANDAG to remain eligible to receive and retain the Grant Receipts and the conditional nature of the award of such funds. Pursuant to the Grant Agreement, FTA has committed a total of \$1,043,380,000 of Grant Receipts to the Project, of which \$430,024,740 has been received by SANDAG to date. SANDAG expects to receive the remaining balance of the Grant Receipts under the Grant Agreement (in the aggregate amount of \$613,355,260) in installments over the next seven years from Federal Fiscal Year (ending September 30) (“FFY”) 2020 through FFY 2026. Pursuant to the Indenture, SANDAG will deposit Grant Receipts with the Trustee within one Business Day of receipt to pay debt service on the Bonds and replenish the Debt Service Reserve Fund, among other purposes. See “SECURITY FOR THE BONDS,” “THE PROJECT,” “THE GRANT AGREEMENT,” “FEDERAL TRANSIT PROGRAM,” “INVESTMENT CONSIDERATIONS” and “APPENDIX A—THE GRANT AGREEMENT.”

Project Funding

SANDAG expects to fund less than half of the Project’s estimated cost of \$2,171,200,545 from moneys received pursuant to the Grant Agreement and proceeds of the Bonds. SANDAG expects to fund the remaining portion of the Project from local funding sources, which include sales tax revenues of the San Diego County Regional Transportation Commission (the “Commission”) and the proceeds of certain

debt obligations issued by the Commission and secured by such sales tax revenues, as further described herein. See “THE PROJECT – Funding of Project Costs.”

Certain References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in “APPENDIX B—SUMMARY OF THE INDENTURE—Definitions of Certain Terms” or, if not defined therein, in the Indenture.

THE BONDS

General Provisions of the Bonds

The Bonds will be dated the date of delivery thereof and will bear interest from their dated date at the rates per annum set forth on the inside front cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), payable on November 15, 2019 and semiannually thereafter on May 15 and November 15 (each an “Interest Payment Date”) of each year to the registered owners thereof as of the first day of the calendar month on which such Interest Payment Date falls, whether or not such day is a Business Day (the “Record Date”). The Bonds will mature on November 15 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds will be issued as fully registered bonds in authorized denominations of \$5,000 or in any integral multiple thereof (“Authorized Denominations”).

Flow of Funds

Grant Receipts. The Indenture requires all Grant Receipts received by SANDAG to be transferred within one Business Day of receipt to the Trustee and deposited in the Grant Receipts Fund. The Trustee is then required, as soon as practicable, to deposit all amounts in the Grant Receipts Fund into the following funds, accounts and subaccounts established under the Indenture:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year.

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year.

Third: Into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement.

Fourth: To SANDAG, an amount specified by SANDAG in a certificate of an Authorized Officer filed by the Trustee as needed to reimburse a provider of a Debt Service Reserve Credit Facility for disbursements thereunder.

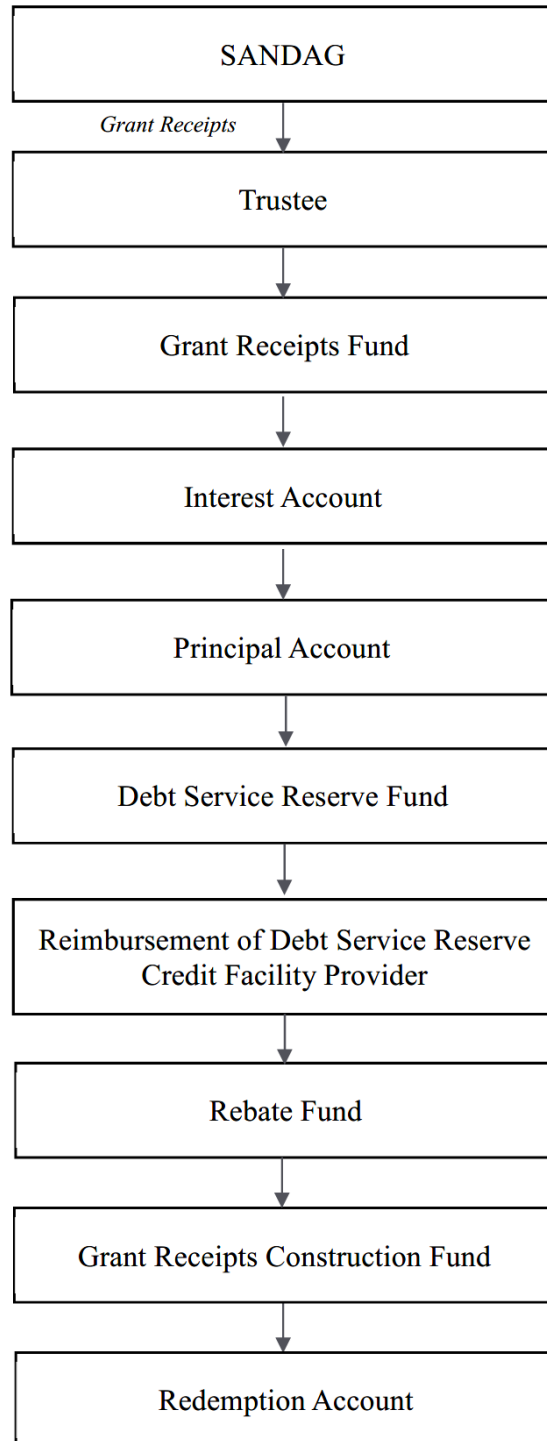
Fifth: Into the Rebate Fund, an amount specified by SANDAG in a certificate of an Authorized Officer filed with the Trustee directing the Trustee to withdraw such amount from the Construction Fund or provide from such deposit from the application of Grant Receipts.

Sixth: Into the Grant Receipts Construction Fund, an amount specified by SANDAG in a certificate of an Authorized Officer filed with the Trustee provided that the total amount of Grant Receipts deposited therein will not exceed \$174,500,000 in the aggregate.

Seventh: Into the Redemption Account, any remaining amounts. See “THE BONDS—Redemption or Defeasance By Operation of the Redemption Account.”

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Indenture Flow of Funds for Grant Receipts



See “APPENDIX B—SUMMARY OF THE INDENTURE.”

Optional Redemption

Optional Redemption of Series 2019A Bonds. The Series 2019A Bonds are subject, at the option of SANDAG, to redemption prior to their stated maturities on any Business Day on or after the dates set forth in the following table, as a whole or in part in Authorized Denominations, from any moneys that may be provided for such purpose and at the redemption price of 100% of the principal amount of the Series 2019A Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Maturity (November 15)	Principal Amount	Interest Rate	Initial Call Date (November 15)
2023	\$48,630,000	5.00%	2022
2024	51,125,000	5.00	2023
2025	53,745,000	5.00	2024
2026	56,500,000	5.00	2025

Optional Redemption of Series 2019B Bonds. The Series 2019B Bonds are subject, at the option of SANDAG, to redemption prior to their stated maturity on any Business Day on or after November 15, 2026 as a whole or in part in Authorized Denominations, from any moneys that may be provided for such purpose and at the redemption price of 100% of the principal amount of the Series 2019B Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Redemption or Defeasance by Operation of the Redemption Account; Turbo Redemption of Series 2019B Bonds

Whenever the amount held in the Redemption Account exceeds \$1,000,000, the Trustee shall notify SANDAG in writing and apply the moneys held therein as follows:

First: to the redemption of Outstanding Series 2019A Bonds then subject to optional redemption in the current or immediately succeeding Federal Fiscal Year (exclusive of any such Series 2019A Bonds maturing within 30 days or previously selected for redemption) on the first date such Series 2019A Bonds may be redeemed that is at least 30 days after such notification;

Second: to the redemption of Outstanding Series 2019B Bonds (exclusive of Series 2019B Bonds previously selected for redemption) on the next Interest Payment Date that is at least 30 days after such notification; and

Third: if all of the Series 2019B Bonds have been redeemed in full, to the redemption of any remaining Outstanding Series 2019A Bonds (exclusive of any such Series 2019A Bonds maturing within 30 days or previously selected for redemption), in order of maturity, on the first date such Series 2019A Bonds may be redeemed that is at least 30 days after such notification.

The Trustee shall redeem such 2019 Bonds in the principal amount that will reduce the balance of the Redemption Account to less than \$5,000.

In connection with any such redemption by operation of the Redemption Account, the Trustee shall apply the amounts held in the Redemption Account to redeem such 2019 Bonds called for redemption, with the accrued interest thereon to the date fixed for their redemption paid from the Interest Account; provided, however, that if the amount then held in the Interest Account is not sufficient to pay such accrued interest then, at the direction of SANDAG, such accrued interest may be paid from moneys in the Capitalized Interest Account or from moneys in the Redemption Account. If the amount then held in the Redemption Account is not sufficient to redeem all of such 2019 Bonds of any maturity, then the

Trustee shall proceed to select the 2019 Bonds to be redeemed by lot within such maturity. The Trustee shall send such notices and take such other actions in connection with any redemption by operation of the Redemption Account in accordance with the provisions of the Indenture. See “APPENDIX B – SUMMARY OF THE INDENTURE.”

IF GRANT RECEIPTS ARE RECEIVED AS ANTICIPATED, A SUBSTANTIAL PORTION OF THE SERIES 2019A BONDS AND THE SERIES 2019B BONDS WILL BE REDEEMED PRIOR TO MATURITY. THERE CAN BE NO ASSURANCE THAT GRANT RECEIPTS WILL BE RECEIVED IN THE AMOUNTS OR AT THE TIMES ANTICIPATED. See “SECURITY FOR THE BONDS – Projected Grant Receipts” and “ – Semi-Annual Debt Service Based on Projected Grant Receipts and Early Redemption” and “INVESTMENT CONSIDERATIONS – Uncertainties in Federal Funding.”

Selection of Bonds to Be Redeemed

If less than all of the Bonds of like maturity and interest rate of any Series shall be called for prior redemption, the particular Bonds or portion of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination for the Bonds of such Series to be redeemed shall be in the principal amount of an Authorized Denomination for the Bonds of such Series and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of said minimum Authorized Denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by said minimum Authorized Denomination. If all Bonds of any Series are Book-Entry Bonds, the particular Bonds or portions thereof of such Series to be redeemed shall be selected by the Securities Depository for such Series of Bonds in such manner as such Securities Depository shall determine. See “THE BONDS – Book-Entry-Only System.”

Notice of Redemption

When the Trustee shall receive notice from SANDAG of its election or direction to redeem Bonds pursuant to the Indenture and when redemption of Bonds is authorized or required pursuant to the Indenture, the Trustee shall give notice, in the name of SANDAG, of the redemption of such Bonds, which notice shall specify the Series and maturities and interest rates of the Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the Bonds of any like Series and maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable the Redemption Price of each Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not less than 20 days nor more than 60 days before the date fixed for redemption, to the Owners of the Bonds to be redeemed at their addresses as shown on the registration books of SANDAG maintained by the Trustee. If the Trustee mails notices of redemption as herein provided, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of

SANDAG, state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, SANDAG shall not redeem such Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Failure of any Owner to receive any notice of redemption or any defect therein shall not affect the sufficiency of any proceedings for redemption.

Grant Receipts Construction Fund

The Trustee shall, during and upon completion of construction of the Project, make payments from the Grant Receipts Construction Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. See “APPENDIX B—SUMMARY OF THE INDENTURE—Grant Receipts Construction Fund.” Before any such payment is made, SANDAG shall file with the Trustee (1) a requisition as further described in the Indenture and (2) its certificate attached to such requisition certifying the following:

(a) that obligations in the stated amounts have been incurred by SANDAG for the construction of the Project, and that each item thereof is a proper charge against the Grant Receipts Construction Fund and is a proper Cost of Construction and has not been previously reimbursed;

(b) that there has not been filed with or served upon SANDAG notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon SANDAG, that such lien, attachment or claim has been released or discharged;

(c) that such requisition contains no item representing payment on account of any retained percentages which SANDAG is at the date of such certificate entitled to retain;

(d) that SANDAG expects to commence revenue operations of the Project on or before the Required Revenue Service Date, or in the alternative, that SANDAG is in the process of developing or has developed a Recovery Plan pursuant to the Full Funding Grant Agreement and, if developed, is diligently taking action to carry out such Recovery Plan; and

(e) the total remaining amount SANDAG expects to receive under the Full Funding Grant Agreement, after the transfer of funds into the Grant Receipts Construction Fund, will be equal to at least 100% of the sum of (i) the principal amount of the Outstanding Bonds plus (ii) the Interest Requirement with respect to the Outstanding Bonds, assuming such Bonds are paid on their stated maturity dates, minus (iii) moneys in the Debt Service Reserve Fund and investment earnings thereon.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the Grant Receipts Construction Fund to SANDAG or the obligors named in such requisition an amount equal to the total of the amounts to be paid as set forth in such requisition. In making such transfer, the Trustee may rely upon the representations made in such requisition and accompanying certificates. See “APPENDIX B—SUMMARY OF THE INDENTURE—Grant Receipts Construction Fund.”

The procedure for the Trustee to make payments from the Construction Fund, including the requisition and certification provisions described above, is substantially similar to such procedure for the

Grant Receipts Construction Fund. See “APPENDIX B—SUMMARY OF THE INDENTURE—Construction Fund.”

Refunding Bonds

No additional bonds other than Refunding Bonds may be issued under the Indenture. One or more Series of Refunding Bonds may be issued on a parity with the Bonds, but only for refunding purposes and only upon compliance by SANDAG with certain provisions of the Indenture, which include, among other things, the requirement that SANDAG deliver to the Trustee a certificate of an Authorized Officer evidencing that the Average Projected Annual Debt Service on all Bonds Outstanding following the issuance of such Refunding Bonds, and the redemption or provision for payment of the Bonds to be refunded, will be less than the Average Projected Annual Debt Service on all Bonds Outstanding, immediately prior to the issuance of such Refunding Bonds. See “APPENDIX B—SUMMARY OF THE INDENTURE—Refunding Bonds.”

Nothing in the Indenture shall prohibit or prevent SANDAG from issuing bonds, certificates or other evidences of indebtedness payable as to principal and interest from Grant Receipts, but only if such indebtedness is junior and subordinate in all respects to any and all Bonds issued and Outstanding under the Indenture.

Investments

All amounts held under the Indenture are invested at the direction of SANDAG in Permitted Investments, as defined in the Indenture, and are subject to certain limitations contained therein. See “APPENDIX B—SUMMARY OF THE INDENTURE—Investment of Certain Moneys.”

Book-Entry-Only System

As noted above, DTC will act as securities depository for the Bonds. See “APPENDIX E—DTC AND THE BOOK-ENTRY-ONLY SYSTEM.”

Payments of interest on and principal of the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of SANDAG or the Trustee with respect to interest on and principal of the Bonds to the extent of the sum or sums so paid.

SANDAG and the Trustee cannot and do not give any assurances that DTC Participants or DTC Indirect Participants will distribute to the beneficial owners (i) payments of interest and principal with respect to the Bonds, (ii) confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as Owner of the Bonds, or that they will do so on a timely basis.

SECURITY FOR THE BONDS

THE BONDS ARE LIMITED OBLIGATIONS OF SANDAG AND ARE PAYABLE SOLELY FROM AND SECURED SOLELY BY GRANT RECEIPTS (AS HEREIN DEFINED), AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (EXCEPT THE REBATE FUND), AND INVESTMENT EARNINGS THEREON. THE BONDS ARE NOT A GENERAL OBLIGATION OF SANDAG AND THE REVENUES OF SANDAG (OTHER THAN AS DESCRIBED ABOVE) ARE NOT PLEDGED FOR THE PAYMENT OF THE BONDS OR THE INTEREST THEREON. THE BONDS ARE NOT AN INDEBTEDNESS OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE (OTHER THAN SANDAG) OR OF ANY MUNICIPALITY WITHIN THE STATE.

Pledge of Grant Receipts

The Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the Bonds and Refunding Bonds, the Grant Receipts (as described below) and amounts on deposit in all funds, accounts and sub-accounts established under the Indenture (except the Rebate Fund) in accordance with their terms and the provisions of the Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

The term “Grant Receipts” is defined in the Indenture to mean any amount received by SANDAG from Section 5309 New Starts funds pursuant to the Grant Agreement. See “THE GRANT AGREEMENT,” “APPENDIX A—THE GRANT AGREEMENT,” and “APPENDIX B—SUMMARY OF THE INDENTURE—Definitions of Certain Terms.”

Discretionary Contribution. SANDAG may provide a “Discretionary Contribution” of any money and securities to the Trustee at SANDAG’s sole and absolute discretion, in amounts from time to time not exceeding in any period the amount that SANDAG is scheduled to receive under the Grant Agreement, to be held by the Trustee under the terms of the Indenture. See “APPENDIX B—SUMMARY OF THE INDENTURE—Definitions of Certain Terms.” However, the Bonds are limited obligations of SANDAG and are payable solely from and secured solely by Grant Receipts and amounts on deposit in the funds and accounts established under the Indenture (other than the Rebate Fund). As such, SANDAG is under no obligation to make such Discretionary Contribution.

Projected Grant Receipts

SANDAG expects to receive Grant Receipts from FTA pursuant to the Grant Agreement to fund a portion of the costs of the Project. The Grant Agreement sets forth requirements that must be satisfied by SANDAG in order to remain eligible to receive and retain the Grant Receipts. Pursuant to the Grant Agreement, FTA has committed a total of \$1,043,380,000 to the Project, of which \$430,024,740 has been received by SANDAG to date, leaving \$613,355,260 of Grant Receipts to be received. Table 1 outlines SANDAG’s projections for Grant Receipts from and after FFY 2020. From FFY 2020 through 2026, SANDAG projects that it will receive \$613,355,260 in Grant Receipts. SANDAG’s actual receipt of Grant Receipts is, however, subject to the conditions set forth in the Grant Agreement and annual appropriation by Congress. **SANDAG CANNOT PROVIDE ANY ASSURANCE THAT CONGRESS WILL APPROPRIATE THE AMOUNTS ANTICIPATED IN TOTAL OR IN ANY GIVEN YEAR, OR SANDAG WILL OTHERWISE RECEIVE GRANT RECEIPTS AS PROJECTED IN TABLE 1.** See “THE GRANT AGREEMENT,” “FEDERAL TRANSIT PROGRAM” and “INVESTMENT CONSIDERATIONS.”

**TABLE 1
PROJECTED GRANT RECEIPTS**

Federal Fiscal Year	Anticipated Grant Receipts⁽¹⁾
2020	\$100,000,000
2021	100,000,000
2022	100,000,000
2023	100,000,000
2024	100,000,000
2025	100,000,000
2026	13,355,260

⁽¹⁾ Projected Grant Receipts shown as scheduled in the Grant Agreement, except for FFY 2026. The Grant Agreement reflects \$18,380,000 of grant funding in FFY 2026. However, through the final FFY 2018 appropriation, SANDAG received excess Grant Receipts in the amount of \$5,024,740. As a result, projected Grant Receipts for FFY 2026 have been adjusted downward by an equal amount.

Stated Semi-Annual Debt Service Requirements

Table 2 sets forth the stated semi-annual debt service on the Bonds, assuming no prior redemption from excess Grant Receipts and excluding investment earnings on accounts and funds pledged under the Indenture. SANDAG expects that a substantial portion of the Series 2019A and Series 2019B Bonds will be redeemed prior to their stated maturities shown below.

**TABLE 2
STATED DEBT SERVICE SCHEDULE**

Maturity	Series 2019A Bonds		Series 2019B Bonds		Total Debt Service**	Annual FFY Debt Service
	Principal	Interest**	Principal	Interest**		
11/15/2019	-	-	-	-	-	-
05/15/2020	-	-	-	-	-	-
11/15/2020	-	\$5,250,000	-	\$1,125,000	\$6,375,000	-
05/15/2021	-	5,250,000	-	1,125,000	6,375,000	\$12,750,000
11/15/2021	-	5,250,000	-	1,125,000	6,375,000	-
05/15/2022	-	5,250,000	-	1,125,000	6,375,000	12,750,000
11/15/2022	-	5,250,000	-	1,125,000	6,375,000	-
05/15/2023	-	5,250,000	-	1,125,000	6,375,000	12,750,000
11/15/2023	\$48,630,000	5,250,000	-	1,125,000	55,005,000	-
05/15/2024	-	4,034,250	-	1,125,000	5,159,250	60,164,250
11/15/2024	51,125,000	4,034,250	-	1,125,000	56,284,250	-
05/15/2025	-	2,756,125	-	1,125,000	3,881,125	60,165,375
11/15/2025	53,745,000	2,756,125	-	1,125,000	57,626,125	-
05/15/2026	-	1,412,500	-	1,125,000	2,537,500	60,163,625
11/15/2026	56,500,000	1,412,500	-	1,125,000	59,037,500	-
05/15/2027	-	-	-	1,125,000	1,125,000	60,162,500
11/15/2027	-	-	\$125,000,000	1,125,000	126,125,000	-
05/15/2028	-	-	-	-	-	126,125,000
Total	\$210,000,000	\$53,155,750	\$125,000,000	\$16,875,000	\$405,030,750	\$405,030,750

** Note: Net of Capitalized Interest. Excludes investment earnings on accounts and funds pledged under the Indenture.

Semi-Annual Debt Service Based on Projected Grant Receipts and Early Redemption

Table 3 illustrates the expected semi-annual debt service schedule assuming Grant Receipts are received on the schedule set forth in Table 1. The average expected life of the Series 2019B Bonds is approximately 4.32 years based on this schedule. However, SANDAG cannot provide any assurance that Congress will appropriate, or that SANDAG will otherwise receive, the full amount anticipated in total or in any given year. See “THE GRANT AGREEMENT,” “FEDERAL TRANSIT PROGRAM” and “INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding.”

TABLE 3*
EXPECTED SEMI-ANNUAL DEBT SERVICE SCHEDULE

Maturity	Series 2019A Bonds		Series 2019B Bonds		Total Debt Service**	Annual FFY Debt Service
	Principal	Interest**	Principal	Interest**		
11/15/2019	-	-	-	-	-	-
05/15/2020	-	-	-	-	-	-
11/15/2020	-	\$ 5,250,000	-	\$ 1,125,000	\$ 6,375,000	-
05/15/2021	-	5,250,000	-	1,125,000	6,375,000	\$12,750,000
11/15/2021	-	5,250,000	-	1,125,000	6,375,000	-
05/15/2022	-	5,250,000	-	1,125,000	6,375,000	12,750,000
11/15/2022	\$ 48,630,000	5,250,000	\$ 38,615,000	1,125,000	93,620,000	-
05/15/2023	-	4,034,250	1,565,000	777,465	6,376,715	99,996,715
11/15/2023	51,125,000	4,034,250	39,275,000	763,380	95,197,630	-
05/15/2024	-	2,756,125	1,635,000	409,905	4,801,030	99,998,660
11/15/2024	53,745,000	2,756,125	41,295,000	395,190	98,191,315	-
05/15/2025	-	1,412,500	370,000	23,535	1,806,035	99,997,350
11/15/2025	56,500,000	1,412,500	2,245,000	20,205	60,177,705	-
05/15/2026	-	-	-	-	-	60,177,705
11/15/2026	-	-	-	-	-	-
05/15/2027	-	-	-	-	-	-
11/15/2027	-	-	-	-	-	-
05/15/2028	-	-	-	-	-	-
Total	\$210,000,000	\$42,655,750	\$125,000,000	\$8,014,680	\$385,670,430	\$385,670,430

* In SANDAG’s sole and absolute discretion, SANDAG may deposit funds with the Trustee in amounts from time to time not exceeding in any period the amount that SANDAG is scheduled to receive under the Grant Agreement. See “SECURITY FOR THE BONDS – Pledge of Grant Receipts – Discretionary Contribution” and “– Projected Grant Receipts.”

** Net of capitalized interest. Excludes investment earnings on funds and accounts pledged under the Indenture.

Debt Service Reserve Fund

A Debt Service Reserve Fund is established under the Indenture and the balance therein is required to be maintained in an amount at least equal to the Debt Service Reserve Requirement. “Debt Service Reserve Requirement” means, with respect to the 2019 Bonds, an amount equal to the Maximum Annual Interest Requirement, calculated as of the Closing Date. See “APPENDIX B—SUMMARY OF THE INDENTURE—Debt Service Reserve Fund.” The Debt Service Reserve Requirement for the Bonds is \$12,750,000. Although the Debt Service Reserve Fund is expected to be fully funded with cash on the date the Bonds are issued, SANDAG may satisfy the Debt Service Reserve Requirement by delivering to the Trustee in lieu of such deposit a Debt Service Reserve Credit Facility. Any deficiencies in the Debt Service Reserve Fund may be replenished only from Grant Receipts or by the deposit of a Debt Service Reserve Credit Facility. See “APPENDIX B—SUMMARY OF THE INDENTURE—Debt Service Reserve Fund.”

Capitalized Interest Account

On the date of issuance of the Bonds, SANDAG will deposit into the Capitalized Interest Account an amount of Bond proceeds sufficient, together with anticipated interest earnings, to meet the Interest Requirement with respect to the Bonds through May 15, 2020. See “ESTIMATED SOURCES AND USES OF FUNDS.”

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the Bonds is summarized in the following table.

Sources of Funds:

Aggregate Principal Amount of Bonds	\$335,000,000.00
Plus Original Issue Premium	35,972,525.75
Total Sources of Funds	<u>\$370,972,525.75</u>

Uses of Funds:

Deposit to Construction Fund	\$347,060,922.08
Debt Service Reserve Fund	12,750,000.00
Capitalized Interest Account ⁽¹⁾	9,597,916.67
Underwriters' Discount	800,237.00
Costs of Issuance ⁽²⁾	763,450.00
Total Uses of Funds	<u>\$370,972,525.75</u>

⁽¹⁾ The Interest Requirement with respect to the Bonds will be funded through May 15, 2020 with Bond proceeds deposited in the Capitalized Interest Account and interest earnings thereon.

⁽²⁾ Includes bond counsel fees, disclosure counsel fees, municipal advisor fees, rating agency fees, printing fees and other miscellaneous expenses.

THE PROJECT

Project Description

The Project consists of the design and construction of a 10.92 mile dual-track light rail transit extension of the San Diego Metropolitan Transit System's ("MTS") existing San Diego Trolley Blue Line (the "Blue Line") from the Santa Fe Depot in downtown San Diego to the University Town Center Transit Center in the University City community of San Diego, California. The Project uses the existing Blue Line trolley tracks for approximately 3.5 miles from the Santa Fe Depot to a point just north of the Old Town Transit Center and south of the San Diego River. The Project includes nine stations (four at-grade and five elevated), five park-and-ride facilities, two transfer centers, and 36 light rail vehicles. As described in more detail below, the Project will connect the County of San Diego's (the "County") universities, including University of California, San Diego, its biotech and innovation hub in University Town Center, and major hospitals and medical centers. See "'Green Bond' Designation of the Project – Use of Proceeds" below.

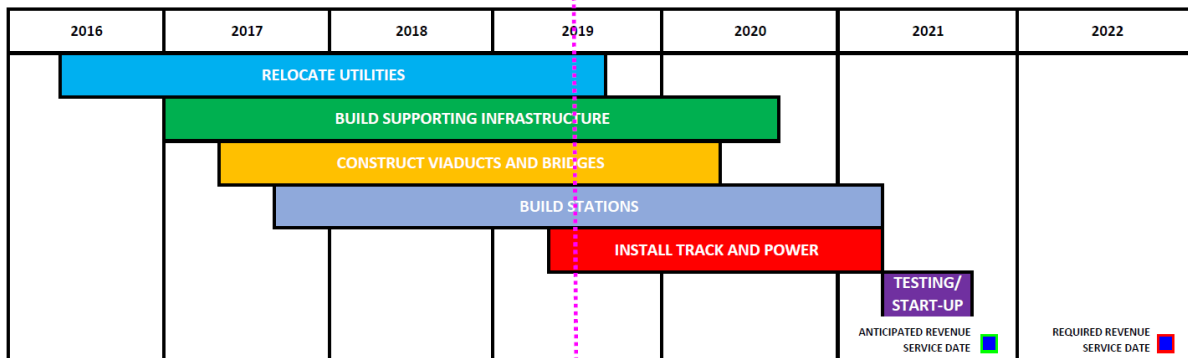
Project Construction Overview

In fall 2014, the SANDAG Board of Directors and FTA gave final environmental clearance to the Project. Pre-construction activities, consisting of the relocation of underground utilities, began in early

2016, and primary construction activities started in fall 2016 with work on the supporting infrastructure commencing in 2017. Construction is currently underway along the entire 10.92-mile segment.

Table 4 that follows shows the construction process at a high-level and SANDAG’s progress as of May 31, 2019. As of May 31, 2019, approximately 60% of Project construction is complete. Project construction includes only the work included in the scope of the construction contracts; it does not include other non-construction aspects of the overall work associated with the Project, including but not limited to environmental monitoring, right-of-way acquisition and easements.

TABLE 4
CURRENT CONSTRUCTION SCHEDULE
(as of May 31, 2019)



Many traditionally high-risk construction components of the Project are substantially complete. The majority of subsurface utilities, including electrical, communication, sewer, water, and storm drain, have been relocated. Supporting infrastructure including retaining walls, bike paths, roadways, and sidewalks are approximately 60% complete. Construction on bridges and the viaduct that will carry the light rail are over halfway complete with foundations for stations approximately halfway complete. The construction teams are starting to install track, with testing and start-up currently on schedule to start in spring of 2021. Revenue service is anticipated to begin in late October 2021. The Grant Agreement requires SANDAG to commence revenue operation at the Project no later than November 23, 2022 (the “Required Revenue Service Date”). See “THE GRANT AGREEMENT – Noncompliance” and “TABLE 9 - PROJECT MILESTONES, BASELINE SCHEDULE AND CURRENT PROJECTION.” Once completed, the Project will provide an alternative to freeways and roadways for travelers, improve public transit services, and enhance travel options by connecting the corridor with areas served by the existing trolley system. MTS will be responsible for operating the Project upon completion.

Construction Contracts

The Project was designed by WSP USA, an engineering and professional services consultancy (formerly known as Parsons Brinckerhoff), with oversight and project management from a team of SANDAG engineers. Mid-Coast Transit Constructors, a fully-integrated joint venture of Stacy & Witbeck, Inc., Skanska USA, and Herzog Contracting Corporation, is constructing the Project.

A Project Management Plan (“PMP”) was developed by SANDAG for managing and controlling the Project as it progresses through environmental clearance, project development, engineering, construction, testing, start-up, and ultimately, revenue service.

SANDAG is using a Construction Manager/General Contractor (“CM/GC”) method of project delivery for construction of the Project related to the guideway, stations, trackwork and systems. The CM/GC delivery method provided SANDAG with the ability to select a contractor based on demonstrated experience with large, complex transit construction projects and takes advantage of that experience by engaging the contractor to complete important constructability analysis during the pre-construction services phase, while SANDAG maintains control of the design and design products. The CM/GC delivery method also has a schedule benefit to SANDAG. FTA required that the Grant Agreement be in place prior to awarding construction contracts for the Project. With the CM/GC delivery method, SANDAG had the flexibility to negotiate a guaranteed maximum price (“GMP”) prior to the execution of the Grant Agreement and move forward with the construction phase of the contract immediately after execution of the Grant Agreement. Further, the CM/GC delivery method significantly improved cost certainty for SANDAG and FTA by having the GMP negotiated prior to finalization of the Grant Agreement and prior to authorizing of the construction phase of the contract.

SANDAG completed negotiation of a GMP in April 2016 and provided a revised cost estimate for the Project, based on the GMP, to FTA at that time. The Grant Agreement was executed by FTA and SANDAG on September 14, 2016. Following approval of the Grant Agreement, on September 14, 2016, SANDAG executed Supplement 4 to the CM/GC contract authorizing construction of the Project.

A GMP minimizes increases in construction cost risk through quantifying and paying for specific risks through the GMP. Unknown site conditions, including the potential discovery of hazardous materials, remain unquantified risks for construction projects with these risks usually highest while completing subsurface work. The majority of subsurface work has been completed for the Project reducing the cost increase risk to the negotiated GMP. Items for which a GMP has not yet been negotiated remain a cost risk for the project (e.g. elevators and station canopies). The unallocated contingency of the budget for the Project is anticipated to be adequate to fund these remaining items.

In order to mitigate against certain schedule and delivery risks associated with the Project, SANDAG’s construction services agreement with the CM/GC for the Project provides for liquidated damages in the amount of \$32,000 per day if the CM/GC does not complete the work related to certain Project milestones on the agreed upon date, subject to certain conditions, such as inclement weather. Certain delays may be excusable at SANDAG’s discretion, though such excusable delays are provided at no cost to SANDAG. As of the date of this Official Statement, there are no notices of potential claims, including claims of liquidated damages, and no disputes have been filed.

The purchase, delivery, testing, and acceptance of the 36 new light rail vehicles (“LRVs”) for the Project, which are manufactured by Siemens Mobility, a division of Siemens AG (“Siemens”), is being managed by the Project operator, MTS. While MTS is purchasing the LRVs, SANDAG is reimbursing MTS for the LRVs associated with the Project. At this time, the delivery of the LRVs for the Project is on schedule. The Release for Production Notice for the LRVs was issued on October 31, 2016. The schedule for the LRVs included in the contract between MTS and Siemens projected that the first LRVs for the Project would arrive in April 2019, with the remaining LRVs scheduled to arrive at a rate of two LRVs per month through October 2020. The first LRV was delivered on April 4, 2019. As of May 31, 2019, five LRVs have been delivered to MTS for the Project, while only three were scheduled for delivery by such date. Production of the LRVs is currently reported to be ahead of schedule. Final delivery of the LRVs is currently anticipated by the end of 2019, well in advance of both the anticipated revenue service date and the Required Revenue Service Date for the Project.

Other owner-supplied materials, including for example, traction power substations and fare vending equipment, will be funded and provided by SANDAG in coordination with MTS. The PMP defines management responsibility and the roles of Project staff; identifies interactions among Project

staff and between Project staff and other agencies and organizations; and specifies general procedures and management tools that are used to promote effective project control and successful project completion.

Baseline Cost Estimate

In the Grant Agreement, SANDAG provided a total cost estimate for the Project (the “Baseline Cost Estimate”). The Baseline Cost Estimate for the various components of the Project totals \$2,171,200,545, as summarized below in Table 5.

**TABLE 5
BASELINE COST ESTIMATE OF PROJECT COMPONENTS**

Project Component	Cost Estimate
Guideway and Track Elements	\$ 326,818,825
Stations	82,838,589
Siteworks & Special Conditions	502,814,371
Systems	171,350,363
Right-of-Way	101,233,011
Vehicles	178,478,010
Professional Services	381,254,046
Unallocated Contingency	69,013,709 ⁽¹⁾
Finance Charges	357,399,622 ⁽¹⁾
Baseline Cost Estimate Total	\$ 2,171,200,545⁽²⁾

⁽¹⁾ SANDAG’s fiscal year 2019-20 budget proposes to decrease finance charges by \$50,000,000 and increase the unallocated contingency by the same amount subject to FTA approval.

⁽²⁾ Total may not add due to rounding.

This Baseline Cost Estimate is used by FTA to monitor SANDAG’s compliance with certain terms and conditions of the Grant Agreement. Although certain costs may be higher than initial projections, SANDAG currently expects other costs, such as finance charges, to be lower and the total cost of the Project will be within the Baseline Cost Estimate. Table 6 on the following page sets for the Baseline Cost Estimate by category and the known and projected variances and estimates of costs to complete the Project.

TABLE 6
SUMMARY OF BASELINE COST ESTIMATE, EXPENDITURES PAID, AND ESTIMATES OF COSTS TO COMPLETION
 (as of May 31, 2019)

DESCRIPTION	PROJECT BUDGET						ESTIMATE AT COMPLETION		CUMULATIVE EXPENDITURES Through 05/2019	MONTHLY EXPENDITURES 05/2019
	Baseline - Base Estimate	Baseline - Contingencies	Total Baseline	Transfers	Current	Authorization for Expenditure	Current Forecast	Variance from Current Budget		
GUIDEWAY & TRACK ELEMENTS	\$311,221,738	\$15,597,087	\$326,818,825	-	\$326,818,825	\$327,959,537	\$326,818,825	-	\$221,584,839	\$14,900,008
STATIONS	78,863,894	3,974,695	82,838,589	-	82,838,589	78,233,894	82,838,589	-	9,105,004	763,203
SITEWORKS & SPECIAL CONDITIONS	475,544,503	27,269,868	502,814,371	-	502,814,371	483,629,673	502,814,371	-	344,355,947	6,033,415
SYSTEMS	161,817,012	9,533,351	171,350,363	-	171,350,363	148,359,521	171,350,363	-	62,523,669	4,828,403
CONSTRUCTION - Subtotal	1,027,447,147	56,375,000	1,083,822,147	-	1,083,822,147	1,038,182,626	1,083,822,147	-	637,569,458	26,525,029
RIGHT-OF-WAY	86,731,200	14,501,810	101,233,011	\$9,700,000	110,933,011	98,882,368	110,933,011	-	95,911,758	149,784
VEHICLES	169,979,057	8,498,952	178,478,010	(5,000,000)	173,478,010	163,680,691	173,478,010	-	58,128,606	13,059
PROFESSIONAL SERVICES	352,867,318	28,386,728	381,254,046	2,000,000	383,254,046	347,219,571	383,254,046	-	295,560,197	4,362,540
UNALLOCATED CONTINGENCY ⁽¹⁾	-	69,013,709	69,013,709	(56,700,000)	112,313,709	-	112,313,709	-	---	---
SUBTOTAL - SCCs	1,637,024,723	176,776,200	1,813,800,923	-	1,863,800,923	1,647,965,256	1,863,800,923	-	1,087,170,019	31,050,412
FINANCE CHARGES ⁽¹⁾	-	-	357,399,622	(50,000,000)	307,399,622	33,531,677	307,399,622	-	33,531,677	4,179,886
TOTAL PROJECT COST	\$1,637,024,723	\$176,776,200	\$2,171,200,545	-	\$2,171,200,545	\$1,681,496,933	\$2,171,200,545	-	\$1,120,701,696	\$35,230,298

⁽¹⁾ SANDAG's fiscal year 2019-20 budget proposes to decrease amounts allocated to finance charges by \$50,000,000 and increase the unallocated contingency by the same amount subject to FTA approval.

Project Risk and Contingency Assessment

Project Risk and Contingency Management Plan. SANDAG's Risk and Contingency Management Plan for the Project, dated April 15, 2016 (the "Risk and Contingency Management Plan") identifies the decision-making process for risk identification, risk assessment, risk analysis, risk management, risk mitigation and risk monitoring and reporting. It includes processes for documenting the Project's status, as well as changes to existing and potential new risks.

The Risk Manager and supporting staff are responsible for examining the Project's elements and requirements and for identifying each critical technical process for purposes of addressing associated risks. Each identified risk area is analyzed in more detail to isolate the causes and assess the impacts of risk. This phase of the process includes risk rating and prioritization in which risk events are defined in terms of their probability of occurrence, severity of consequences/impacts, and relationship to other risk areas or processes.

The Risk and Contingency Management Plan for the Project also addresses coordination processes that provide for advanced notification of potential issues to all appropriate agencies and for timely resolution via regular progress reports that provide the current status of the Project. These reports identify issues that may potentially impact the progress of the Project and propose mitigation plans to reduce the risk of not achieving key milestone dates.

Project Cost Contingency. The Baseline Cost Estimate described in Table 5 includes contingencies allocated to each of the components of the Project in addition to an unallocated contingency for the Project that were all developed through a detailed risk assessment process in accordance with the Risk and Contingency Management Plan and FTA-approved software simulations and calculations prepared by SANDAG.

As shown in Table 7 below, of the total Project contingency of approximately \$176.78 million, SANDAG has utilized only \$58.77 million or approximately 33%. This leaves approximately \$118 million of total Project contingency remaining. SANDAG's fiscal year 2019-20 budget currently proposes to transfer \$50 million that is currently allocated to finance charges in the Baseline Cost Estimate to the unallocated contingency which, if approved by FTA, will increase the total remaining Project contingency to \$168 million.

TABLE 7
PROJECT COST CONTINGENCY DRAWDOWN SUMMARY
(as of May 31, 2019)

Project Components	Baseline Contingency	Total Contingency Utilized	Contingency Remaining
Construction	\$56,375,000	\$(29,904,413)	\$26,470,587
Right-of-Way	14,501,810	(7,925,000)	6,576,810
Vehicles	8,498,952	-	8,498,952
Professional Services	28,386,728	(14,240,510)	14,146,218
Unallocated Contingency ⁽¹⁾	69,013,709	(6,700,000)	62,313,709
Total Contingency	\$176,776,200	\$(58,769,923)	\$118,006,277

⁽¹⁾ SANDAG's fiscal year 2019-20 budget proposes to decrease amounts allocated to finance charges by \$50,000,000 and increase the unallocated contingency by the same amount subject to FTA approval.

SANDAG currently expects the Project to be completed within the Baseline Cost Estimate described in Table 5. Although costs associated with right-of-way acquisitions and construction are above the original budget, they have been offset by savings in financing costs such that the Project is currently expected to be completed within budget. The total project budget is currently \$2.17 billion, of which \$1.085 billion has been spent as of May 31, 2019. Change orders for the Project totaling \$48.7 million have been approved or are pending as of May 31, 2019.

Project Schedule Contingency. The baseline schedule for the Project was developed by SANDAG in cooperation with FTA based on FTA-approved statistical analyses of schedules. In connection with such baseline schedule, a minimum schedule contingency was also developed. The minimum schedule contingency identifies the minimum anticipated schedule contingency remaining at key project milestones. The actual contingency remaining at each date is calculated based on an analysis of the current Project construction schedule to reflect completed actions and update based on outstanding actions. The actual contingency is compared to the Required Revenue Service Date of November 23, 2022. Table 8 below shows the minimum contingency and actual contingency measured at six-month intervals (with the exception of May 2019, which was included to show current progress) starting in March 2016 when the Project schedule contingency was established. As of May 31, 2019, the actual contingency is 12.8 months compared to the minimum contingency of 6 months.

TABLE 8
PROJECT MINIMUM AND ACTUAL CONTINGENCY
(as of May 31, 2019)

Date	Minimum Contingency (months)	Actual Contingency (months)
March 2016	19.0	19.0
September 2016	17.0	19.0
March 2017	11.0	12.4
September 2017	11.0	12.4
March 2018	8.0	12.8
September 2018	8.0	13.0
March 2019	6.0	12.2
May 2019	6.0	12.8

Table 9 that follows lists certain critical milestones used in order to track and assess schedule risks for the Project. As of September 2016, SANDAG’s original estimate for the date for the Project’s commencement of revenue operation was September 27, 2021. Currently, SANDAG projects commencement of revenue operation on October 29, 2021, as shown in Table 9. The roughly one month variance from the baseline schedule is largely due to heavy rains in 2018 and 2019, which resulted in delays in construction. As noted in Table 9, the Grant Agreement requires SANDAG to commence revenue operation of the Project no later than the Required Revenue Service Date, November 23, 2022. See “THE GRANT AGREEMENT,” “INVESTMENT CONSIDERATIONS – Default Under Grant Agreement” and APPENDIX A – “THE GRANT AGREEMENT.”

TABLE 9
PROJECT MILESTONES, BASELINE SCHEDULE AND CURRENT PROJECTION
(as of May 31, 2019)

Milestone	Baseline Schedule	Current Projection
Heavy Construction Duration	56 months	57.2 months
Reach 14 Track Construction Finish	August 6, 2020	October 23, 2020
MTS Integrated Testing Start	April 20, 2021	May 24, 2021
Final Completion by Construction Manager/General Contractor	July 16, 2021	August 19, 2021
Anticipated Date of Revenue Service	September 27, 2021	October 29, 2021
Required Revenue Service Date	November 23, 2022	November 23, 2022

Right-of-Way Acquisitions. As of May 31, 2019, SANDAG has completed right-of-way acquisitions for 29 of the total 43 properties, although SANDAG has permission to advance construction on 40 of the 43 properties. SANDAG is currently continuing acquisition efforts and negotiations with the remaining property owners. SANDAG cannot predict the exact cost risk for settlement of the outstanding right of way acquisitions, but the right of way impacts for the four remaining properties needed for construction are minor and acquisition is not expected to affect the anticipated Revenue Service Date or other construction milestones shown in Table 9 above.

Funding of Project Costs

SANDAG expects to fund less than half of the Project’s estimated cost of \$2,171,200,545 from moneys received pursuant to the Grant Agreement and the Bond proceeds. As shown on Table 10, the remaining portion of the Project will be funded by local funds in the amount of \$1,127,691,422, which include funds from the TIFIA Loan (as defined below) and the proceeds of bonds previously issued by the Commission and secured by sales tax revenues – derived from a one-half of one percent (0.5%) retail transactions and use tax (the “Sales Tax”). Such local funds have been received by the Commission and are fully committed, though at this time not all local funds have been expended by SANDAG for Project costs. SANDAG expects all local funds to be paid out for Project costs in 2020. Only moneys received pursuant to the Grant Agreement and the proceeds from the Bonds are needed to complete the Project under the current funding plan.

The Commission 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), 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 (“*TransNet*”).

In order to provide local funds for the Project, on April 18, 2018, the Commission issued the San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A (the “Short Term Notes”) in the aggregate principal amount of \$537,480,000, maturing on April 1, 2021, which are secured by revenues from the Sales Tax.

On June 27, 2017, the Commission entered into a loan agreement in the aggregate principal amount of up to \$537,484,439 with the United States Department of Transportation, acting by and through the Executive Director of the Build America Bureau (the “TIFIA Loan”). The TIFIA Loan is

payable from and secured by a pledge of the Commission’s revenues from the Sales Tax that is junior and subordinate to the pledge of sales tax revenues to repay the Short Term Notes. SANDAG expects to draw on the TIFIA Loan prior to completion of the Project and apply such funds to retire the Short Term Notes. Although SANDAG expects the Short Term Notes to be paid at maturity by drawing on the TIFIA Loan, the Short Term Notes are limited obligations of the Commission payable from and secured by a pledge of sales tax revenues that is junior and subordinate to the pledge of the Commission’s sales tax revenues to repay its senior sales tax revenue bonds.

**TABLE 10
PROJECT FUNDING**

Funding Source	Total Funding Amount	Percentage of Total Funding Amount
FTA Funds		
Grant Agreement (Section 5309 Grant Receipts)	\$1,043,380,000	48.06%
Other FTA Funds	129,123	-
Local Funds		
<i>TransNet</i> Sales Tax Revenues ⁽¹⁾	559,410,135	25.77
The Short Term Notes/TIFIA Loan ⁽²⁾	568,281,287	26.17
Local Funds Subtotal	\$1,127,691,422	51.94%
Project Total	\$2,171,200,545	100.00%

⁽¹⁾ Includes proceeds of bonds previously issued by the Commission secured by the Sales Tax and annual direct contributions.

⁽²⁾ SANDAG expects to draw on the TIFIA Loan prior to April 1, 2021 and apply the proceeds to the repayment in full of the Short Term Notes.

Source: SANDAG

The Board of the Commission 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.

“Green Bond” Designation of the Project

SANDAG is designating the Bonds as “Green Bonds” because the Project being funded with proceeds of the Bonds is projected to result in several environmental benefits.

Use of Proceeds. The proceeds of the Bonds, with the exception of the Bond proceeds used to fund the Debt Service Reserve Fund, capitalized interest and costs of issuance, will be spent on the construction of the Project. The Project is an extension of the existing light rail system and will link major activity centers within the County. The Project is designed to serve major activity and employment centers such as the University of California, San Diego (“UC San Diego”), University Town Center (“UTC”), a number of biotech, computer and financial companies in addition to major hospitals. The Project, once completed, would link four major universities from north to south: California State University, San Marcos, UC San Diego, University of San Diego, and San Diego State University, as well as several community colleges to the east. Additionally, due to its connectivity, the Project also would link lower income communities in the southern and eastern parts of the county to important research, employment, health care and activity centers in the University City community. The Project extends the current Blue Line services that would share the existing tracks with the San Diego Trolley Green Line trains which run to the eastern cities of the County.

Process for Project Evaluation and Selection. The Project is one of the major transportation projects identified by the SANDAG Board in its long-range plan to improve mobility and relieve congestion while promoting sustainability and enhancing the region’s quality of life. The Project complements existing heavy rail (Coaster commuter rail, intercity AMTRAK service that operate along the LOSSAN corridor), light rail (Sprinter that runs east-west along the SR 78 corridor in north cities of the County and the San Diego Trolley that runs east and south from Downtown), bus service (both Bus Rapid Transit and local routes), local street and roads and the major interstate and state highways. The purpose of the Project is to provide long-term congestion relief, more easily expandable transportation options for future growth and link major activity centers around the County.

Transit Benefits. Implementation of the Project is expected to improve accessibility and connectivity as a result of the new transit service. Nine new stations would provide increased opportunities to access the transit system for the communities and neighborhoods within the study area. As a result, environmental justice populations (as such term is defined in Federal Transit Administration Circular 4703.1, “Environmental Justice Policy Guidance for Federal Transit Administration Recipients”) within the corridor would have greater opportunity to access the transit system in the corridor as well as region-wide. Five of the nine identified environmental justice populations in the corridor are located within one-half mile of the Project alignment.

Regional Air Quality Benefits. The Project is expected to help reduce vehicle miles traveled (VMT). Since emissions of air pollutants and greenhouse gases (GHG) generally decrease as VMT decreases, the Project is expected to result in reductions in air pollutants, including sulfur dioxide, NOX, particulate matter, and GHG.

Energy Benefits. Transportation sources account for nearly 40 percent of California’s energy consumption. The Project is projected to reduce regional VMT by approximately 137,000 miles daily and reduce daily regional roadway energy usage by approximately 3,100 million British thermal units.

Management of Proceeds. SANDAG will deposit the net proceeds of the Bonds into the Grant Receipts Construction Fund. SANDAG will track the net proceeds as these funds are expended for the Project.

Reporting. Annually, until the net proceeds of the Bonds are fully expended, SANDAG intends to provide disclosure regarding the amount of net proceeds expended on the Project. Disclosures will be made through the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board, accessible at www.emma.msrb.org, and the annual disclosure will be made when SANDAG provides its Annual Report (defined herein). See “CONTINUING DISCLOSURE” herein. Once all net proceeds of the Bonds are expended and disclosure regarding such expenditure is made, no further disclosures as to expenditure of proceeds will be provided. SANDAG has committed to a number of design and operational characteristics of the Project in order to advance SANDAG’s long-range plan to improve mobility and relieve congestion while promoting sustainability and enhancing the region’s quality of life. SANDAG may provide reports and updates to this end; however, such reports and updates are provided on a voluntary basis and are not included as part of the Continuing Disclosure Agreement for the Bonds.

THE GRANT AGREEMENT

General

The primary program under which FTA provides funding for major transit capital investments, including heavy rail, commuter rail, light rail, streetcars, and bus rapid transit, is the Capital Investment Grant Program, as authorized under Section 5309. Pursuant to Section 5309, in September 2016, SANDAG entered into the Grant Agreement with FTA, which provides for federal financial assistance in the form of grants to SANDAG to fund a portion of the costs of the Project. The execution of the Grant Agreement was the result of a multi-year process undertaken by SANDAG, beginning with the adoption of the Project into the long-range transportation plan in October 2010. For more information on the Project's progression through the various phases of the grant approval process, see "FEDERAL TRANSIT PROGRAM – New Starts Projects – Grant Approval Process" herein.

The Grant Agreement contains FTA's contingent commitment to provide a grant under Section 5309 of the New Starts program to SANDAG to fund a portion of the costs of the Project. The Grant Agreement sets forth an annual schedule of the grant amounts that FTA expects to provide for the Project. The Grant Agreement also specifies the requirements that SANDAG must satisfy in order to receive and retain the Grant Receipts. Pursuant to the Grant Agreement, FTA has committed a total of \$1,043,380,000 of Grant Receipts to the Project, of which \$430,024,740 has been received by SANDAG to date. SANDAG expects to receive the remaining balance of the Grant Receipts under the Grant Agreement (in the aggregate amount of \$613,355,260) in installments over the next seven years between FFY 2020 and 2026.

The Grant Agreement provides that the award of these funds is contingent upon the future availability of appropriated funds by Congress from future budget authority specified in law and the continued performance of SANDAG under the Grant Agreement. This contingent commitment of funds does not constitute an obligation of the United States. However, to date, Congress has fully funded all Full Funding Grant Agreement ("FFGA") commitments under the Section 5309 CIG Program (apart from cancelled projects). In certain instances, such funding may not have been provided in accordance with the funding schedule set forth in the applicable FFGA.

Receipt of federal funding under the Grant Agreement is subject to annual appropriation by Congress each FFY as part of the federal budget process. Each FFY, FTA prepares an "Annual Report on Funding Recommendations," which includes the appropriation recommendations for each Project and serves as a companion document to the President's budget for such FFY. When preparing funding recommendations for the upcoming fiscal year, FTA's priority is to honor the commitments made in existing FFGAs. See "FEDERAL TRANSIT PROGRAM" below for a discussion of the New Starts program.

SANDAG expects to obtain the Grant Receipts in single annual appropriations, which SANDAG may draw on throughout the FFY in one or more draws. Once annual appropriations are made by Congress, SANDAG amends the grant in the FTA project database to add the funds appropriated. Upon FTA approval of the amended grant amount, SANDAG proceeds to request payment based on federally eligible expenditures to date and the Maximum Federal New Starts Financial Contribution (as defined herein). The request for payment is transmitted electronically and funds are received electronically the following business day. SANDAG has received \$430,024,740 to date under the New Starts program for the Project. Table 11 sets forth the grant commitment by FTA and the grant amounts received and anticipated under the Grant Agreement. SANDAG expects to receive additional grant amounts under the Grant Agreement resulting in total funding for the Project under the New Starts program of

\$1,043,380,000, assuming full appropriation by Congress and continued funding approval by FTA. See “INVESTMENT CONSIDERATIONS – Uncertainties in Federal Funding.”

**TABLE 11
RECEIVED AND ANTICIPATED GRANT RECEIPTS**

Federal Fiscal Year (Ending September 30)	Original Grant Commitment⁽¹⁾	Grant Receipts Received and/or Anticipated⁽²⁾	Cumulative Subtotal of Grant Receipts
2016	\$ 100,000,000	\$ 100,000,000 ⁽³⁾	\$ 100,000,000
2017	125,000,000	50,000,000 ⁽⁴⁾	150,000,000
2018	100,000,000	180,000,000 ⁽⁵⁾	330,000,000
2019	100,000,000	100,000,000 ⁽⁶⁾	430,000,000
2020	100,000,000	100,000,000	530,000,000
2021	100,000,000	100,000,000	630,000,000
2022	100,000,000	100,000,000	730,000,000
2023	100,000,000	100,000,000	830,000,000
2024	100,000,000	100,000,000	930,000,000
2025	100,000,000	100,000,000	1,030,000,000
2026	18,380,000	13,355,260 ⁽⁷⁾	1,043,355,260
Total	\$ 1,043,380,000	\$ 1,043,355,260	

(1) Grant Receipts as scheduled in the Grant Agreement.

(2) Actual amounts received and/or anticipated.

(3) Received September 21, 2016.

(4) Received September 27, 2017.

(5) Received September 6, 2018. On February 8, 2019, SANDAG received \$80,024,740 in a FFY 2018 appropriation that was in addition to the anticipated FFY 2018 \$100,000,000 appropriation.

(6) Received June 13, 2019.

(7) Grant Agreement reflects \$18,380,000 of grant funding in FFY 2026. However, through the final FFY 2018 appropriation, SANDAG received excess Grant Receipts in the amount of \$5,024,740. As a result, Grant Receipts for FFY 2026 have been adjusted downward by an equal amount.

Source: SANDAG

In FFY 2017, Congress appropriated less than the full amount initially scheduled in the Grant Agreement for the Project largely due to the timing of the execution of the Grant Agreement, the congressional appropriation cycle, and SANDAG’s drawdown of the FFY 2016 funds. In FFY 2018, however, Congress appropriated more than the scheduled amount as shown above to compensate for the shortfall in FFY 2017. As a result of the excess Grant Receipts received in FFY 2018, SANDAG’s expectations for FFY 2026 have been adjusted downward, as shown in Table 11, to stay within the total amount of the Grant Agreement.

In addition to the maximum federal New Starts financial contribution for the Project of \$1,043,380,000 (the “Maximum Federal New Starts Financial Contribution”), the Grant Agreement also established a maximum percentage of New Starts participation of 48.06% of total Project costs (the “Maximum New Starts Participation Rate”). In the event that the total cost of the Project comes in less than anticipated such that the Maximum Federal New Starts Financial Contribution set forth in the Grant Agreement exceeds the Maximum New Starts Participation Rate, then the grant amount would be reduced to a level equal to the Maximum New Starts Participation Rate and Grant Receipts would correspondingly be adjusted downward. SANDAG currently expects that it will have sufficient eligible project costs to receive the full amount scheduled under the Grant Agreement. In the event that SANDAG’s construction of the Project is more efficient than the original Baseline Cost Estimate for the Project, SANDAG plans

to identify additional eligible expenditures in order to maximize its Grant Receipts under the Grant Agreement and achieve the Maximum Federal New Starts Financial Contribution. The Grant Agreement also includes a “Maximum Percentage of FTA Participation” equal to 48.06%. The TIFIA Loan does not count toward such maximum because it is not administered by FTA. Under the FAST Act, the maximum federal contribution from all federal sources to a New Starts Project such as the Project is 80%, and the TIFIA Loan counts toward such maximum federal contribution.

SANDAG expects that sufficient funds will be available from the Bonds and other sources to meet cash flow needs for the Project. In order to receive the Grant Receipts, SANDAG has agreed to complete the Project and to secure any additional funds in excess of the Maximum Federal New Starts Financial Contribution that are necessary to complete the Project. As a condition of FTA’s execution of the Grant Agreement, SANDAG developed and adopted a financing plan (the “Financing Plan”) that is incorporated as a part of the Grant Agreement for the financing of all costs necessary to complete the Project. The Financing Plan includes, in addition to the Maximum Federal New Starts Financial Contribution, a statement of the State and local sources of funding that will be committed to the Project. The Grant Agreement sets forth SANDAG’s commitment to provide funds as set forth in the Financing Plan in an amount sufficient, together with the federal contribution, to assure timely and full payment of the costs necessary to complete the Project. The Financing Plan contemplates a number of funding sources and financing mechanisms to complete the Project, as summarized above in “TABLE 10—PROJECT FUNDING.”

The Grant Agreement includes a Baseline Cost Estimate for the Project. The Baseline Cost Estimate of \$2,171,200,545 is used by FTA to monitor SANDAG’s compliance with certain terms and conditions of the Grant Agreement. SANDAG expects the total cost of the Project to remain within the Baseline Cost Estimate. See “THE PROJECT – Baseline Cost Estimate.”

SANDAG also developed a funding plan for the future operation and maintenance of the Project (the “O&M Funding Plan”) that is incorporated as a part of the Grant Agreement. The O&M Funding Plan has been developed to assure that SANDAG has stable and dependable funding sources, sufficient in amount and in degree of commitment, to provide the Metropolitan Transit System, as owner and operator of the Project once completed, to operate and maintain the Project at an adequate and efficient level of service, including the future operation and maintenance of the Project. See “TRANSIT OPERATORS WITHIN THE COUNTY – San Diego Metropolitan Transit System.”

Noncompliance

Certain failures to comply with the terms of the Grant Agreement will constitute a default under the Grant Agreement, including but not limited to, a failure by SANDAG (i) to complete the Project and open it for revenue service no later than the Required Revenue Service Date, (ii) to maintain certain levels of service in connection with the Project for at least five years after revenue service, or (iii) to comply with any of FTA’s regulatory requirements in accordance with the Grant Agreement. Pursuant to the Grant Agreement, FTA will review SANDAG’s performance to determine whether satisfactory progress is being made to complete the Project.

SANDAG agreed in the Grant Agreement to a Required Revenue Service Date of November 23, 2022. Failure to achieve the Required Revenue Service Date would constitute a default under the Grant Agreement. The Grant Agreement provides, however, that upon SANDAG’s request, FTA may determine at its sole discretion to waive a breach or an anticipatory breach of the Grant Agreement and to extend the Required Revenue Service Date (a) if there is an unavoidable delay in achieving the operational goals of the Project resulting from an event or circumstance beyond SANDAG’s control, or (b) if FTA determines that allowing the delay is in the best interest of FTA and the success of the Project.

Any such request to waive the breach and extend the Required Revenue Service Date must be submitted promptly to FTA, and FTA will take into consideration the actions and measures taken by SANDAG to ensure adherence to its promise to achieve the operational goals of the Project on or before the Required Revenue Service Date. See “APPENDIX A – THE GRANT AGREEMENT” and “INVESTMENT CONSIDERATIONS—Construction Risk.”

SANDAG also agreed in the Grant Agreement to maintain certain levels of service for the Project (the “Levels of Service”) for no less than five (5) years after it is opened to revenue service. The Levels of Service include:

- Hours of operation: 4:00 a.m. to 2:00 a.m. on weekdays and weekends.
- On weekdays, service will be provided every fifteen minutes during peak and off-peak periods and every thirty minutes during the evening period from 6:00 p.m. to 2:00 a.m.
- On weekends service will be provided every 15 minutes throughout the day.

See “APPENDIX A – THE GRANT AGREEMENT.”

SANDAG expects MTS, as the operator of the Project, to provide the Levels of Service required under the Grant Agreement. MTS developed a Rail Fleet Management Plan, dated October 2015 (the “Rail Fleet Management Plan”) that was submitted and reviewed by FTA in connection with the grant approval process that sets forth MTS’s plan for meeting or exceeding the Levels of Service required by the Grant Agreement. For more information on MTS, see “TRANSIT OPERATORS WITHIN THE COUNTY – San Diego Metropolitan Transit System.”

Failure to achieve and maintain the Levels of Service upon revenue service and for five (5) years thereafter constitutes a breach of the Grant Agreement. At SANDAG’s request, the FTA may determine in its sole discretion to waive a breach of SANDAG’s obligation to maintain the specified Levels of Service for events or circumstances beyond SANDAG’s control, or if the FTA determines that a waiver is in the interests of the United States. In the exercise of its discretion whether to waive a breach of the specified Levels of Service, FTA will take into consideration the actions and measures taken by SANDAG to achieve and maintain the operational goals of the Project and SANDAG’s entire public transportation system for at least five (5) years beyond the opening of the Project to revenue service. See “APPENDIX A – THE GRANT AGREEMENT.” See also “THE PROJECT.” SANDAG is obligated and expects to provide funds to MTS for acquisition of LRVs and Project operations, but MTS is solely responsible for managing such acquisition and operation of the Project, and SANDAG may have limited, if any, rights to intervene in the management of such acquisition and operation. See “TRANSIT OPERATORS WITHIN THE COUNTY – San Diego Metropolitan Transit System.”

Pursuant to the Grant Agreement, the Project is subject to FTA’s project management oversight regulations described in Part 633 of Title 49 of the Code of Federal Regulations. Failure to comply with any such regulatory requirement constitutes a breach of the Grant Agreement unless FTA formally waives the regulatory requirement. See “APPENDIX A – THE GRANT AGREEMENT.”

In the event of a breach of the Grant Agreement by SANDAG and prior to taking any action provided under the Grant Agreement, FTA will provide SANDAG with ninety (90) days written notice that FTA considers a breach to have occurred and will provide SANDAG a reasonable period of time to respond and take necessary corrective action. FTA may in its discretion permit the costs of such corrective action to be deemed a reimbursable project cost so long as it is eligible for reimbursement under the Grant Agreement. In the event of default, FTA will have all remedies at law and equity,

including the right to specific performance without federal financial assistance, and the right to terminate or suspend all or a part of the federal financial assistance. FTA may also demand that all Grant Receipts provided to SANDAG for the Project be returned to FTA. See “APPENDIX A—THE GRANT AGREEMENT.”

SANDAG works closely with FTA to prevent any breach or default from occurring. SANDAG provides monthly reports and participates in quarterly meetings with FTA to provide updates on Project status.

FEDERAL TRANSIT PROGRAM

Federal Transportation Legislation

Congress has authorized funding for federal transportation programs for many years and through many different legislative acts, alternating between reauthorizations of various lengths as well as short-term extensions of those programs. Congress has established the funding for FTA programs through authorizing legislation that amends Chapter 53 of Title 49 of the U.S. Code. The Section 5309 Capital Investment Grant Program (the “Section 5309 CIG Program”) evolved from Section 3 of the Urban Mass Transportation Act of 1964 (P.L. 88-365). In 1994, Section 3 became Section 5309 in a revision without substantive change to Title 49 of the United States Code. Beginning in the 1970s, as the commitment of, and demand for, federal funding began to grow, the U.S. Department of Transportation issued a series of policy statements on the principles by which it would distribute discretionary money to so-called “new starts.” These statements, issued in 1976, 1978, 1980, and 1984, introduced a series of principles that were later written into federal law, including long-range planning, alternatives analysis incorporating a baseline alternative, cost effectiveness, local financial commitment, multi-year contracts specifying the limits of federal participation, supportive local land use planning, and a ratings system.

Congress inserted many of these principles into law in the Surface Transportation and Uniform Relocation Assistance Act of 1987 (“STURAA”; P.L. 100-17). STURAA established the criteria by which capital improvement grant projects would be judged in order to be eligible for federal funding, and also required DOT’s recommendations for funding in the subsequent fiscal year to be detailed in an annual report to Congress. The criteria enacted in STURAA required a capital investment grant project to be based on an alternatives analysis and preliminary engineering, to be cost-effective, and to be supported by an acceptable amount of local financial commitment that is stable and dependable.

The most recent congressional authorization for federal transportation programs is Public Law 114-94, the Fixing America’s Surface Transportation Act (the “FAST Act”). The FAST Act became law on December 4, 2015, and authorizes funding for surface transportation programs, including mass transit programs, for FFY 2016 through FFY 2020. Total funding for FTA-related programs under the FAST Act is expected to be approximately \$61.1 billion through FFY 2020, including \$11.5 billion for the Section 5309 CIG Program.

Federal transportation program funding must be reauthorized periodically by Congress; historically, Congress has often authorized funding through multi-year reauthorization legislation. Prior to the enactment of the FAST Act, the last multi-year authorization of federal transportation funding was the “Moving Ahead for Progress in the 21st Century Act” (“MAP 21”), which provided funding for two FFYs 2012-2014. In periods between multi-year authorizations, Congress consistently has used short-term extensions to fund federal transportation programs at the previously authorized funding levels. For example, between August 2014 and December 2015, Congress enacted five short-term extensions to provide continued funding for federal transportation programs, including the programs that fund the Grant Receipts.

Congressional authorization of federal funding for the Grant Receipts is not, by itself, sufficient to allow SANDAG to receive the Grant Receipts. Appropriations acts are necessary in order to create budget authority for federal expenditures such as the expenditure of the funds that comprise the Grant Receipts. Other federal actions must also take place to allow SANDAG to receive Grant Receipts.

No assurance can be given that Congress will continue to appropriate the funding authorized by the FAST Act or subsequent authorizing legislation, that Congress will authorize funding after FFY 2020, that Congress will not change the current authorization for the federal transportation programs, or that Congress and the federal government will take all actions necessary for SANDAG to receive Grant Receipts in amounts sufficient to pay the Bonds. See “INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding.”

Section 5309 Capital Investment Grant Program

General. Under the Section 5309 CIG Program, the Secretary of Transportation may make discretionary capital investment grants to assist public bodies in financing capital projects for the construction of new fixed-guideway public transportation systems and the expansion of existing systems (“New Starts”). Eligible projects include transit rail, such as subway/elevated rail, light rail, and commuter rail, as well as bus rapid transit and ferries. The discretionary nature of the Section 5309 Program makes it unique from other federal transit funding programs that apportion funds by formula. Unlike other federal funding, the funding for the Section 5309 CIG Program comes from the general fund of the U.S. Treasury—not the mass transit account of the Highway Trust Fund. Therefore, funding for the Section 5309 CIG Program is subject to appropriation each year.

There are four types of Section 5309 CIG Programs:

- **New Starts:** an operable segment of a new fixed-guideway system or an extension of an existing system that costs \$300 million or more and receives \$100 million or more in Section 5309 CIG Program funding.
- **Small Starts:** a new fixed-guideway project or a corridor-based bus rapid transit that costs less than \$300 million and receives less than \$100 million of Section 5309 CIG Program funding.
- **Core Capacity:** expansion of an existing fixed-guideway corridor to increase capacity by 10% or more.
- **Program of Interrelated Projects:** the simultaneous development of two or more New Starts, Small Starts, or Core Capacity projects, or a combination thereof.

Federal Funding of Section 5309 CIG Program. Under Section 5309, FTA is permitted to make commitments for all of the authorized funding during the period provided by the FAST Act (FFY 2016 to FFY 2020), which is approximately \$2.3 billion per year – about 19% of the overall federal public transportation program budget. This is an increase from the funding under MAP 21, as shown in Table 12.

TABLE 12
SECTION 5309 GRANTS
(in millions)

FY15 (MAP 21)	FFY16	FFY17	FFY18	FFY 19	FFY 20
\$2,120.0	\$2,301.8	\$2,301.8	\$2,301.8	\$2,301.8	\$2,301.8

Source: U.S. Department of Transportation, Federal Transit Administration.

The congressional authorization of federal funding under the FAST Act is not, by itself, sufficient to allow grant recipients to receive funds under an FFGA. Appropriations acts are necessary in order to create budget authority for federal expenditures such as the expenditure of the funds that comprise the grant payments by FTA under an FFGA. The annual appropriations are made in aggregate and are not project specific. The following table sets forth the total congressional appropriations for the Section 5309 CIG Program for FFY 2006 through 2019.

TABLE 13
SECTION 5309 CIG PROGRAM APPROPRIATIONS

Federal Fiscal Year	Total Congressional Appropriation for Section 5309 CIG Program
2006	\$ 1,455,234,000
2007	1,466,000,000
2008	1,569,091,997
2009	1,809,250,000 ⁽¹⁾
2010	1,720,000,000
2011	1,600,000,000
2012	1,955,000,000
2013	1,955,000,000
2014	1,942,938,000
2015	2,120,000,000
2016	2,177,000,000
2017	2,412,631,000
2018	2,644,960,000
2019	2,552,687,000

⁽¹⁾ In 2009, the American Recovery and Reinvestment Act (“ARRA”) appropriated an additional \$750 million for the Section 5309 CIG Program, that is excluded from this table. FTA announced its allocation in the Federal Register on May 11, 2009 and funds were allocated to projects with existing FFGAs.

Source: U.S. Congressional Appropriation Acts for FFY 2006 through 2019.

FTA’s commitment to provide grant funding equal to the authorized funding levels for a New Starts project results in FTA’s reservation of available commitment authority from authorized funds for the New Starts project over the specified funding term. In any Federal Fiscal Year, however, available New Starts funds may be less than the funds requested by grant applicants. FTA’s stated policy is to assign first priority for available funds to New Starts projects for which FTA has awarded an FFGA. In other words, when preparing funding recommendations for the upcoming fiscal year, FTA’s priority is to honor the commitments made in existing FFGAs. Next, FTA performs an evaluation and ranking of authorized projects submitted by new grant applicants to determine New Starts recommendations. FTA’s policy is to recommend new projects not yet under FFGAs for funding only if the proposed Section 5309 CIG Program funding levels are sufficient. Congress considers the funding allocations proposed by FTA

and in most cases provides the annual amounts scheduled in the FFGA. However, Congress has the ultimate authority to adjust these annual amounts and, in some cases, has done so in the past. FTA's existing commitments for New Starts projects are detailed in the annual report to Congress each February through the inclusion of the grant funding schedule contained in each FFGA for the coming year. The Secretary of Transportation also must submit a supplemental report to Congress on each August 31 as an update on projects that have completed planning or preliminary engineering.

To date, Congress has fully funded all FFGA commitments (except for those relating to projects subsequently cancelled), but such funding may not have been provided in accordance with the funding schedule set forth in each FFGA. Fully funding an FFGA commitment can mean either funding to the "not to exceed" amount of New Start funding or to the "New Start participation rate." Each FFGA includes a "not to exceed" amount of New Start funding as well as a "New Start participation rate," both of which are set at the time the FFGA is entered into by FTA and the recipient. If the total project cost comes in at less than anticipated by the FFGA, then the participation rate would control, and the final amount of the FFGA that is paid would be adjusted downward, to stay within the New Start participation rate. See "THE GRANT AGREEMENT – General" and "INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding."

No assurance can be given that Congress will continue to appropriate the funding authorized by the FAST Act or subsequent authorizing legislation, that Congress will authorize funding after FFY 2020, that Congress will not change the current authorization for the federal transportation programs, or that Congress and the federal government will take all actions necessary for SANDAG to receive Grant Receipts in amounts sufficient to pay the Bonds. See "INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding."

New Starts Projects

New Starts Projects. Eligible New Starts projects involve the design and construction of new fixed guideways or extensions to fixed guideways (projects that operate on a separate right-of-way exclusively for public transportation, or that include a rail or catenary system) and are defined under the FAST Act as projects with a total estimated capital cost of \$300 million or more, or that are seeking \$100 million or more in Section 5309 capital investment grant program funds. Under the FAST Act, New Starts projects are limited to a maximum Section 5309 CIG Program share of 60 percent. The maximum federal contribution from all federal sources to a New Starts project is 80 percent.

Grant Approval Process. Federal funding for New Starts is typically committed in a FFGA, which is a multi-year agreement between FTA and a transit agency. See "– Full Funding Grant Agreement" below. Under the Section 5309 CIG Program, the process of obtaining an FFGA and carrying out the project involves three main phases: development, engineering, and construction, which are described more fully below. In order to advance from one phase to the next, the project must achieve an overall rating of at least "medium" on a five-point scale (low, medium-low, medium, medium-high, high) on each of the project justification and local financial commitment summary ratings. In SANDAG's case, the Project received an overall project rating of "medium-to-high" with its ratings on project justification and the local financial commitment also at "medium-to-high."

Development Phase. To enter the project development phase, a transit agency or other applicant must apply to FTA and initiate the review process required by the National Environmental Policy Act of 1969 ("NEPA"). In addition to the NEPA work, the grant applicant must develop the information needed by FTA to review the project's justification and local financial commitment. The project development process is designed to identify regional transportation needs and to develop strategies to meet these needs; to provide local decision makers a logical structure for the development of regional transportation plans

from conception through design and construction; to provide to local decision makers technical information on costs, benefits and impacts; and to provide a forum for collaborative decision making by local transportation, land use, and resource agencies, with appropriate involvement by the public. Generally, the applicant has two years to complete project development, although an extension may be granted in certain situations.

The Project was initially approved by FTA under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users in August 2011. At the time Congress adopted MAP 21, the Project was in the development phase since environmental review associated with the Project was not yet complete. The draft supplemental environmental impact study (“EIS”) was issued in May 2013, followed by the final supplemental EIS in October 2014. FTA approved the Project into the engineering phase in April 2015.

Engineering Phase. A project can enter the engineering phase once the NEPA process is concluded, the project is selected as the locally preferred alternative, the project is adopted into the metropolitan plan, and the project is justified on its merits, including an acceptable degree of local financial commitment. The amount of New Start funding requested by the grant applicant is fixed when the project is approved for entry into engineering. This means that if a project’s cost increases after entry into engineering, the extra cost must be borne by the grant applicant from funding sources outside of the Section 5309 CIG Program.

Construction Phase. After engineering work is completed, FTA determines whether to sign an FFGA allowing the project to enter construction. FTA retains some oversight of a project as it is constructed to ensure compliance with the terms of the FFGA. Moreover, FTA must request the funding that is to be provided under the terms of the FFGA for each approved project from Congress each fiscal year. In some cases, FTA may assure a grant applicant of its intention to obligate funds for a project through what is known as a Letter of Intent. FTA may also obligate some of the funding expected to be provided in an FFGA through an Early Systems Work Agreement. Although not a guarantee of full funding, an Early Systems Work Agreement provides funding so that work can begin before an FFGA is awarded.

Project Rating Criteria. In order to progress through each phase of the process, FTA computes an overall project rating based on project justification criteria and the evaluation of local financial commitment for the project. The project justification criteria include:

- **Mobility improvements** - measured by the number of trips on the project, with trips by the transit-dependent population counting double. A high rating for New Starts projects is awarded to those that generate 30 million linked trips or more annually.
- **Environmental benefits** - measured by the monetized value of benefits in air quality, greenhouse gas emissions, energy use, and safety in relation to the cost of the project. Benefits are calculated based on the estimated reduction in vehicle miles traveled resulting from the project.
- **Congestion relief** - measured by the number of new weekday linked transit trips resulting from implementation of the new project. This is calculated by comparing total weekday linked transit trips for the no-build alternative with total weekday linked transit trips with the new project in place. A high rating is awarded to New Starts projects that generate 18,000 new weekday trips.
- **Economic development effects** - measured by the likely effects of the project on development in the nearby area. The rating is based on FTA’s qualitative analysis of supportive plans and policies.

- **Land use** - based on station area population density, employment served, affordable housing in the corridor, and the amount and cost of downtown parking. The extent and quality of pedestrian infrastructure near stations also is used in the evaluation.
- **Cost effectiveness** - measured by the annual capital amortized over asset lifetimes and operating cost per trip. A high rating is awarded for projects where the cost per trip is less than \$4 for a New Starts project.

The criteria for evaluating the local financial commitment include:

- **Reliability/financial capacity** - measured by the reasonableness of the capital and operating cost estimates and planning assumptions; and capital funding capacity to cover cost increases or funding shortfalls through debt issuance, cash reserves, or other committed funds.
- **Current capital and operating condition** - measured by the average age of the vehicle fleet, bond rating issued within the previous two years, current ratio of assets to liabilities, and recent service history.
- **Commitment of funds** - measured by the share of funds committed or budgeted versus planned. Significant private contributions may increase the commitment-of-funds rating by one level.

Once a project achieves at least a medium rating at the end of the engineering phase and has complied with other federal requirements, it is typically recommended for funding. However, in any given year, FTA first funds commitments made in existing FFGAs. After that, within the context of the available funds, FTA considers project readiness in signing new agreements and allocating funds.

The Secretary of Transportation is required under Section 5309 to make several specific findings concerning a grant applicant's planning for a project and a grant applicant's capability to carry out the project. The Secretary of Transportation has delegated authority to make these findings to FTA.

FTA will not make any grants under Section 5309 unless it finds that:

1. the project proposed is a product of the project development process,
2. the grant applicant has or will have the legal, financial, and technical capacity to carry out the project,
3. the grant applicant has or will have satisfactory continuing control over the use of the equipment or facilities, and
4. the grant applicant has or will have the capability to maintain the equipment or facilities, and will maintain the equipment or facilities.

Full Funding Grant Agreement

FTA provides funding for a project approved under the Section 5309 New Starts program pursuant to a full funding grant agreement. The FFGA defines the scope of the project, including cost and schedule; commits FTA to a maximum level of federal financial assistance under the New Starts program; establishes the terms and conditions of federal financial participation; specifies the date for completion of the project; and establishes the local funding commitment. The FFGA also contains an acknowledgment that FTA's commitment of financial assistance is contingent upon the appropriation of funds and that the

commitment of funds does not constitute an obligation of the United States. At least 60 days before entering into an FFGA, the Secretary of Transportation must notify the Committee on Transportation and Infrastructure of the House of Representatives (the “Transportation Committee”), the Committee on Banking, Housing and Urban Affairs of the Senate (the “Banking Committee”) and the House and Senate Committees on Appropriations of the proposed FFGA. The Secretary must include with the notification a copy of the proposed FFGA as well as the evaluations and ratings for the project.

SANDAG completed the development and engineering phases for the Project under Section 5309 and in September 2016, prior to entering the construction phase, executed the Grant Agreement, which sets forth the terms and conditions for the award of Grant Receipts for the Project. See “SECURITY FOR THE BONDS,” “THE GRANT AGREEMENT” and “APPENDIX A—THE GRANT AGREEMENT.”

SANDAG

General

SANDAG is a consolidated regional transportation agency organized and existing pursuant to the Act. SANDAG is governed by a Board of Directors and is composed of mayors, councilmembers, and county supervisors from the County and each city in the County that comprises 19 local governments. With the passage of SB 1703 in 2002, SANDAG became the consolidated regional transportation agency effective January 1, 2003. Transit planning, programming, project development, and construction were consolidated into SANDAG, with responsibility for operation of regional transit systems left with local operators MTS (formerly known as the Metropolitan Transit Development Board) and North County Transit District (“NCTD”) (formerly known as the North County Transit Development Board). See “—Toll and Transit Operations; Toll Revenue Debt—San Diego Metropolitan Transit System,” and “—North County Transit District.” SANDAG serves as a regional decision-making forum for the San Diego area for issues including transportation, environmental management, housing, open space, air quality, energy, fiscal management, economic development, and public safety.

SANDAG and the Commission share the same Board of Directors. The Commission imposes a half-cent sales tax within the County and has issued several series of sales tax revenues bonds. The Bonds do not constitute a debt or liability of the Commission and are not secured by sales tax revenues of the Commission.

Executive Staff

Key staff members, the position held by each and a brief statement of the background of each staff member are set forth below.

Hasan Ikhata, Executive Director. Hasan Ikhata is the Executive Director of SANDAG appointed to such position in December 2018. Mr. Ikhata has more than 30 years of experience in the arena of Transportation Planning in the Southern California Region, in both the private and public sector. As Executive Director of SANDAG, Mr. Ikhata directs day-to-day operations of the agency and implements policies set by its governing board. In addition, he is the Executive Officer of the SANDAG Service Bureau, the nonprofit public benefit corporation chartered by SANDAG. Mr. Ikhata holds a Bachelor’s and a Master’s Degree in Civil and Industrial Engineering from Zaporozhye University in the former Soviet Union, a Master’s Degree in Civil Engineering from UCLA, and a PhD Candidacy in Urban Planning and transportation from the University of Southern California in Los Angeles. Mr. Ikhata is an adjunct professor in the business school at California State University, Northridge. Prior to joining SANDAG in 2018, Mr. Ikhata worked for Southern California Association of Governments

(SCAG), Los Angeles County Metropolitan Transportation Authority (MTA) and South Coast Air Quality Management District (SCAQMD).

John F. Kirk, General Counsel. Mr. Kirk was appointed General Counsel for SANDAG 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. 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 10 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.

José A. 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 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.

Ray Major, Chief Economist and Director of Data, Analytics and Modeling. 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 Director of Technical Services. Mr. Major holds both graduate and undergraduate degrees in economics from San Diego State University, with an emphasis in developmental economics and econometrics.

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 23 years. Mr. Linthicum holds a B.S. degree in Civil Engineering from Pennsylvania State University.

Toll Operations; Toll Revenue Debt

SANDAG operates the South Bay Expressway, an approximately 10-mile contiguous tolled segment of State Route 125 from Otay Mesa Road/State Route 905/State Route 11 in the south to State Route 54 in the north. The South Bay Expressway is owned by the California Department of Transportation (“Caltrans”) and was originally developed and constructed by South Bay Expressway, LLC (together with its predecessor entities, “SBX”), a private entity that filed for bankruptcy in April 2010. SANDAG acquired the franchise rights to and lease of the South Bay Expressway from the SBX bankruptcy estate in December 2011.

SANDAG operates, maintains and tolls the South Bay Expressway pursuant to an Amended and Restated Development Franchise Agreement between Caltrans and SANDAG dated February 1, 2013 (the “Franchise Agreement”). In 2017, SANDAG issued its South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A (the “Toll Revenue Bonds”) in the aggregate principal amount of \$194,140,000, secured by a trust estate (collectively, the “Toll Revenue Bond Trust Estate”) established under that certain Master Indenture, dated as of November 1, 2017 (as amended and supplemented, the “Toll Indenture”), by and between SANDAG and U.S. Bank National Association, as trustee. The Toll Revenue Bond Trust Estate consists of, among other things, toll revenues and similar charges payable for use of the South Bay Expressway (collectively, “Toll Revenues”). SANDAG applied proceeds of the Toll Revenue Bonds, together with other available funds, to, among other purposes, refinance certain indebtedness it had incurred in connection with SANDAG’s prior acquisition of the franchise relating to the South Bay Expressway.

Toll Revenues and the Toll Revenue Bond Trust Estate do not secure repayment of the Bonds. Grant Receipts are not available to fund the operations of the South Bay Expressway or to pay debt service on the Toll Revenue Bonds. SANDAG currently projects that Toll Revenues will be sufficient to pay debt service and the operating costs of the South Bay Expressway. See “INVESTMENT CONSIDERATIONS— Financial and Operating Risks of the South Bay Expressway.”

TRANSIT OPERATORS WITHIN THE COUNTY

San Diego Metropolitan Transit System

General. SANDAG and MTS are independent legal entities established by statute. What is now known as MTS started as the Metropolitan Transit Development Board (“MTDB”), which was created in 1975 by the passage of California Senate Bill 101 and came into existence on January 1, 1976. In 1984, the Governor signed Senate Bill 1736, which expanded the MTDB Board of Directors from 8 to 15 members. In 2002, Senate Bill 1703 merged MTDB’s long-range planning, financial programming, project development and construction functions into SANDAG. In 2005, MTDB changed its name to the Metropolitan Transit System.

MTS operates light rail, bus, and freight services over roughly 570 square miles of the urbanized areas of San Diego County as well as the rural parts of East County, totaling 3,240 square miles and serving approximately 3 million people in the County. MTS owns assets of: San Diego Trolley, Inc. (“SDTI”), San Diego Transit Corporation, and the San Diego & Arizona Eastern Railway Company (“SD&AE”), which owns 108 miles of track and right-of-way.

MTS provides bus and rail services directly or by contract with private operators. MTS coordinates all its services and determines the routing, stops, frequencies and hours of operation. Light rail service is operated by SDTI on four lines (the UC San Diego Blue, Orange, Sycuan Green and San Diego Gas & Electric Silver Lines) with a total of 53 stations and 54.3 miles of rail. MTS also operates almost 100 fixed bus routes and Americans with Disabilities Act (ADA) complementary paratransit service. Fixed route bus service includes local, urban, express, premium express and rural routes. MTS contracts with the San Diego & Imperial Valley Railroad and the Baja California Rail Road, Inc. to provide freight service to San Diego shippers over SD&AE right-of-way. MTS currently records 88 million annual passenger trips or 300,000 trips each weekday.

MTS has an annual operating budget of approximately \$278 million, \$96 million of which is derived from fares. Fare revenue accounts for approximately 34% of annual operating cost. MTS also receives funding from various federal, state, and local sources, primarily the California Transportation Development Act, FTA grants (sections 5307, 5337 and 5339), and local sales tax.

Funding for Operation of the Project. MTS will own, operate, and maintain the Project upon commencement of revenue operations of the Project pursuant to the Act, Section 120264 *et seq.* of the California Public Utilities Code, and the Master Memorandum of Understanding, dated April 23, 2004, by and among SANDAG, MTS and NCTD, and the related addendums, including Addendum 17, dated January 19, 2012 (“Addendum 17”), by and between SANDAG and MTS, which describes the roles of SANDAG and MTS in cooperative work efforts with regard to project development and implementation. Addendum 17 provides a form of the scope of work documentation (“SOW”), which must be prepared for each project or each component of a project, depending on the size and scope. Several SOWs have been prepared for the Project describing work performed by SANDAG and MTS. SANDAG is obligated and expects to provide funds to MTS for the acquisition of LRVs and Project operations in accordance with the Grant Agreement and the applicable SOWs, but MTS is solely responsible for managing such acquisition and operation of the Project, and SANDAG may have limited, if any, rights to intervene in the management of such acquisition and operation. While a portion of the Grant Receipts will be used by SANDAG to provide funds to MTS for the acquisition of LRVs, Grant Receipts are not eligible to fund the operations of MTS, including the operation of the Project. Only SANDAG has rights to the Grant Receipts under the Grant Agreement.

SANDAG expects MTS, as the operator of the Project, to provide the Levels of Service required under the Grant Agreement. MTS developed the Rail Fleet Management Plan that was submitted and reviewed by FTA in connection with the grant approval process that sets forth MTS’s plan for meeting and in many instances exceeding the Levels of Service required by the Grant Agreement. The Levels of Service set forth in the Grant Agreement are a significant term of the Grant Agreement. See “THE GRANT AGREEMENT – Noncompliance” and “APPENDIX A – THE GRANT AGREEMENT.”

SANDAG is obligated and expects to provide funds to MTS for Project operations to maintain the Levels of Service required under the Grant Agreement using *TransNet* funds. Specifically, SANDAG expects to provide *TransNet* funds to MTS for the actual operating costs, including maintenance and support costs, less passenger fare revenues. Operating costs consist of the costs to operate the service per hour multiplied by the number of service hours and includes maintenance and support costs. The operating costs per hour will be updated annually during the MTS budget process. Passenger fare revenues are calculated by the average fare per passenger, multiplied by the number of passengers.

TransNet funds are expected to be available to fund the Project operations at the Levels of Service for no less than five years after it is opened to revenue service, which is currently expected to occur on or about October 29, 2021, in accordance with the Grant Agreement. The *TransNet* Ordinance and Expenditure Plan provides that 8.1 percent of all *TransNet* revenues are to be used to fund transit

operations for specified projects, including the Project. In accordance with the *TransNet* Ordinance and Expenditure Plan, nearly \$220 million in *TransNet* funds (8.1% of all *TransNet* funds generated to date) have been collected to support transit operations through May 2019, with approximately \$1.2 billion estimated in the *TransNet* finance plan to be received between 2020 and 2048. While these funds are reserved for transit operations on an annual basis, expenditure of these funds depends on when the specified transit services actually begin, and what service levels are provided to match demand. The balance of funds in the transit operations fund as of May 31, 2019 is approximately \$152 million. The Project financial model submitted in support of the *TransNet* finance plan includes \$129 million of *TransNet* transit operations funding for the five-year period 2021-2025. See “THE GRANT AGREEMENT – Noncompliance” and “INVESTMENT CONSIDERATIONS – Default Under Grant Agreement.”

North County Transit District

SANDAG and NCTD are also separate legal entities established by statute. NCTD started as the North San Diego County Transit Development Board (“NSDCTDB”) when created in 1975 by Senate Bill 802. It was created to plan, construct and operate – directly or through a contractor – public transit systems in its area of jurisdiction. On January 1, 2003, Senate Bill 1703 transferred future transit planning, programming, development and construction to SANDAG. On August 30, 2005, Assembly Bill 1238 was passed, which renamed NSDCTDB as the North County Transit District effective January 1, 2006.

NCTD operates buses, trains, hybrid rail, and paratransit services to a geographic area of approximately 1,020 square miles, in North San Diego County, from the Pacific Ocean east to Ramona, and from the County of Orange border south to Del Mar, with connections extending to downtown San Diego. NCTD serves approximately 11 million passengers annually through transit services that include: the COASTER commuter rail service, the SPRINTER light rail, the Breeze bus system, Flex rural and on-demand service and Lift paratransit.

NCTD maintains and controls right-of-entry between the Old Town Transit Center and north of SR 52, where the Project would transition to the I-5 right-of-way. The Project requires a right-of-entry permit for construction of the Project within the railroad right-of-way and requires the relocation of the NCTD railroad tracks in the vicinity of the SR 52. As such, the Project was subject to review and approval by NCTD. NCTD has approved various phases of the work on the Project, including the joint right-of-entry permits required to conduct work within the right of way, at different times. NCTD approved the initial joint right-of-entry permits for the Project in December 2016. NCTD is not expected to have any operational responsibility for any aspect of the Project. Grant Receipts are not eligible to fund the operations of NCTD.

INVESTMENT CONSIDERATIONS

Limited Obligations

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of SANDAG and the revenues of SANDAG (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

Uncertainties in Federal Funding

General. There can be no assurance that sufficient Grant Receipts will be received by SANDAG to pay the debt service on the Bonds. While SANDAG believes that sufficient Grant Receipts will be received to pay debt service on the Bonds on or prior to their maturity, various factors beyond the control of SANDAG may affect such receipts, including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations, sequestration and government shutdowns, other possible changes in the Section 5309 Program, and SANDAG's continued eligibility for such funding. See "THE GRANT AGREEMENT."

Congressional Authorization and Appropriation. Federal transportation program funding must be reauthorized periodically by Congress. The most recent authorization is the FAST Act, which became law on December 4, 2015, and authorizes funding for surface transportation programs, including mass transit programs, for FFY 2016 through FFY 2020. THERE CAN BE NO ASSURANCE THAT ANY SUCH AUTHORIZATIONS WILL BE PROVIDED AFTER THE FAST ACT, OR ANY LEGISLATION THAT FOLLOWS OR REPLACES THE FAST ACT, EXPIRES.

Congressional authorization of federal funding for the Grant Receipts is not, by itself, sufficient to allow SANDAG to receive the Grant Receipts. Appropriations acts are necessary in order to create budget authority for federal expenditures such as the expenditure of the funds that comprise the Grant Receipts. The amount of Grant Receipts available to SANDAG for the Project is subject to annual appropriation by Congress and to approval on an annual basis by FTA. As such, SANDAG competes for such funds with other transit funding priorities. The Grant Agreement specifically provides that the eligibility of SANDAG for funds does not create an obligation on the part of the United States to provide funds for the Project. Other federal actions must also take place to allow SANDAG to receive Grant Receipts. If sufficient funds are not so available, sufficient Grant Receipts will not be received to pay the debt service on the Bonds. See "THE GRANT AGREEMENT" and "FEDERAL TRANSIT PROGRAM."

To date, Congress has fully funded all FFGA commitments, but such funding may not have been provided in accordance with the funding schedule set forth in each FFGA. Fully funding the Grant Agreement can mean either funding to the Maximum Federal New Starts Financial Contribution or to the Maximum New Starts Participation Rate. There is a possibility that the total cost of the Project may come in less than anticipated such that the Maximum Federal New Starts Financial Contribution would exceed the Maximum New Starts Participation Rate; in this case, the Maximum New Starts Participation Rate would control, and SANDAG's Grant Receipts would be adjusted downward.

Federal Sequestration and Government Shutdown. The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure by Congress to otherwise reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. The Bipartisan Budget Act of 2013 extended and made certain modifications to sequestration. However, the potential impact of sequestration to federal programs, such the New Starts program, is the same. Grant Receipts may be reduced as a result of the congressionally-mandated sequestration process, and may continue to be reduced or delayed if federal spending reductions continue as a result of the sequestration or ongoing shutdowns of the federal government occur.

SANDAG's receipt of a portion of the Grant Receipts available under the FFY 2018 appropriation was delayed as a result of the federal government shutdown that occurred December 2018 through January 2019. As soon as the federal government shutdown concluded, SANDAG received the

requested Grant Receipts within one day of submitting the request for a draw. See “THE GRANT AGREEMENT.”

Default Under Grant Agreement

Pursuant to the Grant Agreement, SANDAG agreed (i) to complete the Project by the Required Revenue Service Date of on or before November 23, 2022, (ii) to maintain certain Levels of Service, once the Project is opened to revenue service for no less than five years, and (iii) to comply with any of FTA’s regulatory requirements in accordance with the Grant Agreement. Failure to achieve the Required Revenue Service Date, the Levels of Service for five years upon revenue service, or comply with FTA’s regulatory requirements as set forth in the Grant Agreement constitutes a breach of the Grant Agreement and may result in a default of the Grant Agreement if such breach is not corrected within a reasonable period of time in accordance with the Grant Agreement. If a default occurs, FTA may exercise all remedies at law and equity, including the right to specific performance without federal financial assistance, and the right to terminate or suspend all or a part of the federal financial assistance. In certain cases, FTA may also demand that all grant funds provided to SANDAG for the Project be returned to FTA. See “APPENDIX A – THE GRANT AGREEMENT.”

SANDAG currently estimates that the Project will commence revenue operation on or about late October 2021 – more than a year prior to the Required Revenue Service Date. See “Construction and Project Funding Risk.” SANDAG expects MTS, as the operator of the Project, to provide the Levels of Service required under the Grant Agreement. SANDAG is obligated and expects to provide funds to MTS for the acquisition of LRVs and Project operations, but MTS is solely responsible for managing such acquisition and operation of the Project, and SANDAG may have limited, if any, rights to intervene in the management of such acquisition and operation. Further, SANDAG is currently in compliance with FTA’s regulatory requirements set forth in the Grant Agreement. See “THE GRANT AGREEMENT” and “APPENDIX A – THE GRANT AGREEMENT.”

Construction and Project Funding Risk

Construction of the Project has not yet been completed, and as with any major construction effort, the completion of the Project involves many risks, including shortages of materials and labor, work stoppages, labor disputes, weather interferences, earthquakes, unforeseen engineering, environmental or geological problems, seismic events, power outages, remediation of hazardous waste and related materials, increased costs and delays related to right-of-way acquisitions, and unanticipated cost overruns in excess of the allocated and unallocated contingencies, any of which could increase the cost or delay the construction of the Project. See “Risk of Earthquake” and “Risk of Wildfire” below. There can be no assurance that the Project will be completed on the timetable projected by SANDAG or within the budget and other assumptions used by SANDAG.

In the Grant Agreement, SANDAG has covenanted to pay for any Project budget shortfall out of its own funding sources. See “Default Under Grant Agreement,” “THE GRANT AGREEMENT—Noncompliance” and “APPENDIX A – THE GRANT AGREEMENT.”

Natural Hazards & Other Events

Earthquakes. Earthquakes or other seismic activity have the potential to damage, or disrupt operations of, the Project. For example, the Rose Canyon Fault Zone near the Project is capable of generating large magnitude earthquakes that could affect the Project structures and alignment as a result of strong seismic ground shaking. The Project incorporates State seismic design standards to prevent structural collapse at these locations and reduce the exposure of people to harm from fault rupture

hazards. Project structures are expected to remain standing during a strong earthquake, although they may be subject to damage that results in their closure or replacement and significant disruption to Project operations. See “Default Under Grant Agreement.” The occurrence of an earthquake could cause damage to the Project and delays in construction or operation, and otherwise disrupt operations. See “Construction and Project Funding Risk” and “Default Under Grant Agreement.”

Wildfire. The San Diego region is subject to both urban and wildland fires. In urbanized areas of the San Diego region, the land is highly developed with buildings, streets, and hardscape. In most of these urbanized areas, there are canyons and other strips or areas of native vegetation that are susceptible to wildland fires. The Project lies within an urbanized area and a portion of the alignment runs through the Rose Canyon area where native vegetation exists. A wildfire could cause damage to the Project and delays in construction or operation, and otherwise disrupt operations. See “Construction and Project Funding Risk” and “Default Under Grant Agreement.”

Climate Change & Other Hazards. Hazards relating to climate change include sea level rise, flooding, heat wave, and severe storm and wind. Any such events, if unmitigated, may have major impacts to Project construction and Project operations. If such events occurred after revenue service of the Project, the impacts may directly impact patron safety, cause service disruptions and require prolonged recovery. See “Construction and Project Funding Risk” and “Default Under Grant Agreement.”

Other Force Majeure Events. The construction and operation of the Project is also at risk from other events of force majeure, such as damaging storms, winds and floods, fires and explosions, spills of hazardous substances, strikes and lockouts, sabotage, wars, blockades and riots. SANDAG cannot predict the potential impact of such events on Project construction and planned operations. See “Construction and Project Funding Risk” and “Default Under Grant Agreement.”

FTA may determine in its sole discretion to waive certain breaches of SANDAG’s obligations under the Grant Agreement for events or circumstances beyond SANDAG’s control, or if the FTA determines that a waiver is in the interests of the United States.

Cybersecurity

In the course of its daily business, SANDAG collects and stores sensitive data, including financial information, security information, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to certain of SANDAG’s operations, including operations of the South Bay Expressway. Despite security and other technical measures currently in place and those which may be adopted in the future, information technology and infrastructure may be vulnerable to attacks by hackers or other breaches, including as a result of employee error, malfeasance or other disruptions or failures. Any such breach, disruption or other failure could compromise networks, and the information stored there could be accessed, disrupted, publicly disclosed, lost or stolen. Any such access, disruption, disclosure, theft or other loss of information could result in disruptions to SANDAG’s operations and financial or other activities, including as they relate to the Project or the Grant Agreement or otherwise, or legal claims or proceedings, including pursuant to laws that protect the privacy of personal information, or regulatory penalties. In addition, such access, disruption, disclosure, theft or other loss of information to any of MTS’s operations and financial or other activities could result in disruptions to Project operations. See “Default Under Grant Agreement.”

Limitations on Remedies of Bondholders

The remedies available upon an event of default under the Indenture are limited, particularly in instances resulting from a failure of FTA to pay Grant Proceeds to SANDAG in amounts sufficient to pay principal and interest when due on the Bonds. See “—Uncertainties in Federal Funding.” Such remedies are also in many respects dependent upon judicial actions, which may be subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally. See “—Bankruptcy Risks.”

Financial and Operating Risks of the South Bay Expressway

SANDAG operates the South Bay Expressway. See “SANDAG—Toll and Transit Operations; Toll Revenue Debt—South Bay Expressway.”

Toll Revenues and the Toll Revenue Bond Trust Estate do not secure repayment of the Bonds. However, while SANDAG’s financial obligations with respect to the South Bay Expressway and the Toll Revenue Bonds are limited to the Toll Revenue Bond Trust Estate, including Toll Revenues, any defaults or other operational or financial issues affecting the South Bay Expressway may also affect SANDAG as a whole, including, for example, were the South Bay Expressway to experience financial difficulty severe enough to justify protection under the Bankruptcy Code. In that case, SANDAG would be the entity filing for Chapter 9 bankruptcy. See “Bankruptcy Risks” below.

Bankruptcy Risks

SANDAG is authorized under State and federal law to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”), subject to certain requirements set forth in State law and the Bankruptcy Code. Were SANDAG ever to file for bankruptcy, there could be adverse effects on the holders of the Bonds.

If SANDAG is in bankruptcy, the parties (including the Trustee and the holders of the Bonds) may be prohibited from taking any action to collect any amount from SANDAG or to enforce any obligation of SANDAG, unless the permission of the bankruptcy court is obtained. In particular, the Trustee may be prevented from foreclosing on the Grant Receipts or any other collateral that secures the Bonds. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee’s possession.

SANDAG as a debtor in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including Grant Receipts), which lien could have priority over the lien of the Indenture, or to cause some Grant Receipts 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 Bonds will be adequately protected. SANDAG may also be able, without the consent and over the objection of the Trustee and the holders of the Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the Bonds as long as the bankruptcy court determines that the alterations are fair and equitable.

The lien of the Indenture will likely not attach to any Grant Receipts that SANDAG receives after the filing of a bankruptcy petition. Under such circumstances, it is not clear whether the holders of the Bonds would be treated as general unsecured creditors of SANDAG or whether the holders of the Bonds

would have no further claim against any assets of SANDAG. In either case, the holders of the Bonds could suffer substantial losses.

SANDAG is permitted to hold Grant Receipts for one day before turning them over to the Trustee. If SANDAG were to go into bankruptcy, the Trustee and the holders of the Bonds may not have a valid or priority interest in any Grant Receipts that are in the possession of SANDAG or that have not been remitted to the Trustee at the time of the commencement of the bankruptcy. SANDAG may not be required to remit to the Trustee any Grant Receipts that are in its possession or under its control at the time it enters bankruptcy.

Actions could be taken in a bankruptcy of SANDAG that could adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

There may be delays in payments on the Bonds while the bankruptcy court considers any of these issues. There may also be other possible effects of a bankruptcy of SANDAG that could result in delays or reductions in payments on, or other losses with respect to, the Bonds. Regardless of any specific adverse determinations in a SANDAG bankruptcy proceeding, the fact of a SANDAG bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds.

Bonds Subject to Redemption Prior to Maturity

The maturities of the Bonds have been structured on the basis of certain assumptions as to the amount and timing of the receipt of Grant Receipts by SANDAG including an assumption that may accommodate certain delays in the anticipated receipt of Grant Receipts. If Grant Receipts are received by SANDAG in the amounts and at the times anticipated, all or a portion of the Bonds may be redeemed prior to maturity at a redemption price equal to the principal amount thereof without penalty. See “THE BONDS—Optional Redemption,” and “ – Redemption or Defeasance by Operation of the Redemption Account; Turbo Redemption of Series 2019B Bonds,” and “SECURITY FOR THE BONDS – Projected Grant Receipts” and “ – Semi-Annual Debt Service Based on Projected Grant Receipts and Early Redemption.”

No Acceleration

The Indenture does not contain a provision allowing for the acceleration of the Bonds in the event of a default in the payment of principal and interest on the Bonds when due. In the event of a default under the Indenture, each Bondholder will have the right to exercise the remedies provided in the Indenture, subject to the rights of an insurer of the Bonds. See “APPENDIX B—SUMMARY OF THE INDENTURE—Events of Default and Remedies.”

State Legislation

SANDAG was created in the 1970s as a Joint Powers Authority composed of various cities in the County 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. In 2017, AB 805 was enacted which changed the voting mechanisms of the Board of Directors of SANDAG and provided for additional audit requirements. The State Legislature can adopt 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. Any of these changes, in turn, could affect how SANDAG approaches its management of the Project and the Grant Agreement.

Similarly, State legislation could impact the operation of the Project by MTS. See “Default Under Grant Agreement.”

Loss of Federal Tax Exemption

Interest on the Bonds could become includable in federal gross income, possibly from the date of issuance of the Bonds, as a result of acts or omissions of SANDAG subsequent to the issuance of the Bonds. Should interest become includable in federal gross income, the Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption. See “TAX MATTERS.”

Pension Reform and Grant Funding

In October 2013 temporary legislation was passed exempting represented transit workers from the Public Employee’s Pension Reform Act of 2013 (“PEPRA”) which had been enacted in 2012 and took effect on January 1, 2013. The temporary legislation was required because the United States Department of Labor (“DOL”) had refused to certify federal funding grants based on its determination that PEPRA infringed upon transit workers’ collective bargaining rights. DOL certification is required for the FTA to approve and pay grants. Absent that certification, transit agencies in California could not receive federal funds. Once the temporary legislation was enacted, making represented transit employees exempt from PEPRA, the DOL permitted the release of federal funds to transit agencies.

The State (and the Sacramento Regional Transit Agency) brought litigation in the U.S. District Court, Eastern District of California (the “District Court”), which challenged the DOL’s determination that PEPRA interfered with collective bargaining rights. On December 30, 2014, the District Court issued a ruling that the DOL’s refusal to certify the federal grants was arbitrary and capricious. The District Court remanded the issue back to the DOL with instructions that it act in accordance with the District Court’s order.

The legislation which exempted transit employees from PEPRA by its terms was to expire in 2015 or upon a determination by the District Court that the DOL erred in refusing to certify the federal funds. As a result, the temporary exemption expired on December 30, 2014, and all transit employees became subject to PEPRA.

Thereafter, the DOL took the position that the District Court’s ruling did nothing more than require it to reconsider whether PEPRA infringes upon collective bargaining rights. However, the DOL did agree to conditionally certify the federal grants subject to certain terms and conditions. Those conditions require certain transit agencies to potentially return the grant funds or alternatively to reimburse employees for pension contributions. Federal transit funds were being provided subject to these conditions. The parties returned to District Court to, again, address the DOL’s position. The District Court, again, ruled that the DOL’s determination that PEPRA interfered with collective bargaining rights was in error. The decision is now final.

FTA guidance provides that before FTA awards an FFGA, FTA must submit the entire “project” to the DOL to enable the DOL to certify the labor protection arrangements for the project in accordance with Section 5333 of Title 49 of the U.S. Code. For the DOL to certify a project in its entirety, the applicant for an FFGA and FTA must present the requisite information covering the entire scope of the project and indicate the amount of the Maximum Federal New Starts Financial Contribution. If the DOL certifies the project in full at the amount of the Maximum Federal New Starts Financial Contribution, an FTA amendment authorizing the Grantee to draw down a portion of the Maximum Federal New Starts Financial Contribution will not require a new referral for a new DOL certification. A new referral and

new DOL certification will be required if: (1) the amount of the funds to be drawn down, added to the amount of funds previously drawn down, exceeds the Maximum Federal New Starts Financial Contribution for the project; or (2) if the amendment is for something outside the scope of the original project.

SANDAG is a “public employer” pursuant to the definitions set forth in PEPRRA and is subject to the requirements therein. SANDAG has implemented all applicable PEPRRA requirements as of the effective date of the legislation. Currently, SANDAG does not directly engage in any transit operating services and does not employ any transit workers. The DOL certified the Project prior to execution of the Grant Agreement.

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Bond Counsel to SANDAG. Bond Counsel expects to deliver an opinion with respect to the Bonds at the time of issuance substantially in the form set forth in 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 SANDAG by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to SANDAG and by the General Counsel to SANDAG, and for the Underwriters by Nixon Peabody LLP, Underwriters’ Counsel.

TAX MATTERS

Federal Tax-Exemption

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to SANDAG, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by SANDAG with certain covenants in the Indenture and other documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or

with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Norton Rose Fulbright US LLP, or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP, with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of SANDAG described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the Bonds is commenced, under current procedures the IRS is likely to treat SANDAG as the "taxpayer," and the owners of the Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the Bonds, SANDAG may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the examination, regardless of its ultimate outcome.

Tax Accounting Treatment of Bond Premium and Original Issue Discount

Bond Premium. To the extent that a purchaser of a Bond acquires that Bond at a price in excess of the amount payable at maturity, such excess will constitute "bond premium" under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations); that the amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes; and that such amortized premium is not deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation.

Original Issue Discount. The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is "original issue discount." Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner of such Bond for federal income tax purposes under the same conditions and limitations as are applicable to interest on such Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering accrues on a semiannual basis over the term of the Bond on the basis of a constant yield and, within each semiannual period, accrues on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of owners of Bonds that have purchased such Bonds other than at the initial offering price and pursuant to the initial offering.

Bond Counsel are not opining on the accounting for or consequence to a Bond purchaser of bond premium or original issue discount on the Bonds. Persons considering the purchase of Bonds with bond premium or original issue discount should consult with their own tax advisors with respect to the determination of bond premium or original issue discount on such Bonds for federal income tax purposes, and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Information Reporting and Backup Withholding

Interest paid on the Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of the interest on the Bonds from gross income for federal income tax purposes or of the exemption of interest on the Bonds from State of California personal income taxation. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in Appendix F hereto.

LITIGATION

To the knowledge of SANDAG, there is no litigation pending or threatened that would in any way (i) restrain or enjoin the issuance, sale or delivery of the Bonds or (ii) question the validity of the Bonds or the authority of SANDAG to make principal and interest payments or to collect Grant Receipts to pay the Bonds.

SANDAG is a defendant in various legal actions resulting from normal operations. Although the outcome of such actions cannot presently be determined, it is the opinion of management and SANDAG’s legal counsel that settlement of these matters will not have a material adverse effect on SANDAG’s ability to pay debt service on the Bonds, or on SANDAG’s financial position, results of operations or cash flows.

In April 2019, plaintiff Luis Quintero filed a complaint in San Diego County Superior Court (the “Court”) against SANDAG seeking primarily damages but also injunctive relief on behalf of himself and a putative class of other users of the South Bay Expressway toll facility. In the class action complaint, plaintiff alleges that SANDAG transmits such users’ personally identifiable information (“PII”) to various unauthorized third parties in violation of California Streets and Highways Code section 31490 (“Section 31490”). The complaint also alleges a common law negligence claim based on the same alleged improper

transmittals. The complaint alleges that the putative class consists of all users of the South Bay Expressway whose PII was alleged to have been transmitted to third parties beginning on January 1, 2011. Between January 1, 2011 and June 30, 2018, motorists made an average of approximately 14,000,000 trips using the South Bay Expressway toll facility. Section 31490 provides for statutory damages of equal to the greater of actual damages or \$2,500 for each individual knowing violation, or \$4,000 if a knowing violation occurred three or more times. Plaintiff also requests punitive damages and attorneys' fees and costs. On June 4, 2019, SANDAG filed a motion to strike the class allegations with the Court. The hearing is currently scheduled for October 18, 2019.

SANDAG intends to vigorously defend the lawsuit. Even were the court to ultimately find in favor of the plaintiff, SANDAG would not expect any judgment or other settlement to be payable from Grant Receipts; however, at this preliminary stage, SANDAG cannot predict the ultimate outcome of the suit, its financial or other impacts on SANDAG, or the timing of any decisions by the court with respect to such matters.

RATING

The Bonds have been assigned a rating of "A- (stable outlook)" by S&P Global Ratings ("S&P"). Rating agencies generally base their ratings on their own investigations, studies and assumptions as well as information and materials furnished to them (which may include information and materials from SANDAG, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. Neither the Underwriters nor SANDAG has undertaken any responsibility after the offering of the Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

MUNICIPAL ADVISOR

PFM Financial Advisors, LLC has served as Municipal Advisor to SANDAG in connection with the issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM Financial Advisors, LLC is an independent registered municipal advisory firm and is not engaged in the business of underwriting municipal bonds or other securities.

CONTINUING DISCLOSURE

SANDAG will execute a continuing disclosure agreement (the "Continuing Disclosure Agreement"), pursuant to which SANDAG will covenant for the benefit of the owners of the Bonds to provide annually certain financial information and operating data by not later than 210 days after the end of the prior fiscal year, commencing with fiscal year 2018-19 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events (the "Notice Events") in a timely manner. The Annual Reports and Notice Events will be filed with the Municipal Securities Rulemaking Board Electronic Municipal Market Access system. These covenants will be made to assist the Underwriters in complying with Rule 15c2-12, as amended, adopted by the SEC under the Securities Exchange Act of 1934, as amended. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

SANDAG's Annual Report for fiscal year 2017-18 with respect to its outstanding Toll Revenue Bonds did not include an updated debt service coverage ratio with respect to the Toll Revenue Bonds, as no debt service was payable with respect to the Toll Revenue Bonds in fiscal year 2017-18. The remaining information for fiscal year 2017-18 of the type found in the table "Projected Revenues, Operating Expenses and Debt Service Coverage Ratio" in the official statement relating to the Toll Revenue Bonds was included in SANDAG's Annual Report; however, it was not presented in the same format found in the table.

UNDERWRITING

The Bonds are being purchased for reoffering to the public by Wells Fargo Securities, Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC, (collectively, the "Underwriters") pursuant to the terms of a bond purchase agreement executed on July 30, 2019 (the "Purchase Agreement"), by and between SANDAG and the Underwriters. The Underwriters have agreed to purchase the Bonds at a price of \$370,172,288.75 (which represents the aggregate principal amount of the Bonds, plus original issue premium of \$35,972,525.75, and less Underwriters' discount in the amount of \$800,237.00). The Purchase Agreement provides that the Underwriters will purchase all of the Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Underwriters may include securities trading, commercial and investment banking, 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 SANDAG and 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 SANDAG or the Commission. The market activities of the Underwriters and other market participants may impact the value of the Bonds. The Underwriters have indicated that 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 assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Wells Fargo Bank, National Association 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 Securities 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”), the sole underwriter of the Bonds, 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 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds 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 Bonds. 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.

Certain subsidiaries of Wells Fargo & Company (parent company of Wells Fargo Bank, National Association, serving as underwriter for the Bonds through the Wells Fargo Bank, N.A. Municipal Products Group) have provided, from time to time, investment banking services or commercial banking services to SANDAG, for which they have received customary compensation. Wells Fargo & Company or its subsidiaries may, from time to time, engage in transactions with and perform services for SANDAG in the ordinary course of their respective businesses.

Citigroup Global Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts with respect to the Bonds.

J.P. Morgan Securities LLC (“JPMS”), an Underwriter of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase the Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS

Financial information relating to SANDAG is included in SANDAG’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, which are included as Appendix C to this Official Statement. The financial statements of SANDAG included in Appendix C have been audited by Crowe LLP, Certified Public Accountants (the “Auditors”), as stated in their report appearing in Appendix C. The Auditors were not requested to consent to the inclusion of their report in Appendix C, 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.

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts, amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of SANDAG, and the revenues of SANDAG (other than as described above) are not pledged for the payment of the Bonds or the interest thereon.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between SANDAG and the purchasers, holders or beneficial owners of any of the Bonds. All of the summaries of the Bonds, the Indenture, the Grant Agreement, applicable legislation and other agreements and documents in this Official Statement are made subject to the provisions of the Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with SANDAG for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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APPENDIX A
THE GRANT AGREEMENT

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**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION
WASHINGTON, D.C., 20590**

FULL FUNDING GRANT AGREEMENT

SAN DIEGO ASSOCIATION OF GOVERNMENTS (SANDAG)

MID-COAST CORRIDOR TRANSIT PROJECT

CA-2016-021-00

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**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION**

**FULL FUNDING GRANT AGREEMENT
(FTA FFGA-22, October 1, 2015)**

On the date the authorized U.S. Department of Transportation, Federal Transit Administration (FTA) official signs this Full Funding Grant Agreement, the Government (FTA) has Awarded Federal assistance in support of the Project described below. Upon Execution of this Full Funding Grant Agreement by the Grantee named below, the Grantee affirms this Award by the Government (FTA Award), and enters into this Full Funding Grant Agreement with FTA. The following documents are incorporated by reference and made part of this Full Funding Grant Agreement:

- (1) "Federal Transit Administration Master Agreement," FTA MA(22), October 1, 2015, <http://www.fta.dot.gov/documents/22-Master.pdf>;
- (2) The Certifications and Assurances applicable to the Project that the Grantee has selected and provided to FTA; and
- (3) Any Award notification containing special conditions or requirements, if issued.

FTA AWARD

The Government (FTA) hereby awards a Full Funding Grant as follows:

Project Number(s): CA- 2016-021-00

Grantee: San Diego Association of Governments, San Diego, California

Citation of Statutes Authorizing the Project: 49 U.S.C. §§ 5309(b), 5309(d)

Estimated Net Project Cost: \$2,171,200,545

Maximum FTA Amount Awarded, including this amendment: \$100,000,000

Amount of this FTA Award: \$100,000,000

Maximum Federal New Starts Financial Contribution: \$1,043,380,000

Maximum Percentage of FTA Participation: 48.06 percent

Maximum Percentage of New Starts Participation: 48.06 percent

Dates of U. S. Department of Labor Certifications of Transit Employee Protective Arrangements:

<u>Original Project or Amendment Numbers</u>	<u>Certification Dates</u>
CA-2016-021-00	July 11, 2016

Revenue Service Date: November 23, 2022

Project Description:

The Mid-Coast Corridor Transit Project (the Project) would extend the San Diego Trolley Blue Line from the Santa Fe Depot in downtown San Diego to the University Town Center (UTC) Transit Center in University City. The Project would use the existing Trolley tracks for approximately 3.5 miles from the Santa Fe Depot to a point just north of the Old Town Transit Center (OTTC) and south of the San Diego River.

The Project consists of the design and construction of a 10.92 mile dual-track LRT extension of the San Diego Metropolitan Transit System's (MTS) existing Blue Line. The project includes nine stations (four at-grade and five elevated), three park-and-ride facilities, two shared use parking lots with a total of 1,170 spaces, two transfer centers, and 36 light rail vehicles.

For a more detailed description, see Attachments 1 and 2.

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION**

FULL FUNDING GRANT AGREEMENT TERMS AND CONDITIONS

THIS FEDERAL TRANSIT ADMINISTRATION FULL FUNDING GRANT AGREEMENT (Agreement) is entered into by the San Diego Association of Governments (SANDAG) (Grantee) and the United States of America, acting through the United States Department of Transportation, Federal Transit Administration (FTA or Government).

WHEREAS, the Grantee has determined through its local planning process that construction of the Mid-Coast Corridor Transit Project (hereafter, the "Project") will effectively and efficiently serve the transportation needs of the cities, townships, and counties in San Diego County, California.

WHEREAS, the Grantee has developed a Financial Plan, as herein defined, using a combination of local, state, and Federal funds to finance the costs of the Project and, in accordance with its plan, has requested a Grant, as herein defined, of Federal financial assistance in the Project.

WHEREAS, the Government has determined to enter into this Agreement and to support final design and construction of the Project up to a Maximum Federal New Starts Financial Contribution of \$1,043,380,000 in capital New Starts funds, subject to all the terms and conditions set forth in this Agreement.

WHEREAS, the Grantee has submitted its request for Federal assistance (the Application) and the Government has received and is relying upon the Grantee's assurances, certifications, and all other documents required as conditions precedent to a Grant of assistance by the Government for the Project; and, in its submissions, the Grantee has demonstrated justification for the Project, has demonstrated its financial, organizational, legal and technical capacity as is necessary to Complete the Project within the maximum amount of Federal assistance set forth in this Agreement, and has demonstrated the capability to secure non-Federal funds as may be necessary for such completion.

WHEREAS, the Government has determined that the Project is justified based on a comprehensive review of its mobility improvements, environmental benefits, cost effectiveness, land use, economic development effects, and congestion relief; the Project is supported by policies and land use patterns that promote public transportation, including plans for future land use and rezoning, and economic development around public transportation stations; and the Project is supported by an acceptable degree of local financial commitment, including evidence of stable and dependable financing sources to construct, maintain, and operate the Project.

WHEREAS, the Government and the Grantee have agreed that their respective duties and responsibilities as related to the completion of the Project shall be determined by and under the terms and conditions of this Agreement and have agreed that this Agreement shall be recognized as the sole understanding between the Government and the Grantee in consideration of the mutual promises as set forth in this Agreement.

THEREFORE, in consideration of the above and the parties' mutual promises as set forth in this Federal Transit Administration Full Funding Grant Agreement, the Grantee and the Government agree to the specific terms, conditions, and provisions set forth in this entire Agreement including, in particular, the specific terms of the following Sections and Attachments:

SECTION 1. DEFINITIONS

"Agreement" means this Federal Transit Administration Full Funding Grant Agreement (FFGA) and consists of all parts and documents listed in Section 20 of this Agreement, "Contents of Agreement," and will include all future addenda, substitutions, modifications and amendments as and when legally executed and effective. (This definition supersedes the definition of "Grant Agreement" set forth in Section 2.22 of the Federal Transit Administration Master Agreement (Master Agreement), incorporated by reference and made part of this Agreement.)

"Application" means those documents and written submissions filed by or on behalf of the Grantee pursuant to its request for Federal financial assistance for support of the Project and relied upon by the Government as satisfaction of the legal and policy requirements of Grant award. The Application includes all explanatory, supporting, or supplementary documents related to the Project that the Government relied upon in its determination to obligate and award Federal funds for the Project. (This definition is intended to supplement the definition "Application" set forth in Section 2.1 of the Master Agreement, incorporated by reference and made part of this Agreement.)

"Baseline Cost Estimate" means the Application document described in Section 13 of this Agreement and set forth in Attachment 3. The requirements of the Baseline Cost Estimate are set forth in FTA Circular 5200.1A, "Full Funding Grant Agreements Guidance," as may be revised from time to time. The Baseline Cost Estimate reflects the total anticipated cost of the Project as of the Date of this Agreement.

"Complete the Project" means to accomplish all of the scope and activities of the Project as described in Attachment 1, "Scope of the Project," and Attachment 2, "Project Description."

"Date of this Agreement" means the date the Government awards this Full Funding Grant Agreement.

"Estimated Net Project Cost" means the amount that is calculated by subtracting the cost that can reasonably be financed from the Grantee's revenue from the total anticipated cost of the Project as reflected in the "Baseline Cost Estimate," Attachment 3 to this Agreement. The Estimated Net Project Cost is set forth in Section 7 of this Agreement.

"Financial Plan" means the plan accepted by the Government as part of the Application process describing the Grantee's financial condition and capability to complete the Project and to maintain and operate the Project together with its existing transit system. It includes all explanatory, supporting and supplementary documents, commitments, and agreements accepted or approved by the Government.

"Government" means the United States of America, acting through the Federal Transit Administration of the United States Department of Transportation.

"Grantee" means the San Diego Association of Governments (SANDAG).

"Grant(s)" means, in singular and plural forms, the obligation and award of Federal financial assistance by the Government pursuant to the laws codified at 49 U.S.C. Chapter 53.

"Local Share" means that portion of the Grantee's local financial commitment that is the Grantee's legally required share of the Net Project Cost.

"Master Agreement" means the standard terms and conditions applicable to recipients of Federal financial assistance from the Government. It is updated and published annually. It is incorporated by reference and made part of this Agreement and identified in Federal Fiscal Year 2015 by FTA Form MA(22) (October 1, 2015).

"Maximum Federal New Starts Financial Contribution" means the limit of Federal capital New Starts financial participation in the Project. (The amount of the "Maximum Federal New Starts Financial Contribution" is set forth in Section 8 of this Agreement, "Limitations of the Federal Funding Commitment," and is only a portion of the total Federal financial contribution for the Project.)

"Maximum FTA Amount Awarded" means the total amount of Federal funds from all sources administered by FTA and awarded for the Project, regardless of source, and available to the Grantee. (This amount is set forth in the first page of this Agreement.)

"Net Project Cost" means the cost of the Project that cannot reasonably be financed from the Grantee's revenues.

"Project" means the transit/transportation improvements the Grantee has promised to implement as a condition of its Full Funding Grant. A description of the Project is set forth in Attachment 1, "Scope of the Project." Activities to carry out the project scope are set forth in Attachment 2, "Project Description."

"Project Costs" means all costs eligible for Federal financial participation under the terms of this Agreement and consistent with the cost principles set forth in Section 9 of the Master Agreement, "Payments."

"Recovery Plan" means a plan developed by the Grantee, and accepted by the Government, whereby the Grantee will take every reasonable measure to minimize any delay in achieving the baseline schedule set forth in Attachment 4 to this Agreement (the Baseline Schedule) and eliminate or otherwise mitigate [recover] any increase in the total project costs as currently estimated, as compared to the total project cost identified in Attachment 3 to this Agreement (the Baseline Cost Estimate).

“**Revenue Service Date**” means the date certain upon which the Grantee shall commence revenue operations of the Project as defined in Section 5 of this Agreement.

SECTION 2. PURPOSES OF AGREEMENT

Pursuant to 49 U.S.C. § 5309, the purposes of this Agreement are to:

- (a) provide Federal financial assistance to the Grantee in the form of this Full Funding Grant and possible future awards of financial assistance as contemplated under this Agreement, not to exceed the Maximum Federal New Starts Financial Contribution for the Project, as is and may be awarded under this Agreement and the laws codified at 49 U.S.C. Chapter 53 for purposes that are consistent with those statutes, implementing regulations, and other applicable laws and regulations;
- (b) describe the Project and set forth the mutual understandings, terms, conditions, rights and obligations of the parties related to implementing the Project, the future management and operation of the Project, and the manner in which Project real property and equipment will be used;
- (c) establish the Maximum Federal New Starts Financial Contribution for the Project, and the manner in which all future Federal funds for the Project, if any, will be awarded and released to the Grantee;
- (d) establish the Grantee's financial commitment to the Project including its obligation to fund the Local Share, its obligation to complete the Project with a specified amount of Federal assistance, its obligation to achieve revenue operation of the Project by a specified date, its obligation to pay all costs necessary to complete the Project that are in excess of the Estimated Net Project Cost, and its obligation to finance the future maintenance and operational costs of the Project; and
- (e) facilitate timely and efficient management of the Project.

SECTION 3. PREVIOUS FEDERAL DOCUMENTS AND GRANTS

- (a) The Government's laws, policies and procedures require the completion of a project development process and environmental review prior to the Award and Execution of this Agreement. Prior Grants of Federal assistance awarded by the Government for this project development process are described in Attachment 5 to this Agreement. These Grants (and any other documents that are described in Attachment 5, including Letters of No Prejudice) are incorporated by reference and made part of this Agreement, except for the terms and conditions thereof specifically superseded by this Agreement. Further, in executing this Agreement, the Grantee assures that the certifications and assurances (made by the Grantee or on behalf of the Grantee or by a third party) upon which the Government relied in these prior actions were made to the Government in good faith and to the best of the Grantee's knowledge and belief, and that the Grantee has no present knowledge of facts or circumstances substantially affecting the continued validity of these certifications and assurances that the Grantee has not formally conveyed to the Government prior to the Government's Award of funding set forth in this Agreement.

- (b) This Agreement does not discharge or rescind any of the terms, conditions, or obligations established under the documents set forth in Attachment 5 unless specifically stated otherwise herein. Further, the terms, conditions and obligations of this Agreement take precedence over the provisions of all prior agreements related to the Project between the Grantee and the Government and will be controlling for all actions related to the Project taken after the Date of this Agreement, unless specifically stated otherwise herein.
- (c) No amendments will be sought or approved to increase the amount of funds in the prior Grants listed in Attachment 5 beyond the amounts described in this Agreement as available to the Project.

SECTION 4. OBLIGATION TO COMPLETE THE PROJECT

- (a) The Government has no obligation to provide any financial assistance for the Project beyond the Maximum Federal New Starts Financial Contribution. If the total Federal funding provided under Section 8 of this Agreement, "Limitations of Federal Funding Commitment," is insufficient to undertake revenue service of the Project and the subsequent activities necessary to Complete the Project, the Grantee agrees to Complete the Project and accepts sole responsibility for the payment of any additional costs (overruns).
- (b) If at any time during its efforts to Complete the Project the Grantee determines that the total Project Cost will exceed the Baseline Cost Estimate, the Grantee must immediately notify the Government of the amount of the difference and the reasons for the difference. Further, the Grantee must provide the Government with a Recovery Plan that demonstrates the Grantee is taking and will take every reasonable measure to eliminate [recover] the difference between the total Project Cost and the Baseline Cost Estimate. Insofar as any difference between the total Project Cost and the Baseline Cost Estimate cannot be eliminated [recovered], the Grantee must secure and provide such additional resources as are necessary to meet the additional costs and expeditiously complete the Project without further financial assistance from the Federal capital New Starts program. Further, in its Recovery Plan, the Grantee must identify the sources of funds it will draw upon to meet the additional costs and cover the difference between the total Project Cost and the Baseline Cost Estimate.

SECTION 5: REVENUE SERVICE DATE AND LEVELS OF SERVICE

- (a) The Grantee agrees and promises to achieve revenue operations of the Project on or before November 23, 2022, the Revenue Service Date, in accordance with the terms and conditions of this Agreement.
- (b) The Revenue Service Date is a significant term of this Agreement. The Grantee's failure to achieve the operational functions of the Project on or before the Revenue Service Date will constitute a breach of this Agreement. Upon the Grantee's request, the Government may determine at its sole discretion to waive a breach or an anticipatory breach of this Agreement and to extend the Revenue Service Date if there is an unavoidable delay in achieving the operational goals of the Project resulting from an event or circumstance beyond the control of the Grantee, or if the Government determines that allowing the delay is in the best interest of the Government and the success of the Project. Requests by the Grantee for waiver of a

breach or anticipatory breach of this Agreement and extension of the Revenue Service Date for the reasons set forth herein shall be submitted promptly (with appropriate documentation) to the Government. In the exercise of its discretion to waive the breach and extend the Revenue Service Date, the Government will take into consideration the actions and measures taken by the Grantee to ensure adherence to its promise to achieve the operational goals of the Project on or before the scheduled Revenue Service Date.

- (c) Delays in appropriations of funds from Congress shall not constitute a basis for extension of the Revenue Service Date.
- (d) The Government's consent to extend the Revenue Service Date pursuant to Paragraph (b) of this Section 5 does not constitute a basis for additional Federal financial assistance beyond the Maximum Federal New Starts Financial Contribution.
- (e) Set forth in Attachment 1 to this Agreement, "Scope of Project," are the hours of service and headways the Grantee will maintain once the Project is opened to Revenue Service and for no less than five (5) years thereafter. These specified Levels of Service are a significant term of this Agreement. The Grantee's failure to achieve and maintain these Levels of Service at the Revenue Service Date and for five (5) years thereafter will constitute a breach of this Agreement. Upon the Grantee's request, the Government may determine in its sole discretion to waive a breach of the Grantee's obligation to maintain these specified Levels of Service for events or circumstances beyond the control of the Grantee, or if the Government determines that a waiver is in the interests of the United States. In the exercise of its discretion whether to waive a breach of the specified Levels of Service, the Government will take into consideration the actions and measures taken by the Grantee to achieve and maintain the operational goals of the Project and the Grantee's entire public transportation system for at least five years beyond the opening of the Project to Revenue Service.

SECTION 6. NET PROJECT COST

- (a) This Grant is to assist in the payment of actual eligible costs within the scope of the Project under this Agreement, minus any amount that can reasonably be financed from revenues of the Grantee. If the funds awarded under this grant exceed the amount necessary to finance the Federal share, those excess funds are not available to the Grantee for payment of costs beyond the scope of this Project supported by this Grant.
- (b) In accordance with the FTA Master Agreement, a refund or reduction of the Grantee's Local Share of the Net Project Cost requires a refund to the Government of a proportional amount of the Federal financial assistance provided under this Agreement.
- (c) The portion of the Net Project Cost that may be financed by the Government with capital New Starts funds may not exceed the amount of the Maximum Federal New Starts Financial Contribution for this Project as stated in Section 8 of this Agreement, "Limitations of the Federal Funding Commitment."
- (d) The Grantee acknowledges that Federal funds may be used only to reimburse eligible expenses for the Project. Should FTA determine that Federal funds have been used to

reimburse any expenses that were ineligible for Federal reimbursement, FTA will direct the Grantee either to reimburse FTA with local funds not already committed to the Project or to reduce the total project costs by the amounts found to have been ineligible.

SECTION 7. ESTIMATED NET PROJECT COST

- (a) The Government's determination to provide financial assistance for the Project is based, in significant part, upon the Grantee's estimated costs as set forth in the "Baseline Cost Estimate," Attachment 3 to this Agreement. The Estimated Net Project Cost reported in Attachment 3 is \$2,171,200,545.
- (b) The Estimated Net Project Cost financed with the Execution of this Agreement is limited by the amount of the Maximum FTA Amount Awarded. The amount of the Estimated Net Project Cost and the amount of the Maximum FTA Amount Awarded are stated in the first page of this Agreement. The amount reimbursable by the Government is limited to the lesser of either the amount of the Maximum FTA Amount Awarded or the maximum percentage of FTA participation permitted by Federal law and regulations. Additional funds will not be provided until a Grant amendment awarding additional funds and amending this Full Funding Grant Agreement is executed.

SECTION 8. LIMITATIONS OF THE FEDERAL FUNDING COMMITMENT

- (a) With its Award set forth in this Agreement, the Government obligates \$100,000,000 in Federal capital New Starts financial assistance for the Project. The sources of this Federal financial assistance are set forth in the "Project Budget," Attachment 3A. These funds are in addition to all previous Federal financial commitments to the development of the Project as set forth in the schedule of "Prior Grants and Related Documents," Attachment 5 of this Agreement.
- (b) (1) With its Award set forth in this Agreement, the Government acknowledges its intent to provide Federal capital New Starts financial assistance for the Project in addition to the amount set forth in Paragraph (a) of this Section 8. The amount of additional capital New Starts funds the Government may provide will not exceed \$943,380,000. The anticipated sources of Federal financial assistance in this amount are listed in Attachment 6 to this Agreement, "Schedule of Federal Funds for the Project." Additional funds obligated pursuant to this Paragraph will be subject to all the terms, conditions and obligations established by this Agreement. Accordingly, it is expected that the award of additional funds will be processed through amendments to this Agreement.
- (b) (2) The award by the Government of additional Federal capital New Starts financial assistance to the Project under Paragraph (b)(1) of this Section 8 is subject to the following limitations:
 - (A) the availability of appropriated funds, and
 - (B) the Grantee's continued performance under the terms and conditions of this Agreement.

- (c) The Maximum Federal New Starts Financial Contribution for this Project under the capital New Starts category of funds is limited to \$1,043,380,000 which is the sum of the amounts set forth in Paragraphs (a) and (b)(1) of this Section.

SECTION 9. FEDERAL FUNDING—OTHER SOURCES

The Maximum Federal New Starts Financial Contribution specified in Section 8(c) of this Agreement does not include funds other than from the capital New Starts program under 49 U.S.C. Chapter 53. Should such other Federal funds be provided for the Project in addition to the Federal capital New Starts funds set forth in Attachment 6 of this Agreement, the limitation on the Federal funding commitment set forth in Section 8 of this Agreement shall not apply to those funds. Accordingly, such additional funds shall be excluded from the calculation of Maximum Federal New Starts Financial Contribution. Funds awarded pursuant to this Section will be subject to all other terms, conditions and obligations set forth in the Agreement.

SECTION 10. LOCAL FINANCIAL COMMITMENT—CAPITAL COSTS

- (a) As a condition of the Government's Award of this Full Funding Grant, the Grantee has developed and adopted a Financial Plan for financing all Project Costs necessary to complete the Project. In addition to the amount of Federal funds requested, the Financial Plan includes a statement identifying the State, local and private sources of funding and the amount of funds available for and committed to the Project from each such source. This Financial Plan, as accepted by the Government, with the supporting documentation (including formal funding agreements and commitments) is hereby incorporated by reference and made part of this Agreement.
- (b) The Grantee hereby commits and certifies that it will provide funds in an amount sufficient, together with the Federal contribution (acknowledging the limitations as set forth in this Agreement), to assure timely and full payment of the Project Costs as necessary to complete the Project.
- (c) The Grantee hereby commits and certifies that the Local Share portion of its financing commitment will be provided from funding sources other than: Federal funds (except as may otherwise be authorized by Federal statute); receipts from the use of Project facilities or equipment (except as may otherwise be authorized by Federal statute); or revenues of the Project public transit system in which such facilities or equipment are used.
- (d) Given the Estimated Net Project Cost, as set forth in Section 7 of this Agreement, the Grantee's financial commitment to the Net Project Cost is estimated to total \$1,127,820,545. This amount constitutes the Local Share needed to match the Maximum Federal New Starts Financial Contribution for the Project and Other Federal Sources. In the event that the actual Federal financial contribution for the Project is reduced or is increased or the funding percentage as set forth in this Agreement is changed, the portion of the Grantee's financial contribution for the Project that is identified as Local Share shall be adjusted accordingly.
- (e) The Grantee agrees to notify the Government of any change in circumstances or commitments that adversely affects the Grantee's plan to fund the Project Costs necessary to complete the Project as set forth in the Financial Plan. In its notification, the Grantee shall

advise the Government of what actions it has taken or plans to take to ensure adequate funding resources and shall reaffirm its commitment to the Government as set forth in Paragraph (b) of this Section 10.

SECTION 11. AUTHORIZATION TO ADVANCE PROJECT WITHOUT PREJUDICE

The Grantee may incur costs or expend local funds for all phases of the Project as is reasonably necessary to advance the Project prior to an award of Federal funding assistance without prejudice to possible future Federal participation in or reimbursement of the Project Costs to the extent that such costs are incurred in accordance with all applicable Federal requirements and this Agreement. It is understood that the authority conferred on the Grantee to advance the Project without prejudice does not constitute a legal commitment by the Government to obligate and award Federal funds.

SECTION 12. LOCAL FINANCIAL COMMITMENT—OPERATING AND MAINTENANCE COSTS

- (a) As a condition of the Government's Award of funding set forth in this Agreement, the Grantee has developed and adopted a Financial Plan to finance the future operation and maintenance of the Project that also takes into consideration the Grantee's continuing financial responsibilities to operate, maintain and reinvest in its existing transit system. This Financial Plan, as accepted by the Government, and the supporting documentation (including specific funding commitments) evidencing stable and dependable funding sources are an essential part of the Grantee's Application and are made part of this Agreement by incorporation of the Application.
- (b) With the Execution of this Agreement, the Grantee assures that it has stable and dependable funding sources, sufficient in amount and in degree of commitment, to operate and maintain its entire public transportation system at an adequate and efficient level of service, including the future operation and maintenance of the Project without additional Federal assistance beyond the amounts set forth in the Financial Plan. The foregoing assurance does not preclude the Grantee from altering service through contracts with private providers of public transportation services.
- (c) The Grantee will notify the Government of any change in circumstances or commitments that adversely affects the Grantee's plan to fund the maintenance and operating costs of the Project as set forth in the Financial Plan. In its notification, the Grantee will advise the Government of actions it has taken or plans to take to ensure adequate funding resources and will reaffirm to the Government its assurance as set forth in Paragraph (b) of this Section.

SECTION 13. BASELINE COST ESTIMATE

- (a) In its Application, the Grantee submitted to the Government a Baseline Cost Estimate for the activities constituting the Project. The Baseline Cost Estimate is accepted by the Government and is Attachment 3 of this Agreement. The Baseline Cost Estimate is derived from cost estimates of the individual third party contracts and force account work that, in sum, constitute the Project; it reflects appropriate escalation and Project schedule dates.

- (b) The Government intends to use the Baseline Cost Estimate to monitor the Grantee's compliance with certain terms and conditions of this Agreement. The Baseline Cost Estimate established in Attachment 3 serves as the measure of cost estimates as of the Date of this Agreement, and should not be amended or modified during the implementation of the Project.
- (c) The Grantee will submit cost reports on the implementation of the Project as required by this Agreement and in a format consistent with the units set forth in the Baseline Cost Estimate so that the Government can, with reasonable diligence, reconcile the Grantee's reports with the Baseline Cost Estimate.

SECTION 14. BASELINE SCHEDULE

- (a) In its Application, as approved, the Grantee submitted a Baseline Schedule for the Project that demonstrates how the Grantee intends to implement the Project and meet the Revenue Operation Date. This Baseline Schedule has been accepted by the Government and is Attachment 4 of this Agreement.
- (b) The schedule for the Project may be modified from time to time at the discretion of the Grantee. However, the Baseline Schedule is not to be modified because it is to be used as a basis for comparing planned to actual project implementation. The Grantee will notify the Government when a Project schedule modification has the potential to change the Revenue Service Date and describe the actions planned to recover the schedule. The Government's acquiescence in such notice will not be deemed approval by the Government of an extension of a Revenue Service Date unless the Government expressly grants an extension in writing.

SECTION 15. PROJECT MANAGEMENT OVERSIGHT

The Project is a "Major Capital Project" as defined in FTA's Project Management Oversight regulations at 49 C.F.R. § 633.5. Accordingly, the Grantee agrees that all requirements and conditions set forth in the rule at 49 C.F.R. Part 633 apply to the Project activities. Noncompliance with any regulatory requirements shall constitute a breach of this Agreement, unless the Government formally waives the regulatory requirement.

SECTION 16. ENVIRONMENTAL PROTECTION

- (a) As a condition precedent to this Agreement, the environmental impacts of the Project have been assessed as required by law. The results of that assessment and the adopted mitigation measures are described in the environmental documents identified in Attachment 7 of this Agreement. These documents together with related agreements and supporting documentation are incorporated by reference and made part of this Agreement. To assist the Government in monitoring the implementation of the adopted mitigation measures, these measures are specifically described in Attachment 7 of this Agreement. It is understood and agreed that the description in Attachment 7 shall not supersede or in any way result in a circumvention of the requirements set forth in the Government's environmental record for the Project.
- (b) Certain terms and conditions of this Agreement, as related to the Grantee's responsibility to

ensure protection of the environment, are set forth in Section 25 of the Master Agreement, "Environmental Protections." Under Subsection 25.i "Mitigation of Adverse Environmental Effects," the Grantee is required, among other actions, to undertake all environmental mitigation measures that are identified in environmental documents prepared for the Project. Accordingly, the Grantee understands that it shall not withdraw or substantially change any of the adopted mitigation measures as described in the Government's environmental record for the Project without the express written approval of the Government.

- (c) This Section is intended only to supplement the provisions set forth in Section 25 of the Master Agreement, "Environmental Protections."

SECTION 17. LABOR PROTECTION

The Grantee will carry out the Project in conformance with the terms and conditions determined by the Secretary of Labor to be fair and equitable to protect the interests of employees affected by the Project and meet the requirements of 49 U.S.C. § 5333(b) and U.S. Department of Labor (USDOL) Guidelines at 29 C.F.R. Part 215. These terms and conditions are identified in the letters of certification from USDOL set forth in the first pages of this Agreement. The Grantee will carry out the Project in compliance with the conditions stated in the USDOL certification letters. Those letters and any documents cited therein are incorporated by reference and made part of this Agreement.

SECTION 18. GOVERNMENT ACTIONS

- (a) In all cases where the Government's review, approval or concurrence is required under the terms and conditions of this Agreement, the Government will provide its response within sixty (60) calendar days of receipt from the Grantee of all materials reasonably necessary for the formulation of the Government's response.
- (b) If the Government determines that its position cannot be finalized within that sixty (60) day period, the Government will notify the Grantee, in writing, within thirty (30) days following receipt of the Grantee's submission that the Government's response will be delayed and advise the Grantee of the Government's anticipated time period for response.
- (c) Whenever the Government's approval or concurrence is needed on any matter pertaining to or concerning this Agreement, the Government's approval or concurrence will not be unreasonably withheld.

SECTION 19. REMEDIES

- (a) Substantial failure of the Grantee to complete the Project in accordance with the Application and this Agreement will be a default of this Agreement. In the event of default, the Government will have all remedies at law and equity, including the right to specific performance, without further Federal financial assistance, and the rights to termination or suspension as provided by Section 11 of the Master Agreement, "Right of the Federal Government to Terminate." The Grantee recognizes that in the event of default, the Government may demand all Federal funds provided to the Grantee for the Project be returned to the Government. Furthermore, a default of this Agreement will be a factor

considered before a decision is made with respect to the approval of future Grants requested by the Grantee.

(b) Under the provisions of Section 15 of this Agreement, "Project Management Oversight," and under the terms and conditions of the Master Agreement, the Government will review performance by the Grantee to determine whether satisfactory progress is being made to complete the Project. In the event that the Government determines that the Grantee is in breach of this Agreement, the Government may withhold its approvals of further funding and suspend drawdown of funds, under the provisions of Section 11 of the Master Agreement, "Right of the Federal Government to Terminate," until any necessary corrective action, which may be required by the Government, is accomplished. Any breach of this Agreement that is not corrected within a reasonable period of time will be a default of this Agreement. The Government in its discretion may permit the cost of such corrective action to be deemed a Project Cost, provided that such cost is an allowable cost under the requirements of Section 7.b of the Master Agreement, "Eligible Costs," and so long as it remains within the limits of the Maximum Federal New Starts Financial Contribution set forth in Section 8) of this Agreement, "Limitations of the Federal Funding Commitment."

(c) In the event of a breach of this Agreement by the Grantee and before the Government takes action contemplated by this Section, the Government will provide the Grantee with ninety (90) days written notice that the Government considers that such a breach has occurred and will provide the Grantee a reasonable period of time to respond and to take necessary corrective action.

SECTION 20. CONTENTS OF AGREEMENT

This Full Funding Grant Agreement consists of the text of this Agreement, which includes the first pages setting forth significant characteristics of the Agreement (such as the maximum Federal funds obligated and awarded for expenditure on the Project and the funding ratio of Federal and local funds to be expended for the Project, and such other data), followed by the Terms and Conditions, and the Attachments to the Agreement. The Agreement also includes the following documents incorporated by reference and made part of this Agreement: the "Federal Transit Administration Master Agreement," FTA Form MA(22) (October 1, 2015), as may be revised from time to time, the Application, the Government's environmental record for the Project, related agreements, and prior Grant Agreements for the Project referenced in Attachment 5 of this Agreement. Should the Federal assistance award letter include special conditions for the Project, that letter is incorporated by reference and made part of this Agreement. Any inconsistency between the Application and the terms and conditions of this Full Funding Grant Agreement will be resolved according to the clear meaning of the provisions of this Agreement and Attachments hereto.

SECTION 21: SIMULTANEOUS CREATION OF AGREEMENT IN ELECTRONIC FORMAT

Simultaneous to the Award and Execution of this Agreement set forth in typewritten hard copy, the Agreement is being awarded and executed by electronic means through FTA's electronic award and management system. To the extent any discrepancy may arise between the typewritten version and the electronic version of this Agreement at the time of execution the

typewritten version will prevail. Should any special conditions or requirements for the Project be added separately in the electronic version, those conditions or requirements are incorporated by reference and made part of this Agreement.

SECTION 22. AMENDMENTS TO AGREEMENT

Amendments to any of the documents referenced in Section 20, "Contents of Agreement," will be made in accordance with the requirements and procedures set forth in FTA Circular 5010.1D, "FTA Project Management Guidelines" (August 27, 2012), as may be amended from time to time, and FTA Circular 5200.1A, "Full Funding Grant Agreements Guidance" (December 5, 2002), as may be amended from time to time.

SECTION 23. ATTACHMENTS—INCORPORATION

Each and every Attachment to this Agreement is incorporated by reference and made part of this Agreement.

SECTION 24. NOTICES

Notices required by this Agreement will be addressed as follows:

As to the Government:

Leslie Rogers
Regional Administrator, FTA Region IX
90 Seventh Street, Suite 15-300
San Francisco, CA 94103

As to the Grantee:

Gary L. Gallegos
Executive Director
San Diego Association of Governments
401 B Street, Suite 800
San Diego, CA 92101

SECTION 25. APPLICABLE LAW

If neither Federal statute nor Federal common law governs the interpretation of the provisions of this Agreement, the State law of the State of California will apply. This provision is intended only to supplement Section 3.g of the Master Agreement, "Application of Federal, State, and Local Laws, Regulations, Requirements, and Guidance."

SECTION 26. AWARD AND EXECUTION OF AGREEMENT

There are several identical counterparts of this Agreement in typewritten hard copy; each counterpart is to be fully signed in writing by the parties and each counterpart is deemed to be an original having identical legal effect. When signed and dated by the authorized official of the Government, this instrument will constitute an Award that should be executed by the Grantee within ninety (90) days of the date of the Government's Award (FTA Award). The Government may withdraw its Award of financial assistance and obligation of funds if this Agreement is not executed within the ninety (90) day period. Upon full Execution of this Agreement by the Grantee; the effective date will be the date the Government awarded funding under this Agreement as set forth below.

THE GOVERNMENT HEREBY AWARDS THIS FULL FUNDING GRANT THIS
14th DAY OF September 2016.

Signature: Carolyn Flowers
Carolyn Flowers
Acting Federal Transit Administrator
FEDERAL TRANSIT ADMINISTRATION

EXECUTION BY GRANTEE

The Grantee, by executing this Agreement, affirms this FTA Award, adopts and ratifies all statements, representations, warranties, covenants, and materials it has submitted to FTA; consents to this Award; and agrees to all terms and conditions set forth in this Agreement.

THE GRANTEE HEREBY EXECUTES THIS FULL FUNDING GRANT THIS 14 DAY OF September, 2016.

Signature: Gary L Gallegos
Gary L. Gallegos
Executive Director
San Diego Association of Governments

ATTESTED BY:

Signature: Tessa Lero
Name: Tessa Lero
Title of Attesting Official: Clerk of the Board of Directors
Name of Organization: San Diego Association of Governments

AFFIRMATION OF GRANTEE'S ATTORNEY

As the undersigned Attorney for the Grantee, I affirm to the Grantee that I have examined this Agreement and the proceedings taken by the Grantee relating to it. As a result of this examination I hereby affirm to the Grantee the Execution of the Agreement by the Grantee is duly authorized under state and local law. In addition, I find that in all respects the Execution of this Agreement is due and proper and in accordance with applicable State and local law. Further, in my opinion, this Agreement constitutes a legal and binding obligation of the Grantee in accordance with the terms of the Agreement. Finally, I affirm to the Grantee that, to the best of my knowledge, there is no legislation or litigation pending or imminent that might adversely affect the full implementation of the Project in accordance with the terms thereof.

DATED 14 DAY OF September, 2016.

AFFIRMED BY:

Signature: John Kirk
John Kirk
General Counsel
San Diego Association of Governments

Attachment 1
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Scope of the Project

The Mid-Coast Corridor Transit Project (the Project) would extend the San Diego Trolley Blue Line from the Santa Fe Depot in downtown San Diego to the UTC Transit Center in University City. The Project would use the existing Trolley tracks for approximately 3.5 miles from the Santa Fe Depot to a point just north of the Old Town Transit Center (OTTC) and south of the San Diego River. In this area, the Trolley Blue Line trains would share the tracks with the Trolley Green Line trains. Improvements to this segment of the line include upgrades to signaling and traction power systems.

The Project also would include construction of approximately 10.92 miles of new double-track that would extend from south of the San Diego River to the terminus at the UTC Transit Center. Of the 10.92 miles of new double track, 6.84 miles are at-grade, 4.05 miles are aerial, and 0.03 miles are underground cut and cover. Nine stations would be constructed as part of this light rail transit project with four at-grade stations [Tecolote Road, Clairemont Drive, Balboa Avenue, and VA Medical Center], and five elevated stations (Nobel Drive, Pepper Canyon (UCSD West), Voigt Drive (UCSD East), Executive Drive, and the UTC Transit Center). The UTC Transit Center station and two existing stations served by the extension (Santa Fe Depot and Old Town) are major transfer points to other rail and bus lines. The Project includes five park-and-ride facilities providing 1,170 spaces along with two transfer centers (Balboa and UTC stations).

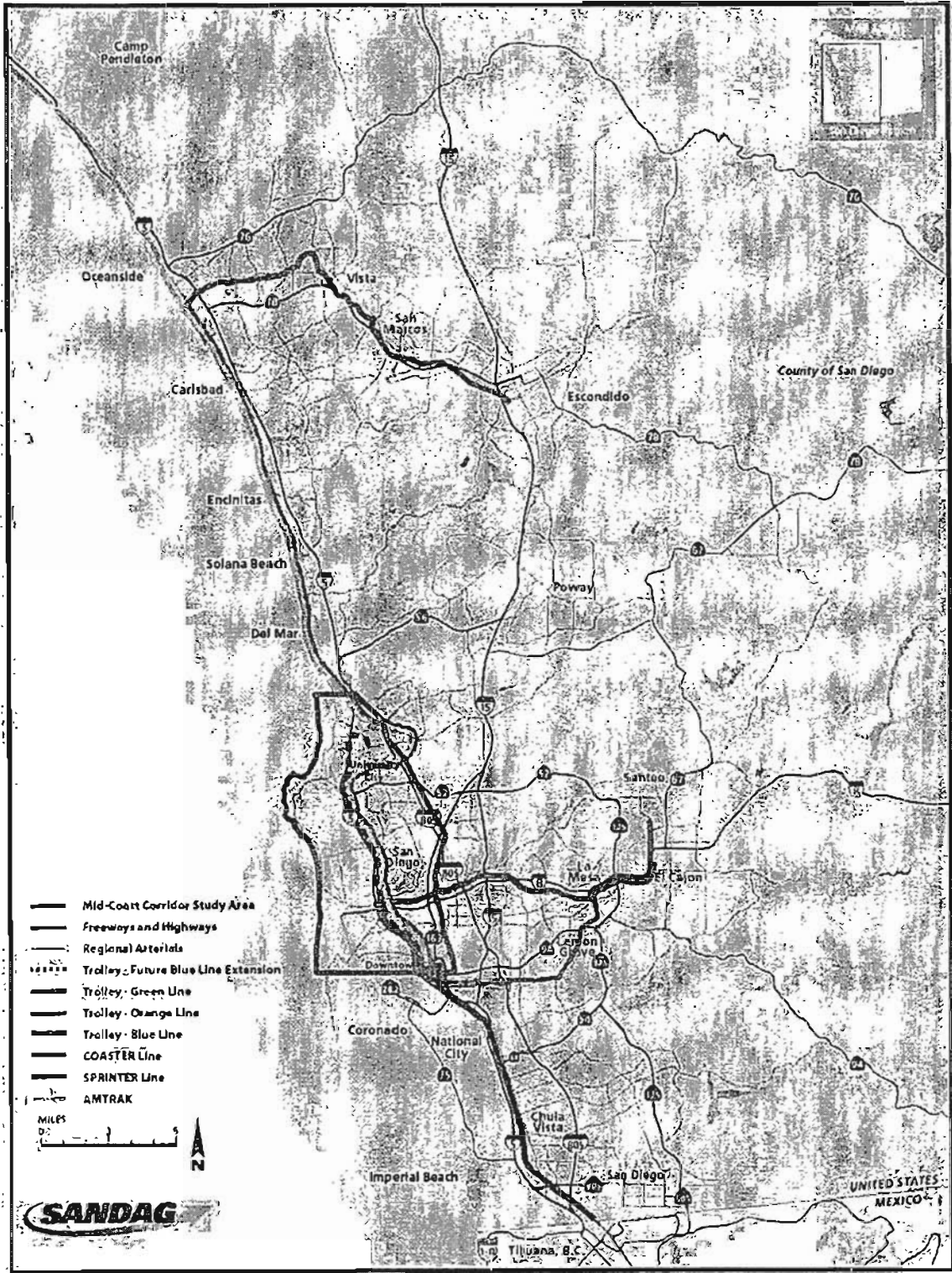
SANDAG and the Metropolitan Transit System (MTS) will acquire 36 light rail vehicles for the Project. No new maintenance or storage facilities are required. The Project will also include train control and signals, communications, traction power supply and distribution, and fare collection systems and equipment. Thirteen new traction power substations would be constructed as part of the project. MTS is the operator of the light rail system in San Diego.

Hours of operation in the opening year of 2022 will be from 4:00 a.m. to 2:00 a.m. on weekdays and weekends. On weekdays, service will be provided every fifteen minutes during peak and off-peak periods and every thirty minutes during the evening period from 6:00 p.m. to 2:00 a.m. On weekends service will be provided every 15 minutes throughout the day. By 2030, weekday service will be provided every 7.5 minutes during the peak and off-peak periods and every fifteen minutes during the weekday evening period from 6:00 p.m. to 2:00 a.m. Weekend service in 2030 will remain every fifteen minutes throughout the day.

Estimated daily linked trips on the Project using current year inputs are 24,600. This number is expected to grow to 31,800 daily linked trips by 2035.

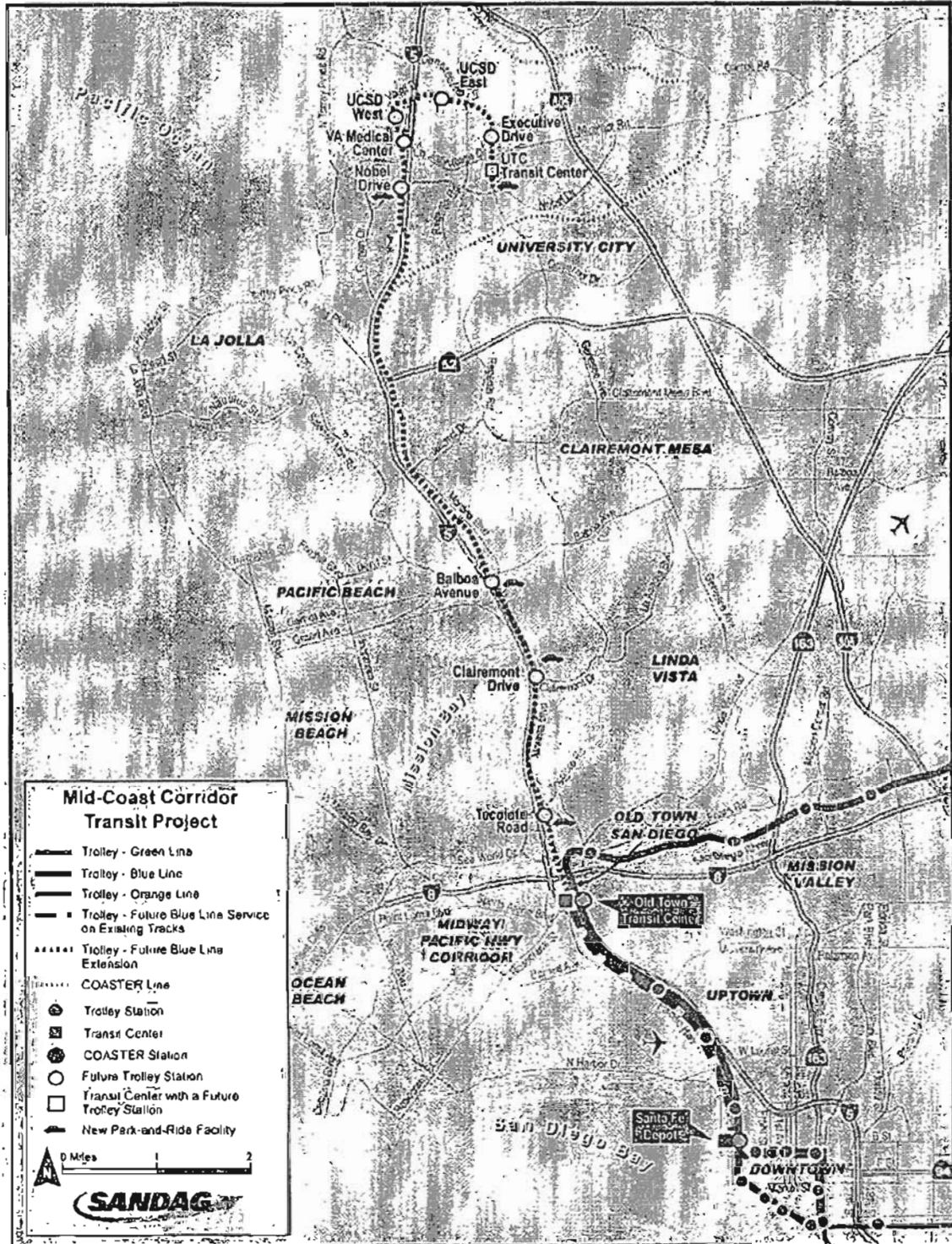
The Revenue Service Date for the Project is November 23, 2022.

Attachment 1A
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
 San Diego, California
Project Vicinity Map



Attachment 1B
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
 San Diego, California

Project Location Map



Attachment 2
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Project Description

Narrative Description

The Mid-Coast Corridor Transit Project (the Project) would extend the San Diego Trolley Blue Line from the Santa Fe Depot in downtown San Diego to the UTC Transit Center in University City. The Project would use the existing Trolley tracks for approximately 3.5 miles from the Santa Fe Depot to a point just north of the Old Town Transit Center (OTTC) and south of the San Diego River. In this area, the Trolley Blue Line trains would share the tracks with the Trolley Green Line trains. Improvements to this segment of the line include upgrades to signaling and traction power systems.

Project Description by Standard Cost Category

The following provides a description of the Project by Standard Cost Category (SCC). These SCCs are the basis for the Baseline Cost Estimate and Baseline Schedule contained in Attachments 3 and 4, respectively.

SCC 10 – Guideway and Track Elements

This SCC includes guideway (10.92 miles of new guideway) and track elements including sitework, subgrade preparation, excavation, trackwork, aerial structures, retaining walls, and special trackwork. SCC 10 includes the following applicable subcategories.

SCC 10.01 – Guideway: At-grade exclusive right-of-way

These subcategories includes approximately 3.46 miles of double-track, at-grade guideway that does not have retained cut or fill walls. It is generally located in close proximity to the LOSSAN tracks. The cost for this SCC includes guideway excavations and embankment, light weight cellular concrete backfill due to poor soil conditions, and geopiers with concrete slabs on top to avoid impact to a sanitary sewer line, subballast, fencing, and ballast curbs.

SCC 10.04 – Guideway: Aerial structure

This subcategory includes approximately 4.05 miles of double-track, aerial guideway including all work associated with new bridge structures including bridge foundations, catenary pole foundations, railings, emergency walkways, and architectural treatments. One segment of Nobel Viaduct requires a sound wall. The cost of this sound wall has been included as part of aerial structures. Emergency walkways on direct fixation (DF) tracks would be elevated above the top of the deck and these costs are included in this category. In all, 11 separate aerial structures are required, three of which are viaducts, one crosses over LOSSAN tracks, four of them cross streams and a river, two cross over small canyons, and one crosses over Balboa Avenue. This subcategory does include the station platforms for the five aerial stations as these are integral with the bridge structures, but this category does not include station appurtenances on the platforms.

SCC 10.06 – Underground cut & cover

This subcategory includes approximately 0.03 miles of double-track cut-and-cover construction in the vicinity of La Jolla Colony Drive.

SCC 10.08 – Guideway: Retained cut or fill

Approximately 3.38 miles of retained cut and/or fill will be constructed for the Project including various types of retaining walls, including fencing, railings, and appropriate architectural treatment. The cost includes structural excavation/backfill, structural concrete, steel reinforcement, temporary excavation support, stray current monitoring, fencing, and cable railing. The cost also includes the guideway subballast. Retaining wall types include cast in place concrete, tie-back, soil nail, soil anchors, Mechanically Stabilized Earth walls, soldier pile and lagging. Retaining wall 780R-F includes a sound wall on top, and the cost of the sound wall is included in this category.

SCC 10.09 – Track: Direct fixation

Approximately 3.77 miles of direct fixation (DF) will be constructed on the Project. These are located on aerial structures longer than 400 feet. The cost includes rail, plinth pads, and fasteners. Also, the southerly approach to San Diego River Bridge and the at-grade section between the Nobel and UCSD viaducts are located on track slab with plinth and DF track. Direct fixation track will be continuously welded 115RE rail for the light rail transit (LRT) tracks.

SCC 10.11 – Track: Ballasted

The standard rail section for ballasted track (approximately 7.15 miles) is continuously welded 115RE rail for the LRT tracks. Approximately 1.5 miles of LOSSAN tracks will be reconstructed with 136RE rail.

SCC 10.12 – Track: Special (switches, turnouts)

The Project includes three turnouts, six double crossovers, four single crossovers and one crossing diamond. Two of the turnouts and the crossing diamond are located at the connection to the Trolley Green Line. The two at-grade universal crossovers are located south of the Tecolote Road Station and north of the Clairemont Drive Station. The two at-grade double crossovers are located between Balboa Avenue and SR 52. A single turnout to the storage track is located south of SR 52. Four double crossovers are located on direct fixation track, one located on the Nobel viaduct, one on the Genesee viaduct, and two located on the UCSD viaduct. Other special trackwork includes bumping posts located at the end storage track and the end of the Genesee viaduct, a derail switch located on the storage track, and two wheel stops located at the end of the storage track.

SCC 10.13 – Track: Vibration and noise dampening

This subcategory includes the vibration mitigation requirement for the Project. The noise control measures are included in subcategories 10.04 and 10.08 because the Project does not have any standalone noise barriers required. The cost includes installation of a ballast mat and the associated tub section for the ballast mat, located along La Paz Condominiums.

SCC 20 – Station, Stops, Terminals, Intermodal

This SCC includes improvements associated with the construction of four at-grade and five aerial stations along with one parking structure at the Nobel Drive Station along with the needed elevators. SCC 20 includes the following applicable subcategories.

SCC 20.01 – At-grade station, stop, shelter, mall, terminal, platform

This subcategory provides for the construction, purchase, and installation of elements for four at-grade stations. These elements include side platforms, bike racks, informational kiosks, screen wall, fencing, concrete footings, canopies with foundations/seating, track paving, tactile warning strips, station furnishings/signage, bus shelters, artwork, and mechanical, electric, and plumbing service necessary for the construction and safe operation of the light rail at-grade transit stations. The four at-grade stations include a total of 14 bike lockers and 16 bike racks. The four new at-grade stations are at Tecolote Road, Clairemont Drive, Balboa Avenue, and VA Medical Center.

At-grade parking facilities located at the Tecolote Road, Clairemont Drive, and Balboa Avenue Stations are accounted for in SCC 40.07.

SCC 20.02 – Aerial station, stop, shelter, mall, terminal, platform

This subcategory provides for the construction, purchase, and installation of elements for five aerial stations. These elements include bike racks, informational kiosks, screen wall, fencing, concrete footings, canopies, track paving, tactile warning strips, station furnishings/signage, stairs, equipment rooms, artwork, mechanical, electric, and plumbing service for the construction and safe operation of the light rail aerial transit stations. The five aerial stations include a total of 28 bike lockers and 43 bike racks. The five new aerial stations are at Nobel Drive, Pepper Canyon (UCSD West), Voigt Drive (UCSD East), Executive Drive, and UTC Transit Center. Cost associated with side platforms is included in SCC 10.04.

SCC 20.06 – Automobile parking multi-story structure

This subcategory includes one elevated parking structure (260 dedicated transit only parking spaces) at the Nobel Drive station plus an allowance for replacement of existing parking spaces. An additional 260 dedicated transit only parking spaces at the UTC Transit Center station will be purchased from Westfield as part of the real estate transaction and is included in SCC 60.01.

SCC 20.07 – Elevators, escalators

This subcategory includes 13 single elevators and one double elevator (total of 15 elevators) that are to be constructed at the five aerial stations and the Nobel Drive parking structure. This subcategory includes elevator machine rooms, controller rooms, and canopies. Escalators are not used in the Project.

SCC 40 – Sitework and Special Conditions

This SCC includes all necessary site work and special work associated with utilities, hazardous materials, environmental mitigations, landscaping, street modifications, at-grade parking

facilities (three stations), and temporary facilities for the construction of the Project. SCC 40 includes the following applicable subcategories.

SCC 40.01 – Demolition, Clearing, Earthwork

This subcategory includes the Project-wide demolition, including those structures outside of the track or road bed. This includes, but is not limited to, removal of existing track elements, loading docks and their canopies, paved surfaces, pedestrian bridges, retaining walls, street elements such as curb and sidewalk, trees, and irrigation features. The costs for abandoning, demolishing, or removing drainage and utility features are included in subcategory 40.02. Clearing and grubbing is included in this subcategory. Cost for earthwork is included in other items of work in Category 10 and 40.07.

SCC 40.02 – Site Utilities, Utility Relocation

This subcategory includes the Project-wide drainage improvements and utility relocation, including those drainage features and utilities outside of the track or road bed.

The drainage improvements included in this subcategory include the underdrains within the guideway envelope, storm drain pipes and inlets required for the tracks and roadways, and drainage improvements at the stations. This subcategory also includes all the costs associated with the replacement and lengthening of existing culverts and channels within the guideway envelope, streets, bike path, and stations, including the Rose Creek Open Channel at SR.52.

Generally one of the largest elements within this subcategory is the relocation of existing utilities from within the guideway construction envelope. These relocations include both public and private utilities, subject to any agreements that may apply to franchised utilities that exist within public rights-of-way.

The relocation of existing LOSSAN tracks has been included in SCC 10.01 and 10.08.

SCC 40.03 – Hazardous material, contaminated soil removal/mitigation, ground water treatments

This subcategory includes hazardous materials, contaminated soil removal, ground water treatment, and all other hazardous materials, contaminated media and treatments required for the Project. Except for the potential of encountering aerially deposited lead and unexploded ordinances, hazardous material was not encountered in geotechnical investigation. Hence, most of the cost associated with this category is an allowance.

SCC 40.04 – Environmental mitigation, e.g. wetlands, historic archeological, parks

This is an allowance for restoration of jurisdictional areas to its original condition. It also includes maintenance of these areas after construction during the plant establishment period. This subcategory excludes permanent sound walls and vibration control measures which are included in SCC 10.04 and SCC 10.13.

SCC 40.05 – Site structures including retaining walls, sound walls

This subcategory includes the retaining walls that are outside the general guideway construction envelope. These structures are located at stations, outside of the platform area, at substations

and maintenance access roads, and along roadways. Structures such as the retaining walls for the at-grade or cut/fill sections along the guideway are included in SCC 10.08.

SCC 40.06 – Pedestrian/bike access and accommodation, landscaping

This subcategory includes the pedestrian access improvements along the realignment of the Rose Canyon Bicycle Path. This subcategory also includes all of the landscaping and irrigation improvements for the Project.

SCC 40.07 – Automobile, bus, van accessways including roads, parking lots

This subcategory includes new and reconstructed roadways, streets, at-grade surface parking areas (three locations), sidewalks, curbs and gutters, and related access roadway facilities. The three at-grade parking facilities are at the Tecolote Road Station (280 spaces), Clairemont Drive Station (150 spaces), and Balboa Avenue Station (220 spaces).

SCC 40.08 – Temporary facilities and other indirect costs during construction

This subcategory includes costs for mobilization, demobilization, construction vehicles, traffic control, temporary best management practices, security, small tools and equipment, project phasing, temporary construction associated with weather, and temporary site access and mitigation. It also includes contractor's indirect costs such as management, quality control, insurance, risk, and fees.

SCC 50 – Systems

This SCC includes the purchase, installation, and construction of all train control, traction power supply and distribution, communications, and fare collection systems required for the Project. SCC 50 includes the following applicable subcategories.

SCC 50.01 – Train control and signals

This subcategory includes the signaling and control systems required for safe and efficient operations of the transit system. It includes automatic wayside signals and automatic train stop circuitry in the track and on vehicles. This subcategory also includes the cost of modification to the LOSSAN signaling system required as part of relocation of the LOSSAN tracks.

SCC 50.02 – Traffic signals and crossing protection

This subcategory includes upgrades to existing signals between the Santa Fe Depot and OTTC, and installation of new signals at West Morena Blvd, Morena Blvd, La Jolla Colony Drive, Nobel Drive, and Genesee Avenue. Three new signals are added, two at Balboa Avenue Station, and one at northbound I-5 off ramp to eastbound Balboa Avenue. Modification to the traffic signal at Pacific Highway and Taylor Street includes changes to pre-emption due to grade crossing activation.

SCC 50.03 – Traction power supply: substations

This subcategory includes all of the components of the traction power system. This includes purchase, installation, and testing of the traction power distribution system, 13 traction power substations, spare parts, and Supervisory Control And Data Acquisition modifications to three existing substations. This subcategory also includes the ductbank and cabling from the traction power substations to the overhead catenary system (OCS) interface, and the ductbank and cabling to the substation from the outside electrical utilities source. The retaining walls and fencing for the

substations are also included in this subcategory but the access roads, etc., are included in SCC 40.07.

SCC 50.04 – Traction power distribution: catenary and third rail

This subcategory includes the traction power distribution system for the Project. The OCS (direct current) consists primarily of support poles, OCS foundations for at-grade segments, brackets arms and hardware, feeder cables, contact wire, and a messenger wire. Signal and communication power are also included in this subcategory.

SCC 50.05 – Communications

This subcategory provides the necessary subsystems to support the total operational requirements for the Project. The communications system provides for subsystems, such as two-way radios, the public address system, telephone systems, variable message signs, interfaces with the fare collection and ticket vending equipment, and equipment for the hearing impaired, as well as closed-circuit television.

SCC 50.06 – Fare collection system and equipment

This subcategory provides for the self-service, barrier-free, proof of payment fare collection system for the Project. In total, 31 ticket vending machines will be purchased for the Project and will be a microprocessor controlled coin or bill accepting machine capable of optionally accepting credit, debit, and stored value cards. In addition, 49 card readers will be installed at the stations. The fare collection system includes all the equipment, installation, and testing.

SCC 50.07 – Central control

This subcategory provides for upgrading hardware and software along with improvements to the MTS existing central control facility for the Project.

SCC 60 – Right-of-Way, Land, Existing Improvements

This SCC includes the acquisition of right-of-way, including relocations, as well as permanent and temporary easements required for construction of the Project. SCC 60 includes the following applicable subcategories.

SCC 60.01 – Purchase or lease of real estate

This subcategory provides for the acquisition of right-of-way, property rights, and temporary easements for construction and operation of the Project. 41 different property owners have been identified. Professional services to support this effort accounted for in this subcategory include legal support, appraisals, and property acquisition services.

SCC 60.02 – Relocation of existing household and businesses

This subcategory includes the relocation of and associated services for one existing business location.

SCC 70 – Vehicles

This SCC provides for the procurement by SANDAG and MTS of the 36 light rail vehicles needed for the Project. SCC 70 includes the following applicable subcategories.

SCC 70.01 – Light Rail (36 vehicles)

This subcategory provides for the design, manufacture, inspection, delivery, testing, and commissioning of 36 new light rail vehicles.

SCC 70.07 – Spare Parts

This subcategory provides for the spare parts for the 36 new light rail vehicles.

SCC 80 – Professional Services

This SCC includes all the costs of engineering, project management, construction administration and management, permits and fees, legal fees, training, start-up, testing, and other direct costs. SCC 80 includes the following applicable subcategories.

SCC 80.01 – Project Development

This subcategory reflects the activities conducted during the Project Development phase of the Project from September 2, 2011 through June 30, 2015.

SCC 80.02 – Engineering

This subcategory reflects the activities during the Engineering phase of the Project including Final Design. FTA approved this phase of work on April 2, 2015. The duration would be through Project completion.

SCC 80.03 – Project Management for Design and Construction

This subcategory includes the SANDAG and MTS staffs and professional services consultants (PMC) providing program management and oversight to the entire Project from July 1, 2015 through Project close-out.

SCC 80.04 – Construction Administration and Management

This subcategory includes the professional construction management consultants (CMC) contracted for construction inspection, field engineering, design support coordination, project scheduling and construction coordination, safety certification, change order processing, preparation of independent cost estimates, field verification and testing, systems integration and testing, and other activities required in support of the Project.

SCC 80.06 – Legal: Permits; Review Fees by other agencies, cities, etc.

This subcategory provides for the required permits, third party reviews, and legal services not included in the SCC 80.01.

SCC 80.08 – Start-up

This subcategory includes the SANDAG and MTS staffs and other professional service consultants providing support to begin revenue operations, including training, rail activation services, signage, and other media needs for the existing 53 stations and nine new stations for the Project.

SCC 90 – Unallocated Contingency

This SCC represents the entire unallocated contingency for the Project. It provides a management reserve to address non-specified additional Project execution costs and uncertainty due to risk factors such as unresolved design issues, market fluctuations, unanticipated site conditions, and change orders. It also covers unforeseen expenses and variances between estimates and actual costs. Contingency will be managed over the life of the Project in accordance with the Project Contingency Management Plan.

SCC Code 100 - Finance Charges

This category includes finance charges expected to be paid prior to either completion of the Project or the receipt of all the Section 5309 New Starts funding, whichever occurs later in time.

Attachment 3
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California
Baseline Cost Estimate

Table 1 - BCE by Standard Cost Category

<i>Applicable Line Items Only</i>	YOE Dollars Total
10 GUIDEWAY & TRACK ELEMENTS (10.92 miles)	\$326,818,825
10.01 Guideway: At-grade, exclusive right-of-way	\$20,514,964
10.04 Guideway: Aerial structure	\$185,473,137
10.06 Guideway: Underground cut & cover	\$3,110,630
10.08 Guideway: Retained cut or fill	\$56,504,816
10.09 Track: Direct fixation	\$20,739,895
10.11 Track: Ballasted	\$23,353,262
10.12 Track: Special (switches, turnouts)	\$16,330,121
10.13 Track: Vibration and noise dampening	\$792,000
20 STATIONS, STOPS, TERMINALS, INTERMODAL (9 stations)	\$82,838,589
20.01 At-grade station, stop, shelter, mall, terminal, platform	\$20,822,668
20.02 Aerial station, stop, shelter, mall, terminal, platform	\$32,817,927
20.06 Automobile parking multi-story structure	\$11,550,000
20.07 Elevators, escalators	\$17,647,996
40 SITEWORK & SPECIAL CONDITIONS	\$502,814,371
40.01 Demolition, Clearing, Earthwork	\$4,256,940
40.02 Site Utilities, Utility Relocation	\$71,118,050
40.03 Haz. mat'l, contam'd soil removal/mitigation, ground water treatments	\$440,000
40.04 Environmental mitigation, e.g. wetlands, historic/archeologic, parks	\$4,402,147
40.05 Site structures including retaining walls, sound walls	\$12,817,997
40.06 Pedestrian / bike access and accommodation, landscaping	\$10,965,670
40.07 Automobile, bus, van accessways including roads, parking lots	\$37,211,493
40.08 Temporary Facilities and other indirect costs during construction	\$381,602,074
50 SYSTEMS	\$171,350,363
50.01 Train control and signals	\$59,832,508
50.02 Traffic signals and crossing protection	\$4,415,234
50.03 Traction power supply: substations	\$36,751,912
50.04 Traction power distribution: catenary and third rail	\$48,673,459
50.05 Communications	\$8,257,250
50.06 Fare collection system and equipment	\$8,140,000
50.07 Central Control	\$5,280,000
60 ROW, LAND, EXISTING IMPROVEMENTS	\$101,233,011
60.01 Purchase or lease of real estate	\$98,933,011
60.02 Relocation of existing households and businesses	\$2,300,000
70 VEHICLES (36 vehicles)	\$178,478,010
70.01 Light Rail	\$162,252,736
70.07 Spare parts	\$16,225,274
80 PROFESSIONAL SERVICES (applies to Cats. 10-60)	\$381,254,046
80.01 Project Development	\$124,000,000
80.02 Engineering	\$83,460,233
80.03 Project Management for Design and Construction	\$64,072,262
80.04 Construction Administration & Management	\$93,333,073
80.06 Legal, Permits, Review Fees by other agencies, cities, etc.	\$6,277,900
80.08 Start Up	\$10,110,578
Subtotal (10 - 80)	\$1,744,787,214
90 UNALLOCATED CONTINGENCY	\$69,013,709
Subtotal (10 - 90)	\$1,813,800,922
100 FINANCE CHARGES	\$357,399,622
Total Project Cost (10 - 100)	\$2,171,200,545

Attachment 3
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Baseline Cost Estimate

Table 2 – Inflated Cost to Year of Expenditures

Standard Cost Category Description	Base Year Dollar w/o Contingency	Base Year Dollar Allocated Contingency	Base Year Dollars TOTAL	Inflation Factor	YOE Dollars TOTAL
10 GUIDEWAY & TRACK ELEMENTS (10.92 miles)	\$268,489,728	\$13,455,543	\$281,945,272	1.1592	\$326,818,825
20 STATIONS, STOPS, TERMINALS, INTERMODAL (9 stations)	\$65,015,397	\$3,276,738	\$68,292,135	1.2130	\$82,838,589
40 SITEWORK & SPECIAL CONDITIONS	\$409,709,802	\$23,494,609	\$433,204,410	1.1607	\$502,814,371
50 SYSTEMS	\$133,484,756	\$7,864,173	\$141,348,929	1.2123	\$171,350,363
60 ROW, LAND, EXISTING IMPROVEMENTS	\$80,124,935	\$13,397,216	\$93,522,151	1.0824	\$101,233,011
70 VEHICLES	\$144,506,648	\$7,225,332	\$151,731,980	1.1763	\$178,478,010
80 PROFESSIONAL SERVICES (applies to Cats. 10-50)	\$322,335,387	\$25,930,559	\$348,265,946	1.0947	\$381,254,046
90 UNALLOCATED CONTINGENCY			\$58,515,349	1.1794	\$69,013,709
100-FINANCE CHARGES			\$283,225,193	1.2619	\$357,399,622
Total Project Cost (10 – 100)			\$1,860,051,366	1.1673	\$2,171,200,545

Attachment 3
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California
Baseline Cost Estimate

Table 3 – BCE by Source of Funding

Standard Cost Category Description	YOE Dollars TOTAL	Federal 5309 New Starts	Local
10 GUIDEWAY & TRACK ELEMENTS (10.92 miles)	\$326,818,825	\$161,448,500	\$165,370,325
20 STATIONS, STOPS, TERMINALS, INTERMODAL (9 stations)	\$82,838,589	\$40,922,263	\$41,916,326
40 SITEWORK & SPECIAL CONDITIONS	\$502,814,371	\$248,390,299	\$254,424,072
50 SYSTEMS	\$171,350,363	\$84,647,079	\$86,703,284
60 ROW, LAND, EXISTING IMPROVEMENTS	\$101,233,011	\$50,009,107	\$51,223,904
70 VEHICLES (36)	\$178,478,010	\$88,168,137	\$90,309,873
80 PROFESSIONAL SERVICES (applies to Cats 10-50)	\$381,254,046	\$188,339,499	\$192,914,547
90 UNALLOCATED CONTINGENCY	\$69,013,709	\$34,092,772	\$34,920,937
100 FINANCE CHARGES	\$357,399,622	\$147,362,344	\$210,037,278
Total Project Cost (10 - 100)	\$2,171,200,545	\$1,043,380,000	\$1,127,820,545

Sources of Federal Funding and Matching Share Ratios			
Costs Attributed to Source of Funds	Federal/Local Matching Ratio within Source	All Federal Funds	Local Funds
Federal 5309 New Starts	48.1/51.9	\$1,043,380,000	\$1,127,820,545
Federal Other		\$0	\$0
Total		\$1,043,380,000	\$1,127,820,545
Overall Federal Share of Project		48.06%	
New Starts Share of Project		48.06%	

Attachment 3A
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Project Budget

Table 3A – Scope and Activity Description

Scope Code	ALI Code	Scope and Activity Line Item Descriptions	Qty	Total Federal %	Federal 5309 New Starts			Total Project Cost in YOE Dollars		
					Federal	Local	Total	Federal	Local	Total
14010	14.01.10	GUIDEWAY & TRACK ELEMENTS	10:92	49.40%	\$161,448,500	\$165,370,325	\$326,818,825	\$161,448,500	\$165,370,325	\$326,818,825
14020	14.02.20	STATIONS, STOPS, TERMINALS, INTERMODAL	9	49.40%	\$40,922,263	\$41,916,326	\$82,838,589	\$40,922,263	\$41,916,326	\$82,838,589
14040	14.04.40	SITework & SPECIAL CONDITIONS		49.40%	\$248,390,299	\$254,424,072	\$502,814,371	\$248,390,299	\$254,424,072	\$502,814,371
14050	14.05.50	SYSTEMS		49.40%	\$84,647,079	\$86,703,284	\$171,350,363	\$84,647,079	\$86,703,284	\$171,350,363
14060	14.06.60	ROW, LAND, EXISTING IMPROVEMENTS		49.40%	\$50,009,107	\$51,223,904	\$101,233,011	\$50,009,107	\$51,223,904	\$101,233,011
14070	13.13.20	VEHICLES	36	49.40%	\$88,168,137	\$90,309,873	\$178,478,010	\$88,168,137	\$90,309,873	\$178,478,010
14080	14.08.80	PROFESSIONAL SERVICES		49.40%	\$188,339,499	\$192,914,547	\$381,254,046	\$188,339,499	\$192,914,547	\$381,254,046
14090	14.09.90	UNALLOCATED CONTINGENCY		49.40%	\$34,092,772	\$34,920,937	\$69,013,709	\$34,092,772	\$34,920,937	\$69,013,709
14100	14.10.10	FINANCE CHARGES		41.23%	\$147,362,344	\$210,037,278	\$357,399,622	\$147,362,344	\$210,037,278	\$357,399,622
Total Project Cost (10 - 100)				48.06%	\$1,043,380,000	\$1,127,820,545	\$2,171,200,545	\$1,043,380,000	\$1,127,820,545	\$2,171,200,545

Attachment 4
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California
Baseline Schedule

SCHEDULE	Start Date	End Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
10 GUIDEWAY & TRACK ELEMENTS (10.92 miles)	8/30/16	5/21/21														
20 STATIONS, STOPS, TERMINALS, INTERMODAL (9 stations)	8/30/16	5/21/21														
40 SITEWORK & SPECIAL CONDITIONS	7/1/15	5/21/21														
50 SYSTEMS	8/30/16	9/27/21														
60 ROW, LAND, EXISTING IMPROVEMENTS	1/1/14	4/17/18														
70 VEHICLES	11/1/14	2/20/20														
80 PROFESSIONAL SERVICES (applies to Cats. 10-50)	9/2/11	12/31/26														
90 UNALLOCATED CONTINGENCY	7/1/16	12/31/26														
100 FINANCE CHARGES	9/2/11	12/31/26														
REVENUE OPERATIONS		11/23/22														
BEFORE AND AFTER STUDY, 2 YEARS POST REV OPERATIONS	9/1/20	11/23/24														
FULFILLMENT OF THE NEW STARTS FUNDING COMMITMENT		9/30/26														
COMPLETION OF PROJECT CLOSE OUT, RESOLUTION OF CLAIMS		12/31/26														

Attachment 5
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Prior Grants and Related Documents

I. Prior Grants (not included in the FFGA)

Project Number	Obligation Date	Federal Amount	Funding Source	Purpose
CA-03-0784	3/28/2007	\$7,017,516	Section 5309	Planning
CA-03-0790	8/1/2007	\$340,320	Section 5309	Planning
CA-03-0531	8/1/2007	\$651,680	Section 5309	Planning

II. Related Documents

1. Notice of Intent and Scoping Notice for Preparation of an Alternatives Analysis/Draft Environmental Impact Statement April 11, 1990
2. Completion of Alternative Analysis February 16, 1995
3. Locally Preferred Alternative Adopted October 26, 1995
4. Board Decision to have Two-Phased Project December 14, 1995
5. Final Environmental Impact Statement-Phase 1 June 12, 2001
6. Record of Decision for Phase 1 August 29, 2001
7. Board Decision to have a Single Phase Project April 15, 2005
8. Evaluation of Alternatives Report April 23, 2010
9. Comparative Evaluation of Alternatives Report and Reconfirmation of the LPA July 23, 2010
10. LPA Adopted into Fiscally Constrained Long Range Plan October 22, 2010
11. Notice of Intent for the Environmental Impact July 12, 2011
12. Approval to Enter SAFETEA-LU Preliminary Engineering August 17, 2011
13. Draft Environmental Impact Statement May 1, 2013
14. Supplemental Environmental Impact Statement for San Diego Fairy Shrimp July 3, 2014
15. Final EIS and Record of Decision October 15, 2014
16. Approval to Enter Engineering April 2, 2015

III. FFGA Grant History (Grants Under the FFGA)

Project No.	Obligation Date	Federal Amount	Funding Source	Purpose
None	N/A	N/A	N/A	N/A

Attachment 6
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Schedule of Federal Funds

Section 3005 of the Fixing America's Surface Transportation ("FAST") Act (Pub. L. 114--94; Dec. 4, 2015) authorizes FTA to award Federal major capital investment (New Starts) funds for design and construction of the Mid-Coast Corridor Transit Project (the Project). In accordance with Federal transit law at 49 U.S.C. Chapter 53 and FTA Circular 5200.1A, Full Funding Grant Agreements Guidance (December 5, 2002), by the execution of this Agreement the Government is limiting its commitment to provide New Starts funding for the Project to those funds that have been or may be appropriated during the term of the FAST Act and subsequent authorizations. The Government and the Grantee recognize, however, that the period of time necessary to complete the Project will extend beyond the FAST Act, as evidenced by Attachment 4 of this Agreement (Baseline Schedule).

Currently, the Government and the Grantee anticipate that the New Starts funds will be provided for the Project as follows:

Proposed Schedule of Federal Funds
(Based on Year of Appropriation)

Federal Fiscal Year	Federal Section 5309 New Starts Funding	Local Funding	Total Funding
2016 and prior	\$100,000,000	\$107,900,208	\$207,900,208
2017	\$125,000,000	\$134,875,260	\$259,875,260
2018	\$100,000,000	\$107,900,208	\$207,900,208
2019	\$100,000,000	\$107,900,208	\$207,900,208
2020	\$100,000,000	\$107,900,208	\$207,900,208
2021	\$100,000,000	\$107,900,208	\$207,900,208
2022	\$100,000,000	\$107,900,208	\$207,900,208
2023	\$100,000,000	\$107,900,208	\$207,900,208
2024	\$100,000,000	\$107,900,208	\$207,900,208
2025	\$100,000,000	\$107,900,208	\$207,900,208
2026	\$18,380,000	\$21,843,413	\$40,223,413
Total	\$1,043,380,000	\$1,127,820,545	\$2,171,200,545

Note: Sources of local funding include SANDAG *TransNet* sales tax revenues and bond proceeds.

Attachment 7
San Diego Association of Governments (SANDAG)
Mid-Coast Corridor Transit Project
San Diego, California

Measures to Mitigate Environmental Impacts

The measures to mitigate the environmental impacts of the Mid-Coast Corridor Transit Project ("Project") are included in the environmental record and include the following documents which are incorporated herein:

1. Final Supplemental Environmental Impact Statement and Subsequent Environmental Impact Report – October 15, 2014
2. Record of Decision – October 15, 2014
3. Notice of Determination – November 21, 2014

The mitigation measures and other project features that reduce adverse environmental and community impacts to which FTA and SANDAG committed in the environmental record may not be eliminated from the Project, except by FTA's written consent and in accordance with applicable laws and regulations. These mitigation measures include, but are not limited to, commitments to perform further consultation with any agency on environmental and related matters. On November 24, 2015, SANDAG transmitted to FTA a table that listed the status of the mitigation measures identified in the ROD. The table's purpose is to facilitate monitoring of the implementation of the mitigation measures during final design and construction. Monitoring and mitigation compliance will be the responsibility of SANDAG's Deputy Project Administrator for Administration assigned to the Project. That table and its periodic revisions to add the measures resulting from required consultations, permit approvals, and FTA-approved changes, and to update the implementation status of the measures are incorporated herein by reference.

Attachment 8

San Diego Association of Governments (SANDAG) Mid-Coast Corridor Transit Project San Diego, California

Implementation of a Before-and-After Study

The San Diego Association of Governments (SANDAG) will assemble information and conduct analyses to identify the actual outcomes of the Mid-Coast Corridor Transit Project (the Project) and evaluate the reliability of the predictions of those outcomes prepared during the planning and development of the Project. SANDAG will assemble the information and conduct the analyses in accordance with the Before-and-After Study Plan prepared by SANDAG and approved by the Federal Transit Administration (FTA). Specifically, the plan addresses the following requirements:

I. Required Information

SANDAG will assemble information on five key characteristics of the Project and its associated transit services:

1. Project scope: The physical components of the Project, including environmental mitigation and other related elements;
2. Capital cost: The total Project capital costs in constant dollars, formatted in FTA's Standard Cost Categories, and annual expenditures in year-of-expenditure dollars;
3. Transit service levels: The service characteristics of the fixed guideway, feeder bus services, and other bus services in the corridor;
4. Operation and maintenance (O&M) costs: O&M costs for the Project and the change in O&M costs for other transit services in the corridor; and
5. Ridership: Trips on the project and the change in transit trips in the corridor plus associated impacts on fare box revenues.

II. Milestones

SANDAG will assemble predictions of Project outcomes at three milestones during development of the Project and will collect data at two milestones during its implementation. At each milestone, SANDAG will archive the assembled information, data, and documentation and provide to FTA a copy of the archive.

1. Entry into Preliminary Engineering (PE): Assembly, documentation, and archiving of the predicted outcomes on all five characteristics of the Project at the point when SANDAG requested FTA approval for Entry into PE;

2. Entry into New Starts Engineering (NSE): Assembly, documentation, and archiving of the predicted outcomes on all five characteristics of the Project at the point when SANDAG requested FTA approval for Entry into NSE, plus an analysis of any significant differences in the predicted outcomes compared to the predictions at entry into PE;
3. Full Funding Grant Agreement: Assembly, documentation, and archiving of the predicted outcomes on all five characteristics of the Project at the signing of the FFGA, plus an analysis of any significant differences in the predicted outcomes compared to the predictions at entry into NSE;
4. Actual Conditions before Project Opening: Collection, documentation, and archiving of data on existing transit services, O&M costs, and transit ridership/revenues immediately prior to any significant changes in transit service levels caused by either the construction or the opening of the Project; and
5. Actual Conditions after Project Opening: Collection, documentation, and archiving of data on the actual outcomes of the Project on all five characteristics for two years after the start of service.

III. Final Report

Within 36 months after Project opening, SANDAG will complete a final report that (1) documents the actual outcomes of the Project on all five characteristics and (2) evaluates the accuracy of predictions of those outcomes that were prepared during project development. The body of the final report will be 15-20 pages that highlight findings, conclusions, and lessons learned. To support the findings and conclusions, SANDAG will include as appendices to the report five technical memoranda to document the detailed analysis of each project outcome.

IV. Coordination with FTA

SANDAG will maintain communication with FTA and its contractors on progress in implementing the Before-and-After Study Plan and provide opportunities for early review and for commenting on draft products. SANDAG must obtain approval in advance of any changes in the scope or schedule for the Study as defined in the Study Plan approved by FTA.

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION**

MASTER AGREEMENT

**For Federal Transit Administration Agreements authorized by
49 U.S.C. chapter 53 and Title 23, United States Code (Highways), as amended by
the Fixing America's Surface Transportation (FAST) Act,
the Moving Ahead for Progress in the 21st Century Act (MAP-21),
the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
(SAFETEA-LU), the SAFETEA-LU Technical Corrections Act of 2008,
or other federal laws that FTA administers.**

**FTA MA(23)
October 1, 2016**

<http://www.transit.dot.gov>

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**UNITED STATES DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION**

MASTER AGREEMENT

PREFACE

Statutory Authorities

This is the official Federal Transit Administration (FTA) Master Agreement that applies to each Underlying Agreement (Grant Agreement, Cooperative Agreement, Loan, Loan Guarantee, or Line of Credit) for a specific Award authorized by:

1. Federal transit laws, 49 U.S.C. chapter 53, as amended, including the following:
 - a. The Fixing America's Surface Transportation (FAST) Act, Public Law No. 114-94, December 4, 2015, and other authorizing legislation that may be enacted,
 - b. The Moving Ahead for Progress in the 21st Century Act (MAP-21), Public Law No. 112-141, July 6, 2012, as amended by the "Surface Transportation and Veterans Health Care Choice Improvement Act of 2015," Public Law No. 114-41, July 31, 2015, and
 - c. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), Public Law No. 109-59, August 10, 2005, as amended by the SAFETEA-LU Technical Corrections Act of 2008, Public Law No 110-244, June 6, 2008.
2. Continuing Resolutions or Other Appropriations Resolutions or Acts funding the Department of Transportation during Fiscal Year 2017.
3. Title 23, United States Code (Highways).
4. Other federal legislation that FTA administers, as FTA so determines.

Purpose of the Master Agreement

This FTA Master Agreement contains the standard terms and conditions that apply to the Underlying Agreement with the Recipient, which Underlying Agreement may take the form of an:

1. FTA Grant Agreement, including an FTA Grant Agreement for an award of federal assistance under the Tribal Transit Program,
2. FTA Cooperative Agreement, or

3. FTA Transportation Infrastructure Finance Innovation Act (TIFIA) Loan, Loan Guarantee, Line of Credit, Master Credit Agreement, or State Infrastructure Bank (SIB) Cooperative Agreement.

THEREFORE, in consideration of the mutual covenants, promises, and representations herein, FTA and the Recipient agree as follows:

GENERALLY APPLICABLE PROVISIONS

Section 1. Terms of the Master Agreement and Compliance

- a. The Recipient must comply with all applicable federal laws, regulations, and requirements, and should follow applicable federal guidance, except as FTA determines otherwise in writing.
- b. To assure compliance with federal laws, regulations, and requirements, the Recipient must take measures to assure that other participants in its Underlying Agreements (*e.g.*, Third Party Participants) comply with applicable federal laws, regulations, and requirements, and follow applicable federal guidance, except as FTA determines otherwise in writing.
- c. FTA may take enforcement action if the Recipient or a Third Party Participant violates an applicable federal law, regulation, or requirement, or does not follow applicable federal guidance.
- d. FTA and the Recipient agree that not every provision of this Master Agreement will apply to every Recipient or Underlying Agreement.
 - (1) FTA has divided the Master Agreement into the "Preface," "Generally Applicable Provisions," and "Special Provisions for Specific Programs."
 - (2) This Master Agreement has an Appendix A illustrating the specific provisions of the Master Agreement that apply to the Tribal Transit Programs.
 - (3) Criteria determining which federal laws, regulations, requirements, and guidance apply include the type of Award, the federal law authorizing federal assistance for the Award, the federal law, regulations, or requirements governing how the Award must be implemented, the federal guidance pertaining to the Award, and the Recipient's legal status as a "state," "state instrumentality," a "local government," a federally recognized Indian Tribe (Indian Tribe), a "private nonprofit entity," a "private for-profit entity," or an individual.
- e. As provided in federal laws, regulations, requirements, and guidance, FTA will enforce only those federal laws, regulations, requirements, and guidance that apply to the specific FTA Recipient, its Third Party Participants, or any Project and related activities encompassed in the Award, the accompanying Underlying Agreement, and any Amendments thereto.
- f. Each provision of this Master Agreement must be interpreted in context with all other provisions of this Master Agreement and the Underlying Agreement. If a single provision is read apart from the rest of this Master Agreement or the Underlying Agreement, that

provision might not convey the extent of the Recipient's responsibility to comply with the requirements of this Master Agreement and the Underlying Agreement.

- g. This Master Agreement does not have an Expiration Date. This Master Agreement continues to apply to the Recipient and its Underlying Agreement, until modified or superseded by a more recently enacted or issued applicable federal law, regulation, requirement, or guidance, or amendment to this Master Agreement or the Underlying Agreement.

Section 2. Definitions.

- a. List of Definitions. In addition to the definitions provided in 49 U.S.C. § 5302, as amended by the FAST Act, or in previous legislation if circumstances may require, the Recipient agrees that the following definitions apply:
- (1) *Application* means the request for federal assistance submitted that is signed and dated by the Applicant or an official authorized to act on the behalf of the Applicant, and includes all explanatory, supporting, and supplementary documents filed with FTA by or on behalf of the Applicant, and has been reviewed by FTA staff and addresses FTA's comments and concerns. An application for federal assistance in the form of a Grant or Cooperative Agreement must be submitted in in FTA's electronic award management system.
 - (2) *Approval*, unless FTA determines otherwise in writing, means a written statement of an authorized federal official transmitted electronically or in typewritten hard copy expressly permitting the Recipient to take or omit an action in connection with its Underlying Agreement, and signed by a federal official authorized to permit the Recipient to take or omit an action that may not be taken or omitted without the Federal Government's permission. Approval does not mean permission to take or omit a similar action other than the specific action for which approval was given and does not include an oral permission or interpretation, which has no legal force, authority, or effect. For purposes of this Master Agreement, the definition of "approval" also applies to "concurrence" and "waiver."
 - (3) *Associated Transit Improvement* means, with respect to a Project or an area to be served by a Project that is designed to enhance public transportation service or use and that is physically or functionally related to transit facilities.
 - (4) *Award* means the Scope of Work that FTA has approved when FTA agreed to provide federal assistance. The Award also includes the requirements of all documents, terms, and conditions incorporated by reference and made part of the Underlying Agreement, which may be a Grant or Cooperative Agreement.
 - (5) *Award Budget [formerly, Approved Project Budget]* means the budget for all the Projects encompassed by the FTA Award. In contrast, Project Budget means the budget allocated for a single Project contained within an Award that FTA or a pass-through entity approves during the federal award process or in subsequent amendments to the

FTA Award. It may include the federal and non-federal share or only the federal share, as determined by FTA or the pass-through entity. For legal and other purposes, FTA reserves the right to consider information other than that displayed electronically or on paper in the "Award Budget" to determine the scope of the Award, eligible Project activities, and other terms used in connection with the Award.

- (6) *Common Rules* means any one or more of the following:
- (a) U.S. DOT regulations, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 2 C.F.R. part 1201, which incorporates by reference U.S. Office of Management and Budget (OMB) regulatory guidance, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 2 C.F.R. part 200,
 - (b) U.S. DOT regulations, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," former 49 C.F.R. part 18, and
 - (c) U.S. DOT regulations, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations," former 49 C.F.R. part 19.
- (7) *Concurrence* has the same meaning as the definition of Approval in this section of this Master Agreement.
- (8) *Cooperative Agreement* means an instrument that the Federal Government uses to award federal assistance to the Recipient to support each specific Project and related activities described in the Underlying Agreement in which, consistent with 31 U.S.C. § 6305, the Federal Government takes an active role and retains substantial control. An FTA Cooperative Agreement consists of three parts:
- (a) The FTA Award, consisting of the amount of federal assistance FTA is providing to support each specific Project and related activities, and a description of each Project, as set forth in the Application submitted to FTA in FTA's electronic award management system;
 - (b) The Terms and Conditions incorporated by reference and made part of the Cooperative Agreement, consisting of the following documents, irrespective of whether electronic or in typewritten hard copy,
 - 1 The most recent "Federal Transit Administration Master Agreement, which applies to this Cooperative Agreement, <http://www.transit.dot.gov>,
 - 2 The current Certifications and Assurances applicable to the FTA Award that the Recipient has selected and provided to FTA, and
 - 3 Any Award notification containing special conditions or requirements if issued, and
 - (c) The Execution of the Cooperative Agreement by the Recipient.
- (9) *Designated Recipient* means an entity designated, in accordance with the planning process under 49 U.S.C. §§ 5303 and 5304, by the governor of a state, responsible local officials, and publicly owned operators of public transportation, to receive and apportion amounts under 49 U.S.C. § 5336 to urbanized areas of 200,000 or more in

population; or a state or regional authority, if the authority is responsible under the laws of a state for a Capital Project and for financing and directly providing public transportation.

- (10) *Disability* has the same meaning as in section 3(1) of the Americans with Disabilities Act of 1990, as amended, 42 U.S.C. § 12102.
- (11) *Federal Assistance* means a type of federal funding that the Recipient receives through the Underlying Agreement.
- (12) *Federal Award Identification Number* has the same meaning as “Project No.” in previous Grant Agreements and Cooperative Agreements with FTA.
- (13) *Federal Government* means the United States of America and any of its executive departments or agencies.
- (14) *Federal Guidance* includes any federal document or publication signed by an authorized federal official providing official instructions or advice about a federal program that is not defined as a “federal requirement” and applies to entities other than the Federal Government. Federal Guidance also may apply to the Federal Government, and may take the form of a:
- (a) Federal directive,
 - (b) Federal circular,
 - (c) Federal order,
 - (d) Federal published policy,
 - (e) Federal administrative practice,
 - (f) Federal guideline,
 - (g) Federal guidance document,
 - (h) Letter signed by an authorized federal official, or
 - (i) Similar document.
- (15) *Federal Requirement* means:
- (a) An applicable federal law, regulation, or executive order,
 - (b) An applicable provision of the Underlying Agreement, including any Special Condition, Requirement, Provision, or Condition of Award,
 - (c) This Master Agreement,
 - (d) A later Master Agreement after FTA and the Recipient have entered into the Underlying Agreement, or
 - (e) Another applicable federal mandate.
- (16) *Federal Transit Administration (FTA)* is an operating administration of the Department of Transportation (U.S. DOT). Any reference to the “Urban Mass Transportation Administration” (also referred to as “UMTA”) refers to the “Federal Transit Administration” or “FTA” when appearing in any records of the United States.
- (17) *Federal Transit Administrator* is the head of the Federal Transit Administration.

- (18) *Federally Recognized Indian Tribe* means an Indian tribe that is federally recognized by the Bureau of Indian Affairs of the U.S. Department of the Interior in accordance with the provisions of the Federally Recognized Indian Tribe List Act of 1994, as amended, 25 U.S.C. § 5130.
- (19) *Fiscal Year*, as used in this Master Agreement, means “federal fiscal year,” which begins on October 1 of each calendar year and ends on September 30 of the next calendar year.
- (20) *Governor* means the governor of a state, the mayor of the District of Columbia, or the chief executive officer of a territory of the United States and includes the designee thereof.
- (21) *Grant Agreement* means an instrument that the Federal Government uses to award federal assistance to the Recipient to support each specific Project and related activities described in the Underlying Agreement in which, consistent with 31 U.S.C. § 6304, the Federal Government does not take an active role and does not retain substantial control. An FTA Grant Agreement consists of three parts:
- (a) The FTA Award, consisting of the amount of federal assistance FTA is providing to support each specific Project and related activities, and a description of each Project, as set forth in the Application submitted to FTA in FTA’s electronic award management system;
 - (b) The Terms and Conditions incorporated by reference and made part of the Grant Agreement, consisting of the following documents, irrespective of whether electronic or in typewritten hard copy:
 - 1 The most recent “Federal Transit Administration Master Agreement, which applies to this Grant Agreement, <http://www.transit.dot.gov>,
 - 2 The current Certifications and Assurances applicable to the FTA Award that the Recipient has selected and provided to FTA, and
 - 3 Any Award notification containing special conditions or requirements if issued, and
 - (c) The Execution of the Grant Agreement by the Recipient.
- (22) *Indian Tribe* means the Recipient or Subrecipient that receives “Tribal Transit Program” assistance authorized by 49 U.S.C. § 5311(c)(1) to support its Underlying Agreement.
- (23) *Internal Controls* means a process, implemented by a Recipient or Subrecipient, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) effectiveness and efficiency of operations, (b) reliability of reporting for internal and external use, and (c) compliance with applicable laws, regulations, and requirements.

- (24) *Local Government Authority* includes: (a) a political subdivision of a state; (b) an authority of at least one state or political subdivision of a state; (c) an Indian tribe; and (d) a public corporation, board, or commission established under the laws of a state.
- (25) *Low-Income Individual*, for purposes of 49 U.S.C. § 5311(j)(1)(A)(iii), means an individual whose family income is at or below 100 percent of the poverty line, as that term is defined in section 673(2) of the Community Services Block Grant Act, 42 U.S.C. § 9902(2), including any revision required under that section, for a family of the size involved.
- (26) *Master Credit Agreement* means a Loan, Loan Guarantee, or Line of Credit made available to a Recipient under the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998, as amended, 23 U.S.C. §§ 601 – 609, the type of Underlying Agreement used for a TIFIA loan, loan, or loan guarantee.
- (27) *Non-Federal Funds or Non-Federal Share* includes the following sources of funding or in-kind property or services used to match the federal assistance awarded for the Grant or Cooperative Agreement:
- (a) Local funds,
 - (b) Local in-kind property or services,
 - (c) State funds,
 - (d) State in-kind property or services,
 - (e) Other federal funds for which the federal statute authorizing a program specifically provides that federal funds made available for that program can be applied to the cost sharing requirements of other federal programs.
- (28) *Non-Tribal Service Provider*, for purposes of 49 U.S.C. § 5311(j)(2), means a non-tribal provider of public transportation that connects residents of tribal lands with surrounding communities, improves access to employment or healthcare, or otherwise addresses the mobility needs of tribal members.
- (29) *Project* means the public transportation improvement activities eligible for federal assistance in an application to FTA and/or in an FTA Award.
- (30) *Public Transportation*, has the same meaning as “transit” or “mass transportation,” and, consistent with the definition at 49 U.S.C. § 5302, means regular, continuing shared-ride surface transportation services that are open to the general public, or open to a segment of the general public defined by age, disability, or low income, but does not include:
- (a) Intercity passenger rail transportation provided by Amtrak or a successor thereof as described in 49 U.S.C. chapter 243,
 - (b) Intercity bus service,
 - (c) Charter service,
 - (d) School bus service.
 - (e) Sightseeing service,
 - (f) Courtesy shuttle service for patrons of one or more specific establishments, or

- (g) Intra-terminal or intra-facility shuttle services.
- (31) *Recipient or Direct Recipient* means a non-federal entity that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program. The term “Recipient” does not include a Subrecipient.
- (32) *Scope of Work* means the purpose of the Grant Agreement or Cooperative Agreement and the activities and approaches required to carry out a Project. The scope of work consists of various components, including the Award Budget, beneficiaries, locations, and other aspects identified in the approved application. FTA reserves the right to consider other information in determining the scope of the Project or the “scope of work of a Grant Agreement or Cooperative Agreement” when “scope” is used for other purposes. See the latest edition of the FTA Master Agreement.
- (33) *Split Letter* (sometimes referred to as a suballocation letter or government subapportionment letter) means a letter in which a Designated Recipient of Urbanized Area Formula Grant Program funding authorized by 49 U.S.C. § 5307, agrees to a reassignment or reallocation of that federal assistance to one or more direct Recipients.
- (34) *Subagreement or Subgrant* means an agreement through which the Recipient awards federal assistance to its Subrecipient(s) to support or stimulate any of the Recipient’s or Subrecipient’s Projects or related activities supported under the Award, the accompanying Underlying Agreement, or Amendments thereto, but does not include a third party contract, third party subcontract, or lease.
- (35) *Subrecipient or Subgrantee* means any entity or person that receives federal assistance provided by an FTA Recipient instead of FTA directly, but does not include a Third Party Contractor, Third Party Subcontractor, or Lessee.
- (36) *Third Party Agreement* includes agreements or arrangements supported in whole or in part with federal assistance awarded to a Recipient by FTA, including a subagreement with a subrecipient, a third party contract, a third party subcontract, a lease, or similar arrangement or agreement as FTA may recognize.
- (37) *Third Party Contract* means a legal instrument by which a Recipient or Subrecipient purchases property or services needed to carry out the Grant Agreement or Cooperative Agreement. This does not include an instrument describing a transaction that meets the definition of a federal Award, Grant, Cooperative Agreement, Subaward, or Subagreement.
- (38) *Third Party Participant* means each participant in the Recipient’s Project, except for FTA and the Recipient, whose work under the Project is supported with FTA funding, eligible non-federal share dedicated to the Project, or is dedicated as an in-kind contribution eligible for non-federal share. A Third Party Participant may be a Subrecipient, Third Party Contractor, Third Party Subcontractor, Lessee, or Similar

Participant in the Recipient's Project (for example, a partner in a joint development venture).

- (39) *Third Party Subcontract* means a subcontract entered into by the Third Party Contractor with a Third Party Subcontractor, or a Third Party Subcontractor with another Third Party Subcontractor at any tier, and is supported in whole or in part with the federal assistance originally derived from FTA, or non-federal share dedicated to the Recipient's Underlying Agreement.
- (40) *Underlying Agreement* means a specific Grant Agreement, Cooperative Agreement, Other Agreement, or Master Credit Agreement, including any amendments thereto, supported with federal assistance appropriated or made available under the TIFIA program.
- (41) *Unique Entity Identifier* has two meanings:
- (a) A Recipient's or a Subrecipient's unique entity identifier for purposes of the "System of Award Management" (SAM), which currently is the DUNs Number, but,
 - (b) For FTA purposes, FTA assigns a separate Recipient/Vendor ID as a "unique entity identifier," which is a four digit number and is displayed on the Grant Agreement and the Cooperative Agreement following the heading "Recipient ID."
- (42) *Waiver* has the same meaning as the definition of *Approval* in this section of this Master Agreement.
- b. Application of Definitions. The Recipient also agrees that the definitions in section 2.a above apply throughout this Master Agreement.

Section 3. Implementation.

- a. Effective Date. The Effective Date of Recipient's Underlying Agreement is the date when the authorized FTA official signs the Underlying Agreement.
- b. Description of Each Project. The "Description of Each Project" in the "FTA Award" section of the Recipient's Underlying Agreement often provides only a brief description of each Project and related activities to be undertaken by the Recipient; therefore, the Recipient agrees to perform the work described in the terms of its Underlying Agreement, including all the documents and information incorporated by reference and made part of that Underlying Agreement.
- c. Prompt Implementation. After receiving notice that the FTA official signed the Underlying Agreement, the Recipient agrees to undertake promptly each Project and related activities described in the Underlying Agreement.
- d. Completion Dates. The Recipient agrees to complete each Project within the time periods specified in the Underlying Agreement. Unless FTA determines otherwise in writing, the

milestone dates and other completion dates applicable to the Award are good faith estimates and are not intended to be firm contractual requirements. However, FTA and the Recipient agree that milestone dates and other completion dates for Full Funding Grant Agreements, Small Starts Grant Agreements or other specific agreements in which FTA expressly states that the milestone dates or other completion dates for the Underlying Agreement are firm dates that may be enforced.

- e. The Recipient's Capacity. To carry out its Underlying Agreement, the Recipient agrees to maintain:
- (1) Sufficient legal, financial, technical, and managerial capacity, and adequate functional capacity to:
 - (a) Plan, manage, and complete its responsibilities outlined in the Underlying Agreement,
 - (b) Use the Project property,
 - (c) Carry out the safety and security aspects of the Underlying Agreement,
 - (d) Comply with the terms and conditions of the Underlying Agreement, the Recipient's annual Certifications and Assurances to FTA, and applicable federal laws, regulations, and requirements, and
 - (e) Follow applicable federal guidance, except as the Federal Government determines otherwise in writing.
 - (2) Strong internal controls to assure that it is managing its Award in compliance with federal laws, regulations, requirements, and the terms and conditions of the Underlying Agreement including, but not limited to:
 - (a) Amendments or revisions to its Award Budget,
 - (b) Salaries and wages of the Recipient and Subrecipient personnel,
 - (c) Protection of personally identifiable information and other sensitive information, and
 - (d) Other matters that must be in compliance with federal laws, regulations, requirements, and the terms and conditions of the Underlying Agreement.
- f. U.S. DOT Administrative Requirements. The Recipient agrees to comply with the following U.S. DOT requirements (Common Rules) to the extent applicable:
- (1) Requirements Applicable On or After December 26, 2014: The following requirements apply to the Award, the accompanying Underlying Agreement, and any Amendments thereto signed by an authorized FTA official on or after December 26, 2014 as follows:
 - (a) U.S. DOT regulations, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 2 C.F.R. part 1201, which incorporates by reference U.S. OMB regulatory guidance, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 2 C.F.R. part 200, and which applies to an Award, the accompanying Underlying Agreement, and any Amendments to any Underlying Agreement with a state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization, and
 - (b) Except as FTA determines otherwise in writing, U.S. DOT regulations, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 2 C.F.R. part 1201, and Subparts A through E of U.S. OMB

regulatory guidance, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” 2 C.F.R. part 200, apply to a private for-profit entity; notably, the Cost Principles of subpart 31.2 of the Federal Acquisition Regulation, which permits the payment of profits or fees for work under procurement contracts, generally will not apply to private for-profit entities.

- (2) Requirements Applicable Before December 26, 2014. The following requirements apply to the Award, the accompanying Underlying Agreement, and any Amendments thereto signed by an authorized FTA official before December 26, 2014 as follows:
- (a) For a state, local government, or Indian tribal government, U.S. DOT regulations, “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,” former 49 C.F.R. part 18,
 - (b) For an institution of higher education or a nonprofit organization, U.S. DOT regulations, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” former 49 C.F.R. part 19, or
 - (c) For a private for-profit organization, U.S. DOT regulations, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations,” former 49 C.F.R. part 19.

- g. Application of Federal, State, and Local Laws, Regulations, Requirements, and Guidance. The Recipient agrees to comply with all applicable federal requirements and federal guidance. All standards or limits are minimum requirements when those standards or limits are included in the Recipient’s Underlying Agreement, or this Master Agreement. At the time the FTA Authorized Official awards federal assistance to the Recipient in support of the Underlying Agreement, the federal requirements and guidance that apply then may be modified from time to time, and will apply to the Recipient or the accompanying Underlying Agreement.
- h. The Recipient’s Responsibility to Comply with Federal Requirements. Irrespective of involvement by any other entity in the Underlying Agreement:
- (1) General. The Recipient agrees that it must comply with all federal requirements that apply to itself and the Underlying Agreement.
 - (2) Primary Responsibility for Compliance.
 - (a) The Recipient, as the Direct Recipient of federal assistance, agrees that it is ultimately responsible for full compliance with federal requirements related to itself, its Award, the accompanying Underlying Agreement, and any Amendments thereto, even though:
 - 1 A Third Party Participant provides property or services to support a Project or related activities implementing the Award, the accompanying Underlying Agreement, any Amendments thereto, or
 - 2 Another entity or person is involved with the Award, the accompanying Underlying Agreement, or any Amendments thereto.
 - (b) FTA and the Recipient agree that if FTA makes an Award to a Recipient other than the Designated Recipient as defined under 49 U.S.C. § 5302, the Designated Recipient is not a party to the Award or the Underlying Agreement and is not

responsible for compliance with federal requirements related to the Underlying Agreement. However, if FTA makes an Award to a Designated Recipient, then that Designated Recipient is responsible for compliance with federal requirements related to its Underlying Agreement. FTA and the Recipient further agree to the terms of the Designated Recipient's Split Letter, Suballocation Letter, or Government Subapportionment Letter attached in FTA's Transit Award Management System (TrAMS), including the amounts allocated by the Designated Recipient to each Direct Recipient, and the commitment to comply with the associated transit improvement requirement as stated in that letter.

- (c) Apart from other oversight and reviews FTA may conduct, the Recipient agrees that FTA is expressly authorized to conduct oversight of the Recipient's and its Subrecipients' compliance with federal requirements for safety and security, procurement (including Buy America requirements), management, and finance.
- i. The Recipient's Responsibility to Extend Federal Requirements to Third Party Participants. In certain circumstances, the Recipient's compliance with specific federal requirements depends on compliance by its Third Party Participant(s) with those federal requirements, and therefore:
- (1) General. The Recipient agrees to ensure that its Third Party Participant(s) will comply with applicable federal requirements, and follow applicable federal guidance.
 - (2) The Recipient as a "Pass-Through" Entity. If the Recipient is providing a subaward to a Subrecipient to carry out all or part of its Award, the Recipient agrees to obtain the agreement of each Subrecipient to comply with U.S. DOT's administrative requirements, as set forth above.
 - (3) Performance of the Recipient's Responsibilities. If a Third Party Participant is expected to fulfill any responsibilities typically performed by the Recipient, the Recipient agrees to ensure that the Third Party Participant will carry out the Recipient's responsibilities in compliance with federal requirements, and provide enough information to each Third Party Participant so that it understands that it will be expected to follow federal guidance.
 - (4) Risk. As provided in 2 C.F.R. part 1201, which incorporates by reference 2 C.F.R. part 200, the Recipient agrees to evaluate the risk involved before awarding a subagreement to any entity.
 - (5) Third Party Agreements. To comply with federal requirements, the Recipient agrees to enter into a written Third Party Agreement with each Third Party Participant in its Underlying Agreement and must include all appropriate provisions stating the Third Party Participant's responsibilities to assure the Recipient's capability to comply with applicable federal requirements and guidance and specifying the responsibilities that the Third Party Participant will fulfill on the Recipient's behalf.
 - (6) Notice to Third Party Participants. The Recipient agrees to include notice in each Third Party Agreement that:
 - (a) Federal requirements that apply to the Recipient or the Award, the accompanying Underlying Agreement, and any Amendments thereto may change due to changes in federal law, regulation, other requirements, or guidance, or changes in the Recipient's Underlying Agreement including any information incorporated by reference and made part of that Underlying Agreement, and

- (b) Applicable changes to those federal requirements will apply to each Third Party Agreement and parties thereto at any tier.
- j. Changed Circumstances. The Recipient agrees that changed circumstances may occur that may impact the Recipient's ability to comply with the terms and conditions of the Underlying Agreement.
- (1) Types of Changes. Certain circumstances can cause significant changes in performance of a Project or related activities or adversely affect the Recipient's ability to carry out its Underlying Agreement, such as a:
- (a) Change in federal requirements or guidance,
 - (b) Change in state, territorial, local, or tribal requirements,
 - (c) Change in the Recipient's circumstances, including:
 - 1 Its legal, financial, technical, or managerial capacity,
 - 2 Its continuing control of Project property, or
 - 3 Another similar situation, and
 - (d) Any current or prospective legal matter with potentially serious consequences, including a major dispute, default, breach, or litigation, or credible evidence that the Recipient's principal, official, employee, agent, or a Third Party Participant, or other person has submitted a false claim under the False Claims Act, 31 U.S.C. § 3729 *et seq.*, or has committed a criminal or civil violation of law pertaining to fraud, conflict of interest, bribery, gratuity, or similar misconduct involving federal assistance; suspension, debarment, or other similar administrative or enforcement action against the Recipient or any Third Party Participant; or any matter or situation, including any other change or legal action that may adversely affect the Federal Government's interest in a Project or related activities.
- (2) Notice. In the circumstances described above, the Recipient agrees to provide immediate written notice to the:
- (a) FTA Regional Counsel for the Region in which the Recipient operates public transportation or implements the Underlying Agreement,
 - (b) FTA Headquarters Manager that administers the Underlying Agreement, or
 - (c) FTA Chief Counsel.
- k. Conflict Between Federal Requirements and State, Territorial, Local, or Tribal Requirements. FTA and the Recipient understand that a federal requirement may conflict with a state, territorial, local, or tribal requirement, and agree that the Recipient must comply with each applicable federal requirement that pre-emptes the conflicting state, territorial, local, or tribal requirement.
- (1) Compliance with State, Territorial, Local or Tribal Requirements. Unless otherwise pre-empted by a federal requirement, FTA and the Recipient agree that:
- (a) FTA expects the Recipient to comply with applicable state, territorial, local, and tribal requirements, and
 - (b) FTA does not require the Recipient to take any action involving the Underlying Agreement that would violate a state, territorial, local, or tribal requirement that is in conflict with a federal requirement.
- (2) When a Conflict Arises. When a federal requirement conflicts with a state, territorial, local, or tribal requirement:

- (a) The Recipient must notify FTA immediately in writing if compliance with the federal requirement would violate a state, territorial, local, or tribal requirement, or require the Recipient to violate a state, territorial, local, or tribal requirement.
 - (b) The Recipient must make appropriate arrangements with FTA to proceed with its responsibilities as set forth in the Underlying Agreement, or terminate the Underlying Agreement expeditiously, if necessary.
1. No Federal Government Commitment or Liability to Third Parties. Except as the Federal Government expressly consents in writing, the Recipient agrees that:
- (1) The Federal Government does not and shall not have any commitment or liability related to the Underlying Agreement, to any Third Party Participant at any tier, or to any other person or entity that is not a party (FTA or the Recipient) to the Underlying Agreement, and
 - (2) Notwithstanding that the Federal Government may have concurred in or approved any Solicitation or Third Party Agreement at any tier that may affect the Underlying Agreement, the Federal Government does not and shall not have any commitment or liability to any Third Party Participant or other entity or person that is not a party (FTA or the Recipient) to the Underlying Agreement.

Section 4. Ethics.

- a. Standards of Conduct. At a minimum, the Recipient agrees to, and assures that its Subrecipients will, establish and maintain written Standards of Conduct covering conflicts of interest that:
- (1) Apply to the following individuals who have a present or potential financial interest, or other significant interest, such as a present or potential employment interest in the selection, award, or administration of a third party contract or subcontract:
 - (a) The Recipient or its Subrecipients' officers, employees, board members, or agents engaged in the selection, award, or administration of any third party agreement,
 - (b) The immediate family members or partners of those listed above in section 4.a(1)(a) of this Master Agreement, and
 - (c) An entity or organization that employs or is about to employ any person that has a relationship with the Recipient or its Subrecipient listed above in sections 4.a(1)(a) and (b) of this Master Agreement;
 - (2) Prohibit those individuals listed above in section 4.a(1) from:
 - (a) Engaging in any activities involving the Recipient or any of its Subrecipients' present or potential Third Party Participants at any tier, including selection, award, or administration of a third party agreement in which the individual has a present or potential financial or other significant interest, and
 - (b) Accepting a gratuity, favor, or anything of monetary value from a present or potential Third Party Participant in the Recipient's Underlying Agreement, unless the gift is unsolicited and has an insubstantial financial or nominal intrinsic value; and
 - (3) Establish penalties, sanctions, or other disciplinary actions for violations, as permitted by state or local law or regulations, that apply to those individuals listed above in section 4.a(1) and the Recipient or Subrecipient's Third Party Participants.

- b. Debarment and Suspension. The Recipient agrees to the following:
- (1) It will comply with the following requirements of 2 C.F.R. part 180, subpart C, as adopted and supplemented by U.S. DOT regulations at 2 C.F.R. part 1200.
 - (2) It will not enter into any arrangement to participate in the development or implementation of the Underlying Agreement with any Third Party Participant that is debarred or suspended except as authorized by:
 - (a) U.S. DOT regulations, "Nonprocurement Suspension and Debarment," 2 C.F.R. part 1200,
 - (b) U.S. OMB regulatory guidance, "Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)," 2 C.F.R. part 180, including any amendments thereto,
 - (c) Executive Orders No. 12549, "Uniform Suspension, Debarment or Exclusion of Participants from Procurement or Nonprocurement Activity," October 13, 1994, 31 U.S.C. § 6101 note, as amended by Executive Order No. 12689, "Debarment and Suspension," August 16, 1989, 31 U.S.C. § 6101 note, and
 - (d) Other applicable federal laws, regulations, or guidance regarding participation with debarred or suspended Recipients or Third Party Participants.
 - (3) It will review the U.S. GSA "System for Award Management – Lists of Parties Excluded from Federal Procurement and Nonprocurement Programs," <https://www.sam.gov>, if required by U.S. DOT regulations, 2 C.F.R. part 1200.
 - (4) It will include, and require each Third Party Participant to include, a similar provision in each lower tier covered transaction, ensuring that each lower tier Third Party Participant:
 - (a) Complies with federal debarment and suspension requirements, and
 - (b) Reviews the SAM at <https://www.sam.gov>, if necessary to comply with U.S. DOT regulations, 2 C.F.R. part 1200.
 - (5) If the Recipient suspends, debars, or takes any similar action against a Third Party Participant or individual, the Recipient will provide immediate written notice to the:
 - (a) FTA Regional Counsel for the Region in which the Recipient is located or implements the Underlying Agreement,
 - (b) FTA Headquarters Manager that administers the Grant or Cooperative Agreement, or
 - (c) FTA Chief Counsel.
- c. Bonus or Commission. The Recipient affirms that it has not paid, and agrees that it will not pay, any bonus or commission to obtain federal assistance for any Project or related activities supported under the Underlying Agreement.
- d. Lobbying Restrictions. The Recipient agrees that neither it nor any Third Party Participant will use federal assistance to influence any officer or employee of a federal agency, member of Congress or an employee of a member of Congress, or officer or employee of Congress on matters that involve the Underlying Agreement, including any extension or modification, according to the following:
- (1) Laws, Regulations, Requirements, and Guidance. This includes:
 - (a) The Byrd Anti-Lobbying Amendment, 31 U.S.C. § 1352, as amended,

- (b) U.S. DOT regulations, "New Restrictions on Lobbying," 49 C.F.R. part 20, to the extent consistent with 31 U.S.C. § 1352, as amended, and
 - (c) Other applicable federal laws, regulations, requirements, and guidance prohibiting the use of federal assistance for any activity concerning legislation or appropriations designed to influence the U.S. Congress or a state legislature, and
 - (2) Exception. If permitted by applicable federal law, regulations, requirements, or guidance, such lobbying activities described above may be undertaken through the Recipient's or Subrecipient's proper official channels.
- e. Political Activity. The Recipient agrees to comply with:
- (1) The Hatch Act, 5 U.S.C. chapter 15, which limits the political activities of state and local government agencies supported in whole or in part with federal assistance, including the political activities of state and local government officers and employees whose principal governmental employment activities are supported in whole or in part with federal assistance,
 - (2) U.S. Office of Personnel Management regulations, "Political Activity of State or Local Officers or Employees," 5 C.F.R. part 151, and
 - (3) 49 U.S.C. § 5323(1)(2) and 23 U.S.C. § 142(g), which limits the applicability of the Hatch Act, as follows:
 - (a) The Hatch Act does not apply to nonsupervisory employees of a public transportation system, or any other agency or entity performing related functions, based upon the Award of federal assistance under 49 U.S.C. chapter 53 or 23 U.S.C. § 142(a)(2), but
 - (b) Notwithstanding the preceding section 4.g(3)(a) of this Master Agreement, the Hatch Act does apply to a nonsupervisory employee if imposed for a reason other than the Award of federal assistance to its employer under 49 U.S.C. chapter 53 or 23 U.S.C. § 142(a)(2).
- f. False or Fraudulent Statements or Claims.
- (1) Civil Fraud. The Recipient acknowledges and agrees that:
 - (a) Federal laws, regulations, and requirements apply to itself and its Underlying Agreement, including the Program Fraud Civil Remedies Act of 1986, as amended, 31 U.S.C. § 3801 *et seq.*, and U.S. DOT regulations, "Program Fraud Civil Remedies," 49 C.F.R. part 31.
 - (b) By executing the Underlying Agreement, the Recipient certifies and affirms to the Federal Government the truthfulness and accuracy of any claim, statement, submission, certification, assurance, affirmation, or representation that the Recipient provides to the Federal Government.
 - (c) The Federal Government may impose the penalties of the Program Fraud Civil Remedies Act of 1986, as amended, and other applicable penalties if the Recipient presents, submits, or makes available any false, fictitious, or fraudulent information.
 - (2) Criminal Fraud. The Recipient acknowledges that 49 U.S.C. § 5323(1)(1) authorizes the Federal Government to impose the penalties under 18 U.S.C. § 1001 if the Recipient provides a false, fictitious, or fraudulent claim, statement, submission, certification,

assurance, or representation in connection with a federal public transportation program under 49 U.S.C. chapter 53 or any other applicable federal law.

g. Trafficking in Persons.

- (1) Legal Authorities. The Recipient agrees to comply and assures the compliance of each Subrecipient, with federal requirements and guidance, including:
 - (a) Section 106(g) of the Trafficking Victims Protection Act of 2000 (TVPA), as amended, 22 U.S.C. § 7104(g), and
 - (b) The terms of this section 4.g, which have been derived from U.S. OMB regulatory guidance, "Award Term for Trafficking in Persons," 2 C.F.R. part 175, per U.S. OMB's direction.
- (2) Definitions. The Recipient agrees that for purposes of this section 4.g:
 - (a) Employee means either: an individual who is employed by the Recipient or a Subrecipient, and is participating in a Project or related activities as set forth in the Underlying Agreement, or another person who is participating in a Project or related activities as set forth in the Underlying Agreement and is not compensated by the Recipient, including, but not limited to, a volunteer, or an individual whose services are contributed by the Recipient or Third Party Participant as an in-kind contribution toward the cost sharing requirements of the Recipient's Underlying Agreement.
 - (b) Forced labor means labor obtained by recruitment, harboring, transportation, provision, or other means of obtaining of a person for labor or services through the use of force, fraud, or coercion for the purpose of subjection to involuntary servitude, peonage, debt bondage, or slavery.
 - (c) Private entity means any entity other than a state, local government, Indian tribe, or foreign public entity, as those terms are defined in 2 C.F.R. § 175.25, and includes a for-profit organization, or a nonprofit organization, including any nonprofit organization of higher education, hospital, or tribal organization other than one included in the definition of Indian Tribe at 2 C.F.R. § 175.25(b).
 - (d) Severe forms of trafficking in persons has the meaning given at section 103 of the TVPA, as amended, 22 U.S.C. § 7102.
 - (e) Commercial sex act has the meaning given at section 103 of the TVPA, as amended, 22 U.S.C. § 7102.
 - (f) Coercion has the meaning given at section 103 of the TVPA, as amended, 22 U.S.C. § 7102.
- (3) Provisions Applicable to All Recipients. The Recipient agrees to, and assures that its Subrecipients will:
 - (a) Provide Information. Inform FTA immediately of any information it receives from any source alleging a violation of the prohibitions listed in section 4.g(4) of this Master Agreement, and
 - (b) Subagreement Provision. Include the following provision in any subagreement it enters into with a private entity as defined above in section 4.g(2)(c) of this Master Agreement:

_____ agrees that it and its employees that participate in the Recipient's Award, may not:

1. *Engage in severe forms of trafficking in persons during the period of time that the Recipient's Award is in effect,*
 2. *Procure a commercial sex act during the period of time that the Recipient's Award is in effect, or*
 3. *Use forced labor in the performance of the Recipient's Award or subagreements thereunder.*
- (4) Provisions Applicable to a Private Entity Recipient. If the Recipient is a private entity, it agrees that:
- (a) Prohibitions. It, its employees, its Subrecipients, and its Subrecipients' employees that participate in the Underlying Agreement will not:
 - 1 Engage in severe forms of trafficking in persons during the period of time that the Recipient's Underlying Agreement is in effect,
 - 2 Procure a commercial sex act during the period of time that the Recipient's Underlying Agreement is in effect, or
 - 3 Use forced labor in the performance of the Recipient's Underlying Agreement or subagreements.
 - (b) Termination of Federal Assistance. Section 106(g) of the TVPA, as amended, 22 U.S.C. § 7104(g), and U.S. OMB regulatory guidance, "Award Term for Trafficking in Persons," 2 C.F.R. part 175, provide FTA the right to unilaterally terminate the Underlying Agreement for a violation of that Act without penalty to the Federal Government, if FTA determines that the private entity Recipient or its Subrecipient:
 - 1 Has violated a prohibition described above in section 4.g(4)(a) of this Master Agreement, or
 - 2 Has an employee whose conduct is determined to have violated a prohibition described above in section 4.g(4)(a) of this Master Agreement because that employee's conduct is either:
 - a Associated with performance of the Recipient's Underlying Agreement, or
 - b Imputed to the Recipient or Subrecipient using the standards of due process for conduct of an individual to an organization provided in:
 - (i) U.S. DOT regulations, "Nonprocurement Suspension and Debarment," 2 C.F.R. part 1200, or
 - (ii) U.S. OMB regulatory guidance, "Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)," 2 C.F.R. part 180.
- (5) Provisions Applicable to a Recipient That is Not a Private Entity. A Recipient that is not a private entity agrees that section 106(g) of the TVPA, as amended, 22 U.S.C. § 7104(g), and U.S. OMB regulatory guidance, "Award Term for Trafficking in Persons," 2 C.F.R. part 175, provides FTA the right to unilaterally terminate the Underlying Agreement, without penalty to the Federal Government, for a violation of that Act if FTA determines that:
- (a) A private entity that is the Subrecipient of the Recipient is determined to have engaged in severe forms of trafficking in persons during the period of time that the Recipient's Underlying Agreement is in effect; procured a commercial sex act during the period of time that the Recipient's Underlying Agreement is in effect;

- or used forced labor in the performance of the Recipient's Underlying Agreement or subagreements thereunder, or
- (b) An employee of a private entity that is the Subrecipient has engaged in severe forms of trafficking in persons during the period of time that the Recipient's Underlying Agreement is in effect; procured a commercial sex act during the period of time that the Recipient's Underlying Agreement is in effect; or used forced labor in the performance of the Recipient's Underlying Agreement or subagreements thereunder, and whose conduct described above is associated with performance in the Recipient's Underlying Agreement; or is imputed to the Subrecipient using the standards for due process to impute the conduct of an individual to an organization provided in U.S. OMB regulatory guidance, "Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)," 2 C.F.R. part 180, and U.S. DOT regulations, "Nonprocurement Suspension and Debarment," 2 C.F.R. part 1200.
- (6) Remedies Other Than Termination of Federal Assistance. The Recipient agrees that FTA's right to terminate federal assistance as provided in the TVPA and in sections 4.g(4)(b) and 4.g(5) are in addition to all other remedies for noncompliance available to the Federal Government under this Master Agreement.

Section 5. Federal Assistance.

- a. Total Federal Assistance Awarded and Obligated. The Recipient agrees that FTA's responsibility to provide federal assistance for its Underlying Agreement is up to the amount shown in the Underlying Agreement, as modified by any Amendments thereto, which is equal to the smallest of: (1) the maximum amount permitted by federal law or regulation, or (2) the "Total FTA Amount Awarded and Obligated," as stated in the Underlying Agreement. FTA's responsibility to provide federal assistance is limited to the amounts listed in the most recent Award Budget identified in the Underlying Agreement and may not exceed the federal share of the actual eligible expenses incurred for participation in the Award.
- b. Basis of Federal Assistance. The Recipient agrees that the "Total FTA Amount Awarded and Obligated" stated in the Underlying Agreement and modified by any Amendments thereto forms the basis on which FTA determines the "Total FTA Amount Awarded and Obligated."
- (1) "Net Project Cost." The Recipient agrees that if federal law or regulation requires an Underlying Agreement to be financed on the basis of its "Net Project Cost," as defined in 49 U.S.C. § 5302:
- (a) FTA will provide federal assistance for a percentage of the portion of the "Total Award Budget" that the Recipient cannot reasonably finance from its revenues, which is the "Net Project Cost,"
 - (b) FTA will use the amount of the "Total Award Budget" stated on the Underlying Agreement to calculate the "Total FTA Amount Awarded and Obligated," and
 - (c) In TrAMS, the amount stated as the "Total Award Budget" on the Underlying Agreement is actually the "Net Project Cost," as defined in 49 U.S.C. § 5302.

- (2) Other Basis for FTA Participation. The Recipient agrees that if federal law or FTA permits an Underlying Agreement to be financed on a basis other than its "Net Project Cost," as defined in 49 U.S.C. § 5302, or under previous authorizing legislation:
- (a) FTA will provide federal assistance for all or part of the cost of the Underlying Agreement that is eligible for federal assistance,
 - (b) In some instances, FTA has discretion to determine the amount of federal assistance to provide for each specific Project or related activities, and
 - (c) FTA will use the amount stated in the Underlying Agreement as the "Total Award Budget" to calculate the "Total FTA Amount Awarded and Obligated."
- c. Award Budget. The Recipient agrees that it will prepare an Award Budget that, after FTA has provided its approval, will be incorporated by reference and made part of the Underlying Agreement.
- (1) Restrictions. The Recipient agrees that it will not incur costs eligible for FTA participation under the Award or withdraw federal assistance for eligible costs incurred unless those costs are consistent with the Award Budget.
 - (2) Amendments to the Award Budget. To the extent specified in applicable FTA program management guidance, the Recipient agrees that it must obtain prior FTA approval in writing before amending its Award Budget or transferring federal assistance for the Award if the transfer is not expressly authorized by federal law, regulation, or guidance. An Award of additional federal assistance will require an amended Award Budget.
 - (3) Revisions to the Award Budget. To the extent specified in applicable FTA program management guidance, the Recipient may revise the Award Budget without prior FTA written approval. The Recipient agrees that all other Award Budget revisions will require prior FTA approval in writing.
 - (4) Unexpended Federal Assistance. The Recipient agrees to inform FTA promptly if it believes it will have unexpended federal assistance after the period of performance for the Award ends.

Section 6. Non-Federal Share.

- a. Amount. The Recipient agrees to provide the amount of non-federal share specified in the Underlying Agreement. Except to the extent that FTA has provided its written consent permitting the Recipient to defer payment of the non-federal share required by the Underlying Agreement, the Recipient agrees to provide its proportionate amount of the non-federal share no later than the time it draws down the federal share to pay the eligible costs.
- b. Duty to Obtain. The Recipient agrees to complete all proceedings necessary to provide the non-federal share and to notify FTA of any changed circumstances adversely affecting its ability to pay the non-federal share, including a description of the actions it has taken or will take to ensure adequate resources to provide the non-federal share, and a re-affirmation of its commitment to provide the non-federal share.
- c. Permissible Sources. The Recipient agrees that the following are permissible sources of the non-federal share for the Award:
- (1) Undistributed cash surpluses,

- (2) A replacement or depreciation cash fund or reserve, and
 - (3) New capital.
- d. Restricted Sources. Because sources of non-federal share differ among FTA's public transportation assistance programs, FTA will specify in an FTA circular or otherwise whether the following sources may be used as the non-federal share for a specific Award under that program:
- (1) Program income generated by a Project or related activities supported by a prior Grant or Cooperative Agreement, which is a form of undistributed cash surplus,
 - (2) Advertising revenues,
 - (3) Concession revenues,
 - (4) Revenues from a service agreement from a state or local social service agency or a private social service organization,
 - (5) Third party in-kind contributions,
 - (6) Proceeds from the issuance of revenue bonds pursuant 49 U.S.C. § 5323(e),
 - (7) Transportation development credits (formerly toll revenue credits) pursuant to 49 U.S.C. § 120(i),
 - (8) Revenue from Value Capture pursuant to 49 U.S.C. § 5323(s),
 - (9) Federal assistance made available for the Federal Lands Highway Program authorized under 23 U.S.C. § 204, or
 - (10) Federal assistance derived from other federal laws that permit their funds to be used as the non-federal share.
- e. Prohibited Sources. Except as permitted by federal laws, regulations, requirements, or guidance, or approved in writing by FTA, the Recipient agrees that it will not provide any non-federal share for the Underlying Agreement derived from:
- (1) Farebox revenues from providing public transportation services using facilities and equipment acquired with federal assistance for the Award,
 - (2) Program income derived from the use of facilities or equipment acquired with federal assistance for the Award, except if expressly permitted by federal laws, regulations, requirements, or FTA guidance, or
 - (3) Other federal funds not authorized for use as non-federal share by federal law, regulation, or guidance.
- f. Reductions or Refunds.
- (1) Reductions. The Recipient agrees that if it reduces the non-federal share of eligible costs required for the Award, then, at the same time, it must reduce the proportionate amount of federal assistance for the Award.
 - (2) Refunds. The Recipient agrees that if it accepts a refund of the non-federal share of eligible costs provided through the Underlying Agreement, then, at the same time, it must provide the Federal Government an amount of that refund proportionate to the federal contribution.

Section 7. Payments to the Recipient.

- a. Conditions for Accessing Federal Assistance. In order to seek or obtain federal assistance for the costs of implementing the Award, the Recipient agrees that:
- (1) It must execute the Underlying Agreement and any Amendments thereto,
 - (2) It must receive and file a properly signed document seeking payment for the expense, such as a voucher or other appropriate record, and a properly detailed description of the relationship of the expense to the Award,
 - (3) It must identify all sources of federal assistance from which the payment is derived,
 - (4) It must provide FTA with all financial and progress reports required to date, and
 - (5) If the Recipient must provide a non-federal share, unless FTA has stated otherwise in writing that the Recipient may defer the non-federal share:
 - (a) The Recipient will not request or obtain more federal assistance than justified by the eligible non-federal share it has provided,
 - (b) The Recipient will not cause the proportion of federal assistance available for the Award at any time to exceed the percentage of federal assistance authorized and documented in the Underlying Agreement, and
 - (c) When combined with federal payments, the Recipient will be able to demonstrate that the non-federal share will be adequate to cover all eligible costs incurred in support of the Award.
- b. Eligible Costs. Except as the Federal Government determines otherwise in writing, the Recipient agrees, and will obtain the agreement of each Subrecipient, to seek and obtain federal assistance only for the eligible costs of the Award that are:
- (1) Consistent with the Description of Each Project, the Award Budget, this Master Agreement, and the Underlying Agreement and any Amendments thereto,
 - (2) Necessary to carry out the Award,
 - (3) Reasonable for the property or services acquired for use in the Project,
 - (4) The actual net costs, which consists of the price paid minus reductions of the costs incurred, such as any refunds, rebates, or other items of value, but excluding program income,
 - (5) Incurred for work performed after the Effective Date of the:
 - (a) Award,
 - (b) Pre-award authority that FTA has provided, or
 - (c) Letter of No Prejudice,
 - (6) Satisfactorily documented,
 - (7) Consistent with federally approved accounting principles and procedures, including requirements for indirect costs, consistent with the applicable U.S. DOT common rules, and
 - (8) Consistent with applicable U.S. DOT Common Rules and other applicable federal law, regulations, requirements, and guidance.
- c. Ineligible Costs. The Recipient agrees that, except as the Federal Government determines otherwise in writing, FTA will exclude ineligible costs incurred in connection with the Award or otherwise, such as:
- (1) A cost the Recipient has incurred before the Effective Date of the Award as documented in the Underlying Agreement or any Amendments thereto that is not accompanied by FTA's written approval, including, but not limited to, pre-award authority or a Letter of

- No Prejudice, and permitted by applicable federal law, regulation, guidance, or the Underlying Agreement or any Amendments thereto,
- (2) A cost not included in the most recent Award Budget,
 - (3) A cost for property or services received in connection with any third party agreement lacking any FTA approval or concurrence in writing that is required,
 - (4) An ordinary governmental or operating cost not applicable to the Award, as prohibited by 49 U.S.C. § 5323(h),
 - (5) A profit or fee for services provided by the Recipient or any of its Subrecipients in implementing the Award, or
 - (6) A cost that is ineligible for FTA participation as provided in applicable federal law, regulation, or guidance.
- d. Bond Interest and Other Financing Costs – Limited Eligibility. The Recipient agrees that bond interest and other financing costs are allowable costs to the extent permitted by applicable federal law, regulation, and guidance. FTA's share of interest and financing costs that implement the Award will be limited to an amount that does not exceed the most favorable financing terms reasonably available at the time of borrowing, except as the Federal Government determines otherwise in writing,
- e. Payment Procedures Based on the Type of Federal Assistance Awarded. The Recipient agrees that:
- (1) All payments in connection with the Award will be made through electronic methods.
 - (2) Payment procedures for a Recipient differ based upon the type of federal assistance that is awarded.
 - (3) FTA determines which electronic system it will use to make payments to the Recipient as follows:
 - (a) For Grants and other types of federal assistance, FTA will use the Electronic Clearinghouse Operation Web System (ECHO-Web), Automated Clearing House (ACH) payment method, except as provided below in sections 7.e(3)(b) and (c) of this Master Agreement,
 - (b) For Cooperative Agreements, FTA will use the DELPHI eInvoicing System or DELPHI Mark View System if the Recipient is granted a waiver (*see* the following section 7.g of this Master Agreement for more information about payments for cooperative agreements and section 7.g of this Master Agreement for information about accessing and using the DELPHI eInvoicing System), and
 - (c) For Grants requiring more detailed review of supporting documentation before receiving federal assistance and as determined by the FTA Manager for the Underlying Agreement, FTA will use the DELPHI eInvoicing System (*see* the following section 7.g of this Master Agreement for more information about accessing and using the DELPHI eInvoicing System).
- f. Payment Procedures Using ECHO. The Recipient agrees that if payment is made through ECHO-Web using an ECHO Control Number, it will comply with the "ECHO Web User Manual For FTA and FAA," July 2012, and it will withdraw federal assistance only to pay the eligible costs of implementing the Award.

- (1) Major Withdrawals. When a single withdrawal will exceed \$50,000,000, the Recipient agrees to notify the appropriate FTA Regional or Program Office at least three (3) days before the withdrawal is anticipated.
- (2) Immediate Use. The Recipient agrees that it will not withdraw federal assistance until actually needed for immediate payment of those expenses and will use that federal assistance to pay for expenses that implement the Award no later than three (3) days after receipt, except as the Federal Government permits otherwise in writing.
- (3) Limits. The Recipient agrees that it will not withdraw more than the sum of federal assistance the Federal Government has awarded or the current available balance for its Award, the accompanying Underlying Agreement, and any Amendments thereto, whichever is less.
- (4) Control. The Recipient agrees that it will provide for the control and accountability of all federal assistance for its Award, the accompanying Underlying Agreement, and any Amendments thereto.
- (5) Reporting. Unless FTA determines otherwise in writing, the Recipient agrees that it will report its cash payments and balances promptly.
- (6) Penalties. If the Recipient fails to comply with this section of this Master Agreement, it agrees that it may incur or be subjected to penalties, including, but not limited to, the following:
 - (a) Access to ECHO-Web. The Federal Government may revoke or suspend the Recipient's ECHO Control Number and access to the ECHO-Web if the Federal Government determines that:
 - 1 Fraud, waste, mismanagement, or abuse exists in the Recipient's use and application of federal assistance,
 - 2 The Recipient has failed to use federal assistance it withdrew to pay costs incurred that implement the Underlying Agreement within three (3) days of withdrawing that federal assistance,
 - 3 The Recipient has failed to return withdrawn but unspent federal assistance to the Federal Government within a reasonable time,
 - 4 The Recipient has failed to establish procedures to minimize the time between advances of federal assistance and payments of costs incurred that implement the Underlying Agreement,
 - 5 The Recipient has been awarded Federal assistance through a Cooperative Agreement with FTA and will use the eInvoicing or DELPHI Mark View System as its payment method instead of the ECHO-Web System (*see* sections 7.g.) or
 - 6 For Grants requiring a more detailed review of supporting documentation before receiving federal assistance, and as determined by the FTA Manager for the Award, the Recipient will use eInvoicing (*see* section 7.g).
 - (b) Interest. The Recipient agrees to pay interest to the Federal Government on any federal assistance withdrawn prematurely, irrespective of whether the federal assistance has been deposited in an interest-bearing account.
 - 1 A State or State Instrumentality. If the Recipient is a state or state instrumentality, it agrees to pay interest calculated as provided in section 5(b) of the Cash Management Improvement Act of 1990, as amended, 31 U.S.C. § 6503(b), and U.S. Department of Treasury (U.S. Treasury) regulations,

“Rules and Procedures for Efficient Federal-State Funds Transfers,” 31 C.F.R. part 205.

- 2 Other than a State or State Instrumentality. If the Recipient is not a state or state instrumentality, it agrees to pay prejudgment common law interest determined by the Federal Government, as authorized by joint U.S. Treasury and U.S. Department of Justice (joint U.S. Treasury and U.S. DOJ) regulations, “Standards for the Administrative Collection of Claims,” 31 C.F.R. § 901.9(i). The Federal Government may determine the amount of interest due, based on the amount of interest the Recipient demonstrates it earned on its premature withdrawals of federal assistance, the amount of interest based on the “Treasury tax and loan account” rate prescribed under 31 U.S.C. § 3717 for debts owed to the United States, or an amount of interest as the Federal Government otherwise determines.
- (7) ECHO System. If the Recipient is authorized to receive payments provided through ECHO-Web, FTA does not generally review the drawdown when made; however, FTA may review the drawdown at a later time, and subject that drawdown to an audit under a financial oversight review, a triennial review, or another audit.
- g. Payment Procedures for a Cooperative Agreement. A Recipient of federal assistance through a Cooperative Agreement must use the DELPHI eInvoicing System to obtain federal payments for costs incurred that implement the Underlying Agreement, unless a waiver is granted.
- (1) Standard Procedures. To make and receive payments through the DELPHI eInvoicing System, the following procedures must be followed:
 - (a) Access to the DELPHI eInvoicing System. To access the DELPHI eInvoicing System, the Recipient:
 - 1 Must have internet access to register and submit payment requests through the DELPHI eInvoicing System,
 - 2 Should contact its FTA Manager for the Underlying Agreement to obtain the required DELPHI User access form and approval,
 - 3 Must complete the required forms that the FAA, Enterprise Service Center’s (ESC) Help Desk uses to verify the Recipient’s identity, and present it to a Notary Public for verification,
 - 4 Return that form, completed and notarized, to:
DOT Enterprise Services Center
FAA Accounts Payable, AMZ-100
PO Box 25710
Oklahoma City, OK 73125,
and,
 - 5 Should contact its FTA Manager for the Underlying Agreement with any changes to its system profile information.
 - (b) Payment Requests. The Recipient must submit each payment request electronically through the DELPHI eInvoicing System, unless a waiver is granted; use of the DELPHI eInvoicing System requires the FTA Manager for the Underlying Agreement to review all supporting documentation before authorizing payment.

- (c) Additional Information. The U.S. DOT DELPHI eInvoicing System website (<http://www.dot.gov/cfo/delphi-einvoicing-system.html>) displays additional information, including access forms and training materials a Recipient may need.
- (d) Federal Responsibilities. When FTA so requests, the Federal Aviation Administration (FAA) will make payments to FTA Recipients electronically. On behalf of FTA, FAA/ESC must process payment requests to a Recipient of federal assistance documented in its Cooperative Agreement with FTA, and will deposit that federal assistance with the Recipient's financial institution (Note: FTA no longer issues paper checks).
- (2) Waiver Requests. On a case-by-case basis, U.S. DOT Financial Management officials may waive the requirement for a Recipient to register and use the DELPHI eInvoicing System.
- (a) The Recipient's Responsibilities. If the Recipient seeks a waiver from the requirement to use the DELPHI eInvoicing System:
- 1 It must notify U.S. DOT and FTA by downloading the waiver request form, which can be obtained on the U.S. DOT eInvoicing website (<http://www.dot.gov/cfo/delphi-einvoicing-system.html>), and notifying its FTA Manager for the Underlying Agreement that it has requested a waiver from using the DELPHI eInvoicing System,
 - 2 It must send its waiver request to the Director of the Office of Financial Management, U.S. Department of Transportation, Office of the Secretary (OST), Office of Financial Management, B-30, 1200 New Jersey Avenue SE, Washington DC 20590-0001, DOTElectronicInvoicing@dot.gov, and
 - 3 If it obtains a waiver from the use of the DELPHI eInvoicing System, then payment will be made using the DELPHI Mark View System, and the Recipient should submit all invoices and any supporting documentation directly to:
 - a FTAINVOICES@faa.gov (Note: no more than 10 MB of data can be transmitted at one time. For invoices greater than 10MB, split into multiple emails and notate in the subject Email 1 of 4; 2 of 4; etc.), or
 - b DOT/FAA (FTA Account)
6500 South MacArthur Blvd.
AMZ-150, HQ Room 272
PO Box 269041
Oklahoma City, OK 73125-69041
- (b) Federal Responsibilities. FTA and U.S. DOT have the following responsibilities:
- 1 The Director, OST, Office of Financial Management, will confirm or deny the waiver request within approximately 30 days.
 - 2 If the request is granted, then payments will be made after receipt of the required FTA reporting forms, provided the Recipient has complied with the U.S. DOT Common Rules and this Master Agreement.
- (c) DELPHI eInvoicing System or DELPHI Mark View System. If the Recipient receives payments provided through the DELPHI eInvoicing System or DELPHI Mark View System, the Recipient must submit a request for payment with adequate supporting documentation for FTA to determine that:
- 1 It has complied and is complying with the Underlying Agreement,

- 2 It has made and is making adequate progress toward completion of the Award, and
 - 3 It has satisfied FTA that the federal assistance requested is needed for the eligible purposes of the Award in that requisition period.
- (d) Reimbursement. After it has demonstrated satisfactory compliance with this section, FTA may reimburse the federal share of the Recipient's apparent allowable costs incurred or to be incurred in the requisition period if those apparent allowable costs are consistent with the Award Budget, and those apparent allowable costs do not exceed the maximum amount of federal assistance that may be paid through the federal fiscal year of that requisition.
- h. Safeguarding Federal Assistance. The Recipient agrees to deposit all federal assistance it receives in a financial institution and in an insured account whenever possible, and understands that FTA encourages it to use financial institutions owned at least fifty (50) percent by minority group members.
 - i. The Recipient's Duty to Pay Eligible Costs. When accompanied by appropriate documentation, the Recipient agrees to pay the eligible costs incurred that implement the Award when due, using federal assistance available provided for the Award and the non-federal share.
 - j. Effect of Federal Payments. The Recipient agrees that any federal payment made for a cost incurred that is supported by its Underlying Agreement does not constitute the Federal Government's final decision about the eligibility of the cost for payment with federal assistance provided through the Underlying Agreement, or a waiver of any violation of any federal law, regulation, requirement, or guidance, or the Underlying Agreement or this Master Agreement.
 - k. Revocation of Federal Assistance. The Federal Government may revoke the unexpended portion of federal assistance for the Award after the Award has been made and executed.
 - l. Final Cost Determination. The Recipient acknowledges that the Federal Government will not make a final determination about the eligibility of any cost until the audit of the Award and Underlying Agreement has been completed.
 - m. Closeout. The Recipient agrees that closeout of the Award will not alter:
 - (1) The Recipient's obligation to return any amounts it owes the Federal Government for later refunds, corrections, or other similar actions, and
 - (2) The Federal Government's right to disallow costs and recover federal assistance based on a later audit or other review.
 - n. Notification. If the Federal Government determines that the Recipient is not entitled to any portion of federal assistance paid, the Federal Government will notify the Recipient in writing.

- o. Recovery of Improper Payments. Unless prohibited by federal law or regulation, the Federal Government may recover any federal assistance necessary to satisfy any outstanding monetary claims it may have against the Recipient.
- p. Program Income. The Recipient agrees that it may use its program income derived from a Project receiving federal assistance through the Underlying Agreement as FTA permits. In determining the total amount of program income a Recipient has earned from its Project, those costs incident to earning program income that have not been charged to the Award may be deducted from the Recipient's gross income.
- (1) During the Period of Performance. The Recipient may use program income earned during the period of performance of the Underlying Agreement as follows:
- (a) The Recipient may retain the income for other capital or operating public transportation expenses. If the Recipient chooses not to use program income for current or future FTA Grants or Cooperative Agreements or for other purposes ineligible for federal participation, then the amount of program income used for purposes ineligible for federal participation will be deducted from the total allowable costs to determine the net allowable costs.
- (b) For each Public Transportation Innovation, Technical Assistance or Workforce Development Project or related activities, the Recipient may add to the Award.
- (c) The Recipient may use the program income for the non-federal share for a future public transportation Project that will receive federal assistance provided by FTA.
- (2) After the Award Period. Except as otherwise determined in writing, the Recipient has no obligation to the Federal Government regarding the disposition of program income earned after the end of the period of performance of the Award (*i.e.*, after the ending date of the final Federal Financial Report).
- q. Profits. The Recipient and Subrecipient may earn or keep the profits it may derive as a result of an Award, but the Recipient agrees that any such profits must be used in a manner consistent with the provisions of this Master Agreement or applicable federal guidance.
- r. Excess Payments, Disallowed Costs, Refunds, Claims, Debts, Interest, Penalties, Administrative Charges, and Other Amounts Owed to the Federal Government.
- (1) The Recipient's Responsibility to Pay. The Recipient agrees that after receiving notice of specific amounts due, it will pay the amount it owes the Federal Government for:
- (a) Excess federal payments for disallowed costs,
- (b) Refunds due and amounts recovered from third parties or other sources,
- (c) Federal claims or debts,
- (d) Interest assessed,
- (e) Penalties,
- (f) Administrative charges, or
- (g) Other amounts it owes the Federal Government.
- (2) Amount of Interest Due. The amount of interest to be assessed depends on the procedures used to pursue payment:
- (a) The Debt Collection Act. When the Federal Government uses the procedures of the Debt Collection Act of 1982, as amended, 31 U.S.C. § 3701 *et seq.*, to collect claims or debts owed by the Recipient for any reason authorized under that Act

(including excess payments and disallowed costs), the Recipient agrees that the amount of interest it will owe will be determined by the Joint U.S. Treasury and U.S. DOJ regulations, "Standards for the Administrative Collection of Claims," 31 C.F.R. part 900, specifically 31 C.F.R. § 901.9(a) – (g), or common law interest authorized by 31 C.F.R. § 901.9(i), as the Federal Government determines.

- (b) Other Collection Processes. When the Federal Government uses methods or procedures other than those described in 31 U.S.C. § 3701 *et seq.* to recover money(ies) the Recipient owes the Federal Government, the Recipient agrees that common law interest will be due as authorized by Joint U.S. Treasury and U.S. DOJ regulations, "Standards for the Administrative Collection of Claims," 31 C.F.R. § 901.9(i), but interest for premature withdrawals of federal assistance by states or state instrumentalities will be calculated as required under Section 5(b) of the Cash Management Improvement Act of 1990, as amended, 31 U.S.C. § 6503(b), and U.S. Treasury regulations, "Rules and Procedures for Efficient Federal-State Funds Transfers," 31 C.F.R. part 205.
- s. De-obligation of Federal Assistance. The Recipient agrees that the Federal Government may de-obligate federal assistance the Recipient has not spent both before and after closeout of the Award.

Section 8. Records and Reports Related to the Award and the Underlying Agreement.

- a. Records. The Recipient agrees to maintain satisfactory records of each Project and activities related in whole or in part to its Award, the accompanying Underlying Agreement, and any Amendments thereto to the extent FTA requires, including, but not limited to:
- (1) Financial Records. Accurate financial records in its account for its Award, the accompanying Underlying Agreement, and any Amendments thereto, including, but not limited to, records of:
- (a) Assets Received that Implement the Award. The amount of all assets it receives to implement its Award, the accompanying Underlying Agreement, and any Amendments thereto including, but not limited to all federal assistance or the value of any property the Federal Government provides that implement its Award, the accompanying Underlying Agreement, and any Amendments thereto, and all other funds and the value of any property or services it has received from sources other than the Federal Government provided for, accruing to, or otherwise received on account of its Award, the accompanying Underlying Agreement, and any Amendments thereto.
- (b) Costs Incurred that Implement the Award. Information about the costs incurred to implement its Award, the accompanying Underlying Agreement, and any Amendments thereto, including all costs incurred for the eligible property or services, detailed descriptions of the type of property or services acquired, including, but not limited, to properly executed payrolls, time records, invoices, contracts, vouchers, and other appropriate records, and detailed justifications for those costs.

- (c) Program Income. All program income derived from the use of Project property, except income FTA determines to be exempt from federal program income record requirements.
 - (2) Other Records Needed for Reports Related to the Award. Sufficient records as needed to prepare adequate reports related to the Award that it must submit to the Federal Government.
 - (3) Formats. Formats for records must be satisfactory to FTA and include, but are not limited to, electronic records, including any e-mails related to the Award, records on paper, and records created in other formats.
 - (4) Availability of Records Related to the Award. Accessibility for review and separation from other records not related to the Award to the extent feasible must be maintained.
- b. Reports. The Recipient agrees to provide to FTA, and others if FTA so directs, all reports related in whole or in part required by applicable federal laws, regulations, requirements, the Underlying Agreement, or at FTA's express direction in the number and format as FTA specifies.
- c. National Transit Database. For each fiscal year the Recipient receives or provides to any public transportation operator federal assistance appropriated or made available for 49 U.S.C. § 5307 or any provision of 49 U.S.C. § 5311 (including the Tribal Transit Program):
 - (1) Reporting Requirements. The Recipient agrees to and assures that it will require the public transportation operators participating in its Award, the accompanying Underlying Agreement, and any Amendments thereto:
 - (a) To facilitate compliance with 49 U.S.C. § 5335(a), which authorizes the National Transit Database (NTD),
 - (b) To conform to the NTD reporting system and the Uniform System of Accounts and Records,
 - (c) To comply with FTA regulations, "Uniform System of Accounts and Records and Reporting System," 49 C.F.R. part 630,
 - (d) To report information relating to, and the condition of, its public transportation assets, as provided in FTA regulations, "Transit Asset Management; National Transit Database," 49 C.F.R. parts 625 and 630,
 - (e) To comply with any other applicable reporting regulations, and requirements, and
 - (f) To follow FTA guidance.
 - (2) Voluntary Compliance. FTA encourages any Recipient that is not required to provide information for the NTD, to provide that information voluntarily.
- d. U.S. OMB Special Reporting Requirements.
 - (1) Authority. U.S. OMB has issued regulatory guidance in 2 C.F.R. § 25.220 instructing federal agencies to include special "award terms" as authorized under federal laws, including:
 - (a) The Federal Funding Accountability and Transparency Act of 2006 (FFATA), Public Law No. 109-282, September 26, 2006,
 - (b) Section 6202 of the Department of Defense Appropriations Act for Fiscal Year 2008, Public Law No. 110-252, June 30, 2008, which amended the FFATA, and

- (c) Section 872 of the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Public Law No. 110-417, October 14, 2008, which further amended the FFATA.
- (2) Universal Identifier and System for Award Management (SAM). The Recipient agrees to comply with the award terms in U.S. OMB regulatory guidance, "Universal Identifier and System for Award Management (SAM)," 2 C.F.R. part 25, appendix A, which FTA has included in this Master Agreement at the direction of U.S. OMB:
- (a) Requirements for the System for Award Management (SAM). Unless exempted from SAM as provided in 2 C.F.R. § 25.110, the Recipient agrees to:
- 1 Maintain the currency of its information in SAM until the later of the date it submits its final financial report required under this Master Agreement, or date it receives its final federal payment for the Underlying Agreement, and
 - 2 Review and update its information in SAM at least annually after the initial registration, and more frequently if required by changes in its information, another provision of an applicable federal or federally assisted agreement, or an applicable federal law or regulation, or U.S. OMB regulatory guidance.
- (b) Requirement for a Unique Entity Identifier [Currently, the Data Universal Numbering System (DUNS) Number for SAM]. If the Award includes federal assistance intended to support subawards, the Recipient agrees to notify each potential Subrecipient and other entity participating in the Award that:
- 1 The potential Subrecipient or entity must provide its unique entity identifier for SAM [*currently, its DUNS number*] to the Recipient,
 - 2 The Recipient may not make any subaward to any potential Subrecipient or entity unless that Subrecipient or entity has provided its unique entity identifier for SAM [*currently, its DUNS number*] to the Recipient, and
 - 3 No Subrecipient or entity, as defined below in section 8.d(4) of this Master Agreement, may receive a subaward provided through the Underlying Agreement, unless that entity has provided its unique entity identifier for SAM [*currently, its DUNS number*] to the Recipient.
- (3) Reporting Subawards and Executive Compensation. The Recipient agrees to comply with the award terms in U.S. OMB regulatory guidance, "Reporting Subaward and Executive Compensation Information," 2 C.F.R. part 170, appendix A, which FTA has included in this Master Agreement at the direction of U.S. OMB:
- (4) Reporting of First-Tier Subawards. The Recipient agrees that when it takes an action that obligates \$25,000 or more in federal assistance for a subaward it must report each such action as provided below, but it need not report an obligation of \$25,000 or more in federal assistance, if the Recipient is exempt from U.S. OMB's Special Reporting Requirements as provided below.
- (a) Where and when to report. The Recipient agrees to report each obligating action described below to <http://www.fsrs.gov>, and the Recipient agrees to report subaward information no later than the end of the month after the month in which the obligation was made, (*for example, if the obligation was made on October 1, 2015, the obligation must be reported by no later than November 1, 2015*).
- (b) What to report. The Recipient agrees to report the requisite information about each obligating action required by the submission instructions posted at <http://www.usaspending.gov>.

- (c) Reporting Total Compensation of the Recipient's Executives. The Recipient agrees to report the total compensation for each of its five highest compensated executives for the preceding completed fiscal year if:
- 1 The total federal assistance authorized to date for the Underlying Agreement is \$25,000 or more, and
 - 2 In its preceding fiscal year, the Recipient:
 - a Received 80 percent or more of its annual gross revenues from federal assistance subject to the Transparency Act, as defined in 2 C.F.R. § 170.320 (and subawards) and/or federal procurement contracts (and subcontracts),
 - b Received \$25,000,000 or more in annual gross revenues from federal assistance subject to the Transparency Act, as defined in 2 C.F.R. § 170.320 (and subawards) and/or federal procurement contracts (and subcontracts), and
 - c The public does not have access to information about the compensation of the Recipient's executives through periodic reports filed under Section 13(a) of the Securities Exchange Act of 1934, 15 U.S.C. § 78m(a), Section 15(d) of the Securities Exchange Act of 1934, 15 U.S.C. § 78o(d), or Section 6104 of the Internal Revenue Code of 1986, 26 U.S.C. § 6104 (to determine if the public has access to the compensation information, see the U.S. Securities and Exchange Commission total compensation filings at <http://www.sec.gov/answers/execomp.htm>).
 - 3 The Recipient agrees to report executive total compensation described above as part of Recipient's registration profile at <http://www.sam.gov>, and by the end of the month after the month in which the Underlying Agreement is executed and annually thereafter.
 - 4 Reporting of Total Compensation of the Subrecipient's Executives. Unless exempt as provided below, the Recipient agrees to report the names and total compensation of each of its first-tier Subrecipient's five highest compensated executives for the Subrecipient's preceding completed fiscal year if:
 - a Received 80 percent or more of its annual gross revenues from federal assistance subject to the Transparency Act, as defined in 2 C.F.R. § 170.320 (and subawards) and/or federal procurement contracts (and subcontracts), and
 - b Received \$25,000,000 or more in annual gross revenues from federal assistance subject to the Transparency Act as defined in 2 C.F.R. § 170.320 (and subawards) and/or federal procurement contracts (and subcontracts),
 - c The public does not have access to information about the compensation of the Subrecipient's executives through periodic reports filed under Section 13(a) of the Securities Exchange Act of 1934, 15 U.S.C. § 78m(a), Section 15(d) of the Securities Exchange Act of 1934, 15 U.S.C. § 78o(d), or Section 6104 of the Internal Revenue Code of 1986, 26 U.S.C. § 6104 (to determine if the public has access to the compensation information, see the U.S. Securities and Exchange Commission total compensation filings at <http://www.sec.gov/answers/execino.htm>).

- 5 The Recipient agrees to report the Subrecipient's executives' total compensation described above to FTA and elsewhere as may be determined by the Federal Government, and by the end of the month following the month during which the Recipient makes the subaward (*for example, if a subaward is obligated on any date during the month of October of a given year, i.e., between October 1 and 31, the Recipient must report any required compensation information about the Subrecipient by November 30 of that year*).
- 6 Any Recipient that had gross income under \$300,000 from all sources in the previous tax year is exempt from those federal requirements to report subawards, and the total compensation of the five highest compensated executives of any Subrecipient.
- (5) Other Prospective U.S. OMB Reporting Guidance. U.S. OMB proposed regulatory guidance, "Recipient Integrity and Performance Matters," to be published in 2 C.F.R. part 35, contains a mandatory "award term" that would affect the Recipient's reporting requirements (*for more information, see 17 C.F.R. § 229.402(c)(2)*).
- e. Closeout. The Recipient agrees that closeout of its Award does not alter the record-keeping and reporting requirements of this section of this Master Agreement.

Section 9. Record Retention and Access to Sites of Performance.

- a. Types of Records. The Recipient agrees that it will retain, and will require its Third Party Participants to retain, complete and readily accessible records related in whole or in part to the Underlying Agreement, including, but not limited to, data, documents, reports, statistics, subagreements, leases, third party contracts, arrangements, other third party agreements of any type, and supporting materials related to those records.
- b. Retention Period. The Recipient agrees that it will comply with the record retention requirements in the applicable U.S. DOT Common Rule. Records pertaining to its Award, the accompanying Underlying Agreement, and any Amendments thereto must be retained from the day the Underlying Agreement was signed by the authorized FTA official through the course of the Award, the accompanying Underlying Agreement, and any Amendments thereto until three years after the Recipient has submitted its last or final expenditure report, and other pending matters are closed.
- c. Access to Recipient and Third Party Participant Records. The Recipient agrees and assures that each Subrecipient, if any, will agree to:
- (1) Provide, and require its Third Party Participants at each tier to provide, sufficient access to inspect and audit records and information related to its Award, the accompanying Underlying Agreement, and any Amendments thereto to the U.S. Secretary of Transportation or the Secretary's duly authorized representatives, to the Comptroller General of the United States, and the Comptroller General's duly authorized representatives, and to the Recipient and each of its Subrecipients,
 - (2) Permit those individuals listed above to inspect all work and materials related to its Award, and to audit any information related to its Award under the control of the

- Recipient or Third Party Participant within books, records, accounts, or other locations, and
- (3) Otherwise comply with 49 U.S.C. § 5325(g), and federal access to records requirements as set forth in the applicable U.S. DOT Common Rules.
- d. Access to the Sites of Performance. The Recipient agrees to permit, and to require its Third Party Participants to permit, FTA to have access to the sites of performance of its Award, the accompanying Underlying Agreement, and any Amendments thereto, and to make site visits as needed in compliance with the U.S. DOT Common Rules.
- e. Closeout. Closeout of the Award does not alter the record retention or access requirements of this section of this Master Agreement.

Section 10. Completion, Audit, Settlement, and Closeout.

- a. Completion. Within ninety (90) calendar days after completion or termination of the Award, the Recipient agrees to submit:
- (1) Its final Federal Financial Report, either electronically or on Federal Financial Report Standard Form 425 (SF-425),
 - (2) A certification of expenses incurred that implement its Award, the accompanying Underlying Agreement, and any Amendments thereto, and
 - (3) The necessary audit reports of its Award, the accompanying Underlying Agreement, and any Amendments thereto.
- b. Audit of the Recipient. Except as the Federal Government determines otherwise in writing, the Recipient agrees that:
- (1) Audits Required. It must obtain the following audits:
 - (a) Annual "Single Audit." A financial and compliance audit consistent with the requirements of the Single Audit Act Amendments of 1996, 31 U.S.C. § 7501 *et seq.*, and applicable U.S. DOT "Single Audit" requirements of 2 C.F.R. part 1201, which incorporate by reference 2 C.F.R. part 200, for each Award, the accompanying Underlying Agreement, and any Amendments to any Underlying Agreement, and
 - (b) Other Audits. Other audits the Federal Government may require.
 - (2) Auditing Standards. It must comply with the "Audit Requirements" of 2 C.F.R. part 200, subpart F, and conform to U.S. Government Accountability Office (U.S. GAO) "Government Auditing Standards" in the conduct of audits of its Award, the accompanying Underlying Agreement, and any Amendments thereto.
 - (3) Costs of Audits. The audit costs for the administration and management of the Award, the accompanying Underlying Agreement, and any Amendments to any Underlying Agreement are allowable to the extent authorized by the cost principles of 49 C.F.R. part 1201, which incorporate by reference 2 C.F.R. part 200.
- c. Amounts Owed to the Federal Government. The Recipient agrees to return to the Federal Government any excess federal payments it receives for disallowed costs, and the Federal Government's proportionate part of any amounts it recovers from third parties or other

sources, including refunds due and amounts recovered from third parties or other sources, interest assessed, penalties, and administrative charges.

- d. Closeout. The Recipient agrees that closeout of the Award occurs when FTA notifies the Recipient that the Award is closed, and approves the final federal payment, or acknowledges receipt of the proper refund. Closeout of the Award does not alter the Recipient's audit responsibilities and does not invalidate any continuing requirements of applicable federal law, regulations, or requirements, this Master Agreement or the Underlying Agreement.

Section 11. Right of the Federal Government to Terminate.

- a. Justification. After providing written notice to the Recipient, the Recipient agrees that the Federal Government may suspend, suspend then terminate, or terminate all or any part of the federal assistance for the Award if:
- (1) The Recipient has failed to make reasonable progress implementing the Award,
 - (2) The Federal Government determines that continuing to provide federal assistance to support the Award does not adequately serve the purposes of the law authorizing the Award, or
 - (3) The Recipient has violated the terms of the Underlying Agreement, especially if that violation would endanger substantial performance of the Underlying Agreement.
- b. Financial Implications. In general, termination of federal assistance for the Award will not invalidate obligations properly incurred before the termination date to the extent that the obligations cannot be canceled. The Federal Government may recover the federal assistance it has provided for the Award, including the federal assistance for obligations properly incurred before the termination date if it determines that the Recipient has misused its federal assistance by failing to make adequate progress, failing to make appropriate use of the Project property, or failing to comply with the Underlying Agreement, and require the Recipient to refund the entire amount or a lesser amount, as the Federal Government may determine including obligations properly incurred before the termination date.
- c. Expiration of the Period of Performance. Except for a Full Funding Grant Agreement, expiration of any period of performance established for the Award does not, by itself, constitute an expiration or termination of the Award; FTA may extend the period of performance to assure that each Formula Project or related activities and each Project or related activities funded with "no year" funds can receive FTA assistance to the extent FTA deems appropriate.

Section 12. Civil Rights.

- a. Civil Rights Requirements. The Recipient agrees that it must comply with applicable federal civil rights laws, regulations, and requirements, and follow applicable federal guidance, except as the Federal Government determines otherwise in writing. Therefore, unless a Recipient or a federal program, including the Tribal Transit Program or the Indian Tribe Recipient, is specifically exempted from a civil rights statute, FTA requires compliance with that civil rights statute, including compliance with equity in service.

- b. Nondiscrimination in Federal Public Transportation Programs. The Recipient agrees to, and assures that it and each Third Party Participant, will:
- (1) Prohibit discrimination on the basis of race, color, religion, national origin, sex (including gender identity), disability, or age.
 - (2) Prohibit the:
 - (a) Exclusion from participation in employment or a business opportunity for reasons identified in 49 U.S.C. § 5332,
 - (b) Denial of program benefits in employment or a business opportunity identified in 49 U.S.C. § 5332, or
 - (c) Discrimination identified in 49 U.S.C. § 5332, including discrimination in employment or a business opportunity identified in.
 - (3) Follow:
 - (a) The most recent edition of FTA Circular 4702.1, "Title VI Requirements and Guidelines for Federal Transit Administration Recipients," to the extent consistent with applicable federal laws, regulations, requirements, and guidance, and other applicable federal guidance that may be issued, but
 - (b) FTA does not require an Indian Tribe to comply with FTA program-specific guidelines for Title VI when administering its Underlying Agreement supported with federal assistance under the Tribal Transit Program.
- c. Nondiscrimination – Title VI of the Civil Rights Act. The Recipient agrees to, and assures that each Third Party Participant, will:
- (1) Prohibit discrimination on the basis of race, color, or national origin,
 - (2) Comply with:
 - (a) Title VI of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000d *et seq.*,
 - (b) U.S. DOT regulations, "Nondiscrimination in Federally-Assisted Programs of the Department of Transportation – Effectuation of Title VI of the Civil Rights Act of 1964," 49 C.F.R. part 21, and
 - (c) Federal transit law, specifically 49 U.S.C. § 5332, and
 - (3) Follow:
 - (a) The most recent edition of FTA Circular 4702.1, "Title VI Requirements and Guidelines for Federal Transit Administration Recipients," to the extent consistent with applicable federal laws, regulations, requirements, and guidance,
 - (b) U.S. DOJ, "Guidelines for the enforcement of Title VI, Civil Rights Act of 1964," 28 C.F.R. § 50.3, and
 - (c) All other applicable federal guidance that may be issued.
- d. Equal Employment Opportunity.
- (1) Federal Requirements and Guidance. The Recipient agrees to, and assures that each Third Party Participant will, prohibit, discrimination on the basis of race, color, religion, sex, sexual orientation, gender identity, or national origin, and:
 - (a) Comply with Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000e *et seq.*,
 - (b) Facilitate compliance with Executive Order No. 11246, "Equal Employment Opportunity" September 24, 1965, 42 U.S.C. § 2000e note, as amended by any

- later Executive Order that amends or supersedes it in part and is applicable to federal assistance programs,
- (c) Comply with federal transit law, specifically 49 U.S.C. § 5332, as provided in section 12 of this Master Agreement,
 - (d) FTA Circular 4704.1 "Equal Employment Opportunity (EEO) Requirements and Guidelines for Federal Transit Administration Recipients," and
 - (e) Follow other federal guidance pertaining to EEO laws, regulations, and requirements, and prohibitions against discrimination on the basis of disability,
- (2) Specifics. The Recipient agrees to, and assures that each Third Party Participant will:
- (a) Prohibited Discrimination. Ensure that applicants for employment are employed and employees are treated during employment without discrimination on the basis of their race, color, religion, national origin, disability, age, sexual orientation, gender identity, or status as a parent, as provided in Executive Order No. 11246 and by any later Executive Order that amends or supersedes it, and as specified by U.S. Department of Labor regulations,
 - (b) Affirmative Action. Take affirmative action that includes, but is not limited to:
 - 1 Recruitment advertising, recruitment, and employment,
 - 2 Rates of pay and other forms of compensation,
 - 3 Selection for training, including apprenticeship, and upgrading, and
 - 4 Transfers, demotions, layoffs, and terminations, but
 - (c) Indian Tribe. Recognize that Title VII of the Civil Rights Act of 1964, as amended, exempts Indian Tribes under the definition of "Employer," and
- (3) Equal Employment Opportunity Requirements for Construction Activities. Comply, when undertaking "construction" as recognized by the U.S. Department of Labor (U.S. DOL), with:
- (a) U.S. DOL regulations, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor," 41 C.F.R. chapter 60, and
 - (b) Executive Order No. 11246, "Equal Employment Opportunity in Federal Employment," September 24, 1965, 42 U.S.C. § 2000e note, as amended by any later Executive Order that amends or supersedes it, referenced in 42 U.S.C. § 2000e note.
- e. Disadvantaged Business Enterprise. To the extent authorized by applicable federal laws, regulations, or requirements, the Recipient agrees to facilitate, and assures that each Third Party Participant will facilitate, participation by small business concerns owned and controlled by socially and economically disadvantaged individuals, also referred to as "Disadvantaged Business Enterprises" (DBEs), in the Underlying Agreement as follows:
- (1) Statutory and Regulatory Requirements. The Recipient agrees to comply with:
 - (a) Section 1101(b) of the FAST Act, 23 U.S.C. § 101 note,
 - (b) U.S. DOT regulations, "Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs," 49 C.F.R. part 26, and
 - (c) Federal transit law, specifically 49 U.S.C. § 5332, as provided in section 12 of this Master Agreement.
 - (2) DBE Program Requirements. A Recipient that receives planning, capital and/or operating assistance and that will award prime third party contracts exceeding \$250,000

- in a federal fiscal year must have a DBE program that is approved by FTA and meets the requirements of 49 C.F.R. part 26.
- (3) Special Requirements for a Transit Vehicle Manufacturer (TVM). The Recipient agrees that:
- (a) TVM Certification. Each TVM, as a condition of being authorized to bid or propose on FTA-assisted transit vehicle procurements, must certify that it has complied with the requirements of 49 C.F.R. part 26, and
 - (b) Reporting TVM Awards. Within 30 days of any third party contract award for a vehicle purchase, the Recipient must submit to FTA the name of the TVM contractor and the total dollar value of the third party contract, and notify FTA that this information has been attached to FTA's electronic award management system. The Recipient must also submit additional notifications if options are exercised in subsequent years to ensure that the TVM is still in good standing.
- (4) Assurance. As required by 49 C.F.R. § 26.13(a):
- (a) Recipient Assurance. The Recipient agrees and assures that:
 - 1 It must not discriminate on the basis of race, color, national origin, or sex in the award and performance of any FTA or U.S. DOT-assisted contract, or in the administration of its DBE program or the requirements of 49 C.F.R. part 26,
 - 2 It must take all necessary and reasonable steps under 49 C.F.R. part 26 to ensure nondiscrimination in the award and administration of U.S. DOT-assisted contracts,
 - 3 Its DBE program, as required under 49 C.F.R. part 26 and as approved by U.S. DOT, is incorporated by reference and made part of the Underlying Agreement, and
 - 4 Implementation of its DBE program approved by U.S. DOT is a legal obligation and failure to carry out its terms shall be treated as a violation of this Master Agreement.
 - (b) Subrecipient/Third Party Contractor/Third Party Subcontractor Assurance. The Recipient agrees and assures that it will include the following assurance in each subagreement and third party contract it signs with a Subrecipient or Third Party Contractor and agrees to obtain the agreement of each of its Subrecipients, Third Party Contractors, and Third Party Subcontractors to include the following assurance in every subagreement and third party contract it signs:
 - 1 The Subrecipient, each Third Party Contractor, and each Third Party Subcontractor must not discriminate on the basis of race, color, national origin, or sex in the award and performance of any FTA or U.S. DOT-assisted subagreement, third party contract, and third party subcontract, as applicable, and the administration of its DBE program or the requirements of 49 C.F.R. part 26,
 - 2 The Subrecipient, each Third Party Contractor, and each Third Party Subcontractor must take all necessary and reasonable steps under 49 C.F.R. part 26 to ensure nondiscrimination in the award and administration of U.S. DOT-assisted subagreements, third party contracts, and third party subcontracts, as applicable,

- 2 For Indian Tribes, Titles II and III of the ADA apply, but Title I of the ADA does not apply because it exempts Indian Tribes from the definition of “employer,”
- (c) The Architectural Barriers Act of 1968, as amended, 42 U.S.C. § 4151 *et seq.*, which requires that buildings and public accommodations be accessible to individuals with disabilities,
 - (d) Federal transit law, specifically 49 U.S.C. § 5332, which now includes disability as a prohibited basis for discrimination, and
 - (e) Other applicable federal laws, regulations, and requirements pertaining to access for seniors or individuals with disabilities.
- (2) Federal regulations and guidance, including:
- (a) U.S. DOT regulations, “Transportation Services for Individuals with Disabilities (ADA),” 49 C.F.R. part 37,
 - (b) U.S. DOT regulations, “Nondiscrimination on the Basis of Disability in Programs and Activities Receiving or Benefiting from Federal Financial Assistance,” 49 C.F.R. part 27,
 - (c) Joint U.S. Architectural and Transportation Barriers Compliance Board (U.S. ATBCB) and U.S. DOT regulations, “Americans With Disabilities (ADA) Accessibility Specifications for Transportation Vehicles,” 36 C.F.R. part 1192 and 49 C.F.R. part 38,
 - (d) U.S. DOT regulations, “Transportation for Individuals with Disabilities: Passenger Vessels,” 49 C.F.R. part 39,
 - (e) U.S. DOJ regulations, “Nondiscrimination on the Basis of Disability in State and Local Government Services,” 28 C.F.R. part 35,
 - (f) U.S. DOJ regulations, “Nondiscrimination on the Basis of Disability by Public Accommodations and in Commercial Facilities,” 28 C.F.R. part 36,
 - (g) U.S. EEOC, “Regulations to Implement the Equal Employment Provisions of the Americans with Disabilities Act,” 29 C.F.R. part 1630,
 - (h) U.S. Federal Communications Commission regulations, “Telecommunications Relay Services and Related Customer Premises Equipment for Persons with Disabilities,” 47 C.F.R. part 64, Subpart F,
 - (i) U.S. ATBCB regulations, “Electronic and Information Technology Accessibility Standards,” 36 C.F.R. part 1194,
 - (j) FTA regulations, “Transportation for Elderly and Handicapped Persons,” 49 C.F.R. part 609,
 - (k) FTA Circular 4710.1, “Americans with Disabilities Act: Guidance,” and
 - (l) Other applicable federal civil rights and nondiscrimination regulations and guidance.
- i. Drug or Alcohol Abuse – Confidentiality and Other Civil Rights Protections. The Recipient agrees to comply with the confidentiality and civil rights protections of:
- (1) The Drug Abuse Office and Treatment Act of 1972, as amended, 21 U.S.C. § 1101 *et seq.*,
 - (2) The Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act of 1970, as amended, 42 U.S.C. § 4541 *et seq.*, and
 - (3) The Public Health Service Act, as amended, 42 U.S.C. §§ 290dd – 290dd-2.

- j. Access to Services for Persons with Limited English Proficiency. The Recipient agrees to promote accessibility of public transportation services to persons with limited understanding of English by following:
 - (1) Executive Order No. 13166, "Improving Access to Services for Persons with Limited English Proficiency," August 11, 2000, 42 U.S.C. § 2000d-1 note, and
 - (2) U.S. DOT Notice, "DOT Policy Guidance Concerning Recipients' Responsibilities to Limited English Proficiency (LEP) Persons," 70 *Fed. Reg.* 74087, December 14, 2005.
- k. Other Nondiscrimination Laws, Regulations, Requirements, and Guidance. The Recipient agrees to comply with other applicable federal nondiscrimination laws, regulations, and requirements, and follow federal guidance prohibiting discrimination.
- l. Remedies. Remedies for failure to comply with applicable federal Civil Rights laws, regulations, requirements, and guidance may be enforced as provided in those federal laws, regulations, or requirements.

Section 13. Planning.

- a. Standard Planning Provisions. The Recipient agrees to the following:
 - (1) Planning Requirements and Guidance. To assure that its Underlying Agreement is consistent with the Planning requirements that apply, the Recipient agrees to:
 - (a) Comply with the Metropolitan planning requirements of 49 U.S.C. § 5303, and joint FHWA and FTA regulations, "Planning and Assistance Standards" (for Metropolitan Transportation Planning and Programming), 23 C.F.R. part 450 and 49 C.F.R. part 613, to the extent those regulations are consistent with the metropolitan planning requirements of 49 U.S.C. § 5303,
 - (b) Comply with the statewide and nonmetropolitan planning requirements of 49 U.S.C. § 5304, and joint FHWA and FTA regulations, "Planning and Assistance Standards" (for statewide transportation planning and programming), 23 C.F.R. part 450 and 49 C.F.R. part 613, to the extent those regulations are consistent with the state planning requirements of 49 U.S.C. § 5304, and
 - (c) Follow any guidance FTA issues to implement requirements of 49 U.S.C. §§ 5303 and 5304.
 - (2) Participation of State or Local Governmental and Private Nonprofit Providers of Nonemergency Transportation. The Recipient agrees to comply with 49 U.S.C. § 5323(k) by assuring that it will, as feasible:
 - (a) Provide the opportunity to participate and coordinate with the Recipient in the design and the delivery of federally assisted transportation services, and be included in planning for the Recipient's federally assisted transportation services, and
 - (b) Make that opportunity available to federally-assisted state or local governmental agencies and nonprofit organizations that receive federal assistance for nonemergency transportation, but do not receive federal assistance for nonemergency transportation from U.S. DOT.

- b. **Tribal Transit Program Planning Provisions.** The Indian Tribe agrees that:
- (1) **Planning Requirements.** The federal assistance it receives for its Tribal Transit Program will be consistent with its documents, including any formal plan provided to FTA in support of the development and basis of its Award of federal assistance under the Tribal Transit Program, and are or will be coordinated with transportation service funded by other federal sources to the maximum extent feasible.
 - (2) **Participation of State or Local Governmental and Private Nonprofit Providers of Nonemergency Transportation.** The Recipient agrees to comply with 49 U.S.C. § 5323(k) by assuring that it will, as feasible:
 - (a) Provide the opportunity to participate and coordinate with the Recipient in the design and the delivery of federally assisted transportation services, and be included in planning for the Recipient's federally assisted transportation services, and
 - (b) Make that opportunity available to federally-assisted state or local governmental agencies and nonprofit organizations that receive federal assistance for nonemergency transportation, but do not receive federal assistance for nonemergency transportation from U.S. DOT.

Section 14. Private Enterprise.

- a. **Protections.** The Recipient agrees to protect the interests of private enterprise affected by federal public transportation programs by:
 - (1) Encouraging private enterprise to participate in the planning of public transportation and programs that provide public transportation, to the extent permitted under 49 U.S.C. § 5306, and
 - (2) Providing just compensation for the Project property it acquires, including the franchises of private providers of public transportation, as required under 49 U.S.C. § 5323(a)(1)(C).
- b. **Infrastructure Investment.** The Recipient agrees to follow the infrastructure investment recommendations of:
 - (1) Executive Order No. 12803, "Infrastructure Privatization," April 30, 1992, 31 U.S.C. § 501 note, and
 - (2) Executive Order No. 12893, "Principles for Federal Infrastructure Investments," January 26, 1994, 31 U.S.C. § 501 note.
- c. **Joint Development.** If joint development is involved, the Recipient agrees to follow the latest edition of FTA Circular 7050.1, "Federal Transit Administration Guidance on Joint Development."

Section 15. Preference for United States Products and Services.

Except as the Federal Government determines otherwise in writing, the Recipient agrees to comply with FTA's U.S. domestic preference requirements and follow federal guidance, including:

- a. Buy America. The domestic preference procurement requirements of 49 U.S.C. § 5323(j), and FTA regulations, "Buy America Requirements," 49 C.F.R. part 661, to the extent consistent with 49 U.S.C. § 5323(j),
- b. Cargo Preference. Preference – Use of United States-Flag Vessels. The shipping requirements of 46 U.S.C. § 55305, and U.S. Maritime Administration regulations, "Cargo Preference – U.S.-Flag Vessels," 46 C.F.R. part 381, and
- c. Fly America. The air transportation requirements of Section 5 of the International Air Transportation Fair Competitive Practices Act of 1974, as amended, 49 U.S.C. § 40118, and U.S. General Services Administration (U.S. GSA) regulations, "Use of United States Flag Air Carriers," 41 C.F.R. §§ 301-10.131 – 301-10.143.

Section 16. Procurement.

- a. Federal Laws, Regulations, Requirements, and Guidance. The Recipient agrees:
 - (1) To comply with the requirements of 49 U.S.C. chapter 53 and other applicable federal laws, regulations, and requirements in effect now or later that affect its third party procurements,
 - (2) To comply with the applicable U.S. DOT Common Rules, and
 - (3) To follow the most recent edition and any revisions of FTA Circular 4220.1, "Third Party Contracting Guidance," to the extent consistent with applicable federal laws, regulations, requirements, and guidance.
- b. Full and Open Competition. The Recipient agrees to conduct all of its third party procurements using full and open competition as provided in 49 U.S.C. § 5325(a), and as determined by FTA.
- c. Exclusionary or Discriminatory Specifications. The Recipient agrees that it will not use any federal assistance under 49 U.S.C. chapter 53 for any procurement based on exclusionary or discriminatory specifications, as provided in 49 U.S.C. § 5325(h), unless authorized by other applicable federal laws, regulations, or requirements.
- d. Required Clauses in Third Party Contracts. In addition to other applicable provisions of federal law, regulations, requirements, and guidance, all third party contracts made by the Recipient under the Federal award must contain provisions covering the following, as applicable:
 - (1) Contracts for more than the simplified acquisition threshold currently set at \$150,000, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized by 41 U.S.C. § 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.
 - (2) All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be effected and the basis for settlement.

- (3) Equal Employment Opportunity. Except as otherwise provided under 41 C.F.R. part 60, all contracts that meet the definition of “federally assisted construction contract” in 41 C.F.R. part 60-1.3 must include the equal opportunity clause provided under 41 C.F.R. § 60-1.4(b), in accordance with Executive Order No. 11246, “Equal Employment Opportunity” (30 FR 12319, 12935, 3 C.F.R. part 1964-1965 Comp., p. 339), as amended by Executive Order No. 11375, “Amending Executive Order No. 11246 Relating to Equal Employment Opportunity,” and implementing regulations at 41 C.F.R. part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”
- (4) Davis-Bacon Act, as amended (40 U.S.C. §§ 3141 – 3148). When required by Federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-Federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. §§ 3141 - 3144, and 3146 – 3148) as supplemented by Department of Labor regulations (29 C.F.R. part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-Federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency. The contracts must also include a provision for compliance with the Copeland “Anti-Kickback” Act (40 U.S.C. § 3145), as supplemented by Department of Labor regulations (29 C.F.R. part 3, “Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States”). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency.
- (5) Contract Work Hours and Safety Standards Act (40 U.S.C. §§ 3701 – 3708). Where applicable, all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. §§ 3702 and 3704, as supplemented by Department of Labor regulations (29 C.F.R. part 5). Under 40 U.S.C. § 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. § 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.

- (6) Rights to Inventions Made Under a Contract or Agreement. If the Federal award meets the definition of “funding agreement” under 37 C.F.R. § 401.2(a) and the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement,” the recipient or subrecipient must comply with the requirements of 37 C.F.R. part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements,” and any implementing regulations issued by the awarding agency.
- (7) Clean Air Act (42 U.S.C. §§ 7401 – 7671q.) and the Federal Water Pollution Control Act (33 U.S.C. §§ 1251 – 1387), as amended—Contracts and subgrants of amounts in excess of \$150,000 must contain a provision that requires the non-Federal award to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. §§ 7401 – 7671q) and the Federal Water Pollution Control Act as amended (33 U.S.C. §§ 1251 – 1387). Violations must be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).
- (8) Debarment and Suspension (Executive Orders Nos. 12549 and 12689)—A contract award (see 2 C.F.R. § 180.220) must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 C.F.R. § 180 that implement Executive Orders Nos. 12549 (3 C.F.R. part 1986 Comp., p. 189) and 12689 (3 C.F.R. part 1989 Comp., p. 235), “Debarment and Suspension.” SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order No. 12549.
- (9) Byrd Anti-Lobbying Amendment (31 U.S.C. § 1352)—Contractors that apply or bid for an award exceeding \$100,000 must file the required certification. Each tier certifies to the tier above that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. § 1352. Each tier must also disclose any lobbying with non-Federal funds that takes place in connection with obtaining any Federal award. Such disclosures are forwarded from tier to tier up to the non-Federal award.
- (10) A Recipient that is a state agency or agency of a political subdivision of a state and its contractors must comply with section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act. The requirements of Section 6002 include procuring only items designated in guidelines of the Environmental Protection Agency (EPA) at 40 C.F.R. part 247 that contain the highest percentage of recovered materials practicable, consistent with maintaining a satisfactory level of competition, where the purchase price of the item exceeds \$10,000 or the value of the quantity acquired during the preceding fiscal year exceeded \$10,000; procuring solid waste management services in a manner that maximizes energy and resource recovery; and

establishing an affirmative procurement program for procurement of recovered materials identified in the EPA guidelines.

- e. Geographic Restrictions. The Recipient agrees that it will not use any state or local geographic preference, except as permitted by federal law, regulation, requirement, or guidance.
- f. In-State Bus Dealer Restrictions. The Recipient agrees that any state law requiring buses to be purchased through in-state dealers will not apply to purchases of vehicles supported with federal assistance appropriated or made available for 49 U.S.C. chapter 53, as provided in 49 U.S.C. § 5325(i).
- g. Organizational Conflict of Interest. The Recipient agrees that it will not enter into a procurement that involves a real or apparent organizational conflict of interest.
- h. Project Labor Agreements. As a condition of third party contract award, the Recipient may require the Third Party Contractor or Subcontractor to have an affiliation with a labor organization, such as a Project Labor Agreement, consistent with Executive Order No. 13502, "Use of Project Labor Agreements for Federal Construction Projects," February 6, 2009, 41 U.S.C. chapter 39, Refs. & Annos.
- i. Force Account. The Recipient agrees that FTA may determine the extent to which federal assistance may be used to participate in force account costs.
- j. FTA Technical Review. The Recipient agrees that FTA may review and approve the Recipient's technical specifications and requirements to the extent FTA believes necessary to ensure proper administration of the Underlying Agreement.
- k. Relationship of the Award to Third Party Contract Approval. The Recipient agrees that the terms of the Underlying Agreement do not, by themselves, constitute approval of any non-competitive third party contract associated with the Award, unless FTA indicates otherwise in writing.
- l. National Intelligent Transportation Systems Architecture and Standards. The Recipient agrees to conform to the National Intelligent Transportation Systems (ITS) Architecture requirements of 23 U.S.C. § 517(d), unless it obtains an exemption from those requirements, and follow FTA Notice, "FTA National ITS Architecture Policy on Transit Projects," 66 *Fed. Reg.* 1455, January 8, 2001, and all other applicable federal guidance.
- m. Rolling Stock. The Recipient agrees that any procurement for rolling stock will comply with 49 U.S.C. § 5325 (Contract Requirements), 49 U.S.C. § 5323(j) (Buy America Requirements), 49 U.S.C. § 5323(m) (Pre-Award and Post Delivery Requirements), and 49 U.S.C. § 5318(e) (Bus Testing Requirements), and their implementing regulations.
- n. Bonding. The Recipient agrees to comply with the following bonding requirements and restrictions as provided in federal regulations and guidance:

- (1) Construction. As provided in federal regulations and modified by FTA guidance, for each Project or related activities implementing the Underlying Agreement that involve construction, it will provide bid guarantee bonds, contract performance bonds, and payment bonds.
 - (2) Activities Not Involving Construction. For each Project or related activities implementing the Underlying Agreement not involving construction, the Recipient will not impose excessive bonding and will follow FTA guidance.
- o. Architectural Engineering and Related Services. When procuring architectural engineering or related services supported with federal assistance appropriated or made available for 49 U.S.C. chapter 53 or provided in any other law requiring the Award to be administered under 49 U.S.C. chapter 53, the Recipient agrees that it will comply and assures that each of its Subrecipients will comply with 49 U.S.C. § 5325(b).
 - p. Design-Build Projects. As provided in 49 U.S.C. § 5325(d), the Recipient may use a design-build procurement to carry out its Design-Build Project, provided that it complies with applicable federal laws, regulations, and requirements, and follows federal guidance.
 - q. Award to Other than the Lowest Bidder. As permitted under 49 U.S.C. § 5325(c), the Recipient may award a third party contract to other than the lowest bidder, if that award furthers an objective (for example, improved long-term operating efficiency and lower long-term costs) consistent with the purposes of 49 U.S.C. chapter 53 and any implementing federal regulations, requirements, or guidance that FTA may issue.
 - r. Award to Responsible Third Party Contractors. The Recipient agrees that it will award third party contracts only to contractors able to carry out the procurement successfully, as provided in 49 U.S.C. § 5325(j), and before awarding a third party contract, it will consider the proposed contractor's integrity, compliance with public policy, past performance, and financial and technical resources.
 - s. Access to Third Party Contract Records. The Recipient agrees to require, and assures that each of its Subrecipients will require, its Third Party Contractors at each tier to provide:
 - (1) The U.S. Secretary of Transportation and the Comptroller General of the United States, the state, or their duly authorized representatives, access to all third party contract records (at any tier) as required under 49 U.S.C. § 5325(g), and
 - (2) Sufficient access to all third party contract records (at any tier) as needed for compliance with applicable federal laws, regulations, and requirements or to assure proper management of Underlying Agreement as determined by FTA.
 - t. Electronic and Information Technology. The Recipient agrees that reports or information it provides to or on behalf of the Federal Government will use electronic or information technology that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 794d, and U.S. ATBCB regulations, "Electronic and Information Technology Accessibility Standards," 36 C.F.R. part 1194.

- u. Veterans Preference. As provided in 49 U.S.C. § 5325(k), to the extent practicable, the Recipient agrees and assures that each of its Subrecipients:
 - (1) Will give a hiring preference to veterans, as defined in 5 U.S.C. § 2108, who have the skills and abilities required to perform construction work required under a third party contract in connection with a Capital Project supported with federal assistance appropriated or made available for 49 U.S.C. chapter 53, and
 - (2) Will not require an employer to give a preference to any veteran over any equally qualified applicant who is a member of any racial or ethnic minority, female, an individual with a disability, or a former employee.
- v. Acquisition by Lease. The Recipient agrees that if it intends to acquire Project property through a lease it will comply, as applicable, with 49 U.S.C. chapter 53 and section 3019 of the FAST Act, and FTA regulations, "Capital Leases," 49 C.F.R. part 639 to the extent those regulations are consistent with federal laws.

Section 17. Patent Rights.

- a. General. The Recipient agrees that:
 - (1) Depending on the nature of the Underlying Agreement, the Federal Government may acquire patent rights when the Recipient or Third Party Participant produces a patented or patentable invention, improvement, or discovery,
 - (2) The Federal Government's rights arise when the patent or patentable information is conceived or reduced to practice with federal assistance provided through the Underlying Agreement, or
 - (3) When a patent is issued or patented information becomes available as described in the preceding section 17.a(2) of this Master Agreement, the Recipient will notify FTA immediately, and provide a detailed report satisfactory to FTA.
- b. Federal Rights. The Recipient agrees that:
 - (1) Its rights and responsibilities, and each Third Party Participant's rights and responsibilities, in that federally assisted invention, improvement, or discovery will be determined as provided in applicable federal laws, regulations, requirements, and guidance, including any waiver thereof, and
 - (2) Unless the Federal Government determines otherwise in writing, irrespective of its status or the status of any Third Party Participant as a large business, small business, state government, state instrumentality, local government, Indian tribe, nonprofit organization, institution of higher education, or individual, the Recipient will transmit the Federal Government's patent rights to FTA, as specified in 35 U.S.C. § 200 *et seq.*, and U.S. Department of Commerce regulations, "Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements," 37 C.F.R. part 401.
- c. License Fees and Royalties. Consistent with the applicable U.S. DOT Common Rules, the Recipient agrees that license fees and royalties for patents, patent applications, and inventions produced with federal assistance provided through the Underlying Agreement are program income, and must be used in compliance with applicable federal requirements.

Section 18. Rights in Data and Copyrights.

- a. Definition of "Subject Data." As used in this section, "subject data" means recorded information whether or not copyrighted, and that is delivered or specified to be delivered as required by the Underlying Agreement. Examples of "subject data" include, but are not limited to computer software, standards, specifications, engineering drawings and associated lists, process sheets, manuals, technical reports, catalog item identifications, and related information, but do not include financial reports, cost analyses, or other similar information used for performance or administration of the Underlying Agreement.
- b. General Federal Restrictions. The following restrictions apply to all subject data first produced in the performance of the Underlying Agreement:
- (1) Prohibitions. The Recipient may not publish or reproduce any subject data, in whole, in part, or in any manner or form, or permit others to do so.
 - (2) Exceptions. The prohibitions do not apply to publications or reproductions for the Recipient's own internal use, an institution of higher learning, the portion of subject data that the Federal Government has previously released or approved for release to the public, or the portion of data that has the Federal Government's prior written consent for release.
- c. Federal Rights in Data and Copyrights. The Recipient agrees that:
- (1) General. It must provide a license to its "subject data" to the Federal Government that is royalty-free, non-exclusive, and irrevocable. The Federal Government's license must permit the Federal Government to reproduce, publish, or otherwise use the subject data or permit other entities or individuals to use the subject data provided those actions are taken for Federal Government purposes, and
 - (2) U.S. DOT Public Access Plan – Copyright License. The Recipient grants to U.S. DOT a worldwide, non-exclusive, non-transferable, paid-up, royalty-free copyright license, including all rights under copyright, to any and all Publications and Digital Data Sets as such terms are defined in the U.S. DOT Public Access plan, resulting from scientific research funded either fully or partially by this funding agreement. The Recipient herein acknowledges that the above copyright license grant is first in time to any and all other grants of a copyright license to such Publications and/or Digital Data Sets, and that U.S. DOT shall have priority over any other claim of exclusive copyright to the same.
- d. Special Federal Rights in Data for Research, Development, Demonstration, Deployment, Technical Assistance, and Special Studies Programs. In general, FTA's purpose in providing federal assistance for a research, development, demonstration, deployment, technical assistance, or special studies program is to increase transportation knowledge, rather than limit the benefits of the Award to the Recipient and its Third Party Participants. Therefore, the Recipient agrees that:
- (1) Publicly Available Report. When an Award providing federal assistance for any of the programs described above is completed, it must provide a report of the Underlying Agreement that FTA may publish or make available for publication on the Internet.

- (2) Other Reports. It must provide other reports related to the Award that FTA may request.
 - (3) Availability of Subject Data. FTA may make available its copyright license to the subject data, and a copy of the subject data to any FTA Recipient or any Third Party Participant at any tier, except as the Federal Government determines otherwise in writing.
 - (4) Identification of Information. It must identify clearly any specific confidential, privileged, or proprietary information submitted to FTA.
 - (5) Incomplete. If the Award is not completed for any reason whatsoever, all data developed with federal assistance for the Award becomes "subject data" and must be delivered as the Federal Government may direct.
 - (6) Exception. This section does not apply to an adaptation of any automatic data processing equipment or program that is both for the Recipient's use, and acquired with FTA capital program assistance.
- e. License Fees and Royalties. Consistent with the applicable U.S. DOT Common Rules, the Recipient agrees that license fees and royalties for patents, patent applications, and inventions produced with federal assistance provided through the Underlying Agreement are program income, and must be used in compliance with federal applicable requirements.
 - f. Hold Harmless. Upon request by the Federal Government, the Recipient agrees that if it intentionally violates any proprietary rights, copyrights, or right of privacy, and if its violation under the preceding section occurs from any of the publication, translation, reproduction, delivery, use or disposition of subject data, then it will indemnify, save, and hold harmless against any liability, including costs and expenses of the Federal Government's officers, employees, and agents acting within the scope of their official duties. The Recipient will not be required to indemnify the Federal Government for any liability described in the preceding sentence, if the violation is caused by the wrongful acts of federal officers, employees or agents, or if indemnification is prohibited or limited by applicable state law.
 - g. Restrictions on Access to Patent Rights. Nothing in this section of this Master Agreement pertaining to rights in data either implies a license to the Federal Government under any patent, or may be construed to affect the scope of any license or other right otherwise granted to the Federal Government under any patent.
 - h. Data Developed Without Federal Assistance or Support. The Recipient agrees that in certain circumstances it may need to provide to FTA data developed without any federal assistance or support. Nevertheless, this section generally does not apply to data developed without federal assistance, even though that data may have been used in connection with the Award. The Recipient agrees that the Federal Government will not be able to protect data developed without federal assistance from unauthorized disclosure unless that data is clearly marked "Proprietary," or "Confidential."

- i. Requirements to Release Data. The Recipient understands and agrees that the Federal Government may be required to release data and information the Recipient submits to the Federal Government as required under:
- (1) The Freedom of Information Act (FOIA), 5 U.S.C. § 552,
 - (2) The U.S. DOT Common Rules,
 - (3) U.S. DOT Public Access Plan, which provides that the Recipient agrees to satisfy the reporting and compliance requirements as set forth in the U.S. DOT Public Access plan, including, but not limited to, the submission and approval of a Data Management Plan, the use of Open Researcher and Contributor ID (ORCID) numbers, the creation and maintenance of a Research Project record in the Transportation Research Board's (TRB) Research in Progress (RiP) database, and the timely and complete submission of all required publications and associated digital data sets as such terms are defined in the DOT Public Access plan. Additional information about how to comply with the requirements can be found at: <http://ntl.bts.gov/publicaccess/howtocomply.html>, or
 - (4) Other federal laws, regulations, requirements, and guidance concerning access to records pertaining to the Award, the accompanying Underlying Agreement, and any Amendments thereto.

Section 19. Use of Real Property, Equipment, and Supplies.

- a. Federal Interest. The Recipient agrees that the Federal Government retains a federal interest in all real property, equipment, and supplies acquired or improved for use in connection with a Project (Project property) until, and to the extent that, the Federal Government removes its federal interest.
- b. FTA Requirements and Guidance for Use of Project Property. The Recipient agrees that:
- (1) Satisfactory Continuing Control. It will maintain continuing control of the use of its Project property as satisfactory to FTA, which is defined as the legal assurance that Project property will remain available to be used for its originally authorized purpose throughout its useful life or until disposition.
 - (2) Appropriate Use. It will use its Project property for appropriate purposes (including joint development purposes as well as uses that provide program income to support public transportation) for the duration of the useful life of its Project property, which may extend beyond the duration of the Award, and consistent with other requirements FTA may impose.
 - (3) Delay or Failure to Use Project Property. The Federal Government may require it to return the entire amount of federal assistance spent on its Project property if, during the useful life of its Project property, it has unreasonably delayed using its Project property, or failed to use its Project property.
 - (4) Notification. It will notify FTA immediately when it uses any of its Project property in a manner substantially different from the representations in its Application or other documents submitted in support of the Award, or the requirements of the accompanying Underlying Agreement, or it withdraws any of its Project property from appropriate use.
 - (5) FTA Guidance. It will consult FTA guidance through its circulars or other written documents for ways in which FTA property requirements should be implemented. FTA guidance will apply unless FTA determines otherwise in writing.

- c. General Federal Requirements. The Recipient agrees to comply with the applicable U.S. DOT property management provisions contained in the U.S. DOT Common Rules and this Master Agreement. The Recipient also agrees that it will follow FTA's reimbursement provisions pertaining to premature dispositions of certain equipment, as provided in this Master Agreement and FTA guidance.
- d. Maintenance. As provided in federal laws, regulations, and requirements, and as provided in federal guidance, the Recipient agrees to maintain its Project property in good operating order, and comply with FTA regulations, "Transit Asset Management; National Transit Database," 49 C.F.R. parts 625 and 630.
- e. Property Records. The Recipient agrees that it will keep satisfactory records of its use of its project property, and, upon request, it will provide FTA the necessary information required to assure compliance with this Master Agreement.
- f. Incidental Use.
- (1) The Recipient agrees that any incidental use of Project property will not exceed what is permitted under applicable federal requirements and federal guidance.
 - (2) As provided in 49 U.S.C. § 5323(p), it may permit nontransit public entities and private entities to have incidental use of its federally assisted alternative fueling facilities and equipment, only if:
 - (a) The incidental use does not interfere with public transportation operations or violate the provisions of the Underlying Agreement and any Amendments thereto,
 - (b) It fully recaptures all the costs related to the incidental use from any nontransit public entity or private entity that uses the alternative fueling facilities or equipment,
 - (c) It uses revenues it receives from the incidental use in excess of costs for planning, capital, and operating expenses that are incurred in providing public transportation, and
 - (d) Private entities pay all applicable excise taxes on fuel.
- g. Reasonable Access for Private Intercity or Charter Transportation Operators. The Recipient agrees that it must comply with 49 U.S.C. § 5323(r), and may not deny reasonable access for a private intercity or charter transportation operator to federally funded public transportation facilities, including intermodal facilities, park and ride lots, and bus-only highway lanes. In determining reasonable access, capacity requirements of the Recipient of assistance and the extent to which access would be detrimental to existing public transportation services must be considered.
- h. Encumbrance of Project Property. Absent the express consent of the Federal Government in writing, the Recipient agrees to preserve the federal interest in its Project property, and to maintain satisfactory continuing control of its Project property as follows:
- (1) Written Transactions. The Recipient agrees that it will not execute any documents that would either adversely affect the federal interest in or impair its continuing control of the use of its Project property including, but not limited to, lease, transfer of title, lien,

- pledge, mortgage, encumbrance, third party contract, subagreement, grant anticipation note, alienation, innovative finance arrangements, such as a cross-border or leveraged lease, or other types of innovative financing arrangements, or any restriction, constraint, or commitment that may apply to the Project property. Upon request, the Recipient will provide a copy of any document described above to FTA.
- (2) Oral Transactions. The Recipient agrees it will not obligate itself in any way through an oral statement to any third party with respect to its Project property that would either adversely affect the federal interest in or impair its continuing control of the use of its Project property.
- (3) Other Actions. The Recipient agrees that it will not take any other action that would either adversely affect the federal interest in or impair its continuing control of the use of its Project property.
- i. Useful Life of Project Property. The Recipient agrees that:
- (1) Determining the Useful Life. FTA may establish the useful life of Project property,
- (2) Required Use. It will use its Project property continuously and appropriately throughout the useful life of that property,
- (3) Expired Useful Life. When the useful life of its Project property has expired, it will comply with FTA's disposition requirements, and
- (4) Premature Withdrawal. The Federal Government retains a federal interest in the fair market value of Project property or remaining useful life in Project property calculated on the basis of straight line depreciation (including Project equipment acquired by a state). Therefore, if the Recipient withdraws that property from public transportation use prematurely, it will notify FTA immediately when any of its Project property is prematurely withdrawn from appropriate use, whether by planned withdrawal, misuse, or casualty loss.
- (a) Amount of Federal Interest. The federal interest in the Recipient's or any of its Subrecipients' Project property will be determined on the basis of the ratio of the federal assistance provided for that property to the actual cost of that property.
- (b) Financial Commitments to the Federal Government. Except as otherwise approved in writing by the Federal Government, the Recipient agrees that if its Project property is prematurely withdrawn from appropriate use:
- 1 It will return an amount equal to the remaining federal interest in the withdrawn property to the Federal Government, or
 - 2 With FTA approval, it will invest an amount equal to the remaining federal interest in the withdrawn property in other transit property eligible for federal assistance provided through the Underlying Agreement.
- j. Calculating the Value of Prematurely Withdrawn Project Property. The Recipient agrees that the fair market value of Project property prematurely withdrawn from use in support of the Award (including the fair market value of project equipment acquired or improved by a state) will be calculated as follows:
- (1) Equipment and Supplies. The fair market value of project equipment or supplies will be calculated by straight-line depreciation, based on the useful life of that equipment or supplies as established or approved by FTA. The fair market value of the Project equipment and supplies withdrawn from proper use will be based on the value of that

- property immediately before it was withdrawn from appropriate use irrespective of whether the Project property was withdrawn from use due to fire, casualty, or natural disaster, and irrespective of the extent of insurance coverage.
- (2) Real Property. The Recipient agrees that the fair market value of Project real property shall be determined by:
- (a) Competent appraisal based on an appropriate date as approved by FTA, consistent with U.S. DOT regulations, "Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally-Assisted Programs," 49 C.F.R. part 24,
 - (b) Straight line depreciation of improvements to the Project real property coupled with the value of the land determined by FTA on the basis of appraisal, or
 - (c) Other applicable federal laws, regulations, and requirements.
- (3) Exceptional Circumstances. The Recipient agrees that the Federal Government may require another method of valuation to be used to determine the fair market value of Project real property withdrawn from service. In unusual circumstances, the Recipient may request permission to use another reasonable valuation method including, but not limited to accelerated depreciation, comparable sales, or established market values.
- k. Insurance Proceeds. The Recipient agrees to use any insurance proceeds it receives for Project property that has been damaged or destroyed (including insurance proceeds for Project equipment acquired or improved by a state) as follows:
- (1) Replacement. It may apply those insurance proceeds to the cost of replacing that damaged or destroyed property,
 - (2) Another Purpose. It may use those insurance proceeds for another authorized purpose, provided that it has obtained FTA's consent in writing, or
 - (3) Return to the Federal Government. It may return to the Federal Government an amount equal to the amount of the remaining federal interest in that property that has been damaged or destroyed.
- l. Misused or Damaged Project Property. If any damage to Project property results from abuse or misuse occurring with the Recipient's knowledge and consent, the Recipient agrees to restore the Project property that has been damaged to its original condition, or refund the value of the federal interest in its Project property (including the remaining federal interest in Project equipment acquired by a state), as the Federal Government may require.
- m. Disposition of Project Property. The Recipient agrees that disposition of its Project property may be made as provided in FTA's enabling legislation, 49 U.S.C. § 5334(h), U.S. DOT Common Rules, and the most recent edition of FTA Circular 5010.1, to the extent consistent with applicable federal laws, regulations, requirements, and guidance. The Recipient understands and agrees that under certain circumstances, the Recipient must obtain disposition instructions from FTA before disposing of Project property, including real property, equipment including rolling stock, and supplies.
- n. Responsibilities After Closeout. The Recipient agrees that closeout of the Award will not change the Recipient's property management responsibilities for its Project property as provided in federal laws, regulations, requirements, and guidance effective now or at a later date, and this section of the Master Agreement.

Section 20. Transit Asset Management.

- a. Transit Asset Management Plan. The Recipient agrees to develop a Transit Asset Management Plan that complies with federal transit laws, specifically 49 U.S.C. § 5326 and 5337(a)(4), FTA regulations, “Transit Asset Management; National Transit Database,” 49 C.F.R. parts 625 and 630, and other applicable federal laws, regulations, and requirements.
- b. When Compliance is Required. The Recipient agrees to, and assures that each Third Party Participant will comply with FTA regulations, “Transit Asset Management; National Transit Database,” 49 C.F.R. parts 625 and 630, and follow applicable federal guidance.

Section 21. Insurance.

- a. Flood Insurance. The Recipient agrees and assures that its third party participants will agree to comply with flood insurance laws and guidance as follows:
 - (1) It will have flood insurance as required by the Flood Disaster Protection Act of 1973, 42 U.S.C. § 4012a(a), for any building located in a special flood hazard area (100-year flood zone), before accessing federal assistance to acquire, construct, reconstruct, repair, or improve that building.
 - (2) Each such building and its contents will be covered by flood insurance in an amount at least equal to the federal investment (less estimated land cost) or to the maximum limit of coverage made available with respect to the particular type of property under the National Flood Insurance Act of 1968, 42 U.S.C. § 4001 *et seq.*, whichever is less.
 - (3) It will follow FTA guidance, except to the extent FTA determines otherwise in writing.
- b. Other Insurance Requirements. It will comply with the insurance requirements normally imposed by its state and local laws, regulations, and ordinances.

Section 22. Relocation and Real Property.

- a. Relocation Protections. Irrespective of whether federal assistance is used to pay relocation costs required under federal laws, regulations, or requirements, the Recipient agrees that it will:
 - (1) Provide fair and equitable treatment to displaced individuals and businesses that must be relocated as a result of any Project for which the FTA has provided federal assistance, and
 - (2) Comply with federal transit laws, specifically 49 U.S.C. § 5323(b), which requires compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, 42 U.S.C. § 4601 *et seq.*, and U.S. DOT regulations, “Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally-Assisted Programs,” 49 C.F.R. part 24.
- b. Nondiscrimination in Housing. The Recipient agrees that when it must provide housing for individuals as a result of relocation, it will comply with Title VIII of the Civil Rights Act

of 1968, as amended, 42 U.S.C. § 3601 *et seq.*, and facilitate and follow Executive Order No. 12892, "Leadership and Coordination of Fair Housing in Federal Programs: Affirmatively Furthering Fair Housing," January 17, 1994, 42 U.S.C. § 3608 note, except as the Federal Government determines otherwise in writing.

- c. Prohibition Against the Use of Lead-Based Paint. The Recipient agrees that if it constructs or rehabilitates residential structures on behalf of individuals displaced by its any Project, it will not use lead-based paint, and it will comply with Section 401(b) of the Lead-Based Paint Poisoning Prevention Act, 42 U.S.C. § 4831(b), and U.S. Housing and Urban Development regulations, "Lead-based Paint Poisoning Prevention in Certain Residential Structures," 24 C.F.R. part 35.
- d. Real Property Acquisition Protections. Irrespective of whether federal assistance is used to pay real property acquisition costs required to implement the Award, the Recipient agrees that it will provide fair and equitable treatment to owners of real property or interests in real property that must be acquired as a result of any Project, and comply with federal transit laws, specifically 49 U.S.C. § 5323(b), which requires compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, 42 U.S.C. § 4601 *et seq.*, and U.S. DOT regulations, "Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally-Assisted Programs," 49 C.F.R. part 24.
- e. Covenant Against Discrimination. The Recipient agrees to include a covenant in the title of the real property acquired for use in any Project that assures nondiscrimination during the useful life of that real property.
- f. Recording the Title to Real Property. The Recipient agrees to record the federal interest in the title to real property used in connection with any Project if FTA so requires.
- g. FTA Approval of Changes in Real Property Ownership. Unless it receives permission or instructions from FTA, the Recipient agrees that it will not dispose of, modify the use of, or change the title to real property used in any Project, or any other interests in the site and facilities used in any Project.

Section 23. Construction.

- a. Construction Plans and Specifications. The Recipient agrees to comply with all applicable statutes, regulations, and requirements, and follow FTA guidance in the development and implementation of construction plans and specifications, including drafting, review, and approval, for the Award.
- b. Seismic Safety. The Recipient agrees to comply with the Earthquake Hazards Reduction Act of 1977, as amended, 42 U.S.C. § 7701 *et seq.*, and U.S. DOT regulations, "Seismic Safety," 49 C.F.R. part 41, specifically, 49 C.F.R. § 41.117.

- c. Supervision of Construction. The Recipient agrees to maintain competent and adequate engineering supervision at the construction site of any Project to ensure that the completed work conforms to the approved plans and specifications.
- d. Construction Reports. For any Project or related activities involving construction, the Recipient agrees to provide progress reports and other relevant information or data, as required by FTA or the state in which construction takes place.
- e. Major Capital Investment Projects. If the Recipient's Project involves a Major Federal Project, it agrees to comply with all applicable federal regulations, including FTA regulations, "Major Capital Investment Projects," 49 C.F.R. part 611, and "Project Management Oversight," 49 C.F.R. part 633, to the extent that they are consistent with applicable FTA enabling legislation, and follow all applicable federal guidance.

Section 24. Employee Protections.

- a. Awards Involving Construction. The Recipient agrees to comply and assures that each Third Party Participant will comply with all federal laws, regulations, and requirements providing protections for construction employees involved in each Project or related activities with federal assistance provided through the Underlying Agreement, including the:
 - (1) Prevailing Wage Requirements of:
 - (a) Federal transit laws, specifically 49 U.S.C. § 5333(a), (FTA's "Davis-Bacon Related Act"),
 - (b) The Davis-Bacon Act, 40 U.S.C. §§ 3141 – 3144, 3146, and 3147, and
 - (c) U.S. DOL regulations, "Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (also Labor Standards Provisions Applicable to Nonconstruction Contracts Subject to the Contract Work Hours and Safety Standards Act)," 29 C.F.R. part 5.
 - (2) Wage and Hour Requirements of:
 - (a) Section 102 of the Contract Work Hours and Safety Standards Act, as amended, 40 U.S.C. § 3702, and other relevant parts of that Act, 40 U.S.C. § 3701 *et seq.*, and
 - (b) U.S. DOL regulations, "Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (also Labor Standards Provisions Applicable to Nonconstruction Contracts Subject to the Contract Work Hours and Safety Standards Act)," 29 C.F.R. part 5.
 - (3) "Anti-Kickback" Prohibitions of:
 - (a) Section 1 of the Copeland "Anti-Kickback" Act, as amended, 18 U.S.C. § 874,
 - (b) Section 2 of the Copeland "Anti-Kickback" Act, as amended, 40 U.S.C. § 3145, and
 - (c) U.S. DOL regulations, "Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States," 29 C.F.R. part 3.
 - (4) Construction Site Safety of:
 - (a) Section 107 of the Contract Work Hours and Safety Standards Act, as amended, 40 U.S.C. § 3704, and other relevant parts of that Act, 40 U.S.C. § 3701 *et seq.*, and

- (b) U.S. DOL regulations, “Recording and Reporting Occupational Injuries and Illnesses,” 29 C.F.R. part 1904; “Occupational Safety and Health Standards,” 29 C.F.R. part 1910; and “Safety and Health Regulations for Construction,” 29 C.F.R. part 1926.
- b. Awards Not Involving Construction. The Recipient agrees to comply and assures that each Third Party Participant will comply with all federal laws, regulations, and requirements providing wage and hour protections for nonconstruction employees, including Section 102 of the Contract Work Hours and Safety Standards Act, as amended, 40 U.S.C. § 3702, and other relevant parts of that Act, 40 U.S.C. § 3701 *et seq.*, and U.S. DOL regulations, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (also Labor Standards Provisions Applicable to Nonconstruction Contracts Subject to the Contract Work Hours and Safety Standards Act),” 29 C.F.R. part 5.
- c. Awards Involving Commerce. The Recipient agrees to comply and assures that each Third Party Participant will comply with the Fair Labor Standards Act (FLSA), 29 U.S.C. § 201 *et seq.* to the extent that the FLSA applies to employees performing work with federal assistance provided through the Underlying Agreement involving commerce, and as the Federal Government otherwise determines applicable.
- d. Public Transportation Employee Protective Arrangements. As a condition of award of federal assistance appropriated or made available for FTA programs involving public transportation operations, the Recipient agrees to comply and assures that each Third Party Participant will comply with the following employee protective arrangements of 49 U.S.C. § 5333(b):
- (1) U.S. DOL Certification. When its Award, the accompanying Underlying Agreement, or any Amendments thereto involve public transportation operations and are supported with federal assistance appropriated or made available for 49 U.S.C. §§ 5307 – 5312, 5316, 5318, 5323(a)(1), 5323(b), 5323(d), 5328, 5337, 5338(b), or 5339, or former 49 U.S.C. §§ 5308, 5309, 5312, or other provisions of law as required by the Federal Government, U.S. DOL must provide a certification of employee protective arrangements before FTA may provide federal assistance for that Award. The Recipient agrees that the certification issued by U.S. DOL is a condition of the Underlying Agreement and that the Recipient must comply with its terms and conditions.
 - (2) Special Warranty. When its Underlying Agreement involves public transportation operations and is supported with federal assistance appropriated or made available for 49 U.S.C. § 5311, U.S. DOL will provide a Special Warranty for its Award, including its Award of federal assistance under the Tribal Transit Program. The Recipient agrees that its U.S. DOL Special Warranty is a condition of the Underlying Agreement and the Recipient must comply with its terms and conditions.
 - (3) Special Arrangements for Underlying Agreements for Federal Assistance Authorized under 49 U.S.C. § 5310. The Recipient agrees, and assures that any Third Party Participant providing public transportation operations will agree, that although pursuant to 49 U.S.C. § 5310, and former 49 U.S.C. §§ 5310 or 5317, FTA has determined that it was not “necessary or appropriate” to apply the conditions of 49 U.S.C. § 5333(b) to

any Subrecipient participating in the program to provide public transportation for seniors (elderly individuals) and individuals with disabilities, FTA reserves the right to make case-by-case determinations of the applicability of 49 U.S.C. § 5333(b) for all transfers of funding authorized under title 23, United States Code (flex funds), and make other exceptions as it deems appropriate.

Section 25. Early Systems Work Agreement.

- a. Statutory Requirements. If FTA enters into an Early System Work Agreement (ESWA) with the Recipient to advance the implementation of the Recipient's Capital Project, the Recipient agrees that provisions of 49 U.S.C. § 5309(k)(3) will apply to that ESWA, the Recipient, and FTA.
- b. ESWA Provisions. Except to the extent that the Federal Government determines otherwise in writing, the Recipient understands and agrees that the following provisions apply to its ESWA, unless the ESWA contains specific requirements to the contrary:
 - (1) Recipient Representations. In view of the standards and commitments imposed on the Recipient by 49 U.S.C. § 5309(k)(3), the Recipient has provided sufficient representations and information to FTA so that FTA has reason to believe the following:
 - (a) FTA and the Recipient will enter into a Full Funding Grant Agreement for the Project, and
 - (b) The terms of the ESWA will promote the ultimate completion of the Project more rapidly and at less cost.
 - (2) FTA Commitments. By entering into an ESWA with the Recipient, FTA has agreed to provide for reimbursement of the preliminary costs of carrying out the Project, including:
 - (a) Land acquisition,
 - (b) Timely procurement of system elements for which the specifications are decided, and
 - (c) Other activities that FTA decides are appropriate to make efficient, long-term Project management easier.
 - (3) Time Period of the ESWA. FTA reserves the right to determine the period of time in which the ESWA will remain in effect, even if that period extends beyond the time of the authorization of federal funding that will support the Project costs covered by the ESWA.
 - (4) Interest and Other Financing Costs. Interest and other financing costs of carrying out the ESWA efficiently and within a reasonable time are eligible ESWA costs, provided that:
 - (a) The interest and financing costs claimed do not exceed the cost of the most favorable financing terms reasonably available for the Project at the time of borrowing,
 - (b) The Recipient has certified that it will show reasonable diligence in seeking the most favorable financing terms, and
 - (c) The Recipient is able to show reasonable diligence in seeking the most favorable financing terms to support this ESWA.

- (5) Contingent Commitment. In providing funding for the ESWA:
- (a) In its discretion, FTA may include a commitment, contingent on amounts made available under a later-enacted law, to obligate an additional amount from future available budget authority to support the costs of the Recipient's ESWA, and
 - (b) If FTA does make a commitment to provide funding contingent on future amounts to be specified in law, that commitment is not an obligation of the Federal Government.
- (6) Failure to Carry Out the Project. If, for reasons within its control, the Recipient does not carry out the Project for which its ESWA was made available by FTA, the Recipient must:
- (a) Repay all Federal Grant funds awarded under the ESWA from all Federal funding sources for all Project activities, facilities, and equipment, and
 - (b) Pay reasonable interest and penalty charges:
 - 1 As established by FTA before or after FTA provided funding for the ESWA, or
 - 2 Allowable under law.

Section 26. Environmental Protections.

- a. General. The Recipient agrees to, and assures that its Third Party Participants will, comply with all applicable environmental and resource use laws, regulations, and requirements, and follow applicable guidance, now in effect or that may become effective in the future, including state and local laws, ordinances, regulations, and requirements and follow applicable guidance.
- b. National Environmental Policy Act. An Award of federal assistance requires the full compliance with applicable environmental laws, regulations, and requirements. Accordingly, the Recipient agrees to, and assures that its Third Party Participants will:
- (1) Comply and facilitate compliance with federal laws, regulations, and requirements, including, but not limited to:
 - (a) Federal transit laws, such as 49 U.S.C. § 5323(c)(2), and 23 U.S.C. § 139,
 - (b) The National Environmental Policy Act of 1969 (NEPA), as amended, 42 U.S.C. §§ 4321 *et seq.*, as limited by 42 U.S.C. § 5159, and CEQ's implementing regulations 40 C.F.R. part 1500 – 1508,
 - (c) Joint FHWA and FTA regulations, "Environmental Impact and Related Procedures," 23 C.F.R. part 771 and 49 C.F.R. part 622,
 - (d) Executive Order No. 11514, as amended, "Protection and Enhancement of Environmental Quality," March 5, 1970, 42 U.S.C. § 4321 note, and
 - (e) Other federal environmental protection laws, regulations, and requirements applicable to the Recipient or the Award, the accompanying Underlying Agreement, and any Amendments thereto.
 - (2) Follow the federal guidance identified herein to the extent that the guidance is consistent with applicable authorizing legislation:
 - (a) Joint FHWA and FTA final guidance, "Interim Guidance on MAP-21 Section 1319, Accelerated Decisionmaking in Environmental Reviews," January 14, 2013,

- (b) Joint FHWA and FTA final guidance, “SAFETEA-LU Environmental Review Process (Pub. L. 109-59),” 71 *Fed. Reg.* 66576, November 15, 2006, and
 - (c) Other federal environmental guidance applicable to the Recipient or the Award, the accompanying Underlying Agreement, and any Amendments thereto.
- c. Environmental Justice. The Recipient agrees to, and assures that its Third Party Participants will, promote environmental justice by following:
- (1) Executive Order No. 12898, “Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations,” February 11, 1994, 42 U.S.C. § 4321 note, as well as facilitating compliance with that Executive Order,
 - (2) U.S. DOT Order 5610.2, “Department of Transportation Actions To Address Environmental Justice in Minority Populations and Low-Income Populations,” 62 *Fed. Reg.* 18377, April 15, 1997, and
 - (3) The most recent edition of FTA Circular 4703.1, “Environmental Justice Policy Guidance for Federal Transit Administration Recipients,” August 15, 2012, to the extent consistent with applicable federal laws, regulations, requirements, and guidance.
- d. Other Environmental Federal Laws. The Recipient agrees to comply or facilitate compliance and assures that its Third Party Participants will comply or facilitate compliance with all applicable federal laws, regulations, and requirements, and will follow applicable guidance, including, but not limited to, the Clean Air Act, Clean Water Act, Wild and Scenic Rivers Act of 1968, Coastal Zone Management Act of 1972, the Endangered Species Act of 1973, Magnuson Stevens Fishery Conservation and Management Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation, and Liability Act, Executive Order No. 11990 relating to “Protection of Wetlands,” and Executive Order Nos. 11988 and 13690 relating to “Floodplain Management.”
- e. Corridor Preservation. The Recipient agrees that:
- (1) It will not develop any right-of-way acquired under 49 U.S.C. § 5323(q) in anticipation of implementing its Award until all required environmental reviews for each Project or related activities have been completed, and
 - (2) It will follow FTA Final Guidance on the Application of 49 U.S.C § 5323(q) to Corridor Preservation for a Transit Project, October 17, 2014.
- f. Use of Certain Public Lands. The Recipient agrees to comply and assures that its Third Party Participants will comply with U.S. DOT laws, specifically 49 U.S.C. § 303 (often referred to as “section 4(f)”), and joint FHWA and FTA regulations, “Parks, Recreation Areas, Wildlife and Waterfowl Refuges, and Historic Sites,” 23 C.F.R. part 774, and referenced in 49 C.F.R. part 622.
- g. Historic Preservation. The Recipient agrees to, and assures that its Third Party Participants will:
- (1) Comply with U.S. DOT laws, including 49 U.S.C. § 303 (often referred to as “section 4(f)”), which requires certain findings be made before an Award may be undertaken if it involves the use of any land from a historic site that is on or eligible for inclusion on the National Register of Historic Places.

- (2) Encourage compliance with the federal historic and archaeological preservation requirements of section 106 of the National Historic Preservation Act, as amended, 54 U.S.C. § 306108.
 - (3) Comply with the Archeological and Historic Preservation Act of 1974, as amended, 54 U.S.C. § 312501 *et seq.*
 - (4) Comply with U.S. Advisory Council on Historic Preservation regulations, "Protection of Historic Properties," 36 C.F.R. part 800.
 - (5) Comply with federal requirements and follow federal guidance to avoid or mitigate adverse effects on historic properties.
- h. Indian Sacred Sites. The Recipient agrees to, and assures that its Third Party Participants will facilitate compliance with federal efforts to promote the preservation of places and objects of religious importance to American Indians, Eskimos, Aleuts, and Native Hawaiians, and facilitate compliance with the American Indian Religious Freedom Act, 42 U.S.C. § 1996, and Executive Order No. 13007, "Indian Sacred Sites," May 24, 1996, 42 U.S.C. § 3161 note.
- i. Mitigation of Adverse Environmental Effects.
- (1) The Recipient agrees that it will comply with all environmental mitigation measures that may be identified as conditions that the Federal Government might impose in finding of no significant impact or record of decision or commitments in the environmental documents that apply to the Award, such as environmental assessments, environmental impact statements, categorical exclusions, memoranda of agreement, documents required under 49 U.S.C. § 303, and other environmental documents.
 - (2) The Recipient agrees that:
 - (a) Any mitigation measures agreed on will be incorporated by reference and made part of the Underlying Agreement and any Amendments thereto,
 - (b) Any deferred mitigation measures will be incorporated by reference and made part of the Underlying Agreement and any Amendments thereto as soon as agreement with the Federal Government is reached, and
 - (c) Any mitigation measures agreed on will not be modified or withdrawn without the written approval of the Federal Government.
- j. Energy Conservation. The Recipient agrees to, and assures that its Subrecipients, if any, will comply with the mandatory energy standards and policies of its state energy conservation plans under the Energy Policy and Conservation Act, as amended, 42 U.S.C. § 6321 *et seq.*, and perform an energy assessment for any building constructed, reconstructed, or modified with federal assistance required under FTA regulations, "Requirements for Energy Assessments," 49 C.F.R. part 622, subpart C.

Section 27. State Management and Monitoring Systems.

The Recipient agrees to comply with joint FHWA and FTA regulations, "Management and Monitoring Systems," 23 C.F.R. part 500, and FTA regulations, "Transportation Infrastructure Management," 49 C.F.R. part 614.

Section 28. Charter Service.

- a. Prohibitions. The Recipient agrees that neither it nor any Third Party Participant involved in the Award will engage in charter service, except as permitted under federal transit laws, specifically 49 U.S.C. § 5323(d), (g), and (r), FTA regulations, "Charter Service," 49 C.F.R. part 604, any other Federal Charter Service regulations, federal requirements, or federal guidance.
- b. Exceptions. Apart from exceptions to the Charter Service restrictions in FTA's Charter Service regulations, FTA has established the following additional exceptions to those restrictions:
- (1) FTA's Charter Service restrictions do not apply to equipment or facilities supported with federal assistance appropriated or made available for 49 U.S.C. § 5307 to support a Job Access and Reverse Commute (JARC)-type Project or related activities that would have been eligible for assistance under repealed 49 U.S.C. § 5316 in effect in Fiscal Year 2012 or a previous fiscal year, provided that the Recipient uses that federal assistance for FTA program purposes only, and
 - (2) FTA's Charter Service restrictions do not apply to equipment or facilities supported with the federal assistance appropriated or made available for 49 U.S.C. § 5310 to support a New Freedom-type Project or related activities that would have been eligible for federal assistance under repealed 49 U.S.C. § 5317 in effect in Fiscal Year 2012 or a previous fiscal year, provided the Recipient uses that federal assistance for program purposes only.
- c. Violations. If it or any Third Party Participant engages in a pattern of violations of FTA's Charter Service regulations, FTA may require corrective measures and remedies, including withholding an amount of federal assistance as provided in FTA's Charter Service regulations, 49 C.F.R. part 604, appendix D, or barring it or the Third Party Participant from receiving federal assistance provided in 49 U.S.C. chapter 53, 23 U.S.C. § 133, or 23 U.S.C. § 142.

Section 29. School Bus Operations.

- a. Prohibitions. The Recipient agrees that neither it nor any Third Party Participant that is participating in its Award will engage in school bus operations exclusively for the transportation of students or school personnel in competition with private school bus operators, except as permitted by federal transit laws, 49 U.S.C. § 5323(f) or (g), FTA regulations, "School Bus Operations," 49 C.F.R. part 605, and any other applicable federal "School Bus Operations" laws, regulations, federal requirements, or applicable federal guidance.
- b. Violations. If a Recipient or any Third Party Participant has operated school bus service in violation of FTA's School Bus laws, regulations, or requirements, FTA may require the Recipient or Third Party Participant to take such remedial measures as FTA considers appropriate, or bar the Recipient or Third Party Participant from receiving federal transit assistance.

Section 30. Geographic Information and Related Spatial Data.

The Recipient agrees that each Project or related activity that implements the Award will conform to the Federal Geographic Data Committee's National Spatial Data Infrastructure if the Project or related activity directly or indirectly involves spatial data, or geographic information systems, and it will follow U.S. OMB Circular A-16, "Coordination of Geographic Information and Related Spatial Data Activities," August 19, 2002, and U.S. OMB Circular A-16 Supplemental Guidance, "Geospatial Line of Business," November 10, 2010.

Section 31. Federal "\$1 Coin" Requirements.

The Recipient agrees that it will comply with section 104 of the Presidential \$1 Coin Act of 2005, 31 U.S.C. § 5112(p), its equipment and facilities will be fully capable of accepting and dispensing \$1 coins when coins or currency are required to use that equipment or those facilities, and it will display signs and notices of the \$1 coin capability of its equipment and facilities on its premises, including vending machines, where coins or currency are used.

Section 32. Public Transportation Safety.

- a. Public Transportation Agency Safety Program. In accordance with 49 U.S.C. § 5329, the Recipient agrees to comply with applicable laws, regulations, and requirements and follow applicable guidance that implement the Public Transportation Safety Program provisions of 49 U.S.C. § 5329(b) through (d), except as FTA determines otherwise in writing.
- b. State Safety Oversight of Rail Fixed Guideway Public Transportation Systems. The Recipient agrees as follows:
 - (1) Laws. It will comply with section 20030(e) of MAP-21, which amended 49 U.S.C. § 5329(e) to require states to revise their State Safety Oversight programs to comply with the new MAP-21 requirements.
 - (2) Regulations. Although FTA published FTA regulations, "State Safety Oversight," 49 C.F.R. part 674, effective April 15, 2016, Congress provided states with up to three years following April 15, 2016 to come into full compliance following publication of those regulations. The Recipient agrees that depending on how far it has progressed in developing a State Safety Oversight program that is fully compliant with FTA regulations, "State Safety Oversight," 49 C.F.R. part 674, the following FTA regulations will apply:
 - (a) States With a Fully Compliant Program. The Recipient agrees that FTA regulations, "State Safety Oversight," 49 C.F.R. part 674, will apply when its State Safety Oversight program is fully compliant with FTA's requirements.
 - (b) States Without a Fully Compliant Program. The Recipient agrees that FTA regulations, "Rail Fixed Guideway Systems; State Safety Oversight," 49 C.F.R. part 659, will continue to apply to those states that have not yet implemented a Public Transportation Safety Program that is fully compliant with FTA's requirements.

Section 33. Motor Carrier Safety.

- a. Financial Responsibility. The Recipient agrees to comply and assures that its Third Party Participants will comply with the economic and insurance registration requirements of the:
- (1) U.S. Federal Motor Carrier Safety Administration (U.S. FMCSA) regulations, “Minimum Levels of Financial Responsibility for Motor Carriers,” 49 C.F.R. part 387, if it is engaged in operations requiring compliance with 49 C.F.R. part 387, it is engaged in interstate commerce, and it is not within a defined commercial zone, and
 - (2) The provisions of 49 U.S.C. § 31138(e)(4), which supersede inconsistent provisions of 49 C.F.R. part 387, and also reduce the amount of insurance the Recipient must obtain to the highest amount required by any state in which the public transportation provider operates, if it operates within a public transportation service area located in more than one state, and receives federal assistance under 49 U.S.C. §§ 5307, 5310, and 5311.
- b. U.S. FMCSA Requirements. The Recipient agrees to comply and assures that its Third Party Participants will comply with:
- (1) The safety requirements of U.S. FMCSA regulations, “Federal Motor Carrier Safety Regulations,” 49 C.F.R. parts 390 – 397, to the extent applicable; and
 - (2) The driver’s license requirements of U.S. FMCSA regulations, “Commercial Driver’s License Standards, Requirements, and Penalties,” 49 C.F.R. part 383, and “State Compliance with Commercial Driver’s License,” 49 C.F.R. part 384, to the extent applicable, with the substance abuse requirements and guidance of U.S. FMCSA’s regulations, “Drug and Alcohol Use and Testing Requirements,” 49 C.F.R. part 382, and implementing federal guidance, to the extent applicable.

Section 34. Safe Operation of Motor Vehicles.

- a. Seat Belt Use. The Recipient agrees to implement Executive Order No. 13043, “Increasing Seat Belt Use in the United States,” April 16, 1997, 23 U.S.C. § 402 note, by:
- (1) Adopting and promoting on-the-job seat belt use policies and programs for its employees and other personnel that operate company-owned vehicles, company-rented vehicles, or personally operated vehicles, and
 - (2) Including a “Seat Belt Use” provision in each third party agreement related to the Award.
- b. Distracted Driving, Including Text Messaging While Driving. The Recipient agrees to comply with:
- (1) Executive Order No. 13513, “Federal Leadership on Reducing Text Messaging While Driving,” October 1, 2009, 23 U.S.C. § 402 note,
 - (2) U.S. DOT Order 3902.10, “Text Messaging While Driving,” December 30, 2009,
 - (3) The following U.S. DOT Special Provision pertaining to Distracted Driving:
 - (a) Safety. The Recipient agrees to adopt and enforce workplace safety policies to decrease crashes caused by distracted drivers, including policies to ban text messaging while using an electronic device supplied by an employer, and driving a vehicle the driver owns or rents, a vehicle Recipient owns, leases, or rents, or a

privately-owned vehicle when on official business in connection with the Award, or when performing any work for or on behalf of the Award,

- (b) Recipient Size. The Recipient agrees to conduct workplace safety initiatives in a manner commensurate with its size, such as establishing new rules and programs to prohibit text messaging while driving, re-evaluating the existing programs to prohibit text messaging while driving, and providing education, awareness, and other outreach to employees about the safety risks associated with texting while driving, and
- (c) Extension of Provision. The Recipient agrees to include the preceding Special Provision of section 34.b(3)(a) – (b) of this Master Agreement in its third party agreements, and encourage its Third Party Participants to comply with this Special Provision, and include this Special Provision in each third party subagreement at each tier supported with federal assistance.

Section 35. Substance Abuse.

- a. Drug-Free Workplace. The Recipient agrees to:
 - (1) Comply with the Drug-Free Workplace Act of 1988, as amended, 41 U.S.C. § 8103 *et seq.*,
 - (2) Comply with U.S. DOT regulations, “Governmentwide Requirements for Drug-Free Workplace (Financial Assistance),” 49 C.F.R. part 32, and
 - (3) Follow and facilitate compliance with U.S. OMB regulatory guidance, “Governmentwide Requirements for Drug-Free Workplace (Financial Assistance),” 2 C.F.R. part 182, particularly where the U.S. OMB regulatory guidance supersedes comparable provisions of 49 C.F.R. part 32.
- b. Alcohol Misuse and Prohibited Drug Use.
 - (1) Requirements. The Recipient agrees to comply and assures that its Third Party Participants will comply with:
 - (a) Federal transit laws, specifically 49 U.S.C. § 5331,
 - (b) FTA regulations, “Prevention of Alcohol Misuse and Prohibited Drug Use in Transit Operations,” 49 C.F.R. part 655, and
 - (c) Applicable provisions of U.S. DOT regulations, “Procedures for Transportation Workplace Drug and Alcohol Testing Programs,” 49 C.F.R. part 40.
 - (2) Remedies for Non-Compliance. The Recipient agrees that if FTA determines that the Recipient or a Third Party Participant receiving federal assistance under 49 U.S.C. chapter 53 is not in compliance with 49 C.F.R. part 655, the Federal Transit Administrator may bar that Recipient or Third Party Participant from receiving all or a portion of the federal transit assistance for public transportation it would otherwise receive.

Section 36. Protection of Sensitive Security and Other Sensitive Information.

- a. The Recipient agrees to comply with the following requirements for the protection of sensitive security information:

- (1) The Homeland Security Act, as amended, specifically 49 U.S.C. § 40119(b), and U.S. DOT regulations, "Protection of Sensitive Security Information," 49 C.F.R. part 15,
- (2) The Aviation and Transportation Security Act, as amended, 49 U.S.C. § 114(r), and U.S. Department of Homeland Security, Transportation Security Administration regulations, "Protection of Sensitive Security Information," 49 C.F.R. part 1520, and
- (3) U.S. DOT Common Rules, which require the Recipient to implement, and to require its Subrecipients, if any, to implement, reasonable measures to safeguard protected personally identifiable information as well as any information that the FTA or pass-through entity designates as sensitive.

Section 37. Special Notification Requirements for States.

- a. Types of Information. To the extent required under federal law, the State, as the Recipient, agrees to provide the following information about federal assistance awarded for its State Program, Project, or related activities:
 - (1) The Identification of FTA as the federal agency providing the federal assistance for a State Program or Project,
 - (2) The Catalog of Federal Domestic Assistance Number of the program from which the federal assistance for a State Program or Project is authorized, and
 - (3) The amount of federal assistance FTA has provided for a State Program or Project.
- b. Documents. The State agrees to provide the information required under this provision in the following documents: (1) applications for federal assistance, (2) requests for proposals, or solicitations, (3) forms, (4) notifications, (5) press releases, and (6) other publications.

Section 38. Freedom of Information.

- a. Applicability. The Recipient agrees that the Freedom of Information Act (FOIA), 5 U.S.C. § 552, as amended, applies to most information submitted to FTA and U.S. DOT, whether electronically or in typewritten hard copy.
- b. Records. The Recipient agrees that all applications and materials it submits to FTA that are related to its Award have or will become federal agency records, and are or will be subject to FOIA and to public release through individual FOIA requests, unless FTA determines that a valid exemption under FOIA or another statute applies.
- c. Confidentiality. President Obama's "Memorandum for the Heads of Executive Departments and Agencies on the Freedom of Information Act," dated January 21, 2009, directs federal agencies to adopt a presumption that information should generally be disclosed when requested, and therefore the Recipient agrees that:
 - (1) Unless a federal law or regulation requires that a document or other information be withheld, FTA does not consent to withhold information, irrespective of its format, merely because it is accompanied by a "routine" confidentiality statement that may appear on:

- (a) Information about the Award, the accompanying Underlying Agreement, and any Amendments thereto,
 - (b) Information accompanying or supplementing the Award, the accompanying Underlying Agreement, and any Amendments thereto, or
 - (c) Any other information FTA may obtain.
- (2) As provided in federal laws, regulations, requirements, and guidance, FTA will review the information and documents that are the subject of each FOIA request to determine the extent to which FTA must or should exercise its discretion to withhold that information or those documents.
 - (3) Any genuinely confidential or privileged information should be marked clearly and specifically, and justified as confidential or privileged under FOIA standards.

Section 39. Disputes, Breaches, Defaults, or Other Litigation.

- a. **FTA Interest.** FTA has a vested interest in the settlement of any violation of federal law, regulation, or disagreement involving the Award, the accompanying Underlying Agreement, and any Amendments thereto including, but not limited to, a default, breach, major dispute, or litigation, and FTA reserves the right to concur in any settlement or compromise.
- b. **Notification to FTA.** If a current or prospective legal matter that may affect the Federal Government emerges, the Recipient must promptly notify the FTA Chief Counsel, or FTA Regional Counsel for the Region in which the Recipient is located.
 - (1) The types of legal matters that require notification include, but are not limited to, a major dispute, breach, default, litigation, or naming the Federal Government as a party to litigation or a legal disagreement in any forum for any reason.
 - (2) Matters that may affect the Federal Government include, but are not limited to, the Federal Government's interests in the Award, the accompanying Underlying Agreement, and any Amendments thereto, or the Federal Government's administration or enforcement of federal laws, regulations, and requirements.
 - (3) If the Recipient has credible evidence that a Principal, Official, Employee, Agent, or Third Party Participant of the Recipient, or other person has submitted a false claim under the False Claims Act, 31 U.S.C. § 3729 *et seq.*, or has committed a criminal or civil violation of law pertaining to such matters as fraud, conflict of interest, bribery, gratuity, or similar misconduct involving federal assistance, the Recipient must promptly notify the U.S. DOT Inspector General, in addition to the FTA Chief Counsel or Regional Counsel for the Region in which the Recipient is located.
- c. **Federal Interest in Recovery.** The Federal Government retains the right to a proportionate share of any proceeds recovered from any third party, based on the percentage of the federal share for the Underlying Agreement. Notwithstanding the preceding sentence, the Recipient may return all liquidated damages it receives to its Award Budget for its Underlying Agreement rather than return the federal share of those liquidated damages to the Federal Government, provided that the Recipient receives FTA's prior written concurrence.
- d. **Enforcement.** The Recipient must pursue its legal rights and remedies available under any third party agreement, or any federal, state, or local law or regulation.

Section 40. Amendments to the Underlying Agreement.

- a. When Required. An Amendment to the Underlying Agreement is required under the following circumstances:
- (1) A change in the scope of work or addition of federal assistance to an existing Award (regardless of whether the source of assistance is the same or different);
 - (2) Changes to the scope of work that necessitate a change in the distribution of federal assistance across scope codes or activities; or
 - (3) The Award includes multiple sources of financial assistance and the action requires the addition of a new Scope to a Project.
- b. Process. An amendment to the Underlying Agreement must be submitted through and approved in FTA's Electronic Award Management System, and must meet the same application requirements as a request for a new Award.

Section 41. FTA's Electronic Award Management System.

The Recipient agrees that it will submit its application for an Award, reports, documents, or other required information through FTA's electronic award management system, also known as TrAMS. To submit information, reports, and documents to FTA, any signature submitted in TrAMS must comply with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), Public Law No. 106-229, June 30, 2000, 15 U.S.C. §§ 7001 *et seq.*

Section 42. Information Obtained through Internet Links.

Although this Master Agreement may include electronic links to federal laws, regulations, requirements, and guidance, FTA does not guarantee the accuracy of information accessed through such links. Accordingly, the Recipient understands and agrees that any information obtained through any electronic link within this Master Agreement does not represent an official version of a federal law, regulation, or requirement, and might be inaccurate. Thus, information obtained through such links is neither incorporated by reference nor made part of this Master Agreement. The *Federal Register* and the *Code of Federal Regulations* are the official sources for regulatory information pertaining to the Federal Government.

Section 43. Severability.

The Recipient agrees that if any provision of the Underlying Agreement or any Amendments thereto is determined invalid, then the remaining provisions thereof that conform to federal laws, regulations, requirements, and guidance will continue in effect.

SPECIAL PROVISIONS FOR SPECIFIC PROGRAMS

Section 44. Special Provisions for All Public Transportation Innovation, Technical Assistance or Workforce Development Programs.

- a. Applicability. The Recipient understands and agrees that this section applies to the following programs to which FTA provides federal assistance, including the following programs:
- (1) Programs authorized under 49 U.S.C. § 5312, irrespective of the fiscal year for which the appropriations that supported the Underlying Agreement were authorized,
 - (2) Programs authorized under former 49 U.S.C. § 5313, irrespective of the fiscal year for which the appropriations that supported the Underlying Agreement were authorized,
 - (3) Programs authorized under 49 U.S.C. § 5314, irrespective of the fiscal year for which the appropriations that supported the Underlying Agreement were authorized,
 - (4) Programs authorized by the repealed section 3045 of SAFETEA-LU,
 - (5) Programs authorized under repealed section 3046 of SAFETEA-LU, and
 - (6) Other similar Programs for which FTA awards federal assistance under 49 U.S.C. §§ 5312 or 5314, as amended by the FAST Act, or other authorizing legislation.
- b. Provisions for Underlying Agreements for Public Transportation Innovation or Technical Assistance and Workforce Development Awards. The Recipient agrees that the following provisions will apply to the Underlying Agreement for a Public Transportation Innovation or Technical Assistance and Workforce Development Project or related activities:
- (1) Report. The Recipient agrees that in addition to any other Report FTA may require, the Recipient will prepare and submit to FTA a Report of each Project and related activities that describes the subject (or subjects) investigated, the methods used, the results, and the conclusions reached, is satisfactory, sufficiently organized, well-written, and comprehensive.
 - (2) Disclaimer. The Report must contain the following disclaimer:

This document is disseminated under the sponsorship of the United States Department of Transportation, Federal Transit Administration, in the interest of information exchange. The United States government assumes no liability for the contents or use thereof.

The United States government does not endorse products or manufacturers. Trade or manufacturers' names appear herein solely because they are considered essential to the contents of the report.
 - (3) Format. The Report must comply with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 794d, and U.S. ATBCB regulations, "Electronic and Information Technology Accessibility Standards," 36 C.F.R. part 1194, and the specific publication elements and report style guide at http://www.fta.dot.gov/research/program_requirements. The Report must identify clearly and precisely any specific information or data that is confidential, privileged, or proprietary that is contained within any report or document.
 - (4) Publication. Except for confidential, privileged, or proprietary information in the Report, FTA may publish the Report, and make it available for publication on the Internet or in any other venue.
 - (5) Identification of Federal Assistance. The Recipient agrees that:

- (a) It will display notice on any product developed with federal assistance for 49 U.S.C. § 5312 that the U.S. Department of Transportation, Federal Transit Administration provided federal assistance to support the development of the product that is tangible and is produced from, or is a result of, a Project, is a deliverable, and visible to the public, or is or will be made available to other research organizations, or public transportation providers, and consists of equipment, a prototype, hardware, construction, reports, data, software, internet pages, or any similar item.
 - (b) The notice will be given using an appropriate sign, designation, or notice.
- c. Special Disposition Provision. In addition to other disposition provisions, FTA may vest title in tangible personal property used in the conduct of basic or applied scientific research in a nonprofit institution of higher education or in a nonprofit organization whose primary purpose is conducting scientific research, provided the requirements of 31 U.S.C. § 6306 are met.
 - d. Protection of Human Subjects. The Recipient agrees to comply with protections for human subjects involved in a Project or related activities supported through the Underlying Agreement as required by the National Research Act, as amended, 42 U.S.C. § 289 *et seq.*, and U.S. DOT regulations, "Protection of Human Subjects," 49 C.F.R. part 11.
 - e. Protection of Animals. The Recipient agrees to comply with the protections for animals involved in a Project or related activities, as required by the Animal Welfare Act, as amended, 7 U.S.C. § 2131 *et seq.*, and U.S. Department of Agriculture regulations, "Animal Welfare," 9 C.F.R. parts 1, 2, 3, and 4.
 - f. Export Control. The Recipient understands and agrees that before exporting any information that is subject to federal export requirements, it must first obtain the necessary federal license(s), and comply with the federal export control regulations of the U.S. Department of Commerce, Bureau of Industry and Security, "Export Administration Regulations," specifically, 15 C.F.R. parts 730 *et seq.*, U.S. Department of State, U.S. Department of the Treasury, and U.S. Department of Defense.

Section 45. Special Provisions for the State Safety Oversight Grant Program.

- a. Applicability. The Recipient agrees that this section applies to any State Safety Oversight Grant Program Award, the accompanying Underlying Agreement, and any Amendments thereto, supported with federal assistance for 49 U.S.C. § 5329(e)(6).
- b. Federal Laws, Regulations, Requirements, and Guidance. In administering any State Safety Oversight Grant Program Award under 49 U.S.C. § 5329(e)(6), as amended by the FAST Act, the Recipient agrees to comply with the following:
 - (1) 49 U.S.C. § 5329(e)(6), as amended by the FAST Act,
 - (2) 49 U.S.C. § 5330, which is repealed three (3) years after the effective date of the final FTA State Safety Oversight regulations required under 49 U.S.C. § 5329(e), as amended by the FAST Act and section 2002I(b) of MAP-21,

- (3) 49 C.F.R. part 659, until those regulations are repealed or superseded by regulations that FTA promulgates in the future that implement 49 U.S.C. § 5329(e) as amended by the FAST Act,
 - (4) Other applicable federal laws, regulations, and requirements, and the Underlying Agreement and any Amendments thereto, and all other applicable provisions of this Master Agreement, and
 - (5) Applicable federal guidance, including the most recent FTA Notice of Availability for federal assistance made available for the State Safety Oversight Grant Program authorized by MAP-21, to the extent that its provisions are consistent with applicable requirements of 49 U.S.C. chapter 53, and other applicable federal laws, regulations, requirements, and guidance.
- c. Other Special Provisions for State Safety Oversight Grant Program. The Recipient agrees that federal assistance for the State Safety Oversight Grant Program will be used to develop or carry out its State Safety Oversight Grant Program for purposes of coming into compliance with 49 U.S.C. §§ 5329(e)(3) and 5329(e)(4), including the establishment of a State Safety Oversight Agency (SSOA) that:
- (1) Has an appropriate staffing level that is commensurate with the number, size, and complexity of the rail fixed guideway public transportation systems that the Recipient oversees,
 - (2) Requires its employees and other designated personnel of the SSOA who are responsible for rail fixed guideway public transportation safety oversight to be qualified to perform such functions through appropriate training, including successful completion of the public transportation safety certification training program when established under 49 U.S.C. § 5329(c), and
 - (3) Is prohibited from receiving federal assistance from any public transportation agency that the SSOA oversees pursuant to 49 U.S.C. § 5329(e)(4).

Section 46. Special Provisions for the State Infrastructure Bank (SIB) Program.

- a. Federal Laws, Regulations, Requirements, and Guidance. The State, as the Recipient, agrees to administer its Underlying Agreement to support its SIB consistent with federal laws, regulations, requirements, and guidance, including, but not limited to:
- (1) Title 23, U.S.C. (Highways), specifically 23 U.S.C. § 610, to the extent required under the FAST Act, and other applicable federal legislation,
 - (2) Federal transit laws, specifically 49 U.S.C. § 5323(o), which requires compliance with 49 U.S.C. §§ 5307, 5309, and 5337 for Underlying Agreements to which MAP-21 and the FAST Act apply,
 - (3) Section 350 of the National Highway System Designation Act of 1995, as amended, (NHS Act), 23 U.S.C. § 101 note, to the extent this section has not been superseded by 23 U.S.C. § 610,
 - (4) Any federal law enacted or federal regulation or requirements promulgated at a later date applicable to the Underlying Agreement,
 - (5) All other applicable federal guidance that may be issued,
 - (6) The terms and conditions of any U.S. DOL certification(s) of employee protective arrangements,

- (7) The SIB Cooperative Agreement establishing the SIB in the state, signed by the Executive Director of the Build America Bureau, the Federal Transit Administrator, authorized state official(s) or their authorized designees, and if applicable, the administrator (or designee) for any other federal modal agency that the State wishes to include in its SIB, and
 - (8) The FTA Grant Agreement providing federal assistance for the Underlying Agreement in support of its SIB, except that any provision of this Master Agreement that would otherwise apply to a SIB Project does not apply to the Underlying Agreement if it conflicts with any other federal law or regulation applicable to a SIB, federal SIB Guidelines, the SIB Cooperative Agreement, or the Underlying Agreement, or the Underlying Agreement, but the conflicting provision of this Master Agreement will prevail, however, if FTA expressly determines so in writing.
- b. Limitations on Accessing Federal Assistance in the Transit Account. The Recipient understands that the total amount of federal assistance awarded under the Grant Agreement to be supported with SIB deposits may not be available for immediate withdrawal. The State and the Recipient agree to restrict the amount of federal assistance it withdraws from its SIB to an amount not exceeding the limits specified in its Grant Agreement in support of the SIB or the Award Budget for that Grant Agreement.

Section 47. Special Provisions for the TIFIA Program.

- a. Federal Laws, Regulations, Requirements, and Guidance. The Recipient agrees to administer any Underlying Agreement financed with federal credit assistance authorized by the Transportation Infrastructure Finance and Innovation Act (TIFIA), as amended, as required under:
- (1) Title 23, U.S.C. (Highways), specifically 23 U.S.C. §§ 601 – 609, to the extent required under the FAST Act, and other applicable federal legislation,
 - (2) Federal transit laws, more specifically 49 U.S.C. § 5323(o), which requires compliance with 49 U.S.C. §§ 5307, 5309, and 5337 for any Underlying Agreement to which 49 U.S.C. chapter 53 apply,
 - (3) Section 350 of the National Highway System Designation Act of 1995, as amended,
 - (4) Joint U.S. DOT and FTA regulations, “Credit Assistance for Surface Transportation Projects,” 49 C.F.R. parts 80 and 640 that have not been superseded by the FAST Act, or any other statute in effect and that applies to the matter at issue, and
 - (5) Any federal statute signed into laws and regulations promulgated at a later date that would affect the Underlying Agreement.
- b. Default. The Recipient agrees that FTA may declare the Recipient in violation of the Master Agreement if it has defaulted on a TIFIA Loan, Loan Guarantee, Line of Credit, or Master Credit Agreement, and that default has not been cured within 90 days.
- c. Order of Precedence. Any provision of this Master Agreement that is applicable to the Recipient’s Underlying Agreement for TIFIA assistance and Recipient, but that conflicts with the laws, regulations, and requirements identified in this section, will not apply to the

Recipient's TIFIA Loan, Loan Guarantee, Line of Credit, or Master Credit Agreement, unless FTA determines otherwise in writing.

Section 48. Special Provisions for the Joint FTA – FRA Program.

- a. General Legal Requirements. When both FTA and the U.S. Federal Railroad Administration (FRA) make federal assistance available for the same Underlying Agreement, the Recipient understands and agrees that it will administer the Underlying Agreement to achieve maximum compliance with FTA's statutory and regulatory requirements, FRA's statutory and regulatory requirements, and other federal statutory requirements.
- b. Disadvantaged Business Enterprises.
 - (1) The Recipient acknowledges and understands that the statutory and regulatory provisions relating to disadvantaged business enterprises (DBE) differ significantly between FTA and FRA, including Section 1101(b) of the FAST Act (23 U.S.C. § 101 note) and U.S. DOT regulations, "Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs," 49 C.F.R. part 26, both of which apply to FTA, but not to FRA.
 - (2) FRA is not authorized to use FTA's DBE regulations, and consequently the Recipient agrees to comply with the statutory and regulatory DBE provisions that apply to federal assistance provided by FTA when using that federal assistance for purchases.
 - (3) The Recipient agrees to use the "contracting with small and minority firms, women's business enterprise" provisions of the applicable U.S. DOT Common Rules.
- c. Buy America. The Recipient agrees that statutory and regulatory Buy America provisions that apply to federal assistance authorized for FTA differ from those that apply to federal assistance authorized for FRA. Therefore, the Recipient agrees that:
 - (1) It must comply with FTA's statutory and regulatory Buy America provisions to the extent that the purchases are for a Project or related activities that implement the Underlying Agreement,
 - (2) It must comply with FRA's statutory and regulatory Buy America provisions, specifically section 301(a) of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), Pub L. 110-432, October 16, 2008, and 49 U.S.C. § 24405(a), to the extent that the purchases are required to comply with FRA Buy America requirements, and
 - (3) If it uses federal assistance authorized for FTA and for FRA to finance a purchase, the Recipient agrees that it must comply with both FTA's and FRA's requirements.
- d. Force Account – Procurement. The Recipient agrees that FTA deems section 16.k of this Master Agreement to be satisfied for work that is performed by the railroad's force account employees if a Project or related activities are being conducted on the property of a railroad, and under the railroad's collective bargaining agreements with its employees, certain work to be performed for the Recipient must be performed by force account employees.
- e. Procurement of Rolling Stock. The Recipient agrees that if FRA requires the Recipient to acquire any rolling stock for the Underlying Agreement from the Next Generation Corridor

- Equipment Pool Committee that has been established under section 305 of PRIIA, FTA deems section 15 of this Master Agreement to be satisfied.
- f. Use of Real Property, Equipment, and Supplies. The Recipient agrees that application of section 19 of this Master Agreement is reserved.
 - g. Davis-Bacon. The Recipient agrees that, as provided in 49 U.S.C. § 24312, wages paid to railroad employees at rates provided in a collective bargaining agreement negotiated under the Railway Labor Act, 45 U.S.C. § 151 *et seq.*, are deemed to comply with the requirements of the Davis-Bacon Act, 40 U.S.C. § 3141 *et seq.*, and satisfy section 24 of this Master Agreement.
 - h. Employee Protective Arrangements. The Recipient agrees to pass down to a railroad employee subject to the Railway Labor Act, 45 U.S.C. § 151 *et seq.*, protective arrangements as provided in a special Attachment to FTA's Grant Agreement or Cooperative Agreement with the Recipient, and not pass down employee protective arrangements as provided in section 24 of this Master Agreement.
 - i. Motor Carrier Safety. The Recipient agrees that railroad signal employees and their employers must comply with the hours of service requirements of 49 U.S.C. § 21104, *see* 49 U.S.C. § 21104(e), and FRA's hours of service regulation, specifically 49 C.F.R. part 228, and Section 31 of this Master Agreement does not apply to railroad signal employees concerning hours of service.
 - j. Railroad Safety. The Recipient agrees that a railroad subject to FRA's safety jurisdiction must comply with the federal railroad safety laws.

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APPENDIX A

TRIBAL TRANSIT PROGRAM – APPLICABLE PROVISIONS

FTA recognizes that several provisions of the Master Agreement generally applicable to other programs do not apply to the Tribal Transit Programs or the Indian Tribes that are the Direct Recipients of federal assistance under those Programs. The following sections of the Master Agreement are not applicable to the Tribal Transit Programs:

Section 14.a(1) & 14.b – Private Enterprise

Section 22.e – Relocation and Real Property

Section 27 – State Management and Monitoring Systems

Section 30 – Geographic Information and Related Spatial Data

Section 37 – Special Notification Requirement for States

However, this list is not intended to be comprehensive and FTA may determine that other provisions are applicable depending upon the Underlying Agreement for the Tribal Transit.

APPENDIX B

SUMMARY OF THE INDENTURE

Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full text of the Indenture.

Definitions of Certain Terms

The following terms shall, for all purposes of the Indenture, have the following meanings unless a different meaning clearly appears from the context:

“Accountant” means an independent certified public accountant or a firm of independent certified public accountants (who may be the accountants who regularly audit the books and accounts of SANDAG) who are selected and paid by SANDAG.

“Accreted Amount” means, with respect to any Capital Appreciation Bonds, the amount set forth in the Supplemental Indenture authorizing such Bonds as the amount representing the initial public offering price thereof, plus the amount of interest that has accreted on such Bonds, compounded periodically, to the date of calculation, determined by reference to accretion tables contained in each such Bond or contained or referred to in any Supplemental Indenture authorizing the issuance of such Bonds. The Accreted Amounts for such Bonds as of any date not stated in such tables shall be calculated by adding to the Accreted Amount for such Bonds as of the date stated in such tables immediately preceding the date of computation a portion of the difference between the Accreted Amount for such preceding date and the Accreted Amount for such Bonds as of the date shown on such tables immediately succeeding the date of calculation, apportioned on the assumption that interest accretes during any period in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months.

“Act” means the San Diego Regional Transportation Consolidation Act, being Chapter 3 of Division 12.7 of the Public Utilities Code of the State of California (Section 132350 *et seq.*), and as such may be amended from time to time hereafter.

“Annual Debt Service Requirement” means, with respect to any Federal Fiscal Year, the aggregate of the Interest Requirement and the Principal Requirement for such Federal Fiscal Year.

“Authorized Denominations” means (a) with respect to 2019 Bonds, \$5,000 or any integral multiple thereof, and (b) in the case of Refunding Bonds, such other denominations as may be specified in the Supplemental Indenture authorizing the issuance thereof.

“Authorized Officer” means the Executive Director of SANDAG, any Deputy Executive Director of SANDAG, the Director of Finance of SANDAG or any other employee of SANDAG at the time designated to act on behalf of SANDAG in a Certificate of SANDAG executed by any of the foregoing officers and filed with the Trustee, which Certificate shall contain such employee’s specimen signature.

“Average Projected Annual Debt Service” means, as of any date of calculation, the average amount of Projected Annual Debt Service in each Federal Fiscal Year on the applicable Bonds to the stated maturity thereof.

“Beneficial Owner” means, with respect to any Book-Entry Bond, the beneficial owner of such Book-Entry Bond as determined in accordance with the applicable rules of the Securities Depository for such Book-Entry Bonds.

“Board” means the Board of Directors of SANDAG.

“*Bond*” or “*Bonds*” means any bond or bonds, including the 2019 Bonds and (as the context may require) any Refunding Bonds, authenticated and delivered under and pursuant to the Indenture, other than Subordinated Indebtedness.

“*Bond Counsel*” means Norton Rose Fulbright US LLP or any other attorney at law or firm of attorneys selected by SANDAG of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“*Bond Insurance Policy*” means any municipal bond new issue insurance policy issued by a Bond Insurer that guarantees the payment of principal of and interest on any of the Bonds.

“*Bond Insurer*” means the issuer of a Bond Insurance Policy.

“*Bond Year*” means the 12-month period commencing on November 16 of each year, and ending on November 15 of the next succeeding year.

“*Book-Entry Bonds*” means Bonds issued under a book-entry only depository system as provided in the Indenture.

“*Business Day*” means any day which is not a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of the Trustee is located are authorized or required by law or executive order to close (and the Trustee is in fact closed).

“*Capital Appreciation and Income Bond*” means any Bond as to which accruing interest is not paid prior to the Interest Commencement Date specified therefor and is compounded periodically on certain designated dates prior to the Interest Commencement Date specified therefor, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation and Income Bond.

“*Capital Appreciation Bond*” means any Bond the interest on which (i) shall be compounded periodically on certain designated dates, (ii) shall be payable only at maturity or redemption prior to maturity and (iii) shall be determined by subtracting from the Accreted Amount the initial public offering price thereof, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond. The term “*Capital Appreciation Bond*” as used throughout the Indenture also includes any Capital Appreciation and Income Bond prior to the Interest Commencement Date specified therefor.

“*Capitalized Interest Account*” means the account of that name in the Construction Fund established in the Indenture.

“*Closing Date*” means August 14, 2019.

“*Code*” means the Internal Revenue Code of 1986, and the regulations promulgated or proposed pursuant thereto as the same may be in effect from time to time.

“*Construction Fund*” means the Construction Fund established in the Indenture.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement dated the Closing Date, as originally executed by SANDAG and, if applicable, a Dissemination Agent, as it may be amended from time to time in accordance with its terms.

“*Costs of Construction*” means with respect to the Project, the costs of acquisition, construction and equipping thereof, including the costs of acquisition of all land, rights of way, property, rights, easements and interests, acquired by SANDAG for such construction, the cost of all machinery and

equipment, financing charges, financial and municipal advisory fees, interest prior to and during construction and for such period after completion of construction as SANDAG shall determine, the cost of engineering and legal expenses, plans, specifications, surveys, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing the Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction, the financing of such construction and the placing of the Project in service, in each case to the extent such costs satisfy the definition of “Project Costs” set forth in the Full Funding Grant Agreement.

“*Costs of Issuance*” means all items of expense directly or indirectly payable by or reimbursable to SANDAG and related to the authorization, execution, sale and delivery of the 2019 Bonds, including, but not limited to, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, underwriting fees and discounts, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of the 2019 Bonds, surety, insurance, liquidity and credit enhancements costs, and any other cost, charge or fee incurred in connection with the issuance of the 2019 Bonds.

“*Counsel’s Opinion*” means an opinion signed by an attorney or firm of attorneys of recognized standing in the area of law to which the opinion relates, who may be counsel to SANDAG.

“*Credit Bank*” means, as to any particular Series of Bonds, the person (other than a Bond Insurer) providing a Credit Facility, as may be provided in the Supplemental Indenture authorizing such Series.

“*Credit Facility*” means, as to any particular Series of Bonds, a letter of credit, a line of credit, a guaranty, a standby bond purchase agreement or other credit or liquidity enhancement facility, other than a Bond Insurance Policy, as may be provided in the Supplemental Indenture authorizing such Series.

“*Current Funds*” means moneys which are immediately available in the hands of the payee at the place of payment.

“*Current Interest Bond*” means any Bond the interest on which is payable on the Interest Payment Dates provided therefor in the Supplemental Indenture authorizing such Bond. The term “Current Interest Bond” as used throughout the Indenture also includes any Capital Appreciation and Income Bond from and after the Interest Commencement Date specified therefor.

“*Debt Service Fund*” means the Debt Service Fund established in the Indenture.

“*Debt Service Reserve Credit Facility*” shall have the meaning assigned to such term in the Indenture.

“*Debt Service Reserve Fund*” means the Debt Service Reserve Fund established in the Indenture.

“*Debt Service Reserve Requirement*” means, with respect to the 2019 Bonds, the Maximum Annual Interest Requirement, which is an amount equal to \$12,750,000.

“*Defeasance Securities*” means noncallable: (i) U.S. Treasury certificates, notes, bills and bonds, including State and Local Government Series securities; (ii) direct obligations of the U.S. Treasury; (iii) Resolution Funding Corp. securities (“REFCORP”); (iv) pre-refunded municipal bonds rated the same level as U.S. Treasury Notes and Bonds by Moody’s and 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; (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 their highest rating category.

“Discretionary Contribution” means any and all moneys and securities furnished from time to time to the Trustee by SANDAG or on behalf of SANDAG by any other persons, in each case at SANDAG’s sole and absolute discretion, in amounts from time to time not exceeding in any period the amount that SANDAG is scheduled to receive under the Full Funding Grant Agreement for such period, to be held by the Trustee under the terms of the Indenture.

“DTC” means The Depository Trust Company, the initial Securities Depository for the 2019 Bonds.

“DTC Participant” shall mean any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing 2019 Bonds with DTC pursuant to the book-entry only system described in the Indenture.

“Event of Default” means any event so designated and specified in the Indenture.

“Favorable Opinion of Bond Counsel” means, with respect to any action relating to the Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the Trustee, to the effect that such action is permitted under the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Bonds from personal income taxation under the laws of the State (subject to customary exceptions).

“Federal Fiscal Year” means the period October 1 through September 30 of the following year.

“Fiscal Year” means the period July 1 through June 30 of the following year.

“FTA” means the Federal Transit Administration of the United States Department of Transportation.

“Full Funding Grant Agreement” means the grant agreement (including attachments) by and between the FTA, as grantor, and SANDAG, as grantee, with respect to the Project designated as “Full Funding Grant Agreement – CA-2016-021-00” and providing FTA Section 5309 (49 United States Code Section 5309) New Starts funds as grants in aid of the design and construction of the Project.

“Grant Receipts” means any amount received by SANDAG from Section 5309 (49 United States Code Section 5309) New Starts funds pursuant to the Full Funding Grant Agreement.

“Grant Receipts Construction Fund” means the Grant Receipts Construction Fund established in the Indenture.

“Grant Receipts Fund” means the Grant Receipts Fund established in the Indenture.

“*Indenture*” means this Trust Indenture, dated as of August 1, 2019, by and between SANDAG and the Trustee, as from time to time amended and supplemented.

“*Interest Account*” means the account of that name in the Debt Service Fund established in the Indenture.

“*Interest Commencement Date*” means, with respect to any Capital Appreciation and Income Bond, the date specified in the Supplemental Indenture authorizing the issuance of such Bond (which date must be prior to the maturity date for such Capital Appreciation and Income Bond) after which interest accruing on such Capital Appreciation and Income Bond shall be payable periodically, with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

“*Interest Payment Date*” means May 15 and November 15 of each year, or any other dates so specified in a Supplemental Indenture upon which interest on a Bond is payable.

“*Interest Period*” means the period from the date of the Bonds of any Series to and including the day immediately preceding the first Interest Payment Date and thereafter shall mean each period from and including an Interest Payment Date to and including the day immediately preceding the next Interest Payment Date.

“*Interest Requirement*” means, for any Federal Fiscal Year or other period, as the context may require, as applied to Bonds of any Series then Outstanding, the total of the sums that would be deemed to accrue on such Bonds during such period if the interest on the Current Interest Bonds of such Series were deemed to accrue daily during such period in equal amounts; *provided, however*, that an amount of interest shall be excluded from the determination of Interest Requirement to the extent that such interest has been paid, or is to be paid from the moneys in the Capitalized Interest Account allocable to the payment of such interest as provided in the Indenture with respect to the 2019 Bonds or as provided in the Supplemental Indenture authorizing the issuance of a Series of Refunding Bonds or from investment earnings thereon if such moneys shall have been invested in Permitted Investments and to the extent such earnings may be determined precisely. Unless SANDAG shall otherwise provide in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement.

“*Maximum Annual Interest Requirement*” means the maximum Interest Requirement of the 2019 Bonds for any Bond Year, calculated as of the Closing Date.

“*Nominee*” means the nominee of the Securities Depository for the Book-Entry Bonds, in whose name such Book-Entry Bonds are to be registered. The initial Nominee shall be Cede & Co., the partnership nominee of DTC.

“*Outstanding*,” when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

- (i) Any Bonds canceled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys and/or Defeasance Securities, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(iv) Bonds deemed to have been paid as provided in the Indenture.

“*Owner*” means any person who shall be the registered owner of any Bond or Bonds.

“*Payment Date*” shall mean any Interest Payment Date or Principal Payment Date.

“*Permitted Investments*” means any of the following:

(i) United States Government Securities defined as direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the payment of principal and interest by the United States of America;

(ii) federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises or corporations;

(iii) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and eligible for purchase and sale within the United States, rated “AA” or its equivalent or better by a nationally recognized statistical rating organization (referred to in this definition of Permitted Investments as an “NRSRO”);

(iv) corporate and depository institution debt securities with a maximum remaining maturity of five (5) years or less, issued by corporations, financial institutions, non-profits, or other entities organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (not to include other investment securities), which have a long-term rating of “A” or its equivalent or better by an NRSRO;

(v) obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state and with a long-term of “A” or its equivalent or better by an NRSRO;

(vi) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank with a long-term rating of “A” or a short-term rating of “A-1” or their respective equivalents or better by an NRSRO;

(vii) bank deposits with a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in California provided such deposits shall be either (a) continuously and fully insured by the Federal Deposit Insurance Corporation, (b) continuously and fully secured by such securities and obligations as are described in Sections 53630 through 53686 of the California Government Code, or (c) with a federally-licensed or state-licensed branch of a foreign bank with a long-term rating of “A” or a short-term rating of “A-1” or their respective equivalents or better by an NRSRO;

(viii) commercial paper rated “A-1” or better by an NRSRO, which purchases may not exceed two hundred seventy (270) days maturity;

(ix) bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term obligations of which are rated "A-1" or better by two NRSROs, which purchases may not exceed one hundred eighty (180) days maturity;

(x) Government money market funds as defined by Securities and Exchange Commission Rule 2a-7(a)(16);

(xi) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 of the California Government Code. Investments shall be restricted to those pooled programs that seek to maintain a stable net asset value;

(xii) Local Agency Investment Fund, the State of California managed investment pool;

(xiii) 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;

(xiv) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended;

(xv) Repurchase agreements that meet the following criteria:

(1) Acceptable providers shall consist of (a) registered broker/dealers subject to Securities Investors' Protection Corporation (referred to in this definition of Permitted Investments as "SIPC") jurisdiction or commercial banks insured by the Federal Deposit Insurance Corporation (referred to in this definition of Permitted Investments as "FDIC"), if such broker/dealer or bank has an unsecured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (b) domestic structured investment companies rated Aaa by Moody's and AAA by S&P; and

(2) The repurchase agreement shall limit acceptable securities specified in subsections (i), (ii) and (v) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for investments specified in subsection (i) above and 105% for investments specified in subsection (ii) above. The repurchase agreement shall require:

(a) the Trustee or an independent third party acting solely as agent (referred to in this definition of Permitted Investments as the "Agent") for the Trustee to value the collateral securities no less frequently than weekly,

(b) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and

(c) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(3) The repurchase securities shall be delivered free and clear of any lien to the Trustee or to the Agent, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee; and

(4) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and SANDAG and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof;

(xvi) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(1) Acceptable providers of uncollateralized investment agreements shall consist of (a) domestic insurance companies, (b) domestic FDIC-insured commercial banks, or (c) U.S. branches of foreign banks, rated at least Aa3 by Moody's and AA- by S&P;

(2) Acceptable providers of collateralized investment agreements shall consist of domestic insurance companies, domestic commercial banks, U.S. branches of foreign banks, or broker/dealers rated at least A3 or better by Moody's and A- or better by S&P. Required collateral levels shall be as set forth in (xvi)(5) below;

(3) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (a) repay the principal amount plus any accrued and interest on the investment; or (b) deliver collateral described in (xvi)(5)(a) or (xvi)(5)(b) below (referred to in this definition of "Permitted Collateral");

(4) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty to the Issuer;

(5) The investment agreement shall provide for the delivery of Permitted Collateral which shall be maintained at the following collateralization levels at each valuation date:

(a) investments specified in subsection (i) above at 104% of principal plus accrued interest; or

(b) investments specified in subsection (ii) above at 105% of principal and accrued interest;

(6) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels;

(7) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent; and

(8) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under (xvi)(5) above, the Trustee shall receive an opinion of counsel as to the perfection of the security interest in the collateral;

(xvii) Forward delivery agreements in which the securities delivered mature on or before each cash flow date that meet the following criteria:

(1) Acceptable providers shall be limited to domestic insurance companies, domestic commercial banks, U.S. branches of foreign banks, rated Baa3- or better by Moody's or BBB- or better by S&P;

(2) The forward delivery agreement shall provide for termination or assignment (to a qualified provider under the Indenture) of the agreement if the provider's ratings are suspended, withdrawn or fall below Baa3 from Moody's or BBB- from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value; and

(3) Permitted securities shall include the investments listed subsections in (i) and (ii) above;

(xviii) Any other forms of investments, which at the time of investment are legal investments, under the California Government Code, for SANDAG's surplus funds;

For purposes of the foregoing, maturity of investments shall be governed by the following:

(1) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments;

(2) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements; and

(3) Investments of monies in the Debt Service Reserve Fund not payable upon demand shall be restricted to maturities of five (5) years or less.

"Person" means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability corporation, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

"Principal" or *"principal"* means (i) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in the Indenture in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an event of default, in which case *"principal"* means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest) but when used in connection with determining whether the Owners of the requisite principal amount of Bonds then Outstanding have given any request, demand, authorization, direction, notice, consent or waiver or with respect to the Redemption Price of any Capital Appreciation Bond, *"principal amount"* means the Accreted Amount and (ii) with respect to the principal amount of any Current Interest Bond, the principal amount of such Bond payable in satisfaction of a Sinking Fund Installment, if applicable, or at maturity.

"Principal Account" means the account of that name in the Debt Service Fund established in the Indenture.

"Principal Payment Date" means any November 15 (or any other date so specified in a Supplemental Indenture) upon which the principal of a Bond is stated to mature or upon which the principal of a Term Bond is subject to redemption in satisfaction of a Sinking Fund Installment.

"Principal Requirement" means for any Federal Fiscal Year or other period, as the context may require, as applied to the Bonds of any Series, an amount equal to the principal scheduled to become due

on such Bonds during such period, including Sinking Fund Installments; *provided, however*, that an amount of principal shall be excluded from the determination of Principal Requirement to the extent that such amount has been paid, or is to be paid from the proceeds of Bonds allocable to the payment of such principal as provided in the Supplemental Indenture authorizing the issuance of such Bonds or from the investment earnings thereon if such proceeds shall have been invested in Permitted Investments and to the extent such earnings may be determined precisely.

“*Project*” means SANDAG’s Mid-Coast Corridor Transit Project as more particularly described in the Full Funding Grant Agreement and the plans and specifications therefor on file with SANDAG, as the same may be revised from time to time to SANDAG.

“*Projected Annual Debt Service*” means, with respect to any Series of Bonds, the projected payments of principal of and interest on such Bonds as set forth in Exhibit D to the Indenture or as hereafter certified by SANDAG to the Trustee, reflecting expected Grant Receipts and expected redemption at the option of SANDAG and by operation of the Redemption Account.

“*Rating Agencies*” means each and every one of the nationally recognized rating agencies that shall have assigned ratings to any Bonds Outstanding as requested by SANDAG, and which ratings are then currently in effect.

“*Rebate Fund*” means the Rebate Fund established in the Indenture.

“*Record Date*” means, with respect to the interest payable on any Interest Payment Date, the first day of the calendar month on which such Interest Payment Date falls, whether or not such day is a Business Day, or any other date so specified in a Supplemental Indenture.

“*Redemption Account*” means the account of that name in the Debt Service Fund established in the Indenture.

“*Redemption Price*” means, with respect to any Bond, the Principal thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

“*Refunding Bonds*” means Bonds authenticated and delivered pursuant to the Indenture.

“*Required Revenue Service Date*” means November 23, 2022, or such later date that SANDAG and the FTA may establish for the Project to commence revenue service operations pursuant to the Full Funding Grant Agreement.

“*SANDAG*” means the San Diego Association of Governments, a public entity duly organized and existing under the Act.

“*Securities Depository*” means DTC or any other trust company or other entity that provides a book-entry system for the registration of ownership interests in securities and which is acting as security depository for Book-Entry Bonds.

“*Serial Bonds*” means the Bonds of a Series which shall be stated to mature in annual installments.

“*Series*” means all of the Bonds designated as a series and authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

“*Series 2019A Bonds*” means the \$210,000,000 original principal amount of the San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019A (Green Bonds), authorized by the Indenture.

“*Series 2019B Bonds*” means the \$125,000,000 original principal amount of San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019B (Green Bonds), authorized by the Indenture.

“*Sinking Fund Installment*” means each principal amount of Bonds scheduled to be redeemed through sinking fund redemption provisions by the application of amounts on deposit in the Principal Account, established pursuant to the Indenture.

“*Subordinated Indebtedness*” means indebtedness permitted to be issued pursuant to the Indenture.

“*Supplemental Indenture*” means any Supplemental Indenture authorized pursuant to Article X.

“*Term Bonds*” means the Bonds of a Series other than Serial Bonds which shall be stated to mature on one or more dates through the payment of Sinking Fund Installments.

“*Trustee*” means U.S. Bank National Association, and any successor or successors appointed under the Indenture.

“*Trust Estate*” means the Grant Receipts and all other property pledged to the Trustee pursuant to the Indenture, as described in the Granting Clauses to the Indenture.

“*2019 Bonds*” means, collectively, the Series 2019A Bonds and the Series 2019B Bonds.

Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered to refund any or all Outstanding Bonds of one or more Series and to pay costs and expenses incident to the issuance of such Refunding Bonds.

Refunding Bonds of a Series to refund Outstanding Bonds shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents, securities and moneys required by the Indenture) of:

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture so that the Bonds to be refunded will be paid or deemed to be paid pursuant to the Indenture.

(2) Either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Bonds to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be refunded or advance refunded, or (ii) Defeasance Securities in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the provisions of the Indenture.

(3) A certificate of an Authorized Officer evidencing that the Average Projected Annual Debt Service on all Bonds Outstanding following the issuance of such Refunding Bonds,

and the redemption or provision for payment of the Bonds to be refunded, will be less than the Average Projected Annual Debt Service on all Bonds Outstanding immediately prior to the issuance of such Refunding Bonds.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied upon their delivery as follows:

(1) there shall be deposited in the Debt Service Reserve Fund the amount, if any, necessary so that the amount therein equals the Debt Service Reserve Requirement calculated immediately after such delivery, to the extent not funded from any other source or otherwise provided for by a Debt Service Reserve Credit Facility pursuant to the Indenture;

(2) there shall be deposited in any other fund, account or subaccount under the Indenture the amount, if any, required by the Supplemental Indenture authorizing such Series, including, but not limited to, an amount to be applied to the payment of costs and expenses incident to the issuance of such Refunding Bonds;

(3) the amount of such proceeds needed for the refunding of the Bonds to be refunded and for the payment of expenses incidental to such refunding shall be used for such purposes; and

(4) any balance of such proceeds shall be applied in accordance with the written instructions of SANDAG, signed by an Authorized Officer and filed with the Trustee.

Refunding Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Serial Bonds or Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for the issuance thereof.

Exchange and Transfer of Bonds

Exchangeability of Bonds. Subject to the provisions of the Indenture, any Bond, upon surrender at the corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the Owner or its duly authorized attorney, may, at the option of the Owner and upon payment of any charges which the Trustee may make as provided in the Indenture, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series, maturity, and interest rate and tenor of any other Authorized Denominations.

Negotiability, Transfer and Registration. Each Bond shall be transferable only upon the registration books of SANDAG, which shall be kept for that purpose by the Trustee, by the Owner in person or by its attorney duly authorized in writing, upon surrender thereof with a written instrument of transfer satisfactory to the Trustee, duly executed by the Owner or its duly authorized attorney. Upon the transfer of any such Bond, SANDAG shall issue in the name of the transferee a new Bond or Bonds in Authorized Denominations of the same aggregate principal amount, Series, maturity and interest rate as the surrendered Bond.

SANDAG and the Trustee may deem and treat the person in whose name any Bond shall be registered upon the registration books of SANDAG as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon its order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither SANDAG nor the Trustee shall be affected by any notice to the contrary.

Provisions with Respect to Exchanges and Transfers. In all cases in which the privilege of transferring or exchanging Bonds is exercised, SANDAG shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. All Bonds surrendered in any such exchanges shall forthwith be canceled by the Trustee. For any exchange or transfer of Bonds, whether temporary or definitive, SANDAG and the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer or exchange shall be paid by SANDAG. The Trustee shall not be required to make any registration, transfer or exchange of any Bond during the period after such Bond has been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving notice of such redemption.

Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, SANDAG shall execute, and thereupon the Trustee shall authenticate and deliver, a new Bond of like Series, maturity, interest rate and principal amount as the Bonds so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee evidence satisfactory to SANDAG and the Trustee that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing SANDAG and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as SANDAG, the Trustee may prescribe and paying such expenses as SANDAG and Trustee may incur. All Bonds so surrendered to the Trustee shall be canceled by the Trustee in accordance with the Indenture. Any such new Bonds issued pursuant to the Indenture in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of SANDAG, whether or not the Bonds so alleged to be destroyed, stolen or lost shall be found at any time or be enforceable by anyone, shall be entitled to equal and proportionate benefits with all other Bonds of the same Series issued under the Indenture and shall be equally secured by the moneys or securities held by SANDAG or the Trustee for the benefit of the Owners.

Redemption of Bonds

Redemption at the Election or Direction of SANDAG. In the case of any redemption of Bonds at the election or direction of SANDAG, SANDAG shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, of the Series, and of the principal amounts and interest rates of the Bonds of each maturity of such Series to be redeemed. Such notice shall be given at least 30 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in the Indenture, there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash or Defeasance Securities maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the Bonds to be redeemed on the specified redemption date at their Redemption Price plus interest accrued and unpaid to the date fixed for redemption; such amount and moneys shall be held in a separate, segregated account for the benefit of the Owners of the Bonds so called for redemption.

Redemption Otherwise Than at SANDAG's Election or Direction. Whenever by the terms of the Indenture the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of SANDAG, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price thereof, plus interest accrued and unpaid to the date fixed for redemption, in accordance with the terms of the Indenture.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the date fixed for redemption at the Redemption Price, plus interest accrued and unpaid to such date, and, upon presentation and surrender thereof at any place specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to such date. If there shall

be called for redemption less than all of a Bond, SANDAG shall execute and the Trustee shall authenticate and the Trustee shall deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, fully registered Bonds of like Series and maturity and interest rate in any Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity and interest rate to be redeemed, together with interest to such date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the date fixed for redemption, interest on the Bonds or portions thereof of such Series and maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the date fixed for redemption, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Adjustment of Sinking Fund Installments. In the event of the optional redemption by SANDAG of less than all the Bonds of like Series and maturity and interest rate with respect to which Sinking Fund Installments have been established, the principal amount so redeemed shall be credited against the unsatisfied balance of future Sinking Fund Installments or the final maturity amount established with respect to such Bonds, in such amount and against such Sinking Fund Installments or final maturity amount as shall be determined by SANDAG in a certificate of an Authorized Officer filed with the Trustee prior to the mailing of the notice of redemption of such Bonds or, in the absence of such determination, shall be credited pro-rata against the applicable Sinking Fund Installments and final maturity amount.

Establishment of Funds, Accounts and Subaccounts

Pursuant to the Indenture, SANDAG establishes the Construction Fund, the Grant Receipts Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Grant Receipts Construction Fund, each of which shall be a special fund of SANDAG held in trust by the Trustee. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in said funds are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Bonds and shall be subject to the lien of the Indenture. Pursuant to the Indenture, SANDAG establishes the Rebate Fund as a special fund of SANDAG held in trust by the Trustee. Pursuant to the Indenture, SANDAG establishes the Interest Account, the Principal Account and the Redemption Account as special accounts within the Debt Service Fund and the Costs of Issuance Account and the Capitalized Interest Account as special accounts within the Construction Fund to be held by the Trustee.

Construction Fund

On the date of issuance of the 2019 Bonds, the Trustee shall deposit into the Construction Fund the amount set forth in the Indenture. The Trustee shall make payment of the Costs of Construction of the Project from the Construction Fund as provided in the Indenture and, with respect to the payment of interest on the 2019 Bonds capitalized from the proceeds of the 2019 Bonds, from the Capitalized Interest Account as provided in the Indenture. The Trustee shall withdraw from the Construction Fund and deposit into the Rebate Fund the amount specified in any certificate filed with the Trustee pursuant to the Indenture. The Trustee shall withdraw moneys from the Costs of Issuance Account of the Construction Fund to pay cost of issuance of the 2019 Bonds in accordance with the directions of SANDAG expressed in a certificate of an Authorized Officer filed with the Trustee, in the form set forth as Exhibit B to the Indenture. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in the Indenture.

The Trustee shall, during and upon completion of construction of the Project, make payments from the Construction Fund in addition to those made pursuant to the Indenture, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. Before any such payment shall be made, SANDAG shall file with the Trustee its requisition therefor, substantially in the form attached to the Indenture as Exhibit C, stating (a) the item number of such payment; (b) in respect of

each payment to be reimbursed: (i) the name of the person, firm or corporation to whom payment was due, (ii) the amount to be reimbursed, and (iii) in reasonable detail the purpose for which the obligation was incurred, which may be in a format similar to SANDAG's monthly expenditure reports to the FTA pursuant to the Full Funding Grant Agreement; (c) that obligations in the stated amounts have been incurred by SANDAG for the construction of the Project, and that each item thereof is a proper charge against the Construction Fund and is a proper Cost of Construction and has not been previously reimbursed, (d) that there has not been filed with or served upon SANDAG notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon SANDAG, that such lien, attachment or claim has been released or discharged, (e) that such requisition contains no item representing payment on account of any retained percentages which SANDAG is at the date of such certificate entitled to retain, (f) that SANDAG expects to commence revenue operations of the Project on or before the Required Revenue Service Date, or in the alternative, that SANDAG is in the process of developing or has developed a Recovery Plan pursuant to the Full Funding Grant Agreement and, if developed, is diligently taking action to carry out such Recovery Plan, and (g) the total remaining amount SANDAG expects to receive under the Full Funding Grant Agreement, after the transfer of funds into the Grant Receipts Construction Fund, will be equal to at least 100% of the sum of (i) the principal amount of the Outstanding Bonds plus (ii) the Interest Requirement with respect to the Outstanding Bonds, assuming such Bonds are paid on their stated maturity dates, minus (iii) moneys in the Debt Service Reserve Fund and investment earnings thereon.

Upon receipt of each such requisition the Trustee shall transfer from the Construction Fund to SANDAG or the obligors named in such requisition an amount equal to the total of the amounts to be reimbursed as set forth in such requisition. In making such transfer, the Trustee may rely upon the representations set forth in such requisition.

Upon completion or substantial completion of the Project, the Trustee shall withdraw from the Construction Fund and pay into the funds, accounts and subaccounts established under the Indenture any remaining balance in the Construction Fund, or any part thereof, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. Before any such withdrawal and payment shall be made, SANDAG shall file with the Trustee its certificate certifying: (1) that the Project has been completed or substantially completed and (2) that a sum stated in the certificate is sufficient to pay, and is required to be reserved in the Construction Fund to pay, all Costs of Construction then remaining unpaid, including the estimated amount of any such items the amount of which is not finally determined and all claims against SANDAG arising out of the construction thereof. Upon receipt of such requisition and accompanying certificates, the Trustee shall withdraw from the Construction Fund the amount stated in such requisition, provided that no such withdrawal shall be made if it would reduce the amount in the Construction Fund below the amount stated in the said certificate of SANDAG as required to be reserved in the Construction Fund.

Any amount withdrawn from the Construction Fund pursuant to the Indenture shall be deposited first into the Interest Account to the extent required to increase the amount therein to the Interest Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year, and then into the Principal Account to the extent required to increase the amount therein to the Principal Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year, and any amount remaining after the foregoing deposits have been made shall be deposited into the Redemption Account.

Deposit and Application of Grant Receipts

All Grant Receipts received by SANDAG shall be transferred within one Business Day of receipt to the Trustee for deposit in the Grant Receipts Fund. SANDAG shall provide written notice to the Trustee of the amount of Grant Receipts to be received by the Trustee. SANDAG may also from time to

time, in its sole and absolute discretion, transfer any Discretionary Contribution to the Trustee for deposit in the Grant Receipts Fund. SANDAG shall provide written notice to the Trustee of the amount of any Discretionary Contribution to be received by the Trustee. As soon as practicable after any such deposit, the Trustee shall make payments from the Grant Receipts Fund into the following several funds, accounts and subaccounts, but only within the limitation indicated below with respect thereto and only after maximum payment within such limitation into every such fund, account or subaccount previously mentioned in the following tabulation:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year.

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year.

Third: Into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement.

Fourth: To SANDAG, an amount specified by SANDAG in a certificate of an Authorized Officer filed by the Trustee as needed to reimburse a provider of a Debt Service Reserve Credit Facility for disbursements thereunder.

Fifth: Into the Rebate Fund, an amount specified by SANDAG in a certificate of an Authorized Officer filed with the Trustee pursuant to the Indenture.

Sixth: Into the Grant Receipts Construction Fund, an amount specified by SANDAG in a certificate of an Authorized Officer filed with the Trustee pursuant to the Indenture.

Seventh: Into the Redemption Account, any remaining amounts.

Debt Service Fund

The Trustee shall pay in Current Funds (i) out of the Capitalized Interest Account on or before each Interest Payment Date set forth in the Indenture, the applicable amounts set forth in the Indenture; (ii) out of any capitalized interest account established with respect to any other Series of Bonds, on or before each Interest Payment Date specified in the Supplemental Indenture authorizing such Series, the applicable amount set forth in such Supplemental Indenture; (iii) out of the Interest Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds, the amount required for the interest payable on such date and not provided for pursuant to clause (i) or clause (ii) above; (iv) out of the Principal Account on or before each Principal Payment Date, an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on such date; and (v) out of the Principal Account on or before each Principal Payment Date occasioned by redemption of Outstanding Bonds from Sinking Fund Installments, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed. The Trustee shall pay such amounts to the Owners of the Outstanding Bonds for the aforesaid purposes on the due dates thereof. The Trustee shall also pay out of the Interest Account the accrued interest included in the purchase price of Outstanding Bonds purchased for retirement.

Amounts in the Principal Account available for the payment of Sinking Fund Installments shall be applied to the purchase or redemption of Bonds as provided below.

(i) Amounts deposited to the credit of the Principal Account to be used in satisfaction of any Sinking Fund Installment may, and if so directed by SANDAG shall, be applied by the Trustee, on or prior to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established. That portion of the purchase price attributable to accrued interest shall be paid from the Interest Account. All such purchases of Outstanding Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as SANDAG shall determine. The principal amount of any Bonds so purchased shall be deemed to constitute part of the Principal Account until the Principal Payment Date on which such Sinking Fund Installment is due, for the purpose of calculating the amount on deposit in such account.

(ii) At any time up to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, SANDAG may purchase with any available funds Outstanding Bonds for which such Sinking Fund Installment was established and surrender such Bonds to the Trustee at any time up to said date.

(iii) After giving effect to the Outstanding Bonds purchased by the Trustee and Outstanding Bonds surrendered by SANDAG as described in paragraphs (i) and (ii), which shall be credited against the Sinking Fund Installment at the applicable sinking fund Redemption Price thereof, and as soon as practicable after the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Trustee shall proceed to call for redemption on such Principal Payment Date Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the unsatisfied portion of such Sinking Fund Installment. The Trustee shall pay, out of the Principal Account (after transfers thereto from the Debt Service Reserve Fund, if required), on or before the day preceding such redemption date, the Redemption Price required for the redemption of the Outstanding Bonds so called for redemption, to the Owners.

(iv) If the principal amount of Outstanding Bonds retired pursuant to this subsection through application of amounts in satisfaction of any Sinking Fund Installment shall exceed such Sinking Fund Installment, or in the event of the purchase or redemption from moneys other than from the Principal Account of Outstanding Bonds of any Series and maturity for which Sinking Fund Installments have been established, such excess or the principal amount of Outstanding Bonds so purchased or redeemed, as the case may be, shall be credited toward future scheduled Sinking Fund Installments either (i) in the order of their due dates or (ii) in such order as SANDAG establishes in a certificate signed by an Authorized Officer and delivered to the Trustee not more than 45 days after the payment in excess of such Sinking Fund Installment.

Redemption or Defeasance by Operation of the Redemption Account

Whenever the amount held in the Redemption Account exceeds \$1,000,000, the Trustee shall notify SANDAG in writing (in each case, a "Redemption Account Notice") and apply the moneys held therein as follows:

(i) First, to the redemption of Outstanding Series 2019A Bonds then subject to optional redemption pursuant to the Indenture in the current or immediately succeeding Federal

Fiscal Year (exclusive of any such Series 2019A Bonds maturing within 30 days or previously selected for redemption) on the first date such Series 2019A Bonds may be redeemed that is at least 30 days after such notification;

(ii) Second, to the redemption of Outstanding Series 2019B Bonds (exclusive of Series 2019B Bonds previously selected for redemption) on the next Interest Payment Date that is at least 30 days after such notification; and

(iii) Third, if all of the Series 2019B Bonds have been redeemed in full, to the redemption of any remaining Outstanding Series 2019A Bonds (exclusive of any such Series 2019A Bonds maturing within 30 days or previously selected for redemption), in order of maturity, on the first date such Series 2019A Bonds may be redeemed that is at least 30 days after such notification.

In connection with any redemption pursuant to the Indenture of 2019 Bonds eligible to be redeemed within 60 days after delivery of the related Redemption Account Notice (a “Short-Term Defeasance”), the Trustee shall apply the amounts held in the Redemption Account to pay the Redemption Price of such 2019 Bonds called for redemption. The accrued interest on such 2019 Bonds to the date fixed for their redemption shall be paid from the Interest Account; *provided, however*, that if the amount then held in the Interest Account is not sufficient to pay such accrued interest then, at the direction of SANDAG expressed in a certificate of an Authorized Officer filed with the Trustee, such accrued interest may be paid from moneys in the Capitalized Interest Account or from moneys in the Redemption Account. If the amount then held in the Redemption Account is not sufficient to redeem all of the 2019 Bonds of any maturity then eligible for redemption in a Short-Term Defeasance, then the Trustee shall proceed to select the 2019 Bonds to be redeemed by lot within such maturity. The Trustee shall file with SANDAG a notice specifying the 2019 Bonds called for redemption pursuant to this subsection and shall send notices of redemption to holders of the affected 2019 Bonds in accordance with the Indenture.

In connection with any redemption pursuant to the Indenture of 2019 Bonds not eligible to be redeemed within 60 days after delivery of the related Redemption Account Notice (a “Long-Term Defeasance”), the Trustee shall apply the amounts held in the Redemption Account to defease such 2019 Bonds subject to Long-Term Defeasance. The accrued interest on such 2019 Bonds to the date fixed for their redemption shall be paid from the Interest Account; *provided, however*, that if the amount then held in the Interest Account is not sufficient to pay such accrued interest then, at the direction of SANDAG expressed in a certificate of an Authorized Officer filed with the Trustee, such accrued interest may be paid from moneys in the Capitalized Interest Account or from moneys in the Redemption Account. If the amount then held in the Redemption Account is not sufficient to defease all of the 2019 Bonds of any maturity then eligible for Long-Term Defeasance, then the Trustee shall proceed to select the 2019 Bonds to be defeased by lot within such maturity. The Trustee shall file with SANDAG a notice specifying the 2019 Bonds defeased pursuant to this subsection. In order to effect such defeasance, either (a) moneys as directed in writing by SANDAG in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the defeased 2019 Bonds on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Owners of the 2019 Bonds to be defeased, or (b) Defeasance Securities as directed in writing by SANDAG in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the provisions of the Indenture. The Trustee shall send such notices and take such other actions in connection with the Long-Term Defeasance of such 2019 Bonds in accordance with the Indenture.

The Trustee shall redeem or defease such 2019 Bonds pursuant to the Indenture in the principal amount that will reduce the balance of the Redemption Account to less than \$5,000.

Moneys held in the accounts of the Debt Service Fund shall be invested as provided in the Indenture. Investment income earned as a result of such investment shall be retained in said accounts.

The amount, if any, deposited in the Interest Account from the proceeds of Bonds shall be set aside in such account and applied to the payment of the interest on the Bonds with respect to which such proceeds were deposited in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Bonds. On May 15 of each Federal Fiscal Year, after paying all interest on the Bonds due on such date, the Trustee shall release from the Interest Account the excess, if any, of the amount previously deposited to pay interest on the Bonds during such Federal Fiscal Year over the amount actually paid as interest on the Bonds during such Federal Fiscal Year, and apply such released amount to the remaining funds and accounts specified in the Indenture's flow of funds.

Debt Service Reserve Fund

If on any Interest Payment Date or Principal Payment Date the aggregate amount to the credit of the Debt Service Fund shall be less than the amount required to pay such interest or principal due on the Outstanding Bonds (and any other net amounts payable by SANDAG from the Interest Account pursuant to the Indenture, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent necessary to cure such deficiency, in the following order of priority: first, to the credit of the Interest Account and then to the credit of the Principal Account.

Whenever the amount to the credit of the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, the Trustee shall withdraw the amount of any such excess from the Debt Service Reserve Fund and (i) prior to completion of the Project, as certified by SANDAG, transfer such amount to the Construction Fund and (ii) on or after completion of the Project, as certified by SANDAG, allocate such amount to the various funds, accounts and subaccounts in the same manner as Grant Receipts are allocated pursuant to the Indenture; *provided, however*, that upon the written direction of an Authorized Officer, the Trustee shall promptly transfer all or any portion of the amount of such excess, as specified in such direction, to a refunding or defeasance escrow established pursuant to the Indenture.

Whenever the amount to the credit of the Debt Service Reserve Fund (exclusive of any Debt Service Reserve Credit Facility as described in the Indenture) together with the amount to the credit of the Debt Service Fund, is sufficient to pay all Outstanding Bonds in accordance with their terms, the funds on deposit to the credit of the Debt Service Reserve Fund shall be transferred to the Debt Service Fund.

SANDAG may satisfy the Debt Service Reserve Requirement as set forth below:

(1) Notwithstanding the requirements of the Indenture, in lieu of the deposit of cash into the Debt Service Reserve Fund SANDAG may cause to be deposited therein, a surety bond, an insurance policy, a letter of credit or other credit facility (any such instrument referred to in the Indenture as a "*Debt Service Reserve Credit Facility*") which, in each case, shall be in an amount equal to the difference between the Debt Service Reserve Requirement and the sums then on deposit to the credit of the Debt Service Reserve Fund, if any. Any Debt Service Reserve Credit Facility deposited in the Debt Service Reserve Fund shall be payable to the Trustee for the equal and ratable benefit of all of the Owners of the Outstanding Bonds on any date on which moneys shall be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of the Principal of or interest on any Outstanding Bonds, which withdrawal cannot be met by any cash on deposit to the credit of the Debt Service Reserve Fund. The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies

insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in either of the two highest rating categories by any Rating Agency, or any insurer who holds the highest policyholder ratings accorded insurers by any Rating Agency, in each case at the time such surety bond or insurance policy is obtained. The letter of credit issuer shall be a bank or trust company and any other credit facility issuer shall be a company or other legal entity which is rated in either of the two highest rating categories by any Rating Agency at the time such letter of credit is obtained. If a disbursement is made pursuant to any Debt Service Reserve Credit Facility pursuant to this subparagraph, SANDAG shall be obligated either (i) to reinstate the maximum limits of such Debt Service Reserve Credit Facility in accordance with the terms thereof or (ii) to deposit to the credit of the Debt Service Reserve Fund, funds in the amount of the disbursement made under such Debt Service Reserve Credit Facility, or a combination of such alternatives, as shall provide that the amount to the credit of the Debt Service Reserve Fund equals the Debt Service Reserve Requirement. Pursuant to a certificate of an Authorized Officer filed with the Trustee, SANDAG may direct the Trustee to withdraw amounts deposited from Grant Receipts into the Debt Service Reserve Fund to make payments necessary to reinstate the maximum limits of a Debt Service Reserve Credit Facility, which certificate may direct the use of such amounts for that purpose prior to the use for any other purpose. If disbursements have been made pursuant to more than one Debt Service Reserve Credit Facility, such payments shall be made on a pro-rata basis.

(2) If any Debt Service Reserve Credit Facility deposited with the Trustee as provided in subparagraph (1) of this subsection is withdrawn by the issuer thereof or expires and is not renewed, SANDAG shall fund the resulting deficiency with respect to the Debt Service Reserve Requirement (a) by depositing in the Debt Service Reserve Fund a new Debt Service Reserve Credit Facility meeting the requirements of subparagraph 506(D)(1) or (b) by funding the Debt Service Reserve Fund from Grant Receipts as provided in the Indenture.

Capitalized Interest Account

On the date of issuance of the 2019 Bonds, the Trustee shall deposit into the Capitalized Interest Account the amount set forth in the Indenture. The moneys in the Capitalized Interest Account shall be used by the Trustee to pay the interest on the 2019 Bonds on each Interest Payment Date to and including May 15, 2020. The Capitalized Interest Account shall be invested as provided in the Indenture. Investment income earned as a result of such investment shall be retained in the Capitalized Interest Account. Any moneys remaining in the Capitalized Interest Account after May 15, 2020 shall be transferred to the Interest Account and the Capitalized Interest Account shall be closed.

Rebate Fund

If SANDAG shall invest the proceeds of Bonds or other moneys in any investments that generate income that must be rebated or paid to the United States of America pursuant to Section 148(f) of the Code and with respect to the Bonds, an amount equal to such income shall be deposited annually in the Rebate Fund, by January 15 of each year or as soon thereafter as possible.

SANDAG shall prepare and file with the Trustee a certificate of an Authorized Officer specifying the amount to be deposited in the Rebate Fund pursuant to the Indenture and directing the Trustee to withdraw such amount from the Construction Fund or to provide from such deposit from the application of Grant Receipts pursuant to the Indenture. In the absence of such direction, the Trustee shall withdraw such amount from the Construction Fund.

At the direction of SANDAG expressed in a certificate of an Authorized Officer filed with the Trustee, moneys in the Rebate Fund shall be applied to pay such amounts as are required to be paid to the United States of America pursuant to Section 148(f) of the Code. The Trustee shall withdraw from the

Rebate Fund and deposit into any one or more of the accounts of the Debt Service Fund the amounts stated in a certificate of an Authorized Officer filed with the Trustee and directing such withdrawal, provided that such certificate shall state that upon such withdrawal the sum remaining in the Rebate Fund will be sufficient to pay any rebate amount expected to be due the United States of America during the next ensuing twelve months with respect to the Bonds. The Trustee may rely conclusively upon SANDAG determinations, calculations and certifications required by the Indenture. The Trustee shall have no responsibility independently to make any calculation or determination or to review SANDAG's calculations under the Indenture.

Grant Receipts Construction Fund

Prior to the transfer of Grant Receipts into the Grant Receipts Construction Fund as provided in the Indenture, SANDAG shall deliver to the Trustee a certificate of an Authorized Officer stating that the total amount of Grant Receipts deposited into the Grant Receipts Construction Fund will not exceed \$174,500,000 in the aggregate.

The Trustee shall, during and upon completion of construction of the Project, make payments from the Grant Receipts Construction Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. Before any such payment shall be made, SANDAG shall file with the Trustee its requisition therefor, substantially in the form attached to the Indenture as Exhibit C, stating (a) the item number of such payment; (b) in respect of each payment to be reimbursed: (i) the name of the person, firm or corporation to whom payment was due, (ii) the amount to be reimbursed, and (iii) in reasonable detail the purpose for which the obligation was incurred, which may be in a format similar to SANDAG's monthly expenditure reports to the FTA pursuant to the Full Funding Grant Agreement; (c) that obligations in the stated amounts have been incurred by SANDAG for the construction of the Project, and that each item thereof is a proper charge against the Grant Receipts Construction Fund and is a proper Cost of Construction and has not been previously reimbursed, (d) that there has not been filed with or served upon SANDAG notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon SANDAG, that such lien, attachment or claim has been released or discharged, (e) that such requisition contains no item representing payment on account of any retained percentages which SANDAG is at the date of such certificate entitled to retain, (f) that SANDAG expects to commence revenue operations of the Project on or before the Required Revenue Service Date, or in the alternative, that SANDAG is in the process of developing or has developed a Recovery Plan pursuant to the Full Funding Grant Agreement and, if developed, is diligently taking action to carry out such Recovery Plan, and (g) the total remaining amount SANDAG expects to receive under the Full Funding Grant Agreement, after the transfer of funds into the Grant Receipts Construction Fund, will be equal to at least 100% of the sum of (i) the principal amount of the Outstanding Bonds plus (ii) the Interest Requirement with respect to the Outstanding Bonds, assuming such Bonds are paid on their stated maturity dates, minus (iii) moneys in the Debt Service Reserve Fund and investment earnings thereon.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the Grant Receipts Construction Fund to SANDAG or the obligors named in such requisition an amount equal to the total of the amounts to be paid as set forth in such requisition. In making such transfer, the Trustee may rely upon the representations made in such requisition and accompanying certificates.

Subordinated Indebtedness

Nothing in the Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, SANDAG (to the extent now or hereafter permitted by law) from issuing bonds, certificates or other evidences of indebtedness payable as to principal and interest from Grant Receipts, but only if such

indebtedness is junior and subordinate in all respects to any and all Bonds issued and Outstanding under the Indenture.

Investment of Certain Moneys

Moneys held in the Debt Service Fund and its accounts, the Debt Service Reserve Fund, the Capitalized Interest Account, the Construction Fund and the Grant Receipts Construction Fund shall be invested and reinvested by the Trustee at the written direction of an Authorized Officer in Permitted Investments which mature no later than necessary to provide moneys when needed for payments to be made from such funds, accounts or subaccounts. If no such directions are received by the Trustee, such amounts shall be invested in money market funds described in paragraph (x) of the definition of Permitted Investments, pending receipt of investment directions. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries.

Moneys held in two or more funds, accounts or subaccounts may be jointly invested in one or more Permitted Investments, provided that such investment complies with all the terms and conditions of the Indenture relating to the investment of moneys in such funds, accounts or subaccounts, as the case may be, and SANDAG maintains books and records as to the allocation of such investment as among such funds, accounts or subaccounts. Investment income from investments held in the various funds, accounts and subaccounts shall remain in and be a part of the respective funds, accounts and subaccounts in which such investments are held, except as otherwise provided in the Indenture.

SANDAG shall be responsible for all investments made under the Indenture being consistent with the expectations expressed in any tax and non-arbitrage certificate executed on behalf of SANDAG and filed with the Trustee with respect to any Series of Bonds issued under the Indenture.

Valuation and Sale of Investments

Permitted Investments in any fund, account or subaccount created under the provisions of the Indenture shall be deemed at all times to be part of such fund, account or subaccount and any profit realized from the liquidation of such investment shall be credited to such fund, account or subaccount and any loss resulting from liquidation of such investment shall be charged to such fund, account or subaccount.

Valuations of Permitted Investments held in the funds, accounts and subaccounts established under the Indenture shall be made by the Trustee as often as may be necessary to determine the amounts held therein. In computing the amounts in such funds, accounts and subaccounts, Permitted Investments therein shall be valued as provided in the Indenture.

The value of Permitted Investments shall mean the fair market value thereof. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers.

Except as otherwise provided in the Indenture, the Trustee at the direction of an Authorized Officer shall sell or present for redemption any Permitted Investment held in any fund, account or subaccount held by the Trustee whenever it shall be necessary to provide moneys to meet any payment or transfer from such fund, account or subaccount as the case may be. The Trustee and SANDAG shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

SANDAG acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant SANDAG the right to receive brokerage confirmations of security transactions as they occur, SANDAG specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish SANDAG periodic (and not less frequently than monthly) cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Indenture.

Certain Covenants of SANDAG

Extension of Payment of Bonds. If the maturity of any Bond or installment of interest shall be extended pursuant to the written consent of the Owner thereof, such Bond or installment of interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to payment out of Grant Receipts or the funds, accounts and subaccounts established by the Indenture (except the Rebate Fund) or moneys held by the Trustee (except moneys held in trust for the payment of such Bond or installment of interest) until the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing in the Indenture shall be deemed to limit the right of SANDAG to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Further Assurance. At any and all times SANDAG shall, as far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further indentures, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming, all and singular, the rights, Grant Receipts and other moneys, securities and funds pledged or assigned pursuant to the Indenture, or which SANDAG may become bound to pledge or assign.

Power to Issue Bonds and Pledge Grant Receipts. SANDAG is duly authorized under all applicable laws to issue the Bonds and to execute and deliver the Indenture and to pledge the Grant Receipts and other moneys, securities and funds pledged by the Indenture and to grant the lien granted by the Indenture thereon in the manner and to the extent provided in the Indenture. The Grant Receipts and other moneys, securities and funds so pledged, and subject to such lien, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created by the Indenture, and all action on the part of SANDAG to that end has been and will be duly and validly taken. The Bonds and the provisions of the Indenture are and will be valid and legally enforceable obligations of SANDAG in accordance with their terms and the terms of the Indenture, except to the extent enforceability may be limited by bankruptcy, insolvency and other laws affecting conditions, rights or remedies and the availability of equitable remedies generally. SANDAG covenants that upon the date of issuance of any of the Bonds, all conditions, acts and things required by the Constitution and laws of the State of California and the Indenture to exist, to have happened and to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed. SANDAG shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the Grant Receipts and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands.

Indebtedness and Liens. SANDAG shall not issue any bonds or other evidences of indebtedness, other than the Bonds and Subordinated Indebtedness, which are secured by a pledge of or lien on the Grant Receipts or the moneys, securities or funds held or set aside by SANDAG or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Grant Receipts or such moneys, securities or funds; *provided, however*, that nothing contained in the Indenture shall prevent SANDAG from issuing evidences of indebtedness

payable from, or secured by the pledge of, Grant Receipts to be received on and after such date as the pledge of Grant Receipts provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Construction of Project. SANDAG shall forthwith proceed to complete the construction of the Project in conformity with the Full Funding Grant Agreement and all requirements of all governmental authorities having jurisdiction, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by SANDAG and which are permitted under the provisions of the Full Funding Grant Agreement.

Payment of Lawful Charges. SANDAG shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the Grant Receipts; *provided, however*, that nothing in the Indenture contained shall require SANDAG to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Full Funding Grant Agreement. SANDAG shall comply with all of the provisions of the Full Funding Grant Agreement so as to preserve at all times its right to receive Grant Receipts. SANDAG shall file promptly with the Trustee a copy of the Full Funding Grant Agreement and each amendment thereof or supplement thereto. The Trustee shall have no duty to review the Full Funding Grant Agreement or any amendment thereof or supplement thereto. SANDAG shall not unilaterally terminate, or enter any agreement to terminate, the Full Funding Grant Agreement. SANDAG will promptly request any payment for costs or any reimbursement for costs to which SANDAG is entitled under the Full Funding Grant Agreement. SANDAG will pay over to the Trustee within one Business Day all Grant Receipts for application in accordance with the Indenture.

Accounts and Reports. SANDAG shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Project, the Grant Receipts and the funds, accounts and subaccounts established by the Indenture and any Supplemental Indenture, and which, shall at all reasonable times be available for the inspection of the Trustee (who shall have no duty to inspect) and the Owners of not less than 25 percent in principal amount of Outstanding Bonds or their representatives duly authorized in writing. SANDAG further covenants that it will keep an accurate record of the Grant Receipts received and of the payment thereof to the Trustee.

Tax Covenants.

(A) **Special Definitions.** When used in the Indenture, the following terms have the following meanings:

“Computation Date” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Gross Proceeds” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds), and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Bonds.

“Investment” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Nonpurpose Investment” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and that is not acquired to carry out the governmental purposes of the Bonds.

“Rebate Amount” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Yield” of

- (i) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and
- (ii) the Bonds has the meaning set forth in section 1.148-4 of the Tax Regulations.

(B) Not to Cause Interest to Become Taxable. SANDAG shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Bonds to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until SANDAG receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, SANDAG shall comply with each of the specific covenants in the Indenture.

(C) No Private Use or Private Payments. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, SANDAG shall at all times prior to the payment and cancellation of the last Bond to be paid and canceled:

(1) use its best efforts to ensure that SANDAG or a related local governmental entity exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the jurisdiction of SANDAG or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(D) No Private Loan. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, SANDAG shall not use Gross Proceeds of any Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (a) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (b) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (c) indirect benefits of such Gross

Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan.

(E) Not to Invest at Higher Yield. Except as would not cause any Bond to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, SANDAG shall not at any time prior to the final maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of such Bond within the meaning of said section 148.

(F) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, SANDAG shall not take or omit to take any action that would cause any Bond to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(G) Information Report. SANDAG shall timely file any information required by section 149(e) of the Code with respect to the Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(H) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations and rulings thereunder:

(1) SANDAG shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least eight years after the day on which the last Bond is discharged. However, to the extent permitted by law, SANDAG may commingle Gross Proceeds of the Bonds with its other money, provided that SANDAG separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, SANDAG shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder. SANDAG shall maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the Bonds until eight years after the final Computation Date.

(3) In order to assure the excludability of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes, SANDAG shall pay or cause the Trustee to pay on its behalf to the United States the amount that when added to the future value of previous rebate payments made for the Bonds equals (A) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Tax Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (B) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by SANDAG at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, and shall be accompanied by Form 8038-T prepared by SANDAG or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder for execution and filing by SANDAG.

(4) SANDAG shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (i) and (ii) above, and if an error is made,

to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) or other provision of the Tax Regulations.

(I) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, SANDAG shall not, at any time prior to the final maturity of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to the Indenture because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield on the Bonds not been relevant to either party.

(J) Bonds Not Hedge Bonds.

(i) SANDAG represents that the Bonds neither are nor will become “hedge bonds” within the meaning of section 149(g) of the Code.

(ii) Without limitation of paragraph (I) above, with respect to the Bonds, (A) on the date of issuance of the Bonds, SANDAG reasonably expects that at least 85% of the spendable proceeds of the Bonds will be expended within the three-year period commencing on such date of issuance, and (B) no more than 50% of the proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

(K) Elections. Pursuant to the Indenture, SANDAG directs and authorizes any Authorized Officer to make elections permitted or required pursuant to the provisions of the Code or the Tax Regulations, as such Authorized Officer (after consultation with Bond Counsel) deems necessary or appropriate in connection with the Bonds, in the Tax Certificate or similar or other appropriate certificate, form or document.

Notwithstanding any provision of the Indenture, if SANDAG shall receive a written opinion of Bond Counsel to the effect that any action required under 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 Bonds pursuant to section 103 of the Code, SANDAG 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.

Continuing Disclosure. Pursuant to the Indenture, SANDAG covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of SANDAG to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Owner or beneficial owner of 2019 Bonds may take such actions, as provided in the Continuing Disclosure Agreement, as may be necessary and appropriate to cause SANDAG to comply with its obligations under the Continuing Disclosure Agreement.

FTA Funds. SANDAG shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5309 that are to be provided for the Project in order to at all times facilitate the prompt receipt by SANDAG of Full Funding Grant Receipts. All of such moneys constituting Grant Receipts, when received by SANDAG, shall be deposited promptly with the Trustee.

SANDAG shall use its best efforts to obtain or cause to be available for the funding of costs of the Project and related financing costs, all moneys identified under Attachment 3 of the Full Funding Grant Agreement.

Events of Default and Remedies

Events of Default. Each of the following events is declared an “*Event of Default*”:

(1) if a default shall occur 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 or by call for redemption or otherwise;

(2) if a default shall occur in the due and punctual payment of interest on any Bond, when and as such interest shall become due and payable;

(3) if a default shall occur in the performance or observance by SANDAG of any other of the covenants, agreements or conditions in the Indenture or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to SANDAG by the Trustee or after written notice thereof to SANDAG and to the Trustee by the Owners of not less than a majority in principal amount of the Outstanding Bonds; or

(4) if SANDAG shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of California.

Accounting and Examination of Records after Event of Default. SANDAG covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of SANDAG and all other records relating to the Grant Receipts shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

SANDAG covenants that if an Event of Default shall have happened and shall not have been remedied, SANDAG, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all and other moneys, securities and funds held by SANDAG pursuant to the terms of the Indenture for such period as shall be stated in such demand.

Application of Grant Receipts and Other Moneys after Event of Default. SANDAG covenants that if an Event of Default shall happen and shall not have been remedied, SANDAG, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by SANDAG in any fund, account or subaccount pursuant to the terms of the Indenture, and (ii) all Grant Receipts as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and Grant Receipts and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable fees, charges and expenses of the Trustee, including the reasonable fees and expenses of counsel and advisors employed by it pursuant to this Article;

(2) to the payment of the principal of, Redemption Price of and interest on the Bonds then due, as follows:

First: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable fees, charges and expenses of the Trustee, and all other overdue sums payable by SANDAG under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of SANDAG, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to SANDAG all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon SANDAG, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such payment over to SANDAG by the Trustee nor such restoration of SANDAG and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Proceedings Brought by Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for an accounting against SANDAG as if SANDAG were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name.

All actions against SANDAG under the Indenture shall be brought in a state or federal court located in the County of San Diego, California.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the

action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding, and furnished with security and indemnity satisfactory to the Trustee, shall be under no obligation, to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

Restriction on Owners' Action. No Owner of any Bond shall have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of the State of California or to institute such suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of SANDAG, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Effect of Waiver and Other Circumstances. No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein.

The Owners of not less than two-thirds in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal or Redemption Price of any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Notice of Event of Default. The Trustee shall promptly mail written notice of the occurrence of any Event of Default to the Owners of the Bonds.

Concerning the Trustee

Certain Permitted Acts. The Trustee may become the Owner of any Bonds, with the same rights it would have if it were not the Trustee. To the extent permitted by law, the Trustee may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties by or through attorneys, agents or receivers and shall not be answerable for the conduct of the same if appointed with due care under the Indenture, and shall be entitled to advice of counsel concerning all matters of trusts of the Indenture and duties under the Indenture, and may in all cases pay such reasonable compensation to any attorney, agent, receiver, or employee retained or employed by it in connection with the Indenture. The Trustee may act upon the opinion or advice of an attorney or accountant selected by it in the exercise of reasonable care or, if selected or retained by SANDAG, approved by the Trustee in the exercise of such care. The Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

At any and all reasonable times, the Trustee, and its duly authorized agents, attorneys, experts, accountants and representatives, shall have the right (but not any duty) fully to inspect any and all books, papers and records of SANDAG pertaining to the Bonds, and to take such memoranda from and in regard thereto as may be desired.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to SANDAG, all Owners of the Bonds, and each Credit Bank and Bond Insurer, if any, and such resignation shall take effect upon the day specified in such notice but only if a successor shall have been appointed by SANDAG or the Owners as provided in the Indenture, in which event such resignation shall take effect immediately on the appointment of such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee shall not have been appointed within a period of 60 days following the giving of notice, then the Trustee shall be authorized to petition any court of competent jurisdiction to appoint a successor Trustee as provided in the Indenture.

Removal of Trustee. The Trustee may be removed at any time by an instrument in writing delivered to the Trustee and signed by SANDAG; provided, however, that if an Event of Default shall have occurred and be continuing, the Trustee may be so removed by SANDAG only with the written concurrence of the Owners of a majority in principal amount of Bonds then Outstanding. The Trustee may be removed at any time by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of SANDAG, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to SANDAG. Copies of each such instrument shall be delivered by SANDAG to the Trustee.

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer or court shall take charge or control of the Trustee, or of its property or affairs, SANDAG shall appoint a successor Trustee. SANDAG shall cause notice of any such appointment by it made to be mailed to all Owners of the Bonds.

If no appointment of the Trustee shall be made by SANDAG pursuant to the provisions of the Indenture, the Owner of any Bond Outstanding under the Indenture may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee shall be a bank or trust company or national banking association, doing business and having a corporate trust office in the State of California, and having capital stock and surplus aggregating at least \$500,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which all or substantially all of the corporate trust business of the Trustee may be sold or transferred, shall be the successor to the Trustee and be bound to the obligations and duties of the Trustee under the Indenture without the execution or filing of any paper or the performance of any further act, unless such successor delivers written notice of its resignation pursuant to the provisions of this Article; *provided, however*, that such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all the duties imposed upon it by the Indenture.

Trustee Not Deemed to Have Notice of Default. The Trustee shall not be deemed to have notice of any default under the Indenture except a Bond payment default under the Indenture or the failure of SANDAG to file with the Trustee any document required by the Indenture unless any officer in its corporate trust office shall have actual knowledge thereof or the Trustee shall be specifically notified in writing of such default by SANDAG or by the Owners of not less than a majority in principal amount of the Bonds Outstanding; and all notices or other instruments required by the Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the corporate trust office of the Trustee.

Monthly Reports by Trustee. Within 15 days after the end of each calendar month, the Trustee shall prepare a written report for each fund, account and subaccount held by it pursuant to the provisions of the Indenture. Such report shall set out the receipts and disbursements, both principal and income, and shall list the Permitted Investments held by the Trustee at the end of the month. A copy of each such report shall be furnished to SANDAG and any persons designated by SANDAG. In addition, the Trustee shall, at any time when requested, including, without limitation, any request at the time of the resignation of the Trustee, furnish to SANDAG and any persons designated by SANDAG a report of the amount of moneys, including Permitted Investments, held in each fund, account or subaccount by the Trustee. For purposes of this certification, the Permitted Investments in each such fund, account and subaccount shall be treated as having a value equal to their aggregate market value as of the date of the request.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners. SANDAG and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (1) to authorize Refunding Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with the Indenture;
- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Bonds, or of other notes, bonds, obligations or evidences of indebtedness;

- (3) to impose additional covenants or agreements to be observed by SANDAG;
- (4) to impose other limitations or restrictions upon SANDAG;
- (5) to surrender any right, power or privilege reserved to or conferred upon SANDAG by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the Grant Receipts or any other moneys, securities or funds;
- (7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with the Indenture as then in effect;
- (8) to cure any ambiguity, omission or defect in the Indenture;
- (9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (10) to provide for the appointment of any successor Trustee; and
- (11) to make any other change does not materially and adversely affect the interests of the Owners.

Each Supplemental Indenture described in the Indenture shall be accompanied, when filed with the Trustee, by a Counsel's Opinion to the effect that such Supplemental Indenture has been duly authorized by SANDAG in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when executed and delivered, will be valid and binding upon SANDAG, the Owners and the Trustee.

Powers of Amendment. Except for Supplemental Indentures described in the Indenture, any modification or amendment of the Indenture and of the rights and obligations of SANDAG and of the Owners of the Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in the Indenture (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Indenture. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto. For the purposes of the Indenture, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may conclusively rely upon an opinion of Bond Counsel or a Counsel's Opinion as to whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by

any such modification or amendment, and its determination shall be binding and conclusive on SANDAG and all Owners of the Bonds.

Consent of Owners. SANDAG may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture, to take effect when and as provided in the Indenture. Subject to the provisions of the Indenture, the rights of the Owner of an Insured Bond to take any action pursuant to the Indenture are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose pursuant to any provision of the Indenture. Upon the authorization of such Supplemental Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto) together with a request to Owners for their consent thereto, shall be furnished to the Trustee by SANDAG and mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as provided in the Indenture. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by SANDAG in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon SANDAG, the Owners and the Trustee, and (b) a notice shall have been mailed as provided in the Indenture. A certificate or certificates by the Trustee delivered to SANDAG that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however*, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement referred to in the Indenture is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by this Article and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient under the Indenture, the Trustee shall make and deliver to SANDAG a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in the Indenture, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to SANDAG proof of the mailing of such notice. A record, consisting of the information required or permitted by the Indenture to be delivered by or to the Trustee, shall be proof of the matters therein stated.

Exclusion of Bonds. Bonds owned or held by or for the account of SANDAG shall not be deemed Outstanding and shall be excluded for the purpose of any calculation required by this Article. At the time of any consent or other action taken under this Article, SANDAG shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, identifying all Bonds so to be excluded.

Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article provided may, and if the Trustee so determines shall, bear a notation

by endorsement or otherwise in form approved by SANDAG and the Trustee as to such action, and upon demand of the Owner of any Bond Outstanding at such effective date and presentation of its Bond to the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If SANDAG or the Trustee shall so determine, new Bonds so modified which, in the opinion of the Trustee and SANDAG, conform to such action may be prepared, authenticated and delivered, and upon demand of the Owner of any Bond then Outstanding shall be exchanged, without cost to such Owner, for such Bond then Outstanding.

Defeasance

If SANDAG shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of SANDAG to the Owners shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of SANDAG, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with SANDAG for any year or part thereof requested, and shall execute and deliver to SANDAG all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to SANDAG all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If SANDAG shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of SANDAG to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if SANDAG shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (ii) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (iii) either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (iv) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds. In connection with any such redemption, SANDAG shall cause to be delivered a verification report of an independent, nationally recognized certified public accountant regarding the cash flow sufficiency of the deposit. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling. The Defeasance Securities and moneys deposited with the Trustee pursuant to the Indenture

shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Securities or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or Redemption Price of, or interest on, said Bonds unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Securities so held shall be sufficient, as verified by an independent, nationally recognized certified public accountant, to provide fully for the payment of the principal of or Redemption Price and interest on such Bonds, at maturity or upon redemption, as the case may be.

Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid pursuant to the Indenture, if so directed by SANDAG, shall be applied by the Trustee to the purchase of such Bonds in accordance with this subsection. Bonds for which a redemption date has been established may be purchased on or prior to the forty-fifth day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to the Indenture, plus accrued interest, and such purchases shall be made in such manner as SANDAG shall determine. No purchase shall be made by the Trustee pursuant to this subsection if such purchase would result in the Trustee holding less than the moneys and Defeasance Securities required to be held for the payment of all other Bonds deemed to be paid pursuant to the Indenture, as verified by an independent, nationally recognized certified public accountant.

SANDAG may purchase with any available funds any Bonds deemed to be paid pursuant to the Indenture in accordance with this subsection. Bonds for which a redemption date has been established may be purchased by SANDAG on or prior to the forty-fifth day preceding the redemption date. On or prior to the forty-fifth day preceding the redemption date SANDAG shall give notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to SANDAG on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay to SANDAG the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the said date when such Bonds become due and payable, shall be repaid by the Trustee to SANDAG, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to SANDAG for the payment of such Bonds.

APPENDIX C

**SANDAG COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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2018

San Diego Association of Governments

**Comprehensive
Annual Financial Report**

For the Fiscal Year Ended
June 30, 2018

San Diego, California



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San Diego Association of Governments

San Diego, California

Comprehensive Annual Financial Report

For the year ended June 30, 2018

PREPARED BY THE SAN DIEGO ASSOCIATION OF GOVERNMENTS

FINANCE DEPARTMENT

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San Diego Association of Governments

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INTRODUCTORY SECTION

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December 21, 2018

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

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 and
 County of San Diego*

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*Imperial County
 California Department
 of Transportation

 Metropolitan
 Transit System

 North County
 Transit District

 United States
 Department of Defense

 San Diego
 Unified Port District

 San Diego County
 Water Authority

 Southern California
 Tribal Chairmen's Association

 Mexico*

We are pleased to present the basic financial statements of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), for the fiscal year ended June 30, 2018. 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.

Crowe LLP has issued an unmodified ("clean") opinion on the Commission's financial statements for the fiscal year ended June 30, 2018.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's 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.

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 are used for highway, public transit, local street and road improvements, bicycle and pedestrian facilities, and administration.

In November 2004, the voters of San Diego County extended the 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 just under 3.4 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 \$215 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 20,000 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.

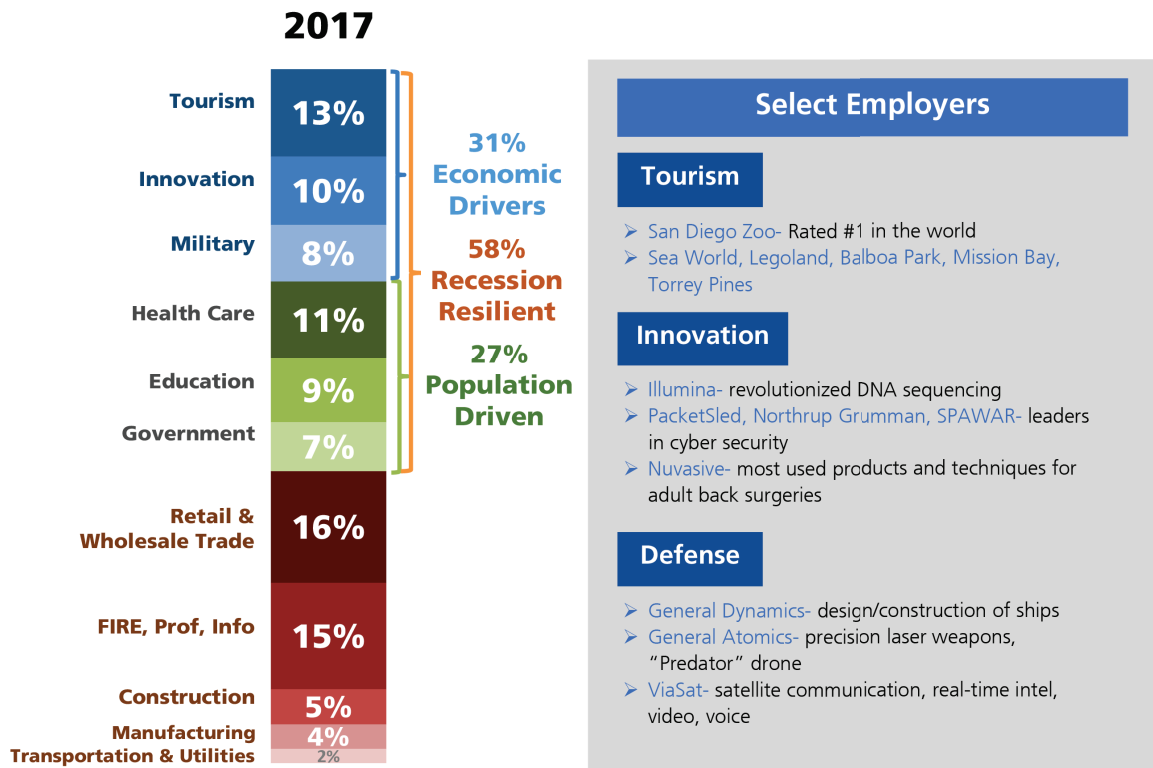
History of the San Diego Economy

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. San Diego is a region of just over 3.3 million people. 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 8 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 16 percent of the regional economy. Several sectors are “economic drivers,” specifically Tourism, the Military, and the “Innovation” sectors, which together make up almost 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 Illumina (revolutionized DNA sequencing with tremendous potential to improve health care and quality of life), PacketSled and SPAWAR (cybersecurity experts), and Nuvasive (most used products and techniques for adult back surgeries).

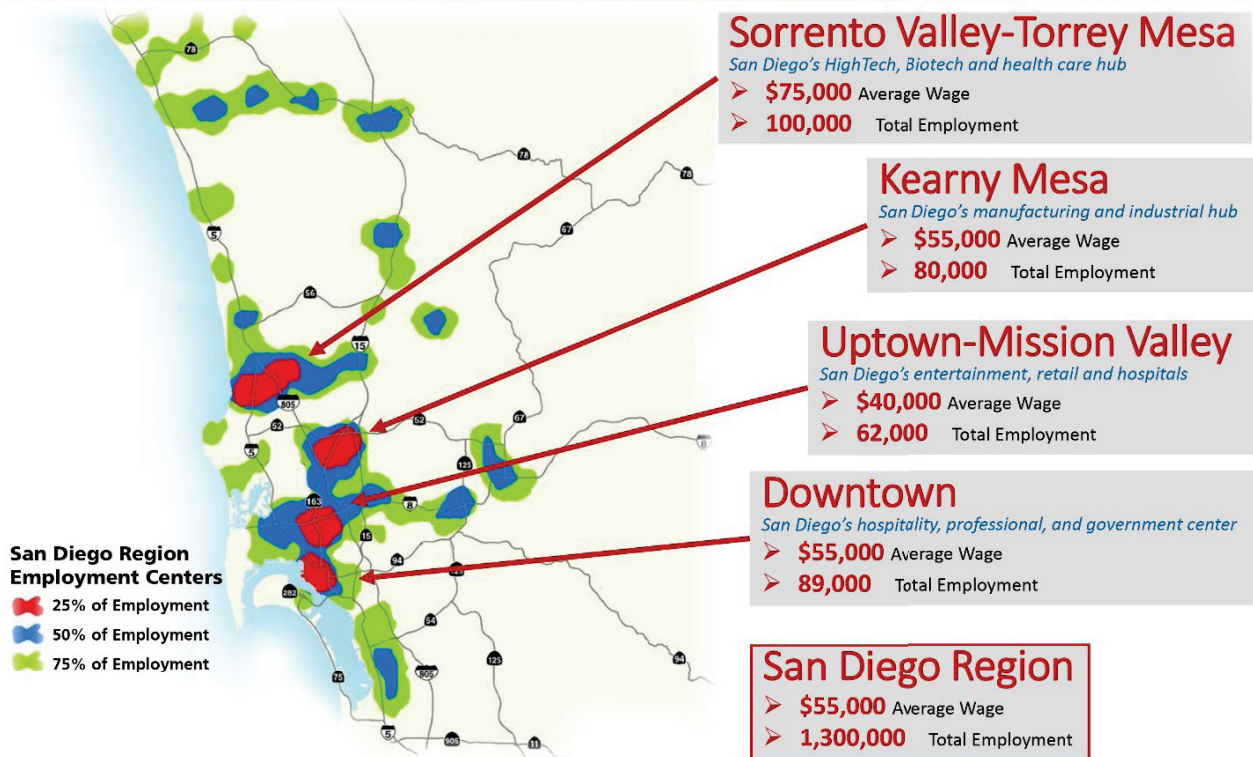
SAN DIEGO 2018: DIVERSE AND EXPANDING ECONOMIC BASE



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 58 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. 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



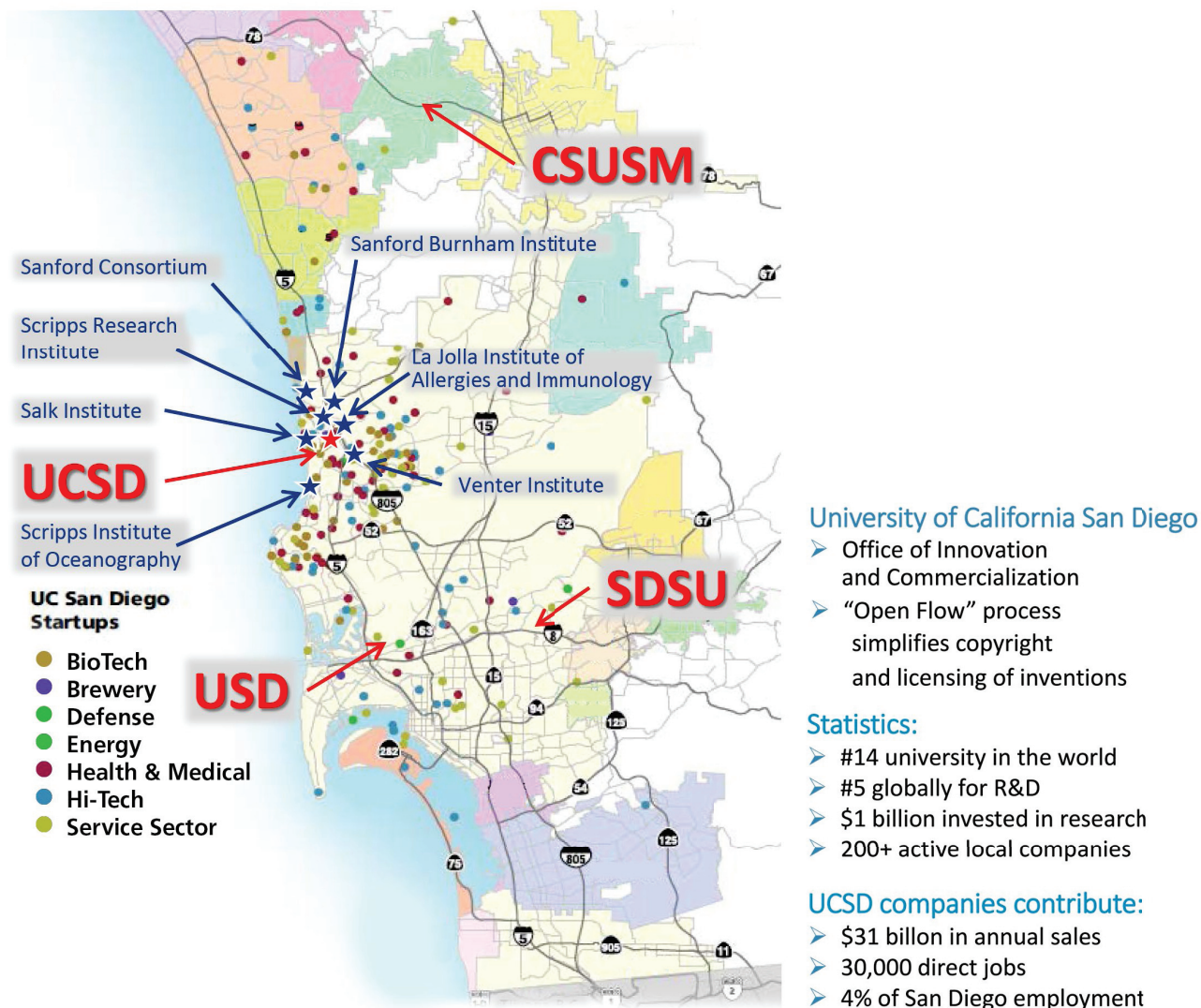
Sectors of the San Diego Economy

As mentioned, the San Diego economy is balanced and not reliant on any one industry, with the largest sector accounting for 16 percent of regional employment. The diverse distribution of employment helps buffer San Diego from economic downturns, with 58 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



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 10 percent of our local economy and employs over 150,000 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 second most patent-intensive county in the United States, behind Santa Clara County, and is 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, according to Forbes.

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 attracts \$9.4 billion in government contracts each year, and almost 127,000 jobs, about 1 in 12, 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. As a result, San Diego's Hospitality sector grew two times as fast as our overall economy during the past 27 years. Nearly 37 million visitors come to San Diego annually, bringing almost \$12 billion into the regional economy. While tourism jobs pay slightly less than the average, they do provide ample entry-level employment.

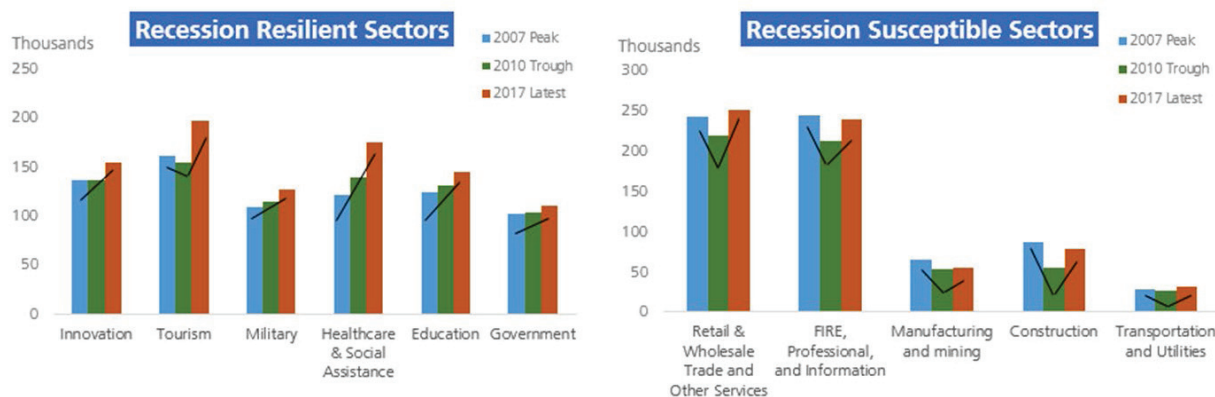
International Trade

San Diego is home to the busiest land crossing in the western hemisphere, and the economic impact is significant. Over the past 15 years, trade through the border has doubled, but decreased by one percent from 2016 to 2017. This dip in trade in the past year is due to uncertainty regarding the North American Free Trade Agreement, even with the presence of maquiladoras that provide highly skilled workers in technologically advanced factories where costs average a fraction of that in the United States.

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 3.7 percent, lower than both California (4.2%) and the United States as a whole (4.0%). 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 58% 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



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 is projected to be in the 3.8 percent range in 2018 according to the Organization for Economic Cooperation and Development, up from 3.7 percent in 2017. Nationally, growth continues its upward trend, with the Federal Open Market Committee revising their growth forecast for 2018 up to 2.8 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. However, current economic conditions send mixed signals for the Travel and Hospitality sector. Low unemployment, rising wage growth, and solid consumer confidence paint a bright economic outlook for 2018. But rising energy prices and trade uncertainty have the potential to discourage business investment. As a result, the Travel and Hospitality sector is expected to grow at a marginally slower (5%) pace than gross domestic product (5.3%) in 2018. The Military will continue 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 are expected to decline through 2019, with slowed employment and decreases in the number of housing permits expected. Manufacturing should continue its gradual, but steady, recovery, and Other Services, which includes many types of businesses, will continue to see slow growth through 2019.

Major Budget Initiatives and *TransNet* Plan of Finance Update

The FY 2019 Program Budget will see the continuation or completion of several significant work efforts and the start of several new activities, as summarized below:

Overall Work Program

New Efforts

Several new work efforts are proposed in FY 2019 to support continued implementation of the Plan of Excellence, including enhanced data quality control and governance processes at SANDAG. In particular, a formal Data Governance and Management Program to improve the accuracy and integrity of information produced and utilized throughout the agency will be implemented. Quality assurance and documentation processes also will be introduced to ensure that data flowing to and from the agency's demographic, land use, and travel demand models are reviewed in an independent and systematic manner. The continued use of a formalized Peer Review Process and the establishment of an Office of Program Management for the Technical Services Department also will help to support the on-time delivery and quality of project deliverables for agency programs and efforts.

Ongoing Efforts

As part of the FY 2019 Program Budget, SANDAG continues its efforts to improve mobility by supporting the piloting of innovative Connected and Autonomous Vehicle technologies that have the potential to reduce congestion and greenhouse gas (GHG) emissions, and improve safety. In January 2017, the San Diego region was selected by the U.S. Department of Transportation as one of ten proving grounds for autonomous vehicles in the nation. The Connected and Autonomous Vehicle Deployment Program will support the continued development and administration of the Autonomous Vehicle Proving Ground, and the development of an operational concept and business plan for the deployment of Connected and Autonomous 'ready' infrastructure .

A major focus of the agency's work in 2019 will be the continued development of the 2019 Regional Plan, which is scheduled for adoption in fall 2019. This will include significant public outreach and engagement with the Board of Directors and the community to evaluate various transportation scenarios prior to the Board's selection of a preferred scenario, that will meet regional GHG emission reduction targets established by the California Air Resources Board. As a part of the 2019 Regional Plan process, SANDAG also will work to prepare the Regional Housing Needs Assessment and the draft Environmental Impact Report for public review and comments.

Concurrently, SANDAG will continue to implement the current 2015 Regional Plan by:

- providing grants to local jurisdictions for Climate Action Plans, Complete Streets policies, Smart Growth and Active Transportation planning and capital projects, and habitat management in accordance with TransNet
- supporting specialized transportation for seniors and persons with disabilities through grants to service providers in accordance with TransNet and federal guidelines
- continuing efforts on habitat conservation, energy and climate planning, and collaborative efforts with member agencies to promote energy efficiency and reduce GHG emissions

In coordination with the quality control efforts described above, the FY 2019 Program Budget also includes the development of an updated Demographic and Economic Forecasting Model and enhancements to SPACECORE—the Geographic Information System parcel-based 3D land inventory system that SANDAG uses to maintain a wide range of information for the suite of SANDAG modeling and forecasting tools.

SANDAG also will continue to advance Transportation Demand Management strategies that expand shared mobility options through an on-demand carpool pilot project, planning for mobility hubs demonstration projects, ongoing outreach to employers, and by conducting a zero-emission vanpool pilot project.

Regional Operations and Services

Ongoing Efforts

The FY 2019 Program Budget includes funding to complete upgrades to the aging roadway toll collection systems for the State Route (SR) 125 South Bay Expressway and Interstate -15 (I-15) Express Lanes, as well as complete the transition to a new technology that will conform with State law, reduce operating costs, and improve customer convenience; as well as complete the implementation of a centralized tolling back office system that will improve operational efficiency and enhance the customer service center capabilities.

The Motorist Aid Program includes funding to continue the Freeway Service Patrol, which provides emergency roadside assistance to alleviate congestion and improve motorist safety; and to complete the implementation of the Call Box right-sizing plan that began in FY 2018.

SANDAG will continue to provide ARJIS services to member agencies and other law enforcement jurisdictions in the region. During FY 2019, ARJIS will complete the upgrade of the existing ARJISnet network with higher speed circuits and new network equipment to improve performance, security, and reliability; transition to the National Incident Based Reporting System to allow agencies to produce more robust and meaningful crime statistics; and enhance various ARJIS applications to increase officer and public safety .

Capital Program

- Continued construction of the Mid-Coast Corridor Transit Project, including construction of columns that will support the Trolley's viaduct, a bridge structure that will carry the light rail Trolley down the middle and 35 feet above Genesee Avenue.

- Began construction of the Poinsettia Station Improvements Project which will renovate the Poinsettia Station to improve traveler wait times, provide easier access, reduce train delays, enhance pedestrian safety, and upgrade station amenities.
- Began construction of the I-805 South Ultimate Soundwalls Project to construct soundwalls along I-805 between Naples Street and SR 54, as well as future improvements to the Sweetwater Bridge.
- Continued major construction activities for the I-5 North Coast: High Occupancy Vehicle (HOV) San Elijo Bridge Replacement Project, which includes two HOV lanes, a bike trail, and a multiuse facility along I-5 between Lomas Santa Fe and Birmingham Drive.
- Continued construction of the I-5/Gilman Drive Bridge Project. This new bridge will connect existing campus roads on both sides of the I-5 freeway - Gilman Drive on the west and Medical Center Drive on the east, including sidewalks and bike lanes.
- Continued construction of the South Bay Rapid Project. When completed, this project will include 11 stations along a 21-mile long corridor from the Otay Mesa border area, through Chula Vista, and along the I-805 Corridor and SR 94 Corridor, to Downtown San Diego.
- Opened the SR 15 Rapid Transit: Mid-City Centerline Stations Project to users. This project is San Diego's first freeway-level transit-only travel lanes and stations along SR 15 at El Cajon Boulevard and University Avenue, which will help improve on-time performance and connections between Rapid and local transit routes.
- Opened the Oceanside Station Pass-Through Track Project to users. Improvements include extending an existing boarding platform to the north, adding a third rail track in the center of the railroad right-of-way, building a new 1,000-foot-long boarding platform to the south, adding a new passenger walkway at the southern end of the transit center, and constructing new crossovers to improve operations. The station also improves customer amenities, including new shelters, seating, and electronic signs displaying real-time arrivals and departures.
- Opened the I-5/Genesee Avenue Project to traffic, which began in January 2015. The project replaced the existing six-lane Genesee Avenue overpass with a ten-lane structure accommodating current and future traffic demands. Along with the replacement of the overcrossing, the project widened freeway access ramps, added a northbound auxiliary lane on I-5 between Genesee Avenue and Roselle Street, and constructed a new, separated bike/pedestrian path.
- Procured sixteen new Compressed Natural Gas buses with lane keeping and blind spot warning technology to support Rapid operations travelling along the shoulder of I-805, between SR 54 and SR 94.
- Continued to implement the *TransNet* Regional Bike Plan Early Action Program, including opening Segments 4 and 5 of the Bayshore Bikeway and the SR 15 Commuter Bikeway projects to users, which added three miles of bike path to the regional bike network.
- Completed the design phase of the Coastal Rail Trail in Encinitas from E Street to Chesterfield Drive and the stadium segment of the San Diego River Trail. Once completed, these projects will add 2.3 miles of bike facility and one mile of bike path to the regional bike network.

- Completed construction of a bus operations and maintenance facility in El Cajon for the Metropolitan Transit System.
- Completed construction on the University Town Center (UTC) Transit Center Project. The transit center is located at the Westfield UTC shopping mall and is adjacent to the last stop on the future Mid-Coast Trolley line.
- The Orange and Green Line Fiber Optic Cable Project was completed, resulting in the entire Trolley communications network being fiber based.
- Completed replacement of four aging wood trestles in Los Peñasquitos Lagoon.

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 October 27, 2017. The *TransNet* Program Update allowed for continued progress on the *TransNet* Major Corridors Program. The advance delivery of Major Corridor 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.

Acknowledgments

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to SANDAG for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the tenth consecutive year that SANDAG has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report was accomplished with the cooperation of SANDAG management, financial staff, and SANDAG independent auditors, Crowe 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) Ann Fox, Deputy Director

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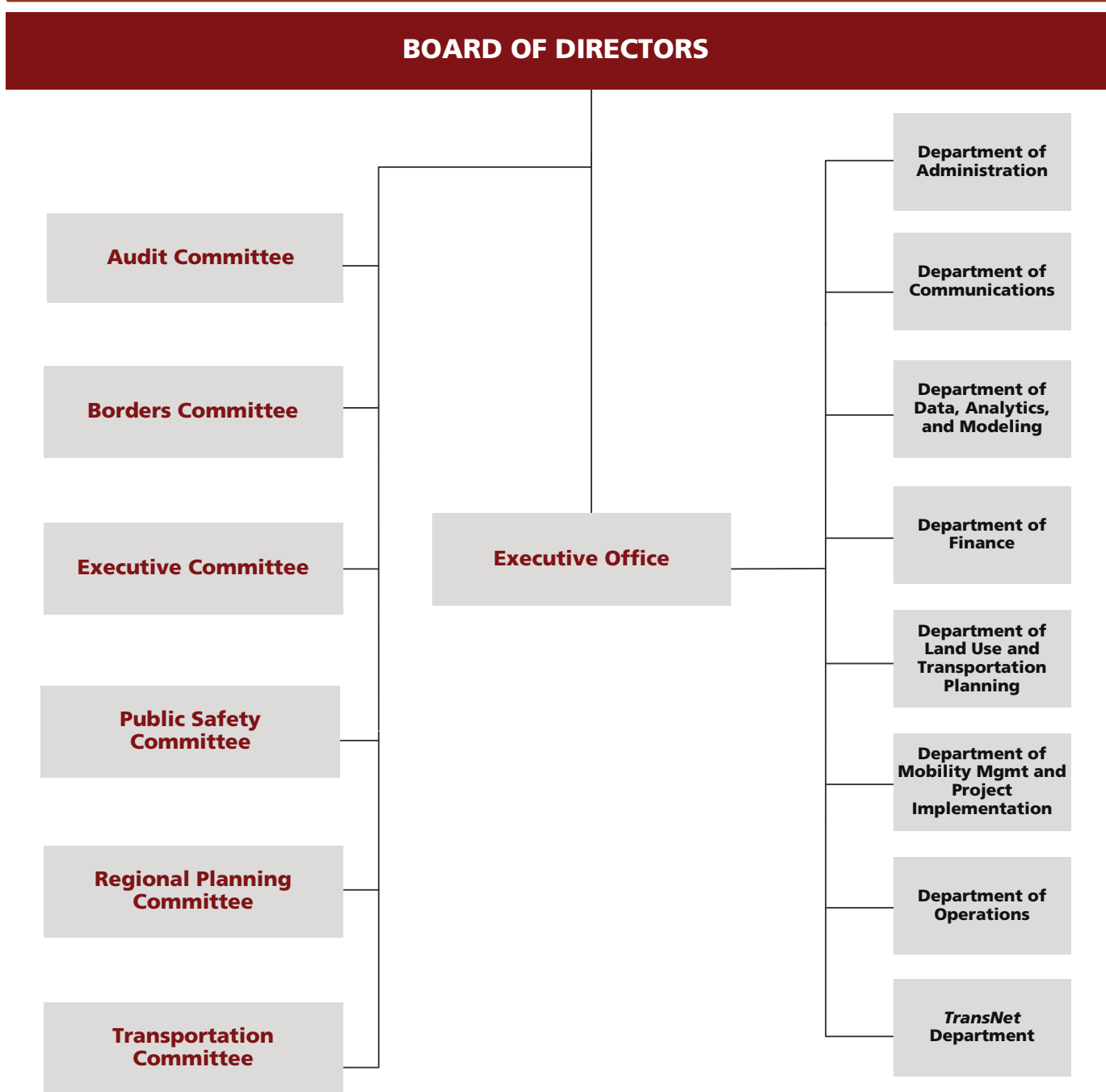
SAN DIEGO ASSOCIATION OF GOVERNMENTS

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As of June 30, 2018

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Chief Deputy Executive Director	Kim Kawada
General Counsel	John Kirk
Director of Administration	Laura Coté
Director of Communications	David Hicks
Director of Finance	André Douzdjian
Director of Land Use and Transportation Planning	Charles “Muggs” Stoll
Director of Mobility Management and Project Implementation	Jim Linthicum
Director of Operations	Ray Traynor
Director of Data, Analytics, and Modeling 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





Government Finance Officers Association

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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise SANDAG'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of SANDAG, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note M to the financial statements, during the year ended June 30, 2018, SANDAG adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which resulted in a restatement of July 1, 2017 net position of governmental activities, business-type activities, the SR 125 toll road fund, and the discretely presented component unit in the amounts of \$1,481,323, \$105,858, \$105,858, and \$55,051, respectively. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net OPEB liability and related ratios, schedule of OPEB contributions, schedule of changes in net pension liability and related ratios, schedule of plan contributions, and budgetary comparison information for the general fund and San Diego County Regional Transportation Commission sales tax projects fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SANDAG's basic financial statements. The introductory section, combining and individual fund statements and schedules, budgetary comparison information for the capital projects fund, San Diego County Regional Transportation Commission debt service fund, general services fund, and SAFE program fund, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules and budgetary comparison information for the capital projects fund, San Diego County Regional Transportation Commission debt service fund, general services fund, and SAFE program fund are the responsibility of management and were 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 combining and individual fund statements and schedules and budgetary comparison information for the capital projects fund, San Diego County Regional Transportation Commission debt service fund, general services fund, and SAFE program fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018 on our consideration of SANDAG'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 SANDAG's internal control over financial reporting and compliance.



Crowe LLP

Costa Mesa, California
December 21, 2018

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Management's Discussion and Analysis

As management of the San Diego Association of Governments (SANDAG), we provide this narrative overview and analysis of the financial activities of SANDAG for the fiscal year ended June 30, 2018. The intent of this analysis is to assist the readers of SANDAG financial statements in better understanding the overall financial condition of the agency. The information presented here should be considered in conjunction with the information provided in the Letter of Transmittal.

Financial Highlights

- SANDAG reported net position of \$101,861,213. Of this amount, net position (deficit) of (\$623,557,993) is considered unrestricted. A significant factor related to the net position balance is the issuance of \$2,045,585,000 in bonds issued in 2008, 2010, 2012, 2014, and 2016 and the issuance of \$537,480,000 Series A Subordinate Sales Tax Revenue Short-Term Notes (2018 short-term notes) by the Commission in 2018 for a total of \$2,583,065,000 as part of the Early Action Program. This was to expedite congestion relief projects focusing on jump-starting construction of the region's top priority transportation infrastructure projects.
- SANDAG total net position decreased by \$107,197,567 in fiscal year 2018. This decrease is primarily due to higher capital project expenses utilizing proceeds from the bond issuances offset by an increase in capital assets.
- As of the close of the current fiscal year, SANDAG governmental funds reported combined ending fund balances of \$858,119,796. Of this total amount, \$856,497,164 is restricted for debt service and project spending, \$876,781 as nonspendable prepaid items, \$7,990,000 committed to contingency reserve, \$140,460 assigned to project expenses and \$7,384,609 as an unassigned fund deficit.
- SANDAG total debt balance at the close of the current fiscal year increased by \$524,723,925 comparing to that of fiscal year 2017. This is primarily due to the issuance of \$537,480,000 2018 short-term notes with \$31,625,092 premium in fiscal year 2018, offset by bond principal repayments of \$27,120,000 and the \$28,786,000 principal repayment of commercial paper. At the end of the current fiscal year, the San Diego County Regional Transportation Commission (Commission), a blended component unit of SANDAG, had a total debt outstanding of \$2,476,542,860. In November 2017, State Route 125 toll road fund (SR 125 fund) issued a \$194,140,000 of Series A toll revenue bonds for the purpose of providing funds to refinance the Transportation Infrastructure Finance and Innovation Act (TIFIA) notes assumed in connection with the acquisition of the South Bay Expressway. The 2017 Series A toll revenue bonds includes a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent. As of June 30, 2018, SR 125 fund had a total debt outstanding of \$230,697,785.

Overview of the Financial Statements

The SANDAG 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 combining statements and additional supplementary information; and (5) a statistical section, which furnishes relevant statistical data of the agency.

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

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

The *statement of net position* presents financial information on all SANDAG 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 SANDAG is improving or deteriorating.

The *statement of activities* presents information showing changes in the SANDAG net position during the most recent fiscal year. All changes in net position are reported when the underlying events 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.

Both of the government-wide financial statements distinguish functions of SANDAG that are principally supported by sales taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of SANDAG include general government, net of cost recovery, modeling and research, criminal justice, sustainable development, sustainable mobility programs and services, internal and external coordination, Service Authority for Freeway Emergency Operations (SAFE) program, bicycle facilities, Independent Taxpayer Oversight Committee (ITOC), major corridor capital projects, major corridor environmental mitigation, local project environmental mitigation, local street improvements, smart growth, new major corridor transit operations, transit system improvements, transit capital contributions, and interest on long-term debt. Intermodal planning and implementation as one of the areas of emphasis in previous years has merged with sustainable mobility programs and services.

The business-type activities of SANDAG include the Service Bureau, which provides informational and technical services to member agencies, nonmember government agencies, private organizations, and individuals to enhance the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the Regional Information System; SourcePoint, which is a 501(c)(3) nonprofit public benefit corporation chartered in 1982 by SANDAG to provide data research for the San Diego region and solving regional planning issues and assisting local governments with special projects; the Property Management Fund, which provides property management functions for the commercial buildings purchased by the agency this fiscal year; the Interstate 15 (I-15) *FasTrak*[®] program, which allows solo drivers to pay a toll to use the express lanes on I-15; and the State Route 125 (SR 125) toll road operations, an 11.2-mile, limited-access highway in the County of San Diego.

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

The government-wide financial statements can be found on pages 25 to 27 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. SANDAG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of SANDAG are either governmental-type funds or proprietary funds.

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

SANDAG maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Commission sales tax projects fund, capital projects fund, and Commission debt service fund, which are considered to be major funds. Data from the two nonmajor funds which are: (1) the general services fund; and (2) the SAFE program fund, are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report. *TransNet* fund, reported in prior years' financial statements has been removed, and the passthrough revenue from the Commission to other governmental funds is recategorized as transfer out in Other Financing Sources (Uses) section of the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Proprietary funds. SANDAG maintains five proprietary funds. Proprietary funds can either be enterprise funds or internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. SANDAG uses enterprise funds to account for its I-15 *FasTrak* program, Service Bureau program, SourcePoint, property management of the commercial buildings, and the SR 125 toll road operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the SR 125 fund, which is considered to be a major fund. Data from the other four nonmajor proprietary funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor proprietary funds are provided in the form of combining statements in the combining and individual fund statements and schedules of this report.

The basic proprietary fund financial statements can be found on pages 43 to 45 of this report.

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 statements can be found on pages 49 to 99 of this report.

Other information. In addition to the basic financial statements, required supplementary information can be found on pages 103 to 110 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and proprietary funds are presented immediately following the required supplementary information on pensions and other post-employment benefits. Combining and individual fund statements and schedules can be found on pages 113 to 117 of this report.

San Diego Association of Governments' Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Interfund balances	\$ (1,361,515)	\$ 55,399,041	\$ 1,361,515	\$ (55,399,041)	\$ -	\$ -
Capital assets	1,456,702,490	1,178,085,074	342,434,144	344,524,281	1,799,136,634	1,522,609,355
Other assets	1,141,253,370	865,893,479	129,945,750	105,166,226	1,271,199,120	971,059,705
Total assets	<u>2,596,594,345</u>	<u>2,099,377,594</u>	<u>473,741,409</u>	<u>394,291,466</u>	<u>3,070,335,754</u>	<u>2,493,669,060</u>
Deferred outflows of resources	81,383,341	146,340,707	2,022,649	633,202	83,405,990	146,973,909
Current liabilities	232,812,316	205,769,274	13,302,996	6,455,300	246,115,312	212,224,574
Restricted liabilities	71,761,341	44,522,931	-	-	71,761,341	44,522,931
Noncurrent liabilities	2,491,713,239	1,964,066,920	235,998,088	169,398,827	2,727,711,327	2,133,465,747
Total liabilities	<u>2,796,286,896</u>	<u>2,214,359,125</u>	<u>249,301,084</u>	<u>175,854,127</u>	<u>3,045,587,980</u>	<u>2,390,213,252</u>
Deferred inflows of resources	6,034,356	2,134,912	258,195	332,012	6,292,551	2,466,924
Net Position:						
Net investment in capital assets	445,646,687	570,922,517	111,360,673	179,758,457	557,007,360	750,680,974
Restricted for:						
Debt service	44,561,875	42,315,044	16,940,865	3,624	61,502,740	42,318,668
Environmental mitigation	1,123,928	1,124,533	-	-	1,123,928	1,124,533
Freeway emergency service	8,279,175	-	-	-	8,279,175	-
Major maintenance post-acquisition	-	-	37,153,023	69,230,054	37,153,023	69,230,054
Project revenue	-	-	28,955,820	7,099,391	28,955,820	7,099,391
Toll road operations	-	-	31,179,457	26,454,909	31,179,457	26,454,909
Customer prepaid	-	-	172,395	-	172,395	-
iCommuter program	-	-	9,744	-	9,744	-
Property management	-	-	35,564	38,563	35,564	38,563
Unrestricted (deficit)	<u>(623,955,231)</u>	<u>(623,124,463)</u>	<u>397,238</u>	<u>(63,176,668)</u>	<u>(623,557,993)</u>	<u>(686,301,131)</u>
Total net position	<u>\$ (124,343,566)</u>	<u>\$ (8,762,369)</u>	<u>\$ 226,204,779</u>	<u>\$ 219,408,330</u>	<u>\$ 101,861,213</u>	<u>\$ 210,645,961</u>

Government-Wide Overall 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 SANDAG, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$101,861,213 at the close of the most recent fiscal year.

In fiscal year 2018, \$1,424,930,959 was the balance of construction in progress, which includes the accumulative costs of various regional transportation infrastructure improvement projects. SANDAG retains legal title of the assets during the construction phase and until such time as these projects are complete

and operational. Upon completion, the assets, as well as the legal title of the assets, if applicable, are formally transferred and contributed to other governmental agencies to reflect the other governments' custodial accountability for the operation and maintenance of the assets.

The majority of the SANDAG net position includes \$557,007,360 net investment in capital assets. These capital assets are used to provide services to citizens by SANDAG; therefore, it is not available for future spending. A total of \$168,411,846 is restricted for debt service, environmental mitigation projects, major maintenance, project revenue, toll road operations, and property management. The remaining offsetting balance of net position is the unrestricted net deficit of \$623,557,993.

Factors contributing to the unrestricted net deficit of \$623,557,993 include debt activities of the Commission and SR 125 fund, and the SANDAG net pension liability.

In fiscal year 2018, SR125 fund had a long-term debt of \$194,140,000 with a premium of \$36,557,785, which is offset by \$88,392,171 restricted cash and investment set aside for debt service, major maintenance and capital expenditures for the SR 125 fund.

The Commission's outstanding debt of \$2,476,542,860 is included in the statement of net position. The debt is issued to advance fund various *TransNet* projects in the region as part of the Early Action Plan (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 Commission debt balance are \$84,038,971 of related balances of cash and investments used for future debt service payments and the reserve account for the 2008 sales tax bond; due from other governments for debt proceeds passed through to another government, net of principal retirement for a balance of \$53,015,318; and \$765,062,098 of cash and investments related to *TransNet* balances not yet requested by recipient agencies.

The liabilities from restricted assets consist of the following purposes:

- \$7,119,829 will be used to repay outstanding Commission bonds.
- \$25,550,000 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 (COPs) investment.
- \$221,977 is a restricted deposit payable from NCTD for commercial paper interest payments related to the COPs.
- \$11,357,085 is a restricted deposit payable from Barclays Bank PLC, which is held as collateral on the 2018 basis rate swaps.
- \$27,512,450 is being held for retention on regional transportation improvement projects and will be paid once the projects are complete.

Restricted net position includes resources subject to externally imposed restrictions that must be used for debt repayments and environmental mitigation projects. At the end of fiscal year 2018, the SANDAG net pension liability balance is \$52,536,434, which includes \$3,031,352 of net pension liability of ARJIS, a discretely presented unit of SANDAG.

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

San Diego Association of Governments' Change in Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 3,456,154	\$ 3,702,414	\$ 56,016,898	\$ 51,135,058	\$ 59,473,052	\$ 54,837,472
Operating grants and contributions	34,414,426	32,714,717	-	-	34,414,426	32,714,717
Capital grants and contributions	174,146,558	202,046,295	-	-	174,146,558	202,046,295
General Revenues:						
Local <i>TransNet</i> sales tax funds	302,364,081	286,965,955	-	-	302,364,081	286,965,955
Local Transportation Development Act funds	10,200,837	15,635,044	-	-	10,200,837	15,635,044
Investment earnings	15,120,087	14,043,487	1,532,640	468,559	16,652,727	14,512,046
Other revenues	53,195	53,972	-	38,563	53,195	92,535
Total revenues	539,755,338	555,161,884	57,549,538	51,642,180	597,304,876	606,804,064
Expenses:						
General government, net of cost recovery	365,593	668,106	-	-	365,593	668,106
Modeling and research	6,437,020	8,198,683	-	-	6,437,020	8,198,683
Criminal justice	1,021,489	1,524,153	-	-	1,021,489	1,524,153
Sustainable development	8,172,047	6,975,752	-	-	8,172,047	6,975,752
Sustainable mobility programs and services	17,112,585	19,198,685	-	-	17,112,585	19,198,685
Internal and external coordination	6,914,668	6,707,729	-	-	6,914,668	6,707,729
SAFE program	1,870,670	1,631,813	-	-	1,870,670	1,631,813
Bicycle facilities	880,943	2,772,067	-	-	880,943	2,772,067
Independent Taxpayer Oversight Committee	365,953	100,853	-	-	365,953	100,853
Major corridor capital projects	165,400	1,932,128	-	-	165,400	1,932,128
Major corridor environmental mitigation	8,879	23,857	-	-	8,879	23,857
Local project environmental mitigation	14,275	20,181	-	-	14,275	20,181
Local street improvements	86,085,711	83,303,412	-	-	86,085,711	83,303,412
Smart growth	5,596,218	3,224,585	-	-	5,596,218	3,224,585
New major corridor transit operations	12,033,896	11,521,508	-	-	12,033,896	11,521,508
Transit system improvement	46,247,104	46,459,496	-	-	46,247,104	46,459,496
Transit capital contributions	389,693,612	261,986,096	-	-	389,693,612	261,986,096
Interest on long-term debt	78,563,591	85,266,788	9,720,410	10,511,546	88,284,001	95,778,334
Service Bureau	-	-	496,080	496,667	496,080	496,667
SourcePoint	-	-	16,565	-	16,565	-
Interstate 15 <i>FasTrak</i>	-	-	8,499,225	7,738,446	8,499,225	7,738,446
State Route 125 toll road	-	-	24,220,509	23,234,111	24,220,509	23,234,111
Total expenses	661,549,654	541,515,892	42,952,789	41,980,770	704,502,443	583,496,662
Change in net position before transfers	(121,794,316)	13,645,992	14,596,749	9,661,410	(107,197,567)	23,307,402
Transfers in (out)	7,694,442	5,063,080	(7,694,442)	(5,063,080)	-	-
Change in net position	(114,099,874)	18,709,072	6,902,307	4,598,330	(107,197,567)	23,307,402
Net position, beginning of year, restated	(10,243,692)	(27,471,441)	219,302,472	214,810,000	209,058,780	187,338,559
Net position, end of year	<u>\$ (124,343,566)</u>	<u>\$ (8,762,369)</u>	<u>\$ 226,204,779</u>	<u>\$ 219,408,330</u>	<u>\$ 101,861,213</u>	<u>\$ 210,645,961</u>

Governmental activities. Governmental activities decreased the SANDAG net position by \$114,099,874, which is due to total expenses of \$661,549,654 exceeding total revenue of \$539,755,338 by \$121,794,316 offset by a transfer in of \$7,694,442.

Key elements of the revenue and expense differences between fiscal years 2018 and 2017 for governmental activities are as follows:

Total revenues decreased by \$15,406,546, or 2.8 percent, over the prior year. Key factors for this net decrease are as follows:

- The decrease in capital grant and contributions of \$27,899,737, or 13.81 percent, is the result of completion of several major capital improvement projects in the current fiscal year, which include the Oceanside Station Stub Tracks project incurring construction costs of \$3 million in fiscal year 2018, a total of \$16 million less costs compared to that of the prior fiscal year. Both SR76 East and Los Penasquitos Lagoon Bridge projects substantially completed which incurred lower costs of \$6 million and \$7 million respectively this fiscal year comparing to fiscal year 2017. San Diego River Bridge project spent \$10 million less in the current fiscal year with substantial portion of the work completed in the prior fiscal year. This decrease is offset by an increase in costs of several capital

projects which include the Elvira to Morena Double Track project, and I-805 and SR 94 Bus on Shoulder project in fiscal year 2018.

- Local Transportation Development Act (TDA) Program revenue decreased \$5,434,207 in fiscal year 2018. The higher TDA revenue in fiscal year 2017 was due to the \$3 million TDA reserve draw to fund SANDAG Section 115 Trust fund for pension and \$3 million Los Penasquito's Lagoon Bridge project funding with TDA revenue, none of which occurred in fiscal year 2018.

The above revenue decreases were offset by the following increases:

- Operating grants and contributions increased by \$1,699,709. This increase is primarily due to the Sustainable Development program undergoing a major program effort in fiscal year 2018. These projects include the San Diego Forward Regional Plan and Energy Roadmap Program supporting member agencies to implement their energy roadmaps and achieve SANDAG Regional Energy Strategy and Climate Action Strategy.
- Investment earnings increased by \$1,076,600. The increase is primarily attributable to the derivative interest adjustment on the rate swaps and the earnings on the debt proceeds from the sales tax revenue bonds issued in 2016 and 2018.
- Sales tax revenue increased by \$15,398,126, or 5.4 percent, which is driven primarily by an increase in taxable consumption in the region resulting from the continued improvement of local economy and growth in consumer spending as unemployment continuing to fall to near-historic lows and wages beginning to rise in fiscal year 2018. The San Diego region's gross regional product, an estimate of the total value of goods and services produced in a region, continues to climb up. This growth supports the increase in the sales tax revenue in fiscal year 2018.

Total expenses increased by \$120,033,762, or 22.2 percent, over the prior year. Key factors in this net increase are as follows:

- Transit capital contributions increased \$127,707,516 or 48.7 percent. This significant increase is due to the completion of several major capital projects for contributions this fiscal year. During the year, \$376,465,095 of completed construction-in-progress (CIP) projects, as well as title to the assets, if applicable, was transferred to other government agencies responsible for public transportation operations comparing to \$250,077,289 of CIP projects completed and transferred out in the prior fiscal year. Of completed projects, \$99,816,053 was transferred to Metropolitan Transit System, \$176,911,620 to NCTD, \$79,908,552 to Caltrans, \$4,599,762 to the City of National City, \$6,463,145 to the City of San Marcos, and \$8,781,525 to the San Diego Community College District to reflect the other government's assumption of ownership and accountability for the ongoing operations and maintenance of the assets. These contributions represent a reduction in capital assets and are not restricted to specific programs per the government-wide statement of activities.
- The above increase is offset by a net decrease of \$7,673,754, in other SANDAG governmental activities as the following:
 - Modeling and Research project expenses decreased by \$1,761,663, or 21.5 percent, primarily as a result of the major work completion of several modeling research projects in fiscal year 2017, therefore, incurred lower costs in fiscal year 2018. These projects include Transportation Studies which completed the 2016/2017 Household Travel Behavior Survey in fiscal year 2017, and Data Governance and Data Acquisition project which finished a detailed review of data elements in the Demographic and Economic Forecasting Model.

- Sustainable Mobility Program and Services expenses decreased by \$2,212,259, because of the substantial completion of several projects in prior fiscal year, most nontribally the Veterans Transportation Capital project, which incurred lower expenses in fiscal year 2018.
- Interest on long term debt decreased by \$6,703,197, primarily due to the bond premium amortization true up as a result of switching from the straight-line method to the effective method.

The above expense decreases were offset by the following increases:

- During the year, Sustainable Development increased project expenses by \$1,196,295, or 17.1 percent. This increase was a direct result of major work on San Diego Forward Regional Plan incurred higher costs to meet state and federal laws and regulations. As a major planning project, the Regional Plan serves as the Regional Transportation Plan for the San Diego region and embodies a unified vision for our future in the next 32 years, as well as a specific approach to help make that vision a reality.
- *TransNet* program expenses increased \$2,040,292, which is primarily due to Local Street Improvement project expense increase of \$2,782,299 as well as Smart Growth program cost increase of \$2,371,633. These expenses were based on recipient requests of *TransNet* funds for eligible costs, which were higher in fiscal year 2018 in relation to fiscal year 2017 as several major road improvement projects continued in construction in this fiscal. A total expense decreases of \$3,657,852 for Bicycle Facilities project and Major Corridor Capital project is a result of the end of a three-year cycle of call for project, with bulk of the work completed in the prior fiscal years. A new cycle will start in fiscal year 2019, it is anticipated that expenses will increase as grantees requesting reimbursements on their *TransNet* Active Transportation Grants as they continue to make timely progress toward completion of the projects.

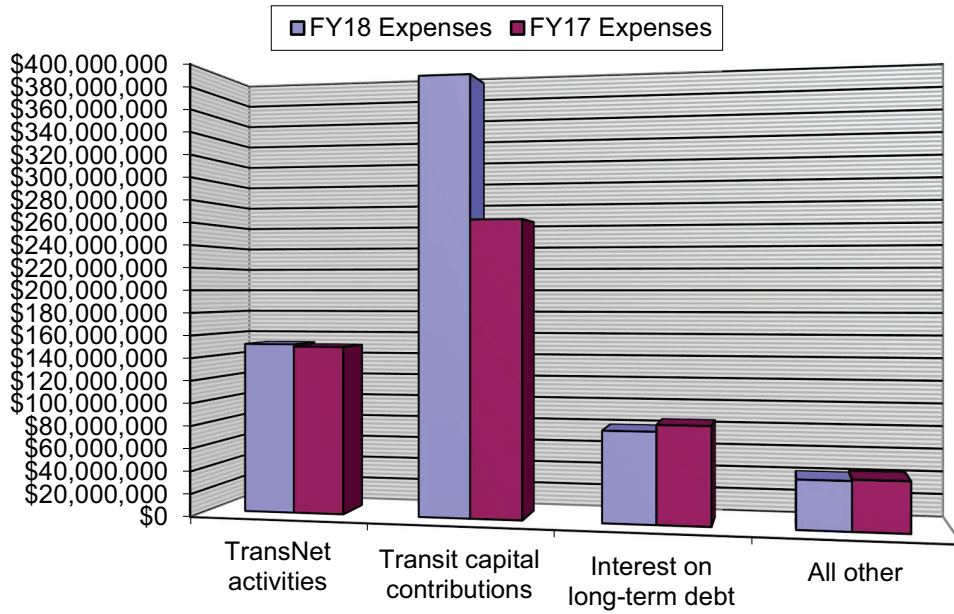
Business-type activities. Business-type activities increased the SANDAG net position by \$6,902,307, because of total revenue of \$57,549,538 exceeding total expenses of \$42,952,789 by \$14,596,749 less a net transfer out of \$7,694,442.

Key elements of the revenue and expense differences between fiscal year 2018 and fiscal year 2017 for business-type activities are as follows:

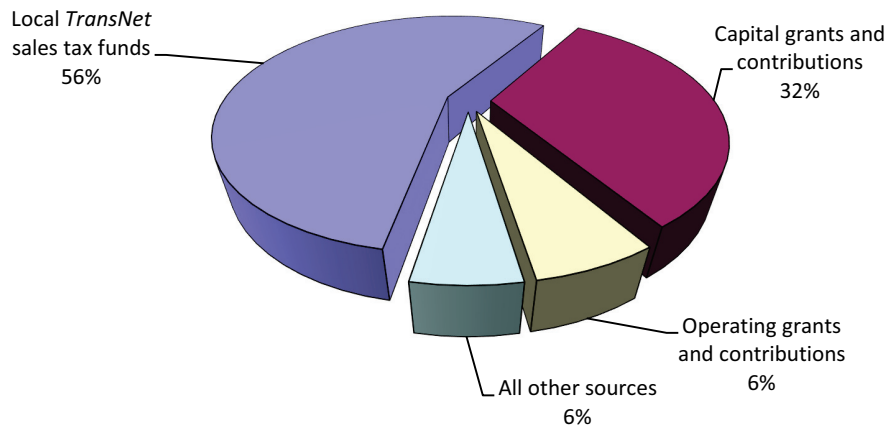
Total revenue for business-type activities increased \$5,907,358, or 11.4 percent, in fiscal year 2018. This revenue increase was primarily the result of an increase in the utilization of the SR 125 toll road by commuters as well as collection practices added in fiscal year 2018 comparing to that in fiscal year 2017. The contributing factor to the toll road utilization increase is the continuing low toll rates with the goal of easing congestion on Interstate 805 (I-805) and local streets.

Total expenses for business-type activities increased \$972,019 in fiscal year 2018. This was primarily a result of an increased operating expense of \$994,971 for the SR 125 toll road operations due to continued efforts on several major projects in the current year including a marketing campaign, and TIFIA loan refinancing, coupled with an increased operating expense of \$760,779 for the I-15 high occupancy vehicle toll lane operations offset by lower interest expense for the SR 125 toll road in the current fiscal year as a result of the refinance of TIFIA loan.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, SANDAG governmental funds reported combined ending fund balances of \$858,119,796. Of this total amount, \$7,384,609 constitutes unassigned fund deficit. The remainder of the fund balance is either nonspendable or restricted.

The general fund is the chief general government operating fund of SANDAG. At the end of the current fiscal year, fund balance of the general fund was \$17,120,755, and of this amount, \$371,896 was nonspendable prepaid items, \$4,771,795 was restricted for pension related costs, \$7,990,000 was SANDAG Board approved contingency reserve balance and \$140,460 was assigned for project costs. The fund balance of the general fund during the current fiscal year increased by \$428,602. The key factor contributing to this increase is that cost recovery actual offsetting expenses were lower than the budget, resulting a slight over recovery of the indirect costs in fiscal year 2018. The over recovery will be included as a carryforward adjustment in the indirect cost allocation program calculation for fiscal year 2020. The TDA Program revenue received by the agency was lower than the actual expenditures of the TDA-eligible OWP projects funded by the TDA Program revenue in fiscal year 2018. The agency's receipt of TDA Program revenue was based on the SANDAG portion of the total apportionment of available TDA sales tax revenues. SANDAG funds TDA-eligible project expenditures as a transfer to other funds on a reimbursement basis, which is not always equal to the revenue apportioned. The timing difference between the TDA revenue received and expenditures incurred resulted in the fund balance decrease in the current fiscal year. A portion of the unused revenues accumulated in previous years as part of the fund balance was used this fiscal year to cover for the costs of OWP projects.

The Commission sales tax projects special revenue fund had a fund balance of \$430,427,277, all of which was restricted. The fund balance of this fund during the current fiscal year was decreased by \$50,310,444. Key factors contributing to this decrease are as follows:

- Total fund expenditures and transfer out to the general fund, general services fund, capital projects fund and debt service fund were \$144,803,956 and \$610,425,608 respectively which exceeded fund revenue by \$445,536,152 due to increased EAP project costs offset by net interfund transfers in of \$394,955,708 primarily from the Commission's debt service fund for the use of debt proceeds toward major corridor and major corridor environmental mitigation projects and for principal and interest payments. The transfers in of \$394,955,708, which is predominantly bond proceeds, are reduced by sales tax receipts transfers out of \$118,000,912 that are transferred to the debt service fund for payment of debt principal and interest.

The capital projects fund had a fund deficit of \$7,889,004. The fund balance of the capital projects fund decreased by \$3,252,311 during the current fiscal year primarily due to revenue recognition timing between fiscal year 2018 and fiscal year 2017.

The Commission commercial paper and sales tax revenue bonds debt service fund (debt service fund) had a fund balance of \$413,051,537, all of which was restricted. The fund balance of the debt service fund during the current fiscal year increased by \$187,399,119, and key factors for this increase are as follows:

- Issuance of the 2018 short-term notes in April 2018 of \$537,480,000, including premium of \$31,625,092.
- Expenditures in the current year exceeded revenues by \$133,401,186 due to required debt payments of commercial paper and the 2008, 2010, 2012, 2014, and 2016 bond that may have included principal and interest payments and other charges; and the 2018 short-term notes issuances which included issuance costs, 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 \$276,954,796 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.

The general services fund had a fund deficit of \$2,871,303. The fund balance of the general services fund increased by \$2,336,734, or 183 percent, during the current fiscal year primarily due to \$22 million fund transfer in from *TransNet* fund and General Fund offset by the revenue recognition timing between fiscal year 2018 and fiscal year 2017.

The SAFE special revenue fund had a fund balance of \$8,280,534. This special revenue fund was established in January 2013 by the adoption of Assembly Bill 1572. The fund balance decreased \$576,173 in the current fiscal year due to a transfer out of \$1,567,544 to Capital Project fund offset by operating revenue exceeded operating expenses of \$991,371.

General Fund Budgetary Highlights

The general fund is the SANDAG primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund. During the fiscal year, there was a fund expense decrease between the original and final amended budget.

- Local TDA sales tax revenues were equivalent to the SANDAG apportionment of FY18 TDA sales tax plus administrative and planning funds transferred to SANDAG by the local transit agencies. SANDAG budgets TDA revenues to fund eligible projects as a transfer to other funds on a reimbursement basis, which is not always equal to the claim amount.
- Actual transfers out were lower than the budget by \$4,100,760. The budget is comprised of TDA and Member Assessment funding expected to be transferred to other funds to pay for eligible project expenditures. Project expenditures in the general services fund, some of which are funded with TDA funds, were under budget with some projects experiencing delayed work efforts. Projects are initially funded using dedicated funds before TDA funding is applied, allowing TDA to be carried over for work efforts in 2019.
- General government actual expenses were below the budgeted amount by \$5,209,476. This is primarily related to actual personnel costs lower than the budgeted amount by \$3,751,080 due to salaries and benefits savings caused by employee turnover and the resulting vacancies in those staff positions while recruiting efforts were underway. The actual non-personnel expense is below the budgeted amount by

\$887,400 primarily attributable to professional service budgeted at \$1,252,034 with actual cost incurred at \$701,423, lower than budget by \$550,611; the actual information system and office supply expenses below budget by \$249,683 because of certain budgeted purchases delayed to the next fiscal year; and insurance premium lower than budget by \$89,387 due to anticipated premium increase not occurring in the current year.

- Cost recovery expenses were lower than the budget by \$4,135,253. Cost recovery amount was determined by applying an approved indirect cost rate to the direct base salary amount. This variance is a result of the direct personnel costs lower than the budgeted amount due to staff turnover.

Capital Assets

SANDAG investment in capital assets for its governmental activities, as of June 30, 2018, amounts to \$15,558,636 (net of accumulated depreciation).

Capital Assets (Net of accumulated depreciation)

	Governmental activities	
	2018	2017
Governmental activities:		
Construction-in-progress	\$ 1,424,930,959	\$ 1,147,726,026
Easement	15,950,412	15,950,412
Office equipment	5,453	10,049
Computer equipment	1,100,584	2,139,799
Other equipment	306,897	389,263
Vehicles	2,741,141	86,769
Buses	96,921	115,225
Land	6,829,613	6,829,613
Building	4,740,510	4,837,918
Governmental activities capital assets, net	<u>\$ 1,456,702,490</u>	<u>\$ 1,178,085,074</u>

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

Major projects under construction as of June 30, 2018, include:

- *TransNet* EAP projects. These include major corridor projects for I-5, I-15, I-805, State Route 76, the Mid-Coast Corridor, and the Transportation Project Biological Mitigation Fund. The CIP balance for EAP projects is \$1.4 billion and the overall cumulative fiscal year 2018 approved budget for EAP projects through fiscal year 2027 is \$8.1 billion.

Debt Administration

Long-term debt. At the end of the current fiscal year, SANDAG had total debt outstanding of \$2,709,697,785, which is comprised of \$1,386,745,000 of tax-exempt sales tax revenue bonds, \$338,960,000 of BABs (sales tax revenue bonds), net premium on the tax-exempt bonds of \$157,107,559, \$26,614,000 of outstanding commercial paper notes, compensated absences payable of \$2,379,795, claims payable of \$25,000, \$537,480,000 of 2018 short-term notes with a premium of \$29,636,301 and \$230,697,785 of 2017 Series A toll revenue bonds with \$36,557,785 premium.

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Sales tax bonds	\$ 1,882,812,559	\$ 1,928,648,386	\$ -	\$ -	\$ 1,882,812,559	\$ 1,928,648,386
2018 short-term notes	567,116,301	-	-	-	567,116,301	-
Commercial paper	26,614,000	26,750,000	-	-	26,614,000	26,750,000
Compensated absences	2,194,148	2,097,835	185,647	145,373	2,379,795	2,243,208
TIFIA notes	-	-	-	115,405,218	-	115,405,218
Claims payable	25,000	1,700,000	-	-	25,000	1,700,000
Unamortized debt adjustment	-	-	-	49,360,606	-	49,360,606
2017 Series A toll revenue bonds	-	-	230,697,785	-	230,697,785	-
Total	<u>\$ 2,478,762,008</u>	<u>\$ 1,959,196,221</u>	<u>\$ 230,883,432</u>	<u>\$ 164,911,197</u>	<u>\$ 2,709,645,440</u>	<u>\$ 2,124,107,418</u>

In addition to the debt noted in the schedule above, net pension liability of \$52,536,434 and Other Post-Employment Benefit liability of \$1,489,724 are included in fiscal year 2018. See Note II.K for further information.

SANDAG total debt, including compensated absences, increased \$585,538,022, which is primarily a result of the issuance of \$537,480,000 of 2018 Series A short-term notes with a premium of \$29,636,301.

In November 2017, SANDAG issued a \$194,140,000 of 2017 Series A toll revenue bonds for the purpose of providing funds to refinance indebtedness incurred by the SR 125 toll road operations in connection with acquisition of the South Bay Expressway. The Series A toll revenue bonds included a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent with a maturity date of July 1, 2042.

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

Economic Factors and Next Year's Budgets

- The OWP and Regional Operations Program are the non-capital portions of the Board-approved Program Budget. For the OWP, federal consolidated planning grant sources are expected to remain flat in fiscal year 2018, with local sales tax revenue expected to grow by 3.0 percent. The Board-approved total fiscal year 2019 OWP budget is \$43.5 million. Nearly all planning activities within the OWP are continuing with a similar level of effort as the previous year, with more effort devoted to development of San Diego Forward: The 2019-2050 Regional Plan and the data governance program. Funding and activities relating to demographic and econometric modeling and criminal justice research are planned to increase slightly, and the Transportation Demand Management program continues to aggressively pursue alternatives to single occupancy commutes. Funding from state planning grants are planned to increase, while several federal pass-through grants will be ended.
- The Regional Operations Program budget was approved for \$67.6 million in the fiscal year 2019 budget and consists of the ongoing activities that require 24-hour monitoring, including the SR 125 Facilities Operations, Motorist Aid Call Box program, I-15 *FasTrak*, Freeway Service Patrol, Santa Fe Street property management, and ARJIS. Fiscal year 2019 marks the sixth year of tracking this group of programs separately, while most project budgets remained essentially flat compared to the previous year, SR 125 budgeted an increase in reserve contributions. Activities on the SR 125 toll facilities and I-15 *FasTrak* lanes continue to experience moderate traffic growth.
- In the Capital Budget, cumulative capital project funding through fiscal year 2027 as approved in the fiscal year 2019 budget remained flat at \$8.1 billion. SANDAG continues to partner with Caltrans and the transit operators to implement major transit and highway projects throughout the San Diego region.

- SANDAG continues to strive for continuous improvement by implementing cost-effective measures to maximize the efficiency of the general fund expenditures. SANDAG finance, administrative, and contract management functions continue to develop and use new technology to create more effective fiscal discipline, flexibility, and responsiveness. Emphasis is placed on scrutinizing all travel requests, re-evaluating each vacant position before authorizing replacement, expanding the ability to respond to legal issues, and optimizing the risk management portfolio. Administrative staffing and related expenditures are increasing 1.2 percent, with an approved budget of \$14.8 million, primarily due to increased rent and professional services.
- Actual cash basis sales tax collections have increased in 21 of the last 24 years of collections, with decreases occurring in fiscal years 2008, 2009, and 2010. Actual sales tax receipts in fiscal year 2018 came in 3.53 percent higher over fiscal year 2017 actual receipts. An increase over the fiscal year 2018 estimates of 3.0 percent is forecasted for fiscal year 2019.
- For the fiscal year 2019 budget, \$301 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 ITOC, 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.

Requests for Information

This financial report was designed to provide a general overview of SANDAG finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Director of Finance, San Diego Association of Governments, 401 B Street, Suite 800, San Diego, 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 Association of Governments
Statement of Net Position
June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals 2018	ARJIS
ASSETS				
Cash and investments - unrestricted	\$ 788,627,692	\$ 35,871,626	\$ 824,499,318	\$ 7,497,111
Cash and investments - restricted	-	5,170,068	5,170,068	-
Accounts receivable	575,761	3,780,851	4,356,612	560
Prepaid items and other assets	876,781	850,507	1,727,288	607,521
Interest receivable	2,122,982	160,689	2,283,671	11,479
Due from other governments	209,972,981	877,596	210,850,577	979,670
Due from component units	127,698	-	127,698	-
Internal balances	(1,361,515)	1,361,515	-	-
Derivative instrument - swap asset	24,119,001	-	24,119,001	-
Restricted assets:				
Cash restricted for capital project retentions	24,895,780	28,955,820	53,851,600	-
Cash and investments restricted for debt service and other liabilities	88,810,766	16,940,865	105,751,631	-
Cash and investments restricted for environmental mitigation	1,123,928	-	1,123,928	-
Cash and investments restricted for major maintenance & project revenue	-	37,337,728	37,337,728	-
Capital assets:				
Non-depreciable	1,447,710,984	9,696,245	1,457,407,229	-
Depreciable, net of accumulated depreciation	8,991,506	332,737,899	341,729,405	350,380
Total assets	2,596,594,345	473,741,409	3,070,335,754	9,446,721
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging swap agreement	64,264,809	-	64,264,809	-
Deferred refunding charge	4,311,685	544,235	4,855,920	-
Pension related	12,366,747	1,429,668	13,796,415	1,117,817
Other post-employment benefit related	440,100	48,746	488,846	25,350
Total deferred outflows of resources	81,383,341	2,022,649	83,405,990	1,143,167
LIABILITIES				
Accounts payable	98,245,910	3,034,580	101,280,490	62,972
Retentions payable	6,467,067	130,232	6,597,299	-
Due to other governments	36,353,392	985,336	37,338,728	97,779
Due to primary government	-	-	-	127,698
Accrued interest payable	22,346,158	5,930,675	28,276,833	-
Transponder deposits payable	-	22,096	22,096	-
Unearned revenue	9,058,237	3,014,430	12,072,667	-
Derivative instrument - swap liability	64,264,809	-	64,264,809	-
Liabilities payable from restricted assets:				
Deposits payable	11,579,062	-	11,579,062	-
Retentions payable	27,512,450	-	27,512,450	-
Long-term debt payable - due within one year	32,669,829	-	32,669,829	-
Noncurrent liabilities:				
Due within one year	24,578,320	3,255,647	27,833,967	-
Due in more than one year	2,421,513,860	227,627,785	2,649,141,645	-
Net pension liability	44,346,004	5,159,078	49,505,082	3,031,352
Net other post-employment benefit liability	1,275,055	141,225	1,416,280	73,444
Total liabilities	2,800,210,153	249,301,084	3,049,511,237	3,393,245
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	-
Pension related	2,093,201	256,213	2,349,414	202,693
Other post-employment benefit related	17,898	1,982	19,880	1,031
Total deferred inflows of resources	2,111,099	258,195	2,369,294	203,724
NET POSITION				
Net investment in capital assets	445,646,687	111,360,673	557,007,360	350,380
Restricted for:				
Debt service and other liabilities	44,561,875	16,940,865	61,502,740	-
Environmental mitigation	1,123,928	-	1,123,928	-
Major maintenance post-acquisition	-	37,153,023	37,153,023	-
Project revenue	-	28,955,820	28,955,820	-
Toll road operations and improvements	-	31,179,457	31,179,457	-
Customer prepaid	-	172,395	172,395	-
Freeway emergency service	8,279,175	-	8,279,175	-
iCommute	-	9,744	9,744	-
Property management	-	35,564	35,564	-
Unrestricted (deficit)	(623,955,231)	397,238	(623,557,993)	6,642,539
Total net position	\$ (124,343,566)	\$ 226,204,779	\$ 101,861,213	\$ 6,992,919

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Activities
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government, net of cost recovery	\$ 365,593	\$ 547,426	\$ -	\$ -
Modeling and research	6,437,020	-	4,390,002	-
Criminal justice	1,021,489	213,999	940,556	-
Sustainable development	8,172,047	-	5,098,043	-
Sustainable mobility programs and services	17,112,585	-	15,860,535	-
Internal and external coordination	6,914,668	-	1,576,362	-
SAFE program	1,870,670	2,694,729	-	-
Bicycle facilities	880,943	-	-	-
Independent Taxpayer Oversight Committee	365,953	-	-	-
Major corridor projects	165,400	-	-	-
Major corridor environmental mitigation	8,879	-	-	-
Local project environmental mitigation	14,275	-	-	-
Local street improvements	86,085,711	-	-	-
Smart growth	5,596,218	-	-	-
New major corridor transit operations	12,033,896	-	-	-
Transit system improvements	46,247,104	-	-	-
Transit capital contributions	389,693,612	-	-	174,146,558
Interest on long-term debt	78,563,591	-	6,548,928	-
Total governmental activities	661,549,654	3,456,154	34,414,426	174,146,558
Business-type activities:				
Service Bureau	496,080	531,285	-	-
SourcePoint	16,565	226,362	-	-
Interstate 15 FasTrak	8,499,225	13,510,720	-	-
State Route 125 Toll Road	33,940,919	41,748,531	-	-
Total business-type activities	42,952,789	56,016,898	-	-
Total primary government	\$ 704,502,443	\$ 59,473,052	\$ 34,414,426	\$ 174,146,558
Component unit:				
ARJIS	5,502,868	4,938,942	524,098	-
Total component units	\$ 5,502,868	\$ 4,938,942	\$ 524,098	\$ -
General revenues:				
Local <i>TransNet</i> sales tax funds				
Local Transportation Development Act sales tax funds				
Investment earnings				
Other revenues				
Transfers in (out)				
Total general revenues and transfers				
Change in net position				
Net position - beginning of year				
Implementation of GASB 75				
Net position - beginning of year, restated				
Net position - end of year				

See accompanying Notes to the Basic Financial Statements.

Totals	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals 2018	ARJIS
\$ 547,426	\$ 181,833	\$ -	\$ 181,833	\$ -
4,390,002	(2,047,018)	-	(2,047,018)	-
1,154,555	133,066	-	133,066	-
5,098,043	(3,074,004)	-	(3,074,004)	-
15,860,535	(1,252,050)	-	(1,252,050)	-
1,576,362	(5,338,306)	-	(5,338,306)	-
2,694,729	824,059	-	824,059	-
-	(880,943)	-	(880,943)	-
-	(365,953)	-	(365,953)	-
-	(165,400)	-	(165,400)	-
-	(8,879)	-	(8,879)	-
-	(14,275)	-	(14,275)	-
-	(86,085,711)	-	(86,085,711)	-
-	(5,596,218)	-	(5,596,218)	-
-	(12,033,896)	-	(12,033,896)	-
-	(46,247,104)	-	(46,247,104)	-
174,146,558	(215,547,054)	-	(215,547,054)	-
6,548,928	(72,014,663)	-	(72,014,663)	-
<u>212,017,138</u>	<u>(449,532,516)</u>	<u>-</u>	<u>(449,532,516)</u>	<u>-</u>
531,285	-	35,205	35,205	-
226,362	-	209,797	209,797	-
13,510,720	-	5,011,495	5,011,495	-
41,748,531	-	7,807,612	7,807,612	-
<u>56,016,898</u>	<u>-</u>	<u>13,064,109</u>	<u>13,064,109</u>	<u>-</u>
<u>\$ 268,034,036</u>	<u>(449,532,516)</u>	<u>13,064,109</u>	<u>(436,468,407)</u>	<u>-</u>
5,463,040				(39,828)
<u>\$ 5,463,040</u>				<u>(39,828)</u>
	302,364,081	-	302,364,081	-
	10,200,837	-	10,200,837	-
	15,120,087	1,532,640	16,652,727	121,026
	53,195	-	53,195	-
	7,694,442	(7,694,442)	-	-
	<u>335,432,642</u>	<u>(6,161,802)</u>	<u>329,270,840</u>	<u>121,026</u>
	(114,099,874)	6,902,307	(107,197,567)	81,198
	(8,762,369)	219,408,330	210,645,961	6,966,772
	(1,481,323)	(105,858)	(1,587,181)	(55,051)
	<u>(10,243,692)</u>	<u>219,302,472</u>	<u>209,058,780</u>	<u>6,911,721</u>
	<u>\$ (124,343,566)</u>	<u>\$ 226,204,779</u>	<u>\$ 101,861,213</u>	<u>\$ 6,992,919</u>

See accompanying Notes to the Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

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GOVERNMENT FUND FINANCIAL STATEMENTS

San Diego Association of Governments
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds		
	San Diego		
	General Fund	County Regional Transportation Commission Sales Tax Projects Fund	Capital Projects Fund
ASSETS			
Cash and investments	\$ 12,598,498	\$ 424,538,091	\$ -
Accounts receivable	16	-	47,045
Prepaid items and other assets	371,896	32,620	272,330
Interest receivable	18,766	1,646,954	-
Due from other funds	337,600	35,628,177	89,433,486
Due from other governments	53,476	61,468,631	83,129,950
Due from component units	127,698	-	-
Cash and investments - restricted	4,771,795	1,123,928	24,895,780
Total assets	\$ 18,279,745	\$ 524,438,401	\$ 197,778,591
LIABILITIES			
Liabilities:			
Accounts payable	\$ 273,586	\$ 437,683	\$ 92,205,839
Accrued liabilities	666,549	-	-
Retentions payable	-	4,905	5,440,039
Due to other funds	1	88,351,102	35,606,142
Due to other governments	218,854	5,217,434	29,104,813
Unearned revenue	-	-	6,791,214
Liabilities payable from restricted assets	-	-	27,512,450
Total liabilities	1,158,990	94,011,124	196,660,497
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	-	9,007,098
Total deferred inflows of resources	-	-	9,007,098
FUND BALANCES (DEFICIT)			
Nonspendable:			
Prepaid items	371,896	32,620	272,330
Total nonspendable	371,896	32,620	272,330
Restricted for:			
Pension benefits	4,771,795	-	-
Environmental mitigation	-	1,123,928	-
Debt service	-	-	-
TransNet -eligible projects	-	429,270,729	-
Freeway emergency service	-	-	-
Total restricted	4,771,795	430,394,657	-
Committed to:			
Agency contingency reserve	7,990,000	-	-
Total committed	7,990,000	-	-
Assigned to:			
Project Expenses	140,460	-	-
Total assigned	140,460	-	-
Unassigned	3,846,604	-	(8,161,334)
Total fund balances (deficit)	17,120,755	430,427,277	(7,889,004)
Total liabilities, deferred inflows of resources and fund balances	\$ 18,279,745	\$ 524,438,401	\$ 197,778,591

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission Debt Service Fund		Other Governmental Funds	Totals 2018
\$ 340,524,007	\$ 10,967,096	\$ 788,627,692	
-	528,700	575,761	
-	199,935	876,781	
98,943	41,936	1,806,599	
-	3,858,311	129,257,574	
53,016,318	12,288,012	209,956,387	
-	-	127,698	
84,038,971	-	114,830,474	
<u>\$ 477,678,239</u>	<u>\$ 27,883,990</u>	<u>\$ 1,246,058,966</u>	
\$ 8,974	\$ 4,632,062	\$ 97,558,144	
-	21,217	687,766	
-	1,022,123	6,467,067	
22,348	6,639,496	130,619,089	
-	1,812,291	36,353,392	
-	2,267,023	9,058,237	
11,579,062	-	39,091,512	
11,610,384	16,394,212	319,835,207	
53,016,318	6,080,547	68,103,963	
53,016,318	6,080,547	68,103,963	
-	199,935	876,781	
-	199,935	876,781	
-	-	4,771,795	
-	-	1,123,928	
83,816,994	-	83,816,994	
329,234,543	-	758,505,272	
-	8,279,175	8,279,175	
413,051,537	8,279,175	856,497,164	
-	-	7,990,000	
-	-	7,990,000	
-	-	140,460	
-	-	140,460	
-	(3,069,879)	(7,384,609)	
413,051,537	5,409,231	858,119,796	
<u>\$ 477,678,239</u>	<u>\$ 27,883,990</u>	<u>\$ 1,246,058,966</u>	

See accompanying Notes to the Basic Financial Statements.

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San Diego Association of Governments
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds	\$ 858,119,796
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Capital assets, non-depreciable	1,447,710,984
Capital assets, depreciable	16,977,920
Accumulated depreciation	(7,986,414)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.	
Accrued interest income - swap asset	316,383
Accrued interest income - commercial paper	16,594
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.	
	68,103,963
Long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Accrued interest payable - bond	(22,329,564)
Accrued interest payable - commercial paper	(16,594)
Commercial paper payable	(26,614,000)
Bond premium	(186,743,860)
Deferred refunding charge	4,311,685
Bonds payable	(2,263,185,000)
Claims payable	(25,000)
Compensated absences	(2,194,149)
Net pension liability and related deferred outflow and inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources - pension related	12,366,747
Net pension liability	(44,346,004)
Deferred inflows of resources - pension related	(2,093,201)
Net other post-employment benefit (OPEB) liability and related deferred outflow and inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources - OPEB related	440,100
Net OPEB liability	(1,275,055)
Deferred inflows of resources - OPEB related	(17,898)
Derivative instruments are not reported in the funds but must be reported in the statement of net position.	
Derivative instrument - swap asset	24,119,001
Accumulated decrease in fair value of hedging swap agreements	64,264,809
Derivative instrument - swap liability	(64,264,809)
Net Position of Governmental Activities	\$ (124,343,566)

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the year ended June 30, 2018

	Major Funds	
	General Fund	San Diego County Regional Transportation Commission Sales Tax Projects Fund
REVENUES		
Federal funds	\$ -	\$ -
State funds	-	-
Local <i>TransNet</i> sales tax funds	-	302,364,081
Local Transportation Development Act sales tax funds	7,506,061	-
Other local governmental funding	-	-
SAFE program revenue	-	-
Member agency assessments	547,426	-
Investment earnings	311,711	7,577,575
Debt repayments from other governments	-	-
Other revenues	31,439	21,756
Total revenues	8,396,637	309,963,412
EXPENDITURES		
Current:		
General government	44,806,974	-
Cost recovery	(45,001,058)	-
Modeling and research	-	-
Criminal justice	-	-
Sustainable development	-	-
Sustainable mobility programs and services	-	-
Internal and external coordination	-	-
SAFE program	-	-
Bicycle facilities	-	632,942
Independent Taxpayer Oversight Committee	-	365,953
Major corridor capital projects	-	165,400
Major corridor environmental mitigation	-	8,879
Local project environmental mitigation	-	14,275
Local street and road improvements	-	87,149,711
Smart growth	-	13,549
New major corridor transit operations	-	12,033,896
Transit system improvements	-	44,419,351
Regional transportation improvements	-	-
Debt service:		
Principal retirement	-	-
Debt issuance costs	-	-
Interest and other charges	-	-
Total expenditures	(194,084)	144,803,956
REVENUES OVER (UNDER) EXPENDITURES	8,590,721	165,159,456
OTHER FINANCING SOURCES (USES)		
Transfers in	153,242	394,955,708
Transfers out	(8,315,361)	(610,425,608)
Commercial paper issued	-	-
Bonds issued	-	-
Premium on bonds issued	-	-
Total other financing sources (uses)	(8,162,119)	(215,469,900)
Net change in fund balances	428,602	(50,310,444)
FUND BALANCES (DEFICIT)		
Beginning of year	16,692,153	480,737,721
End of year	\$ 17,120,755	\$ 430,427,277

See accompanying Notes to the Basic Financial Statements.

Capital Projects Fund	San Diego County Regional Transportation Commission		Other Governmental Funds	Totals
	Debt Service Fund			2018
\$ 113,987,379	\$ 6,548,928	\$ 20,603,008	\$ 141,139,315	
48,230,390	-	7,294,331	55,524,721	
-	-	-	302,364,081	
2,694,776	-	-	10,200,837	
8,946,553	-	2,050,678	10,997,231	
-	-	2,694,729	2,694,729	
-	-	213,999	761,425	
-	3,546,408	167,312	11,603,006	
-	1,519,755	-	1,519,755	
-	-	-	53,195	
<u>173,859,098</u>	<u>11,615,091</u>	<u>33,024,057</u>	<u>536,858,295</u>	
-	-	-	44,806,974	
-	-	-	(45,001,058)	
-	-	6,478,846	6,478,846	
-	-	1,021,489	1,021,489	
-	-	8,172,047	8,172,047	
-	-	20,037,889	20,037,889	
-	-	6,914,668	6,914,668	
-	-	1,870,670	1,870,670	
-	-	248,001	880,943	
-	-	-	365,953	
-	-	-	165,400	
-	-	-	8,879	
-	-	-	14,275	
-	-	-	87,149,711	
-	-	5,582,669	5,596,218	
-	-	-	12,033,896	
-	-	1,827,753	46,247,104	
664,502,130	-	-	664,502,130	
-	55,906,000	-	55,906,000	
-	1,557,833	-	1,557,833	
-	87,552,444	-	87,552,444	
<u>664,502,130</u>	<u>145,016,277</u>	<u>52,154,032</u>	<u>1,006,282,311</u>	
<u>(490,643,032)</u>	<u>(133,401,186)</u>	<u>(19,129,975)</u>	<u>(469,424,016)</u>	
487,506,591	118,000,912	22,458,080	1,023,074,533	
(115,870)	(394,955,708)	(1,567,544)	(1,015,380,091)	
-	28,650,000	-	28,650,000	
-	537,480,000	-	537,480,000	
-	31,625,092	-	31,625,092	
<u>487,390,721</u>	<u>320,800,296</u>	<u>20,890,536</u>	<u>605,449,534</u>	
(3,252,311)	187,399,110	1,760,561	136,025,518	
(4,636,693)	225,652,427	3,648,670	722,094,278	
<u>\$ (7,889,004)</u>	<u>\$ 413,051,537</u>	<u>\$ 5,409,231</u>	<u>\$ 858,119,796</u>	

See accompanying Notes to the Basic Financial Statements.

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San Diego Association of Governments
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, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 136,025,518

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

Interest earnings (expense) 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	295,219
Internal balances SR 125 to the Commission interest repayment	(3,666,019)
Change in fair value of derivative instrument	6,887,881

Governmental funds report regional transportation improvements as expenditures. However, in the statement of activities, the cost of those assets consumes the current financial resources of governmental funds and has no effect on net position. The cost of the capital assets is allocated over their useful lives and reported as depreciation expense.

Capital assets additions	3,269,445
Depreciation expense	(1,890,512)
Regional transportation improvements	653,703,578
Contributed to other government agencies	(376,465,095)

The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are 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	27,120,000
Commercial paper issued	(28,650,000)
Commercial paper pass-through payments to other governments	1,064,000
Debt repayments from other governments - bond	(996,843)
Debt repayments from other governments - commercial paper	(522,912)
Commercial paper repayments	28,786,000
Bonds issued	(537,480,000)
Premium on bonds issued	(31,625,092)
Amortization expense on unamortized premium on bonds issued	18,681,297
Amortization expense on unamortized loss on bond refunding	(4,567,261)

Some revenues do not provide current financial resources, and therefore, are deferred in governmental funds.

899,717

Adjustments made to other liabilities and assets do not use current financial resources and, therefore, are not recognized in the funds.

Change in interest payable	(3,567,350)
Change in net OPEB liability and related accounts	102,879
Change in compensated absences	(96,314)
Claims payable	1,675,000
Change in net pension liability and related accounts	(3,083,010)

Change in Net Position of Governmental Activities

\$ (114,099,874)

See accompanying Notes to the Basic Financial Statements.

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PROPRIETARY FUND FINANCIAL STATEMENTS

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San Diego Association of Governments
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities-Enterprise Funds		Totals
	Major Fund	Nonmajor	
	SR 125 Toll Road	Funds	2018
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 3,615,204	\$ 32,256,422	\$ 35,871,626
Cash and cash equivalents - restricted	-	12,310	12,310
Accounts receivable	3,571,363	209,488	3,780,851
Prepaid items and other assets	842,309	8,198	850,507
Interest receivable	31,285	129,404	160,689
Due from other funds	30,513	1,825,523	1,856,036
Due from other governments	247,912	629,684	877,596
Total current assets	8,338,586	35,071,029	43,409,615
Noncurrent assets:			
Cash and investments - restricted	88,392,171	-	88,392,171
Non-depreciable capital assets	6,656,663	3,039,582	9,696,245
Depreciable capital assets, net of accumulated depreciation	323,557,727	9,180,172	332,737,899
Total noncurrent assets	418,606,561	12,219,754	430,826,315
Total assets	426,945,147	47,290,783	474,235,930
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - refunding	544,235	-	544,235
Deferred outflow of resources - pension related	1,429,668	-	1,429,668
Deferred outflow of resources - OPEB related	48,746	-	48,746
Total deferred outflows of resources	2,022,649	-	2,022,649
LIABILITIES			
Current liabilities:			
Accounts payable	1,385,195	1,595,301	2,980,496
Accrued liabilities	54,084	-	54,084
Retentions payable	83,348	46,884	130,232
Due to other funds	465,793	28,728	494,521
Due to other governments	136,810	848,526	985,336
Security deposit	-	17,381	17,381
Transponder deposits payable	18,710	3,386	22,096
Unearned revenue	1,770,915	1,243,515	3,014,430
Interest payable	5,913,294	-	5,913,294
Long term liabilities due within one year	3,255,647	-	3,255,647
Total current liabilities	13,083,796	3,783,721	16,867,517
Noncurrent liabilities:			
Bonds payable	227,627,785	-	227,627,785
Net pension liability	5,159,078	-	5,159,078
Net OPEB liability	141,225	-	141,225
Total noncurrent liabilities	232,928,088	-	232,928,088
Total liabilities	246,011,884	3,783,721	249,795,605
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension related	256,213	-	256,213
Deferred inflows of resources - OPEB related	1,982	-	1,982
Total deferred inflows of resources	258,195	-	258,195
NET POSITION			
Net investment in capital assets	99,475,614	11,885,059	111,360,673
Restricted for:			
Debt service	16,940,865	-	16,940,865
Major maintenance and capital expenditure	37,153,023	-	37,153,023
Project revenue	28,955,820	-	28,955,820
Customer prepaid reserve	172,395	-	172,395
iCommute	-	9,744	9,744
Property management	-	35,564	35,564
Toll road operations and improvements	-	31,179,457	31,179,457
Unrestricted (deficit)	-	397,238	397,238
Total net position	\$ 182,697,717	\$ 43,507,062	\$ 226,204,779

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Revenues, Expenses, and Change in Net Position
Proprietary Funds
For the year ended June 30, 2018

	Business-type Activities - Enterprise Funds		Totals
	Major Fund	Nonmajor	
	SR 125 Toll Road	Funds	2018
OPERATING REVENUES			
State Route 125 Toll Road revenue	\$ 40,416,579	\$ -	\$ 40,416,579
Interstate 15 FasTrak permit revenue	-	13,423,159	13,423,159
Interstate 15 FasTrak fines and forfeitures revenue	-	87,561	87,561
Service Bureau transportation modeling service fees	-	531,285	531,285
SourcePoint charges for service	-	226,362	226,362
Other revenue	1,331,952	-	1,331,952
Total operating revenues	41,748,531	14,268,367	56,016,898
OPERATING EXPENSES			
Roadway operations expenses	2,988,514	4,867,402	7,855,916
SourcePoint iCommute operating expenses	-	9,831	9,831
Payroll and other compensation expenses	6,106,156	945,385	7,051,541
Administrative costs	1,128,988	507,209	1,636,197
Professional services	755,422	419,221	1,174,643
Depreciation	13,241,429	2,262,822	15,504,251
Total operating expenses	24,220,509	9,011,870	33,232,379
Operating income (loss)	17,528,022	5,256,497	22,784,519
NONOPERATING REVENUES (EXPENSES)			
Other income (expenses)	(1,779,361)	(2,999)	(1,782,360)
Interest income	1,077,968	457,671	1,535,639
Interest expense	(7,941,049)	-	(7,941,049)
Total nonoperating revenues (expenses)	(8,642,442)	454,672	(8,187,770)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	8,885,580	5,711,169	14,596,749
Transfers out	(7,606,585)	(87,857)	(7,694,442)
Total transfers	(7,606,585)	(87,857)	(7,694,442)
CHANGE IN NET POSITION	1,278,995	5,623,312	6,902,307
Net position:			
Beginning of year	181,524,580	37,883,750	219,408,330
Implementation of GASB 75	(105,858)	-	(105,858)
Beginning of year, restated	181,418,722	-	219,302,472
End of year	\$ 182,697,717	\$ 43,507,062	\$ 226,204,779

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2018

	Business-type Activities - Enterprise Funds		Totals
	SR 125 Toll Road	Nonmajor Funds	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 40,449,037	\$ 20,961,937	\$ 61,410,974
Payments for employee salaries and benefits	(5,743,421)	(789,768)	(6,533,189)
Payments for operations	(5,641,157)	(5,793,627)	(11,434,784)
Net cash provided by (used for) operating activities	29,064,459	14,378,542	43,443,001
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES			
Transfer to governmental funds	(7,606,585)	(52,466)	(7,659,051)
Proceeds from long-term debt	231,460,545	-	231,460,545
Acquisition and construction of capital assets	(9,817,194)	(3,322,171)	(13,139,365)
Principal payment on debt	(230,409,849)	-	(230,409,849)
Interest payment on debt	(1,037,909)	-	(1,037,909)
Payments on debt issuance costs	(996,924)	-	(996,924)
Net cash provided by (used for) capital financing and related activities	(18,407,916)	(3,374,637)	(21,782,553)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from rent	-	262,409	262,409
Payment made for rental property	-	(281,433)	(281,433)
Interest income (loss)	1,132,539	375,506	1,508,045
Net cash provided by (used for) investing activities	1,132,539	356,482	1,489,021
Net increase in cash and investments	11,789,082	11,360,387	23,149,469
Cash and investments, beginning of year	80,218,293	20,908,345	101,126,638
Cash and investments, end of year	\$ 92,007,375	\$ 32,268,732	\$ 124,276,107
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	\$ 17,528,022	\$ 5,256,497	\$ 22,784,519
Adjustments to reconcile net cash provided by (used for) operating activities:			
Depreciation	13,241,429	2,262,822	15,504,251
(Increase) decrease in:			
Accounts receivable	(1,308,227)	25,418	(1,282,809)
Due from other funds	(4,935)	6,833,217	6,828,282
Due from other governments	139,816	(39,585)	100,231
Prepaid expenses	(197,845)	(2,617)	(200,462)
Increase (decrease) in:			
Accounts payable	104,675	343,966	448,641
Retentions payable	-	35,163	35,163
Due to other funds	(855,530)	(399,821)	(1,255,351)
Due to other governments	(69,849)	182,994	113,145
Accrued liabilities	54,419	-	54,419
Unearned revenue	120,270	97,468	217,738
Net pension liability and related deferred inflows and outflows	323,610	-	323,610
Net OPEB liability and related deferred inflows and outflows	(11,396)	-	(11,396)
Total adjustments	11,536,437	9,339,025	20,875,462
Net cash provided by (used for) operating activities	\$ 29,064,459	\$ 14,595,522	\$ 43,659,981
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Interest accretion on TIFIA notes	2,198,548	-	2,198,548
Amortization of debt adjustment at acquisition	(996,326)	-	(996,326)
Bond premium amortization	(1,545,197)	-	(1,545,197)
Refunding loss amortization	23,003	-	23,003
Capital asset purchase included in accounts payable	501,878	287,811	789,689

See accompanying Notes to the Basic Financial Statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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**San Diego Association of Governments
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

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 SANDAG Board of Directors (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 act also required the consolidation of the planning, programming, project development, and construction functions of the San Diego Metropolitan Transit Development Board, currently known as the Metropolitan Transit System (MTS) and the North San Diego County Transit Development Board, currently known as the North County Transit District (NCTD), into SANDAG.

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

Included within the reporting entity as blended component units:

San Diego County Regional Transportation Commission (Commission) – The Commission is the agency established for the purpose of, and is responsible for, the implementation and administration of transportation improvement programs funded by the San Diego countywide one-half percent sales tax 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 one-half percent sales tax for 40 more years to 2048. The Commission's governing board is the same as the SANDAG governing board. The Commission exclusively benefits SANDAG and SANDAG member agencies. The Commission is presented as two funds: (1) a special revenue fund type; and (2) a debt service fund type.

**San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018**

SourcePoint – On April 15, 1982, SANDAG formed a nonprofit 501(c)(3) corporation, SourcePoint, for the purpose of providing fee-based products and services that meet the needs of decision-makers in the public and private sectors, while enhancing the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the Regional Information System (RIS). The SourcePoint governing board is the SANDAG Executive Committee, which is made up of six voting members from among the primary and alternate voting members of the SANDAG governing board. As a blended component unit of SANDAG, all of the members of the SourcePoint board are primary voting members of the SANDAG governing body, and SANDAG can, therefore, impose its will on SourcePoint activities. SANDAG is financially responsible for and benefit exclusively from SourcePoint activities. SourcePoint provides services directly to the public.

Included within the reporting entity as a discretely presented component unit:

Automated Regional Justice Information System (ARJIS) – ARJIS is a Joint Powers Agency established in December 1980 under a joint powers agreement with the County of San Diego and all municipalities in the County, including the City of San Diego. In January 2004, the joint powers agreement was amended, as public agencies of the San Diego region recognized the need for continued operation, maintenance, enhancement, and implementation of ARJIS in order to provide improved law enforcement capabilities within the San Diego region and designated SANDAG as the administrator, effective July 1, 2004. ARJIS provides a regional complex criminal justice enterprise information system utilized by more than 50 local, state, and federal agencies in the San Diego region. The ARJIS governing board is the SANDAG Public Safety Committee, which is made up of six members from among the primary and alternate voting members of the SANDAG governing board, as well as six voting public safety representatives, and various public safety advisory members. The ARJIS governing board is not substantively the same as the entire SANDAG governing board; however, a voting majority of the ARJIS board can be primary or alternate voting members of the SANDAG governing board, and SANDAG is the administrator of ARJIS. Therefore, SANDAG can and does impose its will on ARJIS activities. ARJIS provides services directly to the public.

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

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

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

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

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

Government-wide financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales tax is recognized as revenue in the year in which it is earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of SANDAG proprietary funds are toll revenues, charges for services, and iCommute promotions. Operating expenses for proprietary funds include roadway maintenance, cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SANDAG reports the following major governmental funds:

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

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

operating and capital grants. Expenditures are primarily expended for general government overhead, net of cost recovery.

The special revenue *San Diego County Regional Transportation Commission sales tax projects fund* (Commission sales tax projects fund) accounts for the activities and resources of the Commission, a blended component unit, received pursuant to the countywide one-half percent local sales tax. These revenues are passed through to other governmental agencies to be spent in accordance with the *TransNet* ordinances, transferred to other SANDAG governmental funds, or transferred to the Commission's debt service fund to make principal and interest payments on the long-term debt sales tax revenue bonds, short-term notes and commercial paper.

The *capital projects fund* accounts for the resources and activities of SANDAG to provide for highway improvements and rail and bus capital improvements, and replacements and other capital implementation projects. Revenues are primarily derived from federal and state capital grants, TDA, and *TransNet* funds.

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

SANDAG reports the following other governmental fund types:

The special revenue *general services fund* accounts for the activities and resources of SANDAG to provide primarily for modeling and research, criminal justice, planning and forecasting, sustainable development, smart mobility programs and services, intermodal planning and implementation, and internal and external coordination. Revenues are primarily derived from federal, state, and local operating grants and contributions.

The special revenue *San Diego Service Authority for Freeway Emergencies (SAFE) fund* accounts for the activities of the SAFE program, which is responsible for purchasing, installing, operating, and maintaining a motorist aid system of call boxes in San Diego County. The SAFE program operation was transferred from the County of San Diego to SANDAG as of January 1, 2013, by the adoption of Assembly Bill No. 1572 (Fletcher, 2012).

SANDAG reports the following major proprietary funds:

The *State Route 125 (SR 125) fund* accounts for the activities of the SANDAG SR 125 toll road, an 11.2-mile, limited-access highway in the County of San Diego. On December 21, 2011, SANDAG acquired the rights and interest in a Franchise Agreement between South Bay Expressway, LLC, and Caltrans. Under the Agreement, SANDAG has contractual rights to develop and operate the SR 125 toll road. The SR 125 fund was established in December 2011 as a proprietary fund under the oversight of SANDAG to operate the toll road.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

SANDAG reports the following other proprietary fund types:

The *Service Bureau fund* accounts for activities of the SANDAG Service Bureau, which is a fee-based operation providing informational and technical services to member agencies, nonmember government agencies, private organizations, and individuals. The purpose of the Service Bureau is to offer products and services that meet the needs of decision-makers in the public and private sectors, while enhancing the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the SANDAG Regional Information System and the technology used to support it. One of the goals of the Service Bureau is to generate revenue to update and enhance the Regional Information System.

The *SourcePoint fund*, a blended component unit 501(c)(3) nonprofit agency, accounts for fee-based products and services of projects for clients with a requirement to conduct business with a nonprofit agency.

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

The *Property Management fund* accounts for the operating activities of commercial buildings and land purchased by SANDAG in the current fiscal year for the benefit and in support of the Mid-Coast Corridor Transit project undertaken by SANDAG.

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

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

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

D. Budgetary information

1. Budgetary basis of accounting

An annual budget is adopted on a basis consistent with GAAP for the general fund, special revenue funds, debt service fund, and capital projects fund.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

2. Expenditures in excess of appropriations

The Commission debt service fund had an excess of \$33,941,816 expenditures over appropriations at June 30, 2018, which was primarily the result of the principal repayment of \$28,786,000 in commercial paper, which was 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

SANDAG considers all highly liquid investments with maturities of 90 days or less at the acquisition date to be cash and cash equivalents because they are readily convertible to known amounts of cash and are so near their maturity that they present an insignificant risk of change in value. Securities purchased with a maturity date greater than three months at the date of acquisition have been classified as investments.

SANDAG investment policies are in accordance with California Government Code Section 53601. See Note II.A.3 for further detail of allowable investments.

SANDAG voluntarily participates in an investment pool managed by the State of California, titled LAIF. Deposits in the LAIF pool are presented as cash and cash equivalents as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is no significant risk of principal loss. The LAIF investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. The reported value of the pool is at amortized cost and is not rated. At June 30, 2018, LAIF had an average maturity of 193 days.

SANDAG 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. Deposits in the CAMP are presented as cash and cash equivalents as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is no significant risk of principal loss. SANDAG reports its investments in CAMP at amortized cost provided by CAMP, which is the same as the value of the pool share. At June 30, 2018, the pool had an average maturity of 35 days.

SANDAG also voluntarily participates in the San Diego County Treasurer's Pooled Money Fund (Pool), which is administered by the Treasurer-Tax Collector's Office. Deposits in the Pool are presented as cash and cash equivalents as they are available for withdrawal with two days' notice or immediate deposit at any time without prior notice or penalty and there is no significant risk of principal loss. The fair value of the SANDAG investment in the Pool is reported at amounts based

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

upon the SANDAG pro rata share of the fair value provided by the Treasurer-Tax Collector's Office for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Treasurer-Tax Collector's Office, which is recorded on the amortized cost basis. Earnings realized on investments based on amortized cost are distributed to Investment Pool participants. Section 27013 of the California Government Code authorizes the Treasurer-Tax Collector'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.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3), SANDAG adheres to certain disclosure requirements. See Note II.A for more detail.

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 SANDAG 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 SANDAG data.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

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”.

4. *Prepaid items*

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. *Restricted assets*

Certain cash and cash equivalents and investments are restricted as these assets are restricted for debt service; their use is limited externally by applicable bond covenants; the assets are held for payment of future capital contract retention liabilities to be paid as work is completed; or the assets are set aside and held for *TransNet* environmental mitigation purposes.

6. *Capital assets*

Capital assets are reported in the applicable governmental or business-type activities in the government-wide financial statements, net of accumulated depreciation, except for construction-in-progress, land and easements which are not depreciated. Capital assets are defined by SANDAG as assets with an initial individual cost of equal to or greater than \$5,000 and a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The purchase of the SR 125 toll road and related assets were valued on the acquisition date at fair value. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value rather than fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are expensed.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

Capital assets are carried at cost and depreciated using the straight-line method based on the estimated useful life of the asset as follows:

Asset Type	Useful Life in Years
Office equipment	3
Computer equipment	3
Equipment and other	5
Vehicles	5
Leasehold improvements	5
Internally generated computer software	5
Electronic toll collection system	10
Buses	12
Toll road	31
Buildings	50

7. 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. SANDAG has four items that qualify for reporting in this category in the government-wide statement of net position: (1) the accumulated decrease in fair value of the hedging swap agreement; (2) the deferred charge on refunding loss; (3) the pension-related amounts for the year based upon the accounting valuation (actuarial) report; and (4) the other post-employment benefit (OPEB) related amounts for the year based upon the accounting valuation (actuarial) report. See Note II.G for more information on SANDAG 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. SANDAG has two types of this item that are reported in this category in the government-wide statement of net position: (1) pension-related amounts for the year based upon the accounting valuation (actuarial) report; and (2) OPEB-related amounts for the year based upon the accounting valuation (actuarial) report.

Unavailable revenue arises only under a modified accrual basis of accounting that qualifies for reporting in this category and, therefore, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues in the capital projects fund, Commission debt service fund, and general services fund. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

8. Net position

The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is “Net Position” on government-wide and proprietary fund financial statements.

The following terms are used in the reporting of net position:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt attributed to the acquisition, construction or improvement of these assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The following terms are used in the reporting of restricted net position:

Debt service and other liabilities consists of payments for future debt service.

Environmental mitigation consists of funding of various *TransNet* environmental mitigation projects.

Major maintenance post-acquisition consists of assets collected for the SR 125 toll road major maintenance projects.

Project revenue consists of other legally restricted assets of the SR 125 proprietary fund.

Toll road operations and improvements consists of assets collected for activities of the I-15 *FasTrak* program.

Customer prepaid reserve consists of advance payments made by the SR125 toll road users.

Property management consists of operating activities of the property acquired related to the Mid-Coast Corridor Transit Project.

Freeway emergency service consists of funding for the SAFE program.

Restricted – iCommute consists of assets received for the iCommute program. Certain iCommute activities are performed through SourcePoint, including providing regional information services, promotions, and programs for commuter services. The majority of iCommute activities are performed through SANDAG; however, cash donations that are made by iCommute sponsors are paid to SourcePoint to utilize the 501(c)(3) status. Those cash donations are used to purchase promotional items to encourage participation in the iCommute program. At no time will iCommute promotional expenses exceed iCommute revenue generated by cash donations.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

The governmental activities unrestricted net deficit of \$623,955,231 results primarily from the issuance of the \$2,045,585,000 sales tax revenue bonds in 2008, 2010, 2012, 2014, and 2016 for transportation-related projects, primarily major corridor and environmental mitigation, and issuance of the \$537,480,000 subordinate sales tax revenue short-term notes in 2018 for the Mid-Coast Corridor Transit project. SANDAG plans to repay the bonds and interest on the short-term notes with future sales tax revenue which is dedicated for transportation projects. The short-term note principal will be repaid when the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan proceeds are drawn. See Note II.G on long-term debt for further information.

The business-type activities unrestricted net position of \$397,238 results primarily from the issuance of the \$194,140,000 Series A Toll Revenue bonds offset with the repayment of TIFIA Notes and a *TransNet* Loan balances remaining from acquisition of the SR 125 toll road in 2012. SANDAG plans to repay the bonds with future toll road revenue. See Note II.G on long-term debt for further information.

9. Net position flow assumption

Sometimes SANDAG 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is SANDAG policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund balance

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based on the extent to which the Commission is bound to observe constraints imposed on the use of resources:

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

Restricted fund balance – amounts with constraints placed on their use that are (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or 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 – amounts that can only be used for specific purposes imposed by a formal action of the Board. The Board uses resolutions to commit fund balances. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type

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of voting consensus that created the 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.

Assigned fund balance – amounts that are constrained by the Board's intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed and 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 – residual amounts which are not included in one of the other classifications and is the residual classification for the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The capital projects fund and general services fund report negative unassigned fund balances at year end due to timing of revenue recognition.

11. Fund balance flow assumptions

Sometimes SANDAG 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 SANDAG 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.

12. Long-term liabilities

SANDAG 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 statement of net position. Debt premiums and discounts are amortized over the life of the bonds or short-term notes using the effective interest method. Debt payable is reported net of the applicable bond or short-term note premium or discount. Debt issuance costs are expensed in the period in which they are incurred.

See Note II.G for more information on SANDAG long-term liabilities.

13. Other post-employment benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the SANDAG plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust

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(CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis they are reported by CERBT. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. OPEB liabilities are liquidated by the general fund.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016, to June 30, 2017

14. Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Pension liabilities are liquidated by the general fund.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016, to June 30, 2017

15. Compensated absences

It is SANDAG policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements; and proprietary funds report compensated absence amounts when earned. Based on the reduction in the compensated absences payables governmental funds of \$3,359,169 and proprietary funds of \$355,353, during fiscal year 2018, it was determined that the entire balance of compensated absences reported at June 30, 2018, is expected to be exhausted in fiscal year 2019. Because the turnover each year nets to approximately \$0, the entire balance is reported as current. Compensated absences are liquidated by the general fund.

16. Unearned revenues

In the government-wide and fund financial statements, unearned revenues are resource inflows that do not meet the criteria for revenue recognition. Unearned revenues arise when resources are received by SANDAG before it has a legal claim to them, such as grant monies received prior

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to the incurrence of the qualifying expenditures. When revenue recognition criteria are met, or when SANDAG has a legal claim to the resources, unearned revenue is removed from the Statement of Net Position and the revenue is recognized.

17. Other financing sources and uses

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

18. Estimates

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

19. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. There is no effect on changes in fund balance or net position as a result of these reclassifications.

20. Effects of new pronouncements

Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 directs governments to report a liability on their financial statements for their retiree benefits. It requires governments in all types of retiree benefit plans to present additional disclosures and supplementary information (RSI) about their retiree benefit liabilities.

SANDAG implemented the new reporting requirements for the fiscal year ending June 30, 2018. Further information can be found in Note II.K.

Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application and postemployment benefits (pensions and other postemployment benefits (OPEB)).

Specifically, this Statement addresses the following topics:

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- a) reporting amounts previously reported as goodwill and “negative” goodwill;
- b) classifying real estate held by insurance entities;
- c) measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- d) timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- e) recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- f) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- g) classifying employer-paid member contributions for OPEB;
- h) simplifying certain aspects of the alternative measurement method for OPEB;
- i) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

SANDAG implemented the new reporting requirements for the fiscal year ending June 30, 2018. There was no impact to changes in net position or fund balance as a result of adoption.

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II. DETAILED NOTES ON ALL FUNDS

A. Cash and investments

Cash, cash equivalents, and investments consisted as follows on June 30, 2018:

Investment Type	Amount	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:			
Cash - demand deposits	\$ 90,093,939	1	Not rated
Cash equivalents - NCTD Certificates of Participation	25,550,000	38	NR,A1
Cash equivalents - Commercial Paper	9,990,210	17	A-1+/P-1
State of California Local Agency Investment Fund	74,658,181	193	Not rated
California Asset Management Program	291,814,260	35	AAAm
San Diego County Treasurer's Pooled Money Fund	39,632,635	345	AAAf / S1
Total Primary Government cash and cash equivalents	531,739,225	75	
Investments:			
U.S. Agencies	278,219,383	314	AA+, Aaa
Corporate Medium-Term Notes	80,129,220	404	A- to AAA
Commercial Paper	73,834,050	77	A-1, P-1
Supranational Agency Bond/Note	15,420,489	745	AAA,Aaa
Certificates of Deposit	35,662,182	402	A, Aa3
Asset-Backed Security	12,729,724	1126	AAA,Aaa
Total Primary Government investments	495,995,048	329	
Total Primary Government cash, cash equivalents, and investments	1,027,734,273	200	
ARJIS:			
Cash - demand deposits	288,857	1	Not rated
California Asset Management Program	4,700,420	35	AAAm
San Diego County Treasurer's Pooled Money Fund	2,507,834	345	AAAf / S1
Total ARJIS cash, cash equivalents, and investments	7,497,111	137	
Total cash, cash equivalents, and investments	\$ 1,035,231,384		

At year end, the primary government's carrying amount of deposits was \$90,093,939, and the bank balance was \$100,727,408.

At year end, ARJIS' carrying amount of deposits and bank balance was \$288,857 with \$68,055 in outstanding checks, aggregating to the bank balance of \$356,912. This balance was covered by federal depository insurance.

SANDAG 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, SANDAG began making monthly variable payments to the counterparty based on the current Securities Industry and Financial Markets Association (SIFMA) Swap Index and received variable payments based on 107.4 percent of

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three-month London Interbank Offered Rate (LIBOR). At June 30, 2018, these investment derivatives had a fair value of \$24,119,001, net of interest, and are not rated. Other applicable risks (credit risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with the SANDAG derivative investments are described in Note II.E.

1. Interest rate risk

Interest rate risk is the risk that changes in 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. To limit losses from interest rate risk, investments are generally limited to a maturity of 5 years or less, unless express authority is granted by the board. Endowment funds may also be invested in securities with maturities longer than 5 years with executive approval and given maturity does not exceed use of funds. Furthermore, SANDAG does not have callable step up United States Agency securities and holds investments in liquidity to sustain operations for the next 6 months. SANDAG is in compliance with all provisions of the investment policy.

2. Credit risk

Investments are subject to credit risk, which is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause price to decline. SANDAG maintains policies to manage credit risks, which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations for its investments.

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

The SANDAG portfolio is in compliance with all minimum rating requirements of the investment policy and did not experience any credit rating changes that brought a security below the minimum required credit ratings.

3. Concentration of credit risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issuers. As disclosed in the table below, SANDAG maintains investment policies that establish thresholds for holdings of individual securities. SANDAG did not have any holdings meeting or exceeding the allowable threshold levels as of June 30, 2018.

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Authorized Investment Type	Maximum Effective Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Ratings
Treasury obligations	5 Years	N/A	N/A	N/A
Federal agencies and U.S. government sponsored enterprises	5 Years	N/A	N/A	N/A
State municipal obligations	5 Years	N/A	N/A	A-1/AA
Local agency obligations	5 Years	N/A	N/A	A-1/AA
Repurchase agreements	90 Days	N/A	N/A	A-1
Bankers' acceptances	180 Days	40%	10%	A-1
Commercial paper	270 Days	25%	10%	A-1
Medium-Term notes	5 Years	30%	10%	A
Negotiable certificates of deposits	5 Years	30%	N/A	A
Nonnegotiable certificates of deposit	5 Years	30%	N/A	N/A
State of California's Local agency investment fund (LAIF)	N/A	Set by LAIF	Set by LAIF	N/A
San Diego county treasurer's pooled investment fund	N/A	Set by LAIF	Set by LAIF	N/A
Savings/money market accounts	5 Years	Not to exceed equity	N/A	N/A
California asset management program	N/A	N/A	N/A	AA/A-2
Money market funds	5 Years	20%	N/A	AAA
Mortgage and asset-backed obligations	5 Years	20%	N/A	AA
Supranationals	5 Years	30%	N/A	AA

As of June 30, 2018, with the exception of investments that are explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments, SANDAG did not have any investments with more than 5 percent of the total investments under one issuer except for the following U.S. Agency securities:

Investment	Total	Concentration of Credit Risk
Federal Home Loans Bank (FHLB)	\$ 123,192,192	24.84%
Federal Home Loan Mortgage Corp (FHLMC)	53,607,966	10.81%
Federal National Mortgage Association (FNMA)	62,234,805	12.55%

4. Custodial credit risk

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

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

B. Receivables

Receivables as of June 30, 2018, for the primary government were as follows:

Receivables	Governmental Funds					Proprietary Funds		Total Primary Government
	General Fund	Commission Sales Tax Projects Fund	Capital Projects Fund	Commission Debt Service Fund	Non-Major Funds	SR 125 Toll Road Fund	Non-Major Funds	
Sales tax	\$ -	\$ 61,463,147	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,463,147
Interest	18,766	1,646,954	-	98,943	41,936	31,285	129,404	1,967,288
Advance to member agencies for local street improvements	-	-	-	53,016,318	-	-	-	53,016,318
Grants	-	-	72,707,200	-	10,671,726	-	-	83,378,926
Accounts and other	53,492	5,484	10,469,795	-	2,144,986	3,819,275	839,172	17,332,204
Total receivables	\$ 72,258	\$ 63,115,585	\$ 83,176,995	\$ 53,115,261	\$ 12,858,648	\$ 3,850,560	\$ 968,576	\$ 217,157,883

Receivables as of June 30, 2018, for ARJIS were \$991,709, which is comprised of \$979,670 due from other governments for grants or services provided, \$11,479 in interest receivable, and \$560 in other receivables.

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C. Capital assets

1. Primary government – governmental activities

Capital asset activity for the primary government for the year ended June 30, 2018, was as follows:

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction-in-progress	\$ 1,147,726,026	\$ 653,703,578	\$ (376,498,645)	\$ 1,424,930,959
Land	6,829,613	-	-	6,829,613
Easements	15,950,412	-	-	15,950,412
Total capital assets, not being depreciated	1,170,506,051	653,703,578	(376,498,645)	1,447,710,984
Capital assets, being depreciated:				
Infrastructure	-	376,465,095	(376,465,095)	-
Office equipment	215,224	-	-	215,224
Computer equipment	7,510,561	283,872	(63,699)	7,730,734
Equipment and other	599,765	11,939	-	611,704
Vehicles	177,846	3,007,184	(47,031)	3,137,999
Buses	219,643	-	-	219,643
Leasehold improvements	192,229	-	-	192,229
Buildings	4,870,387	-	-	4,870,387
Total capital assets, being depreciated	13,785,655	379,768,090	(376,575,825)	16,977,920
Less accumulated depreciation for:				
Office equipment	(205,175)	(4,597)	-	(209,772)
Computer equipment	(5,370,762)	(1,323,086)	63,699	(6,630,149)
Equipment and other	(210,502)	(94,305)	-	(304,807)
Vehicles	(91,077)	(352,812)	47,031	(396,858)
Buses	(104,418)	(18,304)	-	(122,722)
Buildings	(32,469)	(97,408)	-	(129,877)
Leasehold improvements	(192,229)	-	-	(192,229)
Total accumulated depreciation	(6,206,632)	(1,890,512)	110,730	(7,986,414)
Total capital assets, being depreciated, net	7,579,023	377,877,578	(376,465,095)	8,991,506
Governmental activities capital assets, net	\$ 1,178,085,074	\$ 1,031,581,156	\$ (752,963,740)	\$ 1,456,702,490

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Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental activities:	Totals
General government	\$ 278,301
Modeling and research	278
Sustainable mobility programs and services	342,741
Major corridor projects	1,269,192
Total	\$ 1,890,512

Infrastructure assets, as well as title to the assets, if applicable, were contributed to other governmental agencies responsible for public transportation operations. These contributions primarily represent major corridor and transit improvements as noted below.

Governmental agency	Capital contributions
North County Transit District	\$ 176,911,620
San Diego Metropolitan Transit System	99,816,053
Caltrans	79,908,552
SDCCD	8,781,525
City of San Marcos	6,463,145
City of National City	4,599,762
City of San Diego	(15,562)
Total	\$ 376,465,095

2. Proprietary fund

Capital asset activity for the proprietary fund for the year ended June 30, 2018, was as follows:

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Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction-in-progress	\$ 3,399,889	\$ 12,992,549	\$ (8,676,193)	\$ 7,716,245
Land	1,980,000	-	-	1,980,000
Total capital assets, not being depreciated	5,379,889	12,992,549	(8,676,193)	9,696,245
Capital assets, being depreciated:				
Office equipment	244,433	6,554	-	250,987
Computer equipment	329,696	218,414	-	548,110
Vehicles	521,119	80,451	(34,631)	566,939
Equipment and other	157,661	10,920	-	168,581
Internally generated software	199,170	-	-	199,170
Toll road	395,599,469	7,462,389	(176,469)	402,885,389
Buildings	4,020,000	-	-	4,020,000
Electronic toll collection system	21,778,571	1,319,030	-	23,097,601
Total capital assets, being depreciated	422,850,119	9,097,758	(211,100)	431,736,777
Less accumulated depreciation for:				
Office equipment	(210,284)	(15,176)	-	(225,460)
Computer equipment	(246,995)	(85,168)	-	(332,163)
Vehicles	(247,449)	(86,537)	34,631	(299,355)
Equipment and other	(143,894)	(4,633)	-	(148,527)
Internally generated software	(128,455)	(27,374)	-	(155,829)
Toll road	(70,631,841)	(12,942,141)	176,469	(83,397,513)
Buildings	(442,200)	(80,400)	-	(522,600)
Electronic toll collection system	(11,654,609)	(2,262,822)	-	(13,917,431)
Total accumulated depreciation	(83,705,727)	(15,504,251)	211,100	(98,998,878)
Total capital assets, being depreciated, net	339,144,392	(6,406,493)	-	332,737,899
Proprietary activities capital assets, net	\$ 344,524,281	\$ 6,586,056	\$ (8,676,193)	\$ 342,434,144

Depreciation expense was charged to the functions/programs of the business-type activities as follows:

Business-type activities:	Totals
SR 125 operating expense	\$ 13,241,429
Interstate 15 FasTrak operating expense	2,262,822
Total	\$ 15,504,251

Effective December 21, 2011, SANDAG entered into an Asset Purchase and Sale Agreement with South Bay Expressway, LLC, to acquire the seller's rights and interest in a Franchise Agreement between the seller and Caltrans. The Franchise Agreement gives the holder the right to operate a toll road (SR 125) in San Diego, California.

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The fair value of the consideration paid was \$341.5 million. The consideration consisted of a cash payment of \$238.3 million, an additional cash component, held in escrow, in the amount of \$7.5 million, a promissory note with a principal amount of \$1.4 million and an assumption of indebtedness in the amount of \$94.2 million. The fair value of the total invested capital, including equity and assumed debt was \$402.9 million as of the valuation date and was allocated to each asset type shown in the above schedule.

In November 2017, the SR 125 refunded all acquisition debts by issuing \$194,140,000 toll revenue bonds.

3. Discretely presented component units

Capital asset activity for the discretely presented component units for the year ended June 30, 2018, was as follows:

Discretely presented component units	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Work-in-progress	\$ -	\$ 24,200	\$ -	\$ 24,200
Total capital assets, not being depreciated	-	24,200	-	24,200
Capital assets, being depreciated:				
Computer equipment	1,261,381	347,037	-	1,608,418
Internally generated computer software	10,216,693	-	-	10,216,693
Total capital assets, being depreciated	11,478,074	347,037	-	11,825,111
Less accumulated depreciation for:				
Computer equipment	(859,496)	(422,741)	-	(1,282,237)
Internally generated computer software	(10,193,150)	(23,544)	-	(10,216,694)
Total accumulated depreciation	(11,052,646)	(446,285)	-	(11,498,931)
Total capital assets, being depreciated, net	425,428	(99,248)	-	326,180
Total capital assets, net	\$ 425,428	\$ (75,048)	\$ -	\$ 350,380

D. Interfund receivables, payables, and transfers

The composition of interfund balances within the primary government as of June 30, 2018, was as follows:

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1. Due to/from other funds

		Due to other funds - Governmental Funds					
		General Fund	Commission Sales Tax Projects Fund	Capital Projects Fund	Commission Debt Service Fund	Nonmajor Funds	Total
Due from other funds	General Fund	\$ -	\$ 1,432	\$ -	\$ -	\$ 330,164	\$ 331,596
	General Services Fund	-	2,675,496	-	-	1,179,544	3,855,040
	Commission Sales Tax Projects Fund	-	-	35,605,829	22,348	-	35,628,177
	Capital Projects Fund	-	85,674,174	-	-	3,651,857	89,326,031
	Property Management Fund	-	-	-	-	52,706	52,706
	Service Bureau Fund	-	-	-	-	27,524	27,524
	SourcePoint Fund	-	-	313	-	-	313
	I-15 FasTrak Fund	-	-	-	-	1,390,616	1,390,616
	SR 125 Toll Road Fund	-	-	-	-	3,815	3,815
	SAFE Fund	1	-	-	-	3,270	3,271
	Total	\$ 1	\$ 88,351,102	\$ 35,606,142	\$ 22,348	\$ 6,639,496	\$ 130,619,089

		Due to other funds - Business-Type Funds			
		Interstate 15 FasTrak Fund	SR 125 Toll Road Fund	SourcePoint Fund	Total
Due from other funds	General Fund	\$ 2,015	\$ 3,974	\$ 15	\$ 6,004
	Capital Projects Fund	-	107,455	-	107,455
	Service Bureau Fund	-	264,980	-	264,980
	I-15 FasTrak Fund	-	89,384	-	89,384
	SR 125 Toll Road Fund	26,698	-	-	26,698
	Total	\$ 28,713	\$ 465,793	\$ 15	\$ 494,521

Due to/from other funds includes the following types of interfund transactions:

Reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. The reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the fund that initially incurred the expense.

Loans represent amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances.

2. Due to primary government and due from component unit

ARJIS reported \$127,698 as due to SANDAG at June 30, 2018.

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3. Transfers in/out

Transfers in and out by fund for the fiscal year ended June 30, 2018, were as follows:

		Governmental Funds Transfers Out					
Transfers In		General Fund	Commission Sales Tax Projects Fund	Capital Projects Fund	Commission Debt Service Fund	SAFE Fund	Total
		General Fund	\$ -	\$ 153,242	\$ -	\$ -	\$ -
	General Services Fund	8,129,771	12,557,038	115,870	-	1,567,544	22,370,223
	Commission Sales Tax Projects Fund	-	-	-	394,955,708	-	394,955,708
	Capital Projects Fund	185,590	479,714,416	-	-	-	479,900,006
	Commission Sales Tax Debt Service Fund	-	118,000,912	-	-	-	118,000,912
	Total	\$ 8,315,361	\$ 610,425,608	\$ 115,870	\$ 394,955,708	\$ 1,567,544	\$ 1,015,380,091

		Business-Type Funds Transfers Out			
Transfers In		Interstate 15 FasTrak Fund	SR 125 Toll Road Fund	Service Bureau Fund	Total
		General Service Fund	\$ 16,367	\$ -	\$ 71,490
	Capital Projects Fund	-	7,606,585	-	7,606,585
	Total	\$ 16,367	\$ 7,606,585	\$ 71,490	\$ 7,694,442

Transfers from the general fund:

To the general services fund consists of the following items:

- \$7,735,588 transferred for projects that were budgeted to receive TDA funds.
- \$394,184 transferred for projects that were budgeted to receive member assessments.

To the capital projects fund consists of the following item:

- \$185,589 of TDA funds for the financial systems upgrade project.

Transfers from the Commission sales tax projects fund:

To the general fund:

- \$153,242 for one-half of the Board expenses budgeted to receive *TransNet* funds.

To the Commission debt service fund consists of the following items:

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- Transfer of \$118,000,912 in *TransNet* sales tax revenue for bond and commercial paper principal and interest payments.

To the general services fund:

- \$12,557,038 for the *TransNet* grant program and overall work program projects budgeted to receive *TransNet* funds.

To the capital projects fund:

- \$479,714,416 for capital projects budgeted to receive *TransNet* funds.

Transfers from the capital projects fund of \$115,870 to the general services fund for the State of the Commute project.

Transfers from the Commission debt service fund:

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

- \$1,519,755 of bond and commercial paper repayments for the County of San Diego and cities of Del Mar, La Mesa, National City, Oceanside, and Santee.
- \$6,548,928 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.
- \$357,137,219 of bond proceeds used to fund *TransNet*-eligible capital projects.
- \$599,478 of bond proceeds used for reimbursement to the City of Del Mar for *TransNet*-eligible projects.
- \$459,252 of bond proceeds used for reimbursement to the City of Santee for *TransNet*-eligible projects.
- \$27,586,000 of commercial paper proceeds issued for reimbursement to SANDAG for *TransNet*-eligible projects.
- \$1,064,000 of commercial paper proceeds issued to the City of Oceanside for *TransNet*-eligible projects.
- \$41,076 of administrative transactions transferred for reporting purposes.

Transfers from the SAFE fund of \$1,567,544 to the general services to match State Freeway Service Patrol operation funds, fund Traveler information systems, and fund Intelligent Transportation System infrastructure projects as permitted under legislation.

Transfers from the I-15 FasTrak fund totaling \$16,367 to the general services fund for a budgeted operating project.

Transfers from the SR 125 fund totaling \$7,606,585 to the capital projects fund for the South Bay Bus Rapid Transit project, the State Route 905/125/11 Southbound Connectors project and to match federal funds on the Joint Transportation Operations Center.

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Notes to the Basic Financial Statements, Continued
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Transfers from the Service Bureau fund of \$71,490 to the general services fund for the acquisition and licensing of economic and transportation modeling data to enhance the Regional Information System.

4. Advances to/from other funds

Advances to/from other funds at June 30, 2017, included advances from the Commission sales tax projects fund to the SR 125 toll road fund for the acquisition of the SR 125 franchise with the original \$3 million used toward operations of the SR 125 toll road. The *TransNet* promissory note called for SANDAG to borrow the principal amount of \$254,068,974 from the Commission at a rate of 4.25 percent.

On March 23, 2012, the *TransNet* Extension Ordinance was amended to modify the Expenditure Plan such that the improvements on Interstate 805, valued at a remaining \$192,382,483, would be removed. As a result, the initial amount borrowed from *TransNet* was reduced by \$192,382,483.

As of June 30, 2018, the outstanding principal of the *TransNet* advance of \$58,686,491 and outstanding accrued interest of \$3,666,019 was fully repaid.

E. Derivative instruments

SANDAG uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. An interest rate swap is the exchange of payments between SANDAG and a counterparty in order to potentially obtain a lower cost of funding than traditional fixed rate bonds, or to hedge interest rate exposure. SANDAG has entered into three pay-fixed, receive-variable interest rate swaps and two basis swaps to produce savings or to result in lower costs than what SANDAG would have paid using fixed-rate debt over the life of the 2008 Series ABCD Bonds.

The following describes the interest rate swaps and evaluates the risks for the swaps in which SANDAG currently participates:

1. 2008 interest rate swaps

Objective. In 2005, SANDAG 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 SANDAG 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, SANDAG 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 SANDAG 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

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counterparty risk at no additional cost to SANDAG. The current notional amounts of the swaps are, following the refunding described above, \$134.1 million each, totaling \$402.3 million.

Objective and terms of hedging derivative instruments

The following table displays the objective and terms of SANDAG hedging derivative instruments outstanding at June 30, 2018, along with the credit rating of the associated counterparty:

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 SIFMA	Aa2/AAA
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 SIFMA	Aa2/AAA
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	Aa2/AAA

Fair values. The fair value balances and notional amount of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year ended are as follows:

Governmental activities	Changes in Fair Value		Fair Value at June 30, 2018		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges: Pay-fixed interest rate swaps	Deferred outflows	(\$21,915,572)	Debt	(\$64,264,809)	\$402,300,000

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, 2018. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2018, SANDAG was not exposed to credit risk on these swaps

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because they had negative fair values. However, should interest rates change and the fair values of the swaps become positive, SANDAG 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, 2018, both counterparties were rated Aa2 by Moody's and AAA by Standard and Poor's and 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. SANDAG is exposed to interest rate risk on its swaps when LIBOR and/or SIFMA decreases causing SANDAG 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. SANDAG is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate SANDAG 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 bond payments over the 30-year term of the swaps. Due to the unfavorable market conditions during fiscal year 2018, SANDAG was exposed to basis risk since the variable rate received from the counterparty, was less than the variable rate SANDAG 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 SANDAG. SANDAG 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. SANDAG 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.

SANDAG 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 SANDAG 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 SANDAG unprotected in the future. When these swaps terminate, or in the case of a termination option, if the counterparty exercises its option, SANDAG will be re-exposed to the risks being hedged by the swaps. SANDAG is exposed to rollover risk on the swaps only in the event of a failure to perform under the terms of the contracts by SANDAG or counterparty.

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Market access risk. This is the risk that SANDAG will not be able to enter credit markets or that credit will become more costly. The SANDAG financial rating is tied to the credit strength of the sales tax revenue. SANDAG is also exposed to market access risks caused by disruptions in the municipal bond market.

Reset rates paid and received by SANDAG. The range of weekly variable interest rates paid on the 2008 *TransNet* bonds by SANDAG to the bondholders for the period July 1, 2017, through June 30, 2018 are as follows:

Bondholder	Commission Pays Weekly Reset Rates	
	Low	High
Barclays Bank	0.72%	1.72%
Goldman, Sachs & Co.	0.72%	1.73%
JP Morgan Securities, Inc.	0.75%	1.75%
Stifel, Nicolaus & Company	0.72%	1.75%

Fixed rates are paid by SANDAG to the swap provider counterparties and sixty-five percent of LIBOR or SIFMA is received by SANDAG from the swap provider counterparties.

On April 1, 2018, the payment index adjusted from LIBOR to SIFMA for two of the swap counterparties.

The following table includes the range of LIBOR rates received by SANDAG and the fixed rate paid to the swap counterparties from July 1, 2017, through March 31, 2018.

Swap Counterparty	Commission Receives 65% LIBOR		Commission Pays
	Low	High	Fixed
Bank of America	0.68283%	1.08172%	3.410%
Bank of America	0.68283%	1.08172%	3.8165%
Goldman Sachs Mitsui Marine Derivative Products	0.68283%	1.08172%	3.8165%

The following table includes the range of LIBOR rates received for one swap and the range of SIFMA rates received for two swaps; and the fixed rate paid to the swap counterparties from April 1, 2018, through June 30, 2018.

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Swap Counterparty	Commission Receives 65% LIBOR		Commission Receives SIFMA		Commission Pays
	Low	High	Low	High	Fixed
Bank of America	0.68283%	1.08172%	N/A	N/A	3.410%
Bank of America	N/A	N/A	1.43419%	1.69933%	3.8165%
Goldman Sachs Mitsui Marine Derivative Products	N/A	N/A	1.43419%	1.69933%	3.8165%

Actual debt service requirements versus the projected debt service on the swap transaction. For the fiscal year ending June 30, 2018, 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 \$103,620 for fiscal year 2018:

Swap Counterparty	Actual Debt Service	Projected Debt Service	Variance	
			\$	%
Bank of America	\$ 4,650,069	\$ 4,572,811	\$ 77,258	1.6895%
Bank of America	5,116,471	5,117,926	(1,455)	-0.0284%
Goldman Sachs Mitsui Marine Derivative Products	5,145,743	5,117,926	27,817	0.5435%
Totals	\$ 14,912,283	\$ 14,808,663	\$ 103,620	0.6997%

Over the life of the swaps from the issuance of the bonds through June 30, 2018, 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 \$4,251,393. This means that the net variable rates that SANDAG is paying on the 2008 *TransNet* bonds is more than the variable rate that SANDAG 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), Bank of America, N.A. (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 35 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. On March 19, 2009, SANDAG 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 SANDAG to bid out the new transaction to a group of potential counterparties without changing the existing 2008 Interest Rate Swaps. SANDAG

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entered into a new transaction with Barclays Bank PLC to overlay the terms under two of the 2008 Interest Rate Swaps, with an expected benefit to SANDAG of a substantial reduction in the cost of debt after the effective date of April 1, 2018.

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

Fair values. The swaps had a total combined positive fair value of \$24,119,001 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, 2018. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

Governmental activities	Changes in Fair Value		Fair Value at June 30, 2018		
	Classification	Amount	Classification	Amount	Notional
Investment Derivatives: Pay-floating Receive floating interest rate swaps	Investment revenue	\$6,887,882	Investment	\$24,119,001	\$313,200,000

Terms and fair value of investment derivative instruments

The following table displays the terms and fair value of the SANDAG investment derivative instruments outstanding at June 30, 2018, along with the credit rating of the associated swap counterparty:

Variable Rate Paid	Variable Rate Received	Trade Date	Effective Date	Maturity Date	Fair Value	Notional Amount	Counterparty Credit Rating*
SIFMA Swap Index	107.4% of 3-month USD-LIBOR	3/19/2009	4/1/2018	4/1/2038	\$ 12,059,501	\$156,600,000	A2/AA
SIFMA Swap Index	107.4% of 3-month USD-LIBOR	3/19/2009	4/1/2018	4/1/2038	\$ 12,059,500	\$156,600,000	A2/AA
Total					\$ 24,119,001	\$ 313,200,000	

*Moody's/S&P

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Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreements. As of June 30, 2018, SANDAG was exposed to credit risk on these swaps in the amount of \$12,739,569, which is the fair value of the derivatives net of collateral posted. However, should interest rates change and the fair value of the swaps become negative, SANDAG would not be exposed to any credit risk. The favorable credit rating of the counterparty mitigates this risk.

Collateral. To further mitigate credit risk, under terms of the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, dated March 19, 2009, by and between SANDAG and Barclays Bank PLC, upon a demand by either party, collateral may be posted by Barclays to the SANDAG Trust account or returned to Barclays; dependent upon the valuation amount each day. Collateral can be posted on amounts over \$15,000,000 when the minimum daily valuation change is at least \$250,000. Interest earned on collateral held by SANDAG is due to Barclays monthly. SANDAG reports collateral holdings, including interest earned, as deposits payable. At June 30, 2018, there was \$11,379,433 reported as deposits payable.

Netting. Under terms of the ISDA Master Agreement, in respect of the same transaction, SANDAG and Barclays may elect a net amount due and payable for the party with the larger aggregate amount over the smaller aggregate amount. SANDAG and Barclays elected the netting option, which resulted in net receipts of \$814,382 by SANDAG at year end.

Interest rate risk. This is the risk that changes in market interest rates will adversely affect the net payment on the swaps. SANDAG is exposed to interest rate risk on its swaps when LIBOR decreases causing SANDAG 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. SANDAG is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate SANDAG 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. Due to the favorable market conditions during fiscal year 2018, SANDAG was not exposed to basis risk since the variable rate received was more than the variable rate paid and amounted to \$814,382.

Termination risk and termination payments. This is the risk that the transaction is terminated in a market dictating a termination payment by SANDAG. SANDAG 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, 2018, SANDAG 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

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

F. Fair value measurement

SANDAG categorizes its fair value investments within the fair value hierarchy established by GAAP. SANDAG has the following recurring fair value measurements as of June 30, 2018:

General Government	June 30, 2018	Fair Value Measurements		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Agencies	\$ 278,219,383	\$ 29,759,994	\$ 248,459,389	\$ -
Corporate Medium-Term Notes	80,129,220	-	80,129,220	-
Commercial Paper	73,834,050	-	73,834,050	-
Supranational Agency Bonds/Notes	15,420,489	-	15,420,489	-
Certificates of Deposit	35,662,182	-	35,662,182	-
Asset-Backed Securities	12,729,724	-	12,729,724	-
Total investments by fair value level	495,995,048	29,759,994	466,235,054	-
Derivative instruments				
Interest rate swaps	\$ (64,264,809)		\$ (64,264,809)	
Basis rate swaps	24,119,001		24,119,001	
Total derivative instruments	\$ (40,145,808)		\$ (40,145,808)	

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.

Derivative instruments are comprised of three forward interest rate swaps valued at (\$64,264,809) and two basis swap overlays valued at \$24,119,001.

G. Long-term liabilities

1. The 2008 Series ABCD bonds

In March 2008, SANDAG 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* Early Action Program. In June 2012, SANDAG 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.

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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
2019	\$ -	\$ 11,232,001	\$ 13,080,652	\$ 24,312,653
2020	-	11,232,001	13,080,652	24,312,653
2021	-	11,232,001	13,080,652	24,312,653
2022	-	11,232,001	13,080,652	24,312,653
2023	18,600,000	11,102,175	12,929,459	24,031,634
2024 - 2028	104,100,000	47,241,832	55,017,260	102,259,092
2029 - 2033	126,300,000	31,365,427	36,527,793	67,893,220
2034- 2038	153,300,000	12,121,934	14,117,057	26,238,991
Total	\$ 402,300,000	\$ 146,759,372	\$ 170,914,177	\$ 317,673,549

The bonds bear interest at a variable rate, which is reset weekly. See Note II.E.1 for 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. The average variable rate in effect was 1.056 percent as of June 30, 2018. Refer to Note II.E.1 for additional information regarding the derivative instruments associated with the debt of SANDAG.

2. The 2010 Series A and B bonds

On November 10, 2010, SANDAG issued \$350,000,000 Series 2010 A and B fixed-rate bonds to finance the SANDAG 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 – 5.00 percent and a maturity date of April 1, 2030.

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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
2019	\$ -	\$ 13,556,307
2020	-	13,556,307
2021	-	13,556,307
2022	-	13,556,308
2023	-	13,556,308
2024 - 2028	-	67,781,536
2029 - 2033	-	67,781,536
2034 - 2038	-	67,781,536
2039 - 2043	153,555,000	55,961,761
2044 - 2048	185,405,000	22,803,480
Total	\$ 338,960,000	\$ 349,891,386

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2019	\$ 720,000	\$ 254,350
2020	750,000	225,550
2021	395,000	195,550
2022	410,000	179,750
2023	430,000	163,350
2024 - 2028	2,415,000	540,150
2029 - 2030	1,115,000	67,400
Total	\$ 6,235,000	\$ 1,626,100

3. The 2012 Series A bonds

On June 14, 2012, SANDAG issued \$420,585,000 of 2012 Series A fixed-rate bonds to finance continued SANDAG 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 ABCD bonds, terminate a corresponding portion of the interest rate swaps relating to the Series 2008 ABCD bonds and pay the costs of issuing the 2012 Series A bonds. The 2012 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.

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
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	3,525,000	11,908,000
2024 - 2028	20,220,000	56,723,750
2029 - 2033	26,210,000	51,176,750
2034 - 2038	33,020,000	43,838,500
2039 - 2043	72,505,000	31,899,500
2044 - 2048	91,430,000	12,980,463
Total	<u>\$324,400,000</u>	<u>\$265,960,213</u>

4. The 2014 Series A bonds

On September 10, 2014, SANDAG issued \$350,000,000 Series 2014 A sales tax revenue bonds to finance continued SANDAG 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 \$55,305,484 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
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	6,155,000	15,610,700
2024 - 2028	35,695,000	73,119,000
2029 - 2033	45,555,000	63,257,500
2034 - 2038	58,145,000	50,670,750
2039 - 2043	74,205,000	34,607,250
2044 - 2048	94,560,000	14,256,325
Total	<u>\$ 336,130,000</u>	<u>\$ 316,757,825</u>

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

5. The 2016 Series A bonds

On August 17, 2016, SANDAG issued \$325,000,000 Series 2016 A sales tax revenue bonds to finance continued SANDAG 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
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	5,810,000	14,853,750
2024 - 2028	33,730,000	69,607,500
2029 - 2033	43,035,000	60,259,500
2034 - 2038	54,935,000	48,399,500
2039 - 2043	70,100,000	33,223,000
2044 - 2048	89,465,000	13,856,000
Total	\$ 317,680,000	\$ 302,252,750

6. The 2017 Transportation Infrastructure Finance and Innovation Act loan

On June 27, 2017, SANDAG entered into a TIFIA loan agreement with the United States Department of Transportation to finance continued SANDAG 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, SANDAG will pay an interest rate of 2.72 percent with anticipated disbursement of loan proceeds in 2021. SANDAG issued short-term financing during the period of project construction and expected to use the TIFIA loan proceeds to repay the short-term borrowing. At June 30, 2018, there was no outstanding obligation due.

7. The 2018 Short-Term notes (Series A Limited Tax Bonds)

On April 1, 2018, SANDAG issued \$537,480,000 Series A sales tax revenue short-term notes to finance costs associated with the Mid-Coast Corridor Transit Project, in advance of the TIFIA loan, to retire \$27,586,000 of outstanding commercial paper notes related to the Mid-Coast Corridor Transit Project, and to pay the costs of issuing the series 2018 short-term notes. The series A sales tax revenue short-term notes include a premium of \$31.6 million and carry an overall all-in interest rate of 1.812% with a maturity date of April 1, 2021.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

The principal requirements to maturity for the 2018 Series A short-term notes, are as follows:

Maturity (April 1)	Principal Amount	Interest Amount
2019	\$ -	\$ 19,531,182
2020	-	20,499,200
2021	537,480,000	20,499,200
Total	\$ 537,480,000	\$ 60,529,582

8. Commercial paper notes

SANDAG issues tax-exempt Commercial Paper Notes (CPN) to provide interim financing for various *TransNet* projects including those for construction and acquisition activities and for advance-funding *TransNet* local street improvement projects, as a low cost and flexible source of capital financing.

At June 30, 2018, the SANDAG CPN was authorized to issue up to \$100,000,000 aggregate principal, with \$75,000,000 in letters of credit in place. Rates paid under the Reimbursement Agreement with MUFG Union Bank, N.A. supporting the CPN are 40 basis points and are set to expire on September 16, 2018. SANDAG CPN are issued with maturity dates ranging from one to 270 days at various interest rates.

During the fiscal year, the balance of notes issued and outstanding was \$26,614,000. Interest rates during the current year have varied from 0.82 percent to 1.80 percent, with maturities from two days to 82 days. The interest rate on the outstanding amount at June 30, 2018, was 1.37 percent on \$25,862,000 of notes and 1.48 percent on \$752,000 of notes, with a maturity of 55 and 41 days, respectively. As such, the outstanding amounts have been classified as current liabilities.

Under the terms of the CPN, maturing principal amounts can be rolled-over by issuing new notes. It is the intention of SANDAG to pay the accrued interest and reissue the principal amounts as they mature; other than any prescheduled principal repayments. Therefore, the principal debt service requirements shown in the table below include expected payments through the date of expiration of the current CPN agreements.

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Notes to the Basic Financial Statements, Continued
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Scheduled Repayment	Principal Amount	Interest Amount
2019	\$ 1,339,000	\$ 470,918
2020	1,504,000	467,154
2021	1,554,000	463,390
2022	1,767,000	459,627
2023	1,350,000	455,863
2024 - 2028	7,250,000	2,279,315
2029 - 2033	8,300,000	2,279,315
2034 - 2035	3,550,000	2,279,315
Total	<u>\$ 26,614,000</u>	<u>\$ 9,154,897</u>

9. Toll road acquisition debt repayment

SANDAG financed the SR 125 toll road acquisition by assuming existing debt obligations and entering into promissory notes for the remaining funds necessary to complete the purchase. SANDAG assumed the existing TIFIA loans of \$94,183,509 (Tranches A-2, B-2, and C-2) via the Second Amended and Restated TIFIA Loan Agreement. In addition to the assumed TIFIA loans, SANDAG entered into a new Series D Agreement with TIFIA for \$1,445,850. SANDAG also borrowed *TransNet* funds totaling \$254,068,974 from the San Diego County Regional Transportation Commission (Commission) via a promissory note. This amount was later reduced by \$192,382,483 through a project swap approved on March 23, 2012, by the Board.

In November 2017, the following outstanding balances were refunded with proceeds of the Series 2017 A toll revenue bonds and existing resources:

Debt Type	Amount
TIFIA Tranches A - C	\$ 164,860,757
TIFIA Series D	<u>3,196,582</u>
Total TIFIA Notes	168,057,339
Commission Note	<u>62,352,510</u>
Total Refunding	<u>\$ 230,409,849</u>

10. The 2017 Series A Toll Revenue Bonds

In November 2017, SANDAG issued a \$194,140,000 of Series 2017 A toll revenue bonds to refinance indebtedness incurred by SANDAG in connection with the acquisition of the South Bay Expressway and to pay the cost of issuance of the 2017 Bonds. The Series 2017 A toll revenue bonds included a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent with a maturity date of July 1, 2042.

The principal requirements to maturity for the 2017 Series A Toll Revenue Bonds are as follows:

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
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Maturity (Jan 1, Jul 1)	Principal Amount	Interest Amount
2019	\$ 3,070,000	\$ 10,690,044
2020	4,315,000	9,445,625
2021	4,535,000	9,224,375
2022	4,765,000	8,991,875
2023	5,010,000	8,747,500
2024 - 2028	29,175,000	39,610,625
2029 - 2033	37,470,000	31,320,750
2034 - 2038	48,115,000	20,676,125
2039 - 2043	57,685,000	7,108,875
Total	\$ 194,140,000	\$ 145,815,794

11. Changes in long-term liabilities

For the year ended June 30, 2018, long-term liability activity for the governmental activities, was as follows:

Governmental activities	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year
Senior lien debt:					
2008 bonds	\$ 402,300,000	\$ -	\$ -	\$ 402,300,000	\$ -
2010 A bonds	338,960,000	-	-	338,960,000	-
2010 B bonds	6,925,000	-	(690,000)	6,235,000	720,000
2012 bonds	341,455,000	-	(17,055,000)	324,400,000	17,855,000
2014 bonds	340,950,000	-	(4,820,000)	336,130,000	5,060,000
2016 bonds	322,235,000	-	(4,555,000)	317,680,000	4,780,000
Premium, net	175,823,386	-	(18,715,827)	157,107,559	-
Total senior lien debt	1,928,648,386	-	(45,835,827)	1,882,812,559	28,415,000
Subordinate lien debt:					
2018 short-term notes	-	537,480,000	-	537,480,000	-
Premium	-	31,625,092	(1,988,791)	29,636,301	-
CPN	26,750,000	28,650,000	(28,786,000)	26,614,000	26,614,000
Total subordinate lien debt	26,750,000	597,755,092	(30,774,791)	593,730,301	26,614,000
Total senior and subordinate lien debt	1,955,398,386	597,755,092	(76,610,618)	2,476,542,860	55,029,000
Other liabilities:					
Compensated absences payable	2,097,835	3,455,482	(3,359,168)	2,194,149	2,194,149
Claims payable	1,700,000	25,000	(1,700,000)	25,000	25,000
Total other liabilities	3,797,835	3,480,482	(5,059,168)	2,219,149	2,219,149
Total long-term liabilities	\$ 1,959,196,221	\$ 601,235,574	\$ (81,669,786)	\$ 2,478,762,009	\$ 57,248,149

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Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

For the year ended June 30, 2018, long-term liability activity for the business-type activities, was as follows:

Business-type activities	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year
TIFIA notes:					
Tranche A	\$ 55,063,101	\$ -	\$ (55,063,101)	\$ -	\$ -
Tranche B	52,591,224	1,869,078	(54,460,302)	-	-
Tranche C	4,698,254	185,527	(4,883,781)	-	-
Series D	3,052,639	143,943	(3,196,582)	-	-
Unamortized FV adjustment	49,360,606	-	(49,360,606)	-	-
Total TIFIA notes	164,765,824	2,198,548	(166,964,372)	-	-
TransNet note:					
Category C	62,352,510	-	(62,352,510)	-	-
Total <i>TransNet</i> note	62,352,510	-	(62,352,510)	-	-
Senior lien bonds:					
2017 Series A toll revenue bonds	-	194,140,000	-	194,140,000	3,070,000
Premium	-	38,102,982	(1,545,197)	36,557,785	-
Total senior lien bonds	-	232,242,982	(1,545,197)	230,697,785	3,070,000
Total TIFIA notes, <i>TransNet</i> notes & senior lien bonds	227,118,334	234,441,530	(230,862,079)	230,697,785	3,070,000
Other liabilities:					
Compensated absences payable	145,373	395,627	(355,353)	185,647	185,647
Total other liabilities	145,373	395,627	(355,353)	185,647	185,647
Total long-term liabilities	\$ 227,263,707	\$ 234,837,157	\$ (231,217,432)	\$ 230,883,432	\$ 3,255,647

12. Pledged revenue

SANDAG and its component units have 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 future sales tax revenues are pledged for debt service requirements totaling \$3,507,666,842 for payments through fiscal year 2048. The future toll revenues are pledged for debt service requirements totaling \$194,140,000 for payments through fiscal year 2043.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
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The following table provides the pledged future revenue information for the debt for which a revenue pledge exists:

Description of Pledged Revenue	Fiscal Year 2018 Amount of Pledged Revenue	Fiscal Year 2018 Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Sales Tax	\$ 302,364,081	\$ 141,117,766	47%
Toll Revenue	31,839,251	8,983,294	28%

H. Transit capital contributions

The fund financial statements report regional transportation improvements, which are current year capital project expenditures. In the government-wide statement of activities, certain expenditures are eliminated and capitalized as capital assets in the statement of net position. During the current year, transit capital funding program revenues are \$174,146,558. The program revenues represent the federal funds, state funds, and other local governmental funding for the construction-in-progress projects in the capital projects fund.

I. Risk management

SANDAG has a self-insured retention (deductible) for Bodily Injury and Property Damage Liability (including General Liability and Automobile Liability) claims of \$500,000 per occurrence. Amounts in excess of the self-insurance are covered by commercial excess insurance up to \$50,000,000. SANDAG purchases "all-risk" insurance for damage to its property up to \$19,103,408 for SANDAG main location and off-site construction offices with a per occurrence subject to a deductible of \$5,000; and up to \$412,804,771 for the SR 125 toll road and acquired property with a per occurrence subject to a deductible of \$50,000. In addition, SANDAG has insurance policies for costs arising from employee Workers' Compensation claims, Auto Property, Mexican Auto Liability, Foreign Liability and Cyber Liability. Employment Practices Liability and Public Official Errors and Omissions Liability insurance are also covered to a maximum of \$10,000,000 per occurrence, with excess liability insurance up to \$50,000,000.

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

There were no significant liability or property claims incurred, claims payments and claims payable as of and for the years ended June 30, 2017, and 2018.

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Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

J. Commitments and contingencies

1. Encumbrances

SANDAG uses 'encumbrances' to control expenditure commitments for the year. Encumbrances represent commitments related to executory contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve applicable appropriations. Depending on the source(s) of funding, encumbrances are reported as part of restricted, committed or assigned fund balances on the governmental funds balance sheet.

As of June 30, 2018, the encumbrance balances for the governmental funds are reported as follows:

Fund Balance			
General Government	Restricted	Unassigned	Total
General Fund	\$ -	\$ 1,198,585	\$ 1,198,585
Commission Sales Tax Projects Fund	6,044,240	-	6,044,240
Capital Projects Fund	-	1,029,876,023	1,029,876,023
Nonmajor Funds	-	21,879,347	21,879,347
Total Commitments	\$ 6,044,240	\$ 1,052,953,955	\$ 1,058,998,195

As of June 30, 2018, the encumbrance balances for the business-type funds are reported as follows:

Net Position			
Business-type activities	Restricted	Unrestricted	Total
SR 125	\$ 21,941,727	\$ -	\$ 21,941,727
Interstate 15 FasTrak	18,855,034	-	18,855,034
Total Commitments	\$ 40,796,761	\$ -	\$ 40,796,761

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

2. Leases

SANDAG leases its office space and some of its copiers, and other miscellaneous office equipment, under various operating leases. The SANDAG total operating lease expense for fiscal year 2018 was \$2,599,637, and ARJIS' was \$180,174.

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Notes to the Basic Financial Statements, Continued
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Minimum annual lease payments under non-cancellable operating leases with terms in excess of one year were as follows:

Estimated Minimum Operating Lease Payment			
Fiscal Year	SANDAG	ARJIS	Total
2019	\$ 2,955,677	\$ 178,381	\$ 3,134,058
2020	2,701,731	184,777	2,886,508
2021	3,503,885	193,092	3,696,977
2022	3,643,984	201,781	3,845,765
2023	3,765,924	210,861	3,976,785
Total	\$ 16,571,201	\$ 968,892	\$ 17,540,093

K. Other post-employment benefits (OPEB)

1. Plan description

In March 1986, pursuant to requirements of the state retirement system in which SANDAG participates, SANDAG adopted a policy to provide post-retirement health care benefits to retired employees through the California Public Employees' Retirement System (CalPERS), an agent multiple-employer benefit plan (the plan) that covers all SANDAG employees and is administered by the California Public Employees' Retirement System (CalPERS).

Commencing with the January 1, 2009 benefit year, SANDAG provides a fixed dollar amount contribution equal to a maximum of \$250 per month per each eligible retiree. The maximum of \$250 per month has not been increased in subsequent years, and any future increases would be at the discretion of SANDAG. Eight retirees were grandfathered into their 2007 SANDAG contribution with a 5 percent increase for 2007 and 2008. For these retirees, amounts in excess of the SANDAG fixed dollar contribution will be placed in a tax-free health reimbursement account. In future years, the SANDAG contribution may be subject to the CalPERS minimum required employer contribution (\$128 per month in 2017, \$133 per month in 2018 and subject to annual adjustments to reflect Medical Portion of CPI).

Eligibility for the SANDAG contribution requires retirement from SANDAG and receipt of pension income under CalPERS while receiving coverage under the CalPERS Health Program. Covered employees who terminate employment with SANDAG prior to meeting CalPERS eligibility for retirement (attainment of at least age 50 and at least 5 years of CalPERS credited service) are not eligible for continuation of medical coverage except as provided under COBRA. An eligible retiree can elect to contribute to the cost of continuing spouse and other eligible dependent coverage at retirement. Surviving spouses are eligible for the SANDAG contribution upon the death of the retiree.

2. Employees covered

As of the June 30, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the SANDAG OPEB plan:

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Active employees	312
Inactive plan members or beneficiaries currently receiving benefits	64
Inactive plan members entitled to but not yet receiving benefits	0
Total	376

3. Contributions

Contributions to retirees are a fixed dollar amount equal to a maximum of \$250 per month per each eligible retiree. The exception to this contribution is for eight retirees who were grandfathered into their 2007 SANDAG contribution with an increase in each year thereafter, to maintain a comparable benefit level. The expenditure was recorded when the Actuarially Determined Contribution (ADC) of the employer was paid.

For the fiscal year ended June 30, 2018, total payments of \$514,196 were made to the CERBT as follows:

	Contributions		
	Cash Contributions	Payments to Trust and Estimated Implied Subsidy	Total Contributions
Primary Government	\$ 399,976	\$ 88,870	\$ 488,846
ARJIS	20,742	4,608	25,350
Total	\$ 420,718	\$ 93,478	\$ 514,196

4. Net OPEB Liability

The SANDAG net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
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Actuarial Assumptions:	
Discount Rate	6.50%
Inflation	2.75%
Salary Increase	3.00%, in aggregate plus Merit
Investment Rate of Return	6.50%
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover ²	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	6.5% PPO / 6.0% HMO decreasing to 5.0% PPO / 5.0% HMO

¹ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

² The Pre-Retirement Turnover table used was developed using the most recent (2017) CalPERS pension plan valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Global Equity	40.0%	5.50%
REITs	8.0	3.65
US Fixed Income	39.0	2.35
Commodities	3.0	1.75
Inflation Assets	10.0	1.50
Total	100.0	

Long-term expected rate of return is 6.50%.

5. *Discount Rate*

The discount rate used to measure the total OPEB liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that SANDAG continues to fully fund for its retiree health benefits through the CERBT under its investment allocation strategy 2. The rate reflects the CERBT published median interest rate for strategy 2 of 6.73 percent with an additional margin for adverse deviation.

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Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

6. Changes in Net OPEB liability

The summary of changes in net OPEB liability for the primary government are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at 6/30/2017 (Valuation Date)	\$ 4,889,439	\$ 3,252,236	\$ 1,637,203
Changes recognized for the measurement period:			
Service Cost	272,296	-	272,296
Interest	325,836	-	325,836
Changes of Assumptions	-	-	-
Contributions - employer	-	575,614	(575,614)
Net Investment Income	-	245,220	(245,220)
Benefit payments	(297,736)	(297,736)	-
Administrative expense	-	(1,779)	1,779
Net changes	300,396	521,319	(220,923)
Balance at 6/30/2018 (Measured at June 30, 2017)	\$ 5,189,835	\$ 3,773,555	\$ 1,416,280

The ARJIS summary of changes in net OPEB liability recognized over the measurement period is:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at 6/30/2017 (Valuation Date)	\$ 253,550	\$ 168,650	\$ 84,900
Changes recognized for the measurement period:			
Service Cost	14,120	-	14,120
Interest	16,897	-	16,897
Contributions - employer	-	29,849	(29,849)
Net Investment Income	-	12,716	(12,716)
Benefit payments	(15,440)	(15,440)	-
Administrative expense	-	(92)	92
Net changes	15,577	27,033	(11,456)
Balance at 6/30/2018 (Measured at June 30, 2017)	\$ 269,127	\$ 195,683	\$ 73,444

7. Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the plan as of the measurement date, calculated using the discount rate of 6.50 percent, as well as if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate.

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Notes to the Basic Financial Statements, Continued
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	Discount Rate		
	1% Decrease (5.50%)	Current (6.50%)	1% Increase (7.50%)
Net OPEB liability:			
Primary government	\$ 2,059,455	\$ 1,416,280	\$ 880,129
ARJIS	106,796	73,444	45,640
Net OPEB liability	\$ 2,166,251	\$ 1,489,724	\$ 925,769

8. Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability as of the measurement date, calculated using the current healthcare cost trend rates (HMO and PPO), as well as if it were calculated using rates that are one percentage point lower or one percentage point higher than the current rate.

	Healthcare Cost Trend Rates		
	1% Decrease (5.00%HMO / 5.50%PPO decreasing to 4.00%HMO / 4.00%PPO	Current (6.00%HMO / 6.50%PPO decreasing to 5.00%HMO / 5.00%PPO	1% Increase (7.00%HMO / 7.50%PPO decreasing to 6.00%HMO / 6.00%PPO
Net OPEB liability			
Primary government	\$ 988,160	\$ 1,416,280	\$ 2,034,936
ARJIS	51,243	73,444	105,525
Net OPEB liability	\$ 1,039,403	\$ 1,489,724	\$ 2,140,461

9. OPEB plan fiduciary net position

The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94429-2703.

10. Recognition of deferred outflow and deferred inflows of resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB Expense.

The recognition period differs depending on the source of the gain or loss.

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Notes to the Basic Financial Statements, Continued
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Net difference between projected and actual earnings on OPEB plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARLS) (5 years at June 30, 2017)

11. OPEB expense and deferred outflows/inflows of resources related to OPEB

For the fiscal year ended June 30, 2018, SANDAG recognized OPEB expense of \$393,996 for the plan as follows:

	Fiscal Year 2018
Primary Government	\$ 374,572
ARJIS	19,424
Total OPEB expense	\$ 393,996

The primary government reports other amounts for the plan as deferred outflows and deferred inflows of resources related to OPEB as follows:

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 488,846	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	(19,880)
Total	\$ 488,846	\$ (19,880)

ARJIS reports other amounts for the plan as deferred outflows and deferred inflows of resources related to OPEB as follows:

ARJIS	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 25,350	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	(1,031)
Total	\$ 25,350	\$ (1,031)

The primary government reported \$488,846 and ARJIS reported \$25,350 deferred outflows of resources related to employer contributions subsequent to the measurement date will be

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

recognized as a reduction of the net OPEB liability in the year ending June 30, 2019, for these contributions.

The following amounts reported as deferred outflows of resources related to OPEB for the primary government that will be recognized in future periods as OPEB expense:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (4,970)
2020	(4,970)
2021	(4,970)
2022	(4,970)
Total	\$ (19,880)

The following amounts reported as deferred outflows of resources related to OPEB for ARJIS that will be recognized in future periods as OPEB expense:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (258)
2020	(258)
2021	(258)
2022	(257)
Total	\$ (1,031)

L. Pension plan

Qualified permanent and probationary employees are eligible to participate in pension benefits through the California Public Employees' Retirement System (CalPERS).

1. Plan description

SANDAG and ARJIS, a blended component unit of SANDAG, provide a defined benefit pension plan through the Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for its participating public employers within the State of California. An agent multiple-employer plan is one in which the assets of the multiple employers are pooled together for investment purposes, but separate accounts are maintained for each individual employer.

Benefit provisions under the plan are established by state statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
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plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

2. Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, which include public employees and their beneficiaries. SANDAG has three classes of plan members, based on date of hire. Benefits for all plan members are based on years of credited service, equal to one year of full-time employment.

The plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire date	Prior to 10/27/12	After 10/27/12 ¹	On or after 1/1/13 ²
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule (# years of service)	5 yrs	5 yrs	5 yrs
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 60	52 - 62
Monthly benefits, as a % of eligible compensation	2.7%	2.0%	2.0%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	18.843%	18.843%	18.843%

¹ Includes those hired on or after January 1, 2013, who are current members of CalPERS (or a reciprocal agency) and have not had a break in service with a CalPERS agency of greater than six months.

² Applicable to employees who are not members of CalPERS (or a reciprocal system) at the time of hire or have had a break in service greater than six months from a CalPERS agency.

The Plan also provides optional benefits for survivor and disability benefits. The benefit provisions and all other requirements are established by contracts with CalPERS in accordance with the provisions of the Public Employees' Retirement law.

CalPERS issues an annual audited stand-alone financial report and a copy can be obtained by submitting a written request to CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709 or by visiting its website at calpers.ca.gov.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

3. Employees covered by benefit terms

The following employees were covered based on the CalPERS actuarial valuation report dated June 30, 2016:

Active members	315
Transferred members	85
Terminated members	197
Retired members and beneficiaries	<u>108</u>
Total	<u>705</u>
Active to Retired Ratio	2.92%

4. Contributions

All employer contribution rates are actuarially determined annually and become effective July 1 following the notice of change in the rate in accordance with Section 20814(c) of the California Public Employees' Retirement Law (PERL). The employer and employee contributions are a percentage of the covered payroll, which is based on pensionable earnings. The rates are defined by law and are based on the employer's benefit formula as determined by periodic actuarial valuations. These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the reporting fiscal year 2018, the required contributions were actuarially determined by the funding valuation reports dated June 30, 2016. The actuarially required contribution rate was 19.225% of covered payroll and actual contributions totaled \$4,899,927 for the primary government and \$264,959 for ARJIS. This rate includes the mandatory employee contribution rate, as shown in the Benefits Provided table in Note II.L.2, that is currently paid by SANDAG for all eligible members. PEPRA members pay 6.25% of covered-employee payroll which is 60.56% of the total normal cost of 10.32%.

5. Net pension liability

The Plan's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled forward to determine the June 30, 2017 total pension liability.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

6. Actuarial methods and assumptions used to determine total pension liability

The June 30, 2017 (the measurement date), total pension liability was based on the following actuarial methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% Net of Pension Plan Investment Expenses; includes inflation
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be accessed on the CalPERS website at calpers.ca.gov under Forms and Publications.

7. Change of assumptions

In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent.

8. Discount rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF's asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11–60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0	0.80	2.27
Inflation Sensitive	6.0	0.60	1.39
Private Equity	12.0	6.60	6.63
Real Estate	11.0	2.80	5.21
Infrastructure and Forestland	3.0	3.90	5.36
Liquidity	2.0	(0.40)	(0.90)

¹ An expected inflation of 2.5 percent used for this period.

² An expected inflation of 3.0 percent used for this period.

9. Subsequent events

There were no subsequent events that would materially affect the results presented in this disclosure.

10. Pension plan fiduciary net position

The plan fiduciary net position (assets) disclosed in the SANDAG GASB report may differ from the plan assets reported in the SANDAG actuarial valuation report due to several reasons. First, CalPERS must keep Reserves for Deficiencies and Fiduciary Self Insurance. These amounts are excluded for rate-setting purposes in the actuarial valuation report while required to

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

be included for GASB reporting purposes. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

11. Changes in net pension liability

The following table is the aggregate changes in the pension plans' net pension liabilities of the primary government for measurement period of July 1, 2016 to June 30, 2017:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at 6/30/2016 (Valuation Date)¹	\$ 135,354,591	\$ 90,897,572	\$ 44,457,019
Changes for the year			
Service Cost	4,847,623	-	4,847,623
Interest on the Total Pension Liability	10,167,024	-	10,167,024
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experience	(1,575,875)	-	(1,575,875)
Plan to Plan Resource Movement	-	(421)	421
Changes of Assumptions	8,599,431	-	8,599,431
Contributions from the Employer	-	4,734,419	(4,734,419)
Contributions from Employees	-	1,986,295	(1,986,295)
Net Investment Income ²	-	10,269,847	(10,269,847)
Benefit Payments, including Refunds of Employee Contributions	(5,211,620)	(5,211,620)	-
Net changes during 2016 - 2017	16,826,583	11,778,520	5,048,063
Balance at 6/30/2017 (Measurement Date)¹	\$ 152,181,174	\$ 102,676,092	\$ 49,505,082

¹ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.

² Net of administrative expenses.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

The ARJIS aggregate changes in the pension plans' net pension liabilities for the measurement period of July 1, 2016, to June 30, 2017, is:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at 6/30/2016 (Valuation Date)¹	\$ 8,288,188	\$ 5,565,946	\$ 2,722,242
Changes for the year			
Service Cost	296,836	-	296,836
Interest on the Total Pension Liability	622,559	-	622,559
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experience	(96,496)	-	(96,496)
Plan to Plan Resource Movement	-	(26)	26
Changes of Assumptions	526,570	-	526,570
Contributions from the Employer	-	289,903	(289,903)
Contributions from Employees	-	121,627	(121,627)
Net Investment Income ²	-	628,855	(628,855)
Benefit Payments, including Refunds of Employee Contributions	(319,124)	(319,124)	-
Net changes during 2016 - 2017	1,030,345	721,235	309,110
Balance at 6/30/2017 (Measurement Date)¹	\$ 9,318,533	\$ 6,287,181	\$ 3,031,352

¹ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.

² Net of administrative expenses.

12. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan, calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1 (8.15%)
Plan's Net Pension Liability			
Primary government	\$ 70,793,593	\$ 49,505,082	\$ 31,949,149
ARJIS	4,334,915	3,031,352	1,956,347
Total Net Pension Liability	\$ 75,128,508	\$ 52,536,434	\$ 33,905,496

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

13. Recognition of gains and losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Source	Amortization Period
Net Difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the plan for the measurement period ending June 30, 2017 is 4.6 years, which was obtained by dividing the total service years of 3,425 (the sum of remaining service lifetimes of the active employees) by 746 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to zero. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

14. Pension expense and deferred outflows and deferred inflows of resources related to pensions

For the fiscal year ending June 30, 2018 (the reporting period), SANDAG recognized a pension expense of \$4,368,519 for the plan as follows:

	Fiscal Year 2018
Primary government	\$ 3,913,813
ARJIS	454,706
Total pension expense	\$ 4,368,519

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The following are the sources of deferred outflows of resources and deferred inflows of resources for the primary government as of the measurement date of June 30, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 6,729,990	\$ (836,573)
Differences between expected and actual experience	968,170	(1,233,294)
Change in proportionate share	116,454	(279,547)
Employer contributions for fiscal year 2018	4,828,135	-
Net difference between projected and actual earnings on pension plan investments	1,153,666	-
Total	\$ 13,796,415	\$ (2,349,414)

The following are the sources of deferred outflows of resources and deferred inflows of resources for ARJIS as of the measurement date of June 30, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 412,098	\$ (51,227)
Differences between expected and actual experience	59,284	(75,518)
Change in proportionate share	239,041	(75,948)
Employer contributions for fiscal year 2018	336,751	-
Net difference between projected and actual earnings on pension plan investments	70,643	-
Total	\$ 1,117,817	\$ (202,693)

The deferred outflows of resources of the primary government related to pension resulting from employer contributions subsequent to the measurement date of June 30, 2017, totaling \$4,828,135 will be recognized as a reduction of the net pension liability in fiscal year ending June 30, 2019. ARJIS reports a total of \$336,751 for these contributions.

Deferred inflows of resources resulting from net differences between projected and actual earnings on investments are amortized over five years, all other deferred outflows or inflows of resources will be amortized over their service lives.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

The following amounts reported as deferred outflows of resources related to pension for the primary government that will be recognized in future periods as pension expense:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,536,374
2020	2,972,241
2021	2,018,393
2022	91,858
2023	-
Total	\$ 6,618,866

The following amounts reported as deferred outflows of resources related to pension for ARJIS that will be recognized in future periods as pension expense:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ 116,058
2020	212,936
2021	190,350
2022	59,029
2023	-
Total	\$ 578,373

M. Restatement

The accompanying financial statements reflect certain opening balance adjustments as set forth below:

During the year, SANDAG implemented GASB 75 resulting in recording a net OPEB liability and deferred outflow of resources as a restatement of opening net position as of July 1, 2017.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

Net Position at Beginning of Year

	Primary Government				Component Units
	Governmental Activities	Business-Type Activities	Total	SR125 Toll Road Fund	ARJIS
Beginning of year	\$ (8,762,369)	\$ 219,408,330	\$ 210,645,961	\$ 181,524,580	\$ 6,966,772
Implementation of GASB 75	(1,481,323)	(105,858)	(1,587,181)	(105,858)	(55,051)
As restated	\$ (10,243,692)	\$ 219,302,472	\$ 209,058,780	\$ 181,418,722	\$ 6,911,721

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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**San Diego Association of Governments
Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

A. Other Post-Employment Benefits (OPEB) Plan:

**Schedule of Change in Net OPEB Liability
And Related Ratios
Last Ten Years¹**

Measurement Period	2017
TOTAL OPEB LIABILITY	
Service cost	\$ 286,416
Interest	341,733
Benefit payments, including refunds of employee contributions	<u>(313,176)</u>
Net change in total OPEB liability	314,973
Total OPEB liability - beginning	<u>5,142,989</u>
Total OPEB liability - ending	<u>\$ 5,457,962</u>
PLAN FIDUCIARY NET POSITION	
Contributions - employer	\$ 605,463
Investment income	257,936
Benefit payments, including refunds of employee contributions	(313,176)
Administrative expense	<u>(1,871)</u>
Net change in fiduciary net position	548,352
Plan fiduciary net position - beginning	<u>3,420,886</u>
Plan fiduciary net position - ending	<u>\$ 3,969,238</u>
Plan net OPEB liability - ending	<u>\$ 1,489,724</u>
Plan fiduciary net position as a percentage of the total OPEB liability	72.72%
Covered employee payroll	26,677,526
Plan net OPEB liability as a percentage of covered employee payroll	5.58%

¹ Ten years has not been presented as Governmental Accounting Standards Board 75 was implemented for the fiscal year ended June 30, 2018.

**San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018**

**Schedule of OPEB Contributions
Last Ten Years²**

	Fiscal Year 2018
Actuarially Determined Contribution	\$ 487,311
Contributions in Relation to the Actuarially Determined Contribution	<u>(514,196)</u>
Contribution Deficiency (Excess)	<u>\$ (26,885)</u>
Covered Employee Payroll	\$ 26,864,803
Contributions as a Percentage of Covered Employee Payroll	1.814%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were from the June 30, 2017, actuarial valuations.

² Ten years has not been presented as Governmental Accounting Standards Board 75 was implemented for the fiscal year ended June 30, 2018.

**San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018**

	Methods and Assumptions
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Minimum Contribution	4% per year
Investment Rate of Return	6.50% per year; assumes SANDAG invests in the CERBT asset allocation Strategy 2 with a margin for adverse deviation of 23 bps
Medical Trend Rates	Medical costs are adjusted in future years 6.5% (PPO) and 6.0% (HMO) then decreasing to 5.0% (PPO) and 5.0% (HMO)
Retirement Age	CalPERS pension plan experience study. According to the following retirement tables: Miscellaneous Tier 1: 2.7 @ 55 Miscellaneous Tier 2: 2.0 @ 60 Miscellaneous Tier 3: 2.0 @ 62
Mortality	Pre-retirement and Post-retirement mortality based on the most recent CalPERS experience study

**San Diego Association of Governments
Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

B. Pension Plan:

**Schedule of Change in Net Pension Liability
And Related Ratios
Last Ten Years³**

Measurement Period	2016 - 2017	2015 - 2016	2014 - 2015	2013 - 2014
TOTAL PENSION LIABILITY				
Service cost	\$ 5,144,459	\$ 4,534,280	\$ 4,304,754	\$ 4,383,941
Interest	10,789,583	10,232,734	9,525,794	8,721,625
Difference between expected & actual experience	(1,672,371)	329,995	2,226,555	-
Changes of assumptions	9,126,001	-	(2,367,470)	-
Benefit payments, including refunds of employee contributions	(5,530,744)	(5,236,629)	(4,831,911)	(4,554,501)
Net change in total pension liability	17,856,928	9,860,380	8,857,722	8,551,065
Total pension liability - beginning	143,642,779	133,782,399	124,924,677	116,373,612
Total pension liability - ending	<u>\$ 161,499,707</u>	<u>\$ 143,642,779</u>	<u>\$ 133,782,399</u>	<u>\$ 124,924,677</u>
PLAN FIDUCIARY NET POSITION				
Contributions - employer	\$ 5,024,322	\$ 4,683,435	\$ 4,608,038	\$ 4,174,170
Contributions - employee	2,107,922	1,991,758	1,899,740	2,766,681
Investment income	11,041,124	490,271	2,067,607	13,463,922
Administrative expense	(142,422)	(57,649)	(106,721)	(111,112)
Benefit payments, including refunds of employee contributions	(5,530,744)	(5,236,629)	(4,831,911)	(4,554,501)
Other changes in fiduciary net position	(447)	12	(214,517)	-
Net change in fiduciary net position	12,499,755	1,871,198	3,422,236	15,739,160
Plan fiduciary net position - beginning	96,463,518	94,592,320	91,170,084	75,430,924
Plan fiduciary net position - ending	<u>\$ 108,963,273</u>	<u>\$ 96,463,518</u>	<u>\$ 94,592,320</u>	<u>\$ 91,170,084</u>
Plan net pension liability - ending	<u>\$ 52,536,434</u>	<u>\$ 47,179,261</u>	<u>\$ 39,190,079</u>	<u>\$ 33,754,593</u>
Plan fiduciary net position as a percentage of the total pension liability	67.47%	67.16%	70.71%	72.98%
Covered payroll	\$ 26,677,526	\$ 25,634,081	\$ 24,147,581	\$ 23,828,423
Plan net pension liability as a percentage of covered payroll	196.93%	184.05%	162.29%	141.66%

³ Ten years has not been presented as Governmental Accounting Standards Board 68 was implemented for the fiscal year ended June 30, 2015.

San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018

Notes to Schedule

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit.

Changes in Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Schedule of Plan Contributions
Last Ten Years⁴

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Actuarially Determined Contribution	\$ 5,164,886	\$ 5,024,322	\$ 4,683,435	\$ 4,608,038	\$ 4,174,170
Contributions in Relation to the Actuarially Determined Contribution	(5,164,886)	(5,024,322)	(4,683,435)	(4,608,038)	(4,174,170)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 26,864,803	\$ 26,677,526	\$ 25,634,081	\$ 24,147,581	\$ 23,828,423
Contributions as a Percentage of Covered Payroll	19.225%	18.834%	18.270%	19.083%	17.518%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were from the June 30, 2016, public agency valuations.

⁴ Ten years has not been presented as Governmental Accounting Standards Board 68 was implemented for the fiscal year ended June 30, 2015.

**San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018**

	Methods and Assumptions
Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2014, Funding Valuation Report
Asset Valuation Method	Market Value of Assets. For details, see June 30, 2014, Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of Pension Plan Investment and Administrative Expenses; includes inflation.
Retirement Age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local Transportation Development Act sales tax funds	\$ 7,506,061	\$ 7,506,061	\$ 7,506,061	\$ -
Member agency assessments	547,426	547,426	547,426	-
Other revenues	-	-	343,150	343,150
Total revenues	8,053,487	8,053,487	8,396,637	343,150
EXPENDITURES				
Current:				
General government	49,923,850	50,016,450	44,806,974	5,209,476
Cost recovery	(49,136,311)	(49,136,311)	(45,001,058)	(4,135,253)
Total expenditures	787,539	880,139	(194,084)	1,074,223
REVENUES OVER (UNDER) EXPENDITURES	7,265,948	7,173,348	8,590,721	1,417,373
OTHER FINANCING SOURCES (USES)				
Transfers in	242,500	242,500	153,242	(89,258)
Transfers out	(10,558,973)	(12,416,121)	(8,315,361)	4,100,760
Total other financing sources (uses)	(10,316,473)	(12,173,621)	(8,162,119)	4,011,502
Net change in fund balances	\$ (3,050,525)	\$ (5,000,273)	428,602	\$ 5,428,875
FUND BALANCES				
Beginning of year			16,692,153	
End of year			\$ 17,120,755	

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
San Diego County Regional Transportation Commission Sales Tax Projects Fund
For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local <i>TransNet</i> sales tax funds	\$ 292,132,637	\$ 292,132,637	\$ 302,364,081	\$ 10,231,444
Investment earnings	9,600,000	7,392,917	7,577,575	184,658
Other revenues	-	-	21,756	21,756
Total revenues	301,732,637	299,525,554	309,963,412	10,437,858
EXPENDITURES				
Current:				
General government	2,921,326	2,921,326	-	2,921,326
Bicycle facilities	5,842,653	5,842,653	632,942	5,209,711
Independent Taxpayer Oversight Committee	394,972	394,972	365,953	29,019
Major corridor capital projects	107,530,001	107,530,001	165,400	107,364,601
Major corridor environmental mitigation	12,450,842	12,450,842	8,879	12,441,963
Local project environmental mitigation	5,093,526	5,093,526	14,275	5,079,251
Local street improvements	82,345,343	82,345,343	87,149,711	(4,804,368)
Smart growth	5,942,447	5,942,447	13,549	5,928,898
New major corridor transit operations	22,920,869	22,920,869	12,033,896	10,886,973
Transit system improvements	46,690,658	46,690,658	44,419,351	2,271,307
Total expenditures	292,132,637	292,132,637	144,803,956	147,328,681
REVENUES OVER (UNDER) EXPENDITURES	9,600,000	7,392,917	165,159,456	157,766,539
OTHER FINANCING SOURCES (USES)				
Transfers in	119,980,843	119,980,843	394,955,708	274,974,865
Transfers out	(111,074,461)	(106,050,223)	(610,425,608)	(504,375,385)
Total other financing sources (uses)	8,906,382	13,930,620	(215,469,900)	(229,400,520)
Net change in fund balances	\$ 18,506,382	\$ 21,323,537	(50,310,444)	\$ (71,633,981)
FUND BALANCES				
Beginning of year			480,737,721	
End of year			<u>\$ 430,427,277</u>	

See accompanying Notes to the Basic Financial Statements.

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**San Diego Association of Governments
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

A. Budgetary information

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

After the annual program budget is adopted, the SANDAG 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.

For the San Diego County Regional Transportation Commission sales tax projects special revenue fund, the annual program budget is based on expected sales tax revenue receipts. The expenditures budget reflects the appropriate program split in accordance the *TransNet* Extension Ordinance based on those expected sales tax revenue receipts. After the annual budget is adopted, the Board can legally amend the budget at any time during the fiscal year to incorporate changes in expected sales tax revenues.

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

B. Additional appropriations or amendments

1. General fund

A portion of the general fund revenue is transferred to the general services fund to fund Overall Work Plan projects. Due to the addition of Assembly Bill 805 in fiscal year 2018, and recruitment for a new SANDAG Executive Director, budgeted transfers to the general services fund increased \$1,857,148, and budgeted expenditures in the general fund increased \$92,600.

SUPPLEMENTARY INFORMATION

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San Diego Association of Governments
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds		Totals
	General	SAFE	2018
	Services Fund	Fund	
ASSETS			
Cash and investments	\$ 1,450,945	\$ 9,516,151	\$ 10,967,096
Accounts receivable	528,700	-	528,700
Prepaid items and other assets	198,576	1,359	199,935
Interest receivable	-	41,936	41,936
Due from other funds	3,855,040	3,271	3,858,311
Due from other governments	12,034,019	253,993	12,288,012
Total assets	\$ 18,067,280	\$ 9,816,710	\$ 27,883,990
LIABILITIES			
Accounts payable	\$ 4,475,599	\$ 156,463	\$ 4,632,062
Accrued liabilities	21,217	-	21,217
Retentions payable	1,022,123	-	1,022,123
Due to other funds	5,445,743	1,193,753	6,639,496
Due to other governments	1,626,331	185,960	1,812,291
Unearned revenue	2,267,023	-	2,267,023
Total liabilities	14,858,036	1,536,176	16,394,212
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	6,080,547	-	6,080,547
Total deferred inflows of resources	6,080,547	-	6,080,547
FUND BALANCES			
Nonspendable:			
Prepaid Items	198,576	1,359	199,935
Total nonspendable	198,576	1,359	199,935
Restricted for:			
Freeway emergency service	-	8,279,175	8,279,175
Total restricted	-	8,279,175	8,279,175
Unassigned	(3,069,879)	-	(3,069,879)
Total fund balances (deficit)	(2,871,303)	8,280,534	5,409,231
Total liabilities, deferred inflow of resources and fund balances	\$ 18,067,280	\$ 9,816,710	\$ 27,883,990

San Diego Association of Governments
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2018

	Special Revenue Funds		Totals
	General	SAFE	2018
	Services		
	Fund	Fund	
REVENUES			
Federal funds	\$ 20,603,008	\$ -	\$ 20,603,008
State funds	7,294,331	-	7,294,331
Other local governmental funding	2,050,678	-	2,050,678
SAFE program revenue	-	2,694,729	2,694,729
Member agency assessments	213,999	-	213,999
Investment earnings	-	167,312	167,312
Total revenues	30,162,016	2,862,041	33,024,057
EXPENDITURES			
Current:			
Modeling and research	6,478,846	-	6,478,846
Criminal justice	1,021,489	-	1,021,489
Sustainable development	8,172,047	-	8,172,047
Sustainable mobility programs and services	20,037,889	-	20,037,889
Internal and external coordination	6,914,668	-	6,914,668
SAFE program	-	1,870,670	1,870,670
Bicycle facilities	248,001	-	248,001
Smart growth	5,582,669	-	5,582,669
Transit system improvements	1,827,753	-	1,827,753
Total expenditures	50,283,362	1,870,670	52,154,032
REVENUES OVER (UNDER) EXPENDITURES	(20,121,346)	991,371	(19,129,975)
OTHER FINANCING SOURCES (USES)			
Transfers in	22,458,080	-	22,458,080
Transfers out	-	(1,567,544)	(1,567,544)
Total other financing sources (uses)	22,458,080	(1,567,544)	20,890,536
Net change in fund balances	2,336,734	(576,173)	1,760,561
FUND BALANCES (DEFICIT)			
Beginning of year	(5,208,037)	8,856,707	3,648,670
End of year	\$ (2,871,303)	\$ 8,280,534	\$ 5,409,231

San Diego Association of Governments
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2018

	Business-type Activities-Enterprise Funds				Totals
	Nonmajor Funds				2018
	Service Bureau	SourcePoint	Interstate 15 FasTrak	Property Management	
ASSETS					
Current assets:					
Cash and investments - unrestricted	\$ -	\$ 197,359	\$ 32,059,063	\$ -	\$ 32,256,422
Cash and investments - restricted	-	12,310	-	-	12,310
Accounts receivable	73,520	2,500	133,468	-	209,488
Prepaid items and other assets	-	-	6,855	1,343	8,198
Interest receivable	-	791	128,613	-	129,404
Due from other funds	292,504	313	1,480,000	52,706	1,825,523
Due from other governments	188,186	5,000	436,498	-	629,684
Total current assets	554,210	218,273	34,244,497	54,049	35,071,029
Noncurrent assets:					
Non-depreciable assets	-	-	3,039,582	-	3,039,582
Depreciable assets, net of accumulated depreciation	-	-	9,180,172	-	9,180,172
Total noncurrent assets	-	-	12,219,754	-	12,219,754
Total assets	554,210	218,273	46,464,251	54,049	47,290,783
LIABILITIES					
Current liabilities:					
Accounts payable	20,974	4,543	1,568,680	1,104	1,595,301
Retentions payable	-	-	46,884	-	46,884
Due to other funds	-	15	28,713	-	28,728
Due to other governments	253,066	321	595,139	-	848,526
Transponder deposits payable	-	-	3,386	-	3,386
Security deposit	-	-	-	17,381	17,381
Unearned revenue	86,582	-	1,156,933	-	1,243,515
Total current liabilities	360,622	4,879	3,399,735	18,485	3,783,721
Total liabilities	360,622	4,879	3,399,735	18,485	3,783,721
NET POSITION					
Investment in capital assets	-	-	11,885,059	-	11,885,059
Restricted for:					
Restricted - iCommute	-	9,744	-	-	9,744
Toll road operations and improvement	-	-	31,179,457	-	31,179,457
Property management	-	-	-	35,564	35,564
Unrestricted	193,588	203,650	-	-	397,238
Total net position	\$ 193,588	\$ 213,394	\$ 43,064,516	\$ 35,564	\$ 43,507,062

San Diego Association of Governments
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the year ended June 30, 2018

	Business-type Activities-Enterprise Funds				Totals
	Nonmajor Funds				2018
	Service Bureau	SourcePoint	Interstate 15 FasTrak	Property Management	
OPERATING REVENUES					
Service Bureau transportation modeling service fees	\$ 531,285	\$ -	\$ -	\$ -	\$ 531,285
SourcePoint charges for service	-	226,362	-	-	226,362
Interstate 15 FasTrak permit revenue	-	-	13,423,159	-	13,423,159
Interstate 15 FasTrak fines and forfeitures revenue	-	-	87,561	-	87,561
Total operating revenues	531,285	226,362	13,510,720	-	14,268,367
OPERATING EXPENSES					
SourcePoint iCommute operating expenses	-	9,831	-	-	9,831
Interstate 15 FasTrak operating expenses	-	-	4,867,402	-	4,867,402
Payroll and other compensation	343,277	-	602,108	-	945,385
Administrative costs	-	6,734	500,475	-	507,209
Professional services	152,803	-	266,418	-	419,221
Depreciation	-	-	2,262,822	-	2,262,822
Total operating expenses	496,080	16,565	8,499,225	-	9,011,870
Operating income (loss)	35,205	209,797	5,011,495	-	5,256,497
NONOPERATING REVENUES (EXPENSES)					
Rental income (expense)	-	-	-	(2,999)	(2,999)
Interest income (expense)	-	3,597	454,074	-	457,671
Total nonoperating revenues (expenses)	-	3,597	454,074	(2,999)	454,672
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	35,205	213,394	5,465,569	(2,999)	5,711,169
Transfers out	(71,490)	-	(16,367)	-	(87,857)
Total transfers	(71,490)	-	(16,367)	-	(87,857)
CHANGE IN FUND NET POSITION	(36,285)	213,394	5,449,202	(2,999)	5,623,312
NET POSITION					
Beginning of year	229,873	-	37,615,314	38,563	37,883,750
End of year	\$ 193,588	\$ 213,394	\$ 43,064,516	\$ 35,564	\$ 43,507,062

San Diego Association of Governments
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year ended June 30, 2018

	Business-type Activities-Enterprise Funds				Totals
	Nonmajor Funds				2018
	Service Bureau	SourcePoint	Interstate 15 FasTrak	Property Management	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 554,913	\$ 1,584	\$ 20,405,440	\$ -	\$ 20,961,937
Payments for employee salaries and benefits	(183,281)	-	(606,487)	-	(789,768)
Payments for operations	(300,142)	(12,800)	(5,480,685)	-	(5,793,627)
Net cash provided by (used for) operating activities	71,490	(11,216)	14,318,268	-	14,378,542
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Acquisition and construction of capital assets	-	-	(3,322,171)	-	(3,322,171)
Net cash provided by (used for) capital financing and related activities	-	-	(3,322,171)	-	(3,322,171)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer from (to) governmental funds	(71,490)	-	-	19,024	(52,466)
Net cash provided by (used for) noncapital financing activities	(71,490)	-	-	19,024	(52,466)
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from rent	-	-	-	262,409	262,409
Payment made for rental property	-	-	-	(281,433)	(281,433)
Interest income (loss)	-	3,314	372,192	-	375,506
Net cash provided by (used for) investing activities	-	3,314	372,192	(19,024)	356,482
Net increase (decrease) in cash and investments	-	(7,902)	11,368,289	-	11,360,387
Cash and investments, beginning of year	-	217,571	20,690,774	-	20,908,345
Cash and investments, end of year	\$ -	\$ 209,669	\$ 32,059,063	\$ -	\$ 32,268,732
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Operating income (loss)	\$ 35,205	\$ 209,797	\$ 5,011,495	\$ -	\$ 5,256,497
Adjustments to reconcile net cash provided by (used for) operating activities:					
Depreciation	-	-	2,262,822	-	2,262,822
(Increase) decrease in:					
Accounts receivable	(33,720)	(2,500)	61,638	-	25,418
Due from other funds	96,068	(298)	6,737,447	-	6,833,217
Due from other governments	(38,720)	(5,000)	4,135	-	(39,585)
Prepaid expenses	-	-	(2,617)	-	(2,617)
Increase (decrease) in:					
Accounts payable	(31,266)	3,444	371,788	-	343,966
Retentions payable	-	-	35,163	-	35,163
Due to other funds	-	-	(399,821)	-	(399,821)
Due to other governments	41,254	321	141,419	-	182,994
Unearned revenue	2,669	-	94,799	-	97,468
Total adjustments	36,285	(4,033)	9,306,773	-	9,339,025
Net cash provided by (used for) operating activities	\$ 71,490	\$ 205,764	\$ 14,318,268	\$ -	\$ 14,595,522
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Capital asset purchase in accounts payable	-	-	287,811	-	287,811

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Capital Projects Fund
For the year ended June 30, 2018

	Budgeted Amounts ¹		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Federal funds	\$ 250,246,600	\$ 381,545,600	\$ 113,987,379	\$ (267,558,221)
State funds	107,105,000	86,903,000	48,230,390	(38,672,610)
Local Transportation Development Act sales tax funds	2,985,400	3,679,400	2,694,776	(984,624)
Other governmental funding	33,194,000	42,854,000	8,946,553	(33,907,447)
Total revenues	393,531,000	514,982,000	173,859,098	(341,122,902)
EXPENDITURES				
Current:				
Regional transportation improvements	896,435,000	942,204,000	664,502,130	277,701,870
Total expenditures	896,435,000	942,204,000	664,502,130	277,701,870
REVENUES OVER (UNDER) EXPENDITURES	(502,904,000)	(427,222,000)	(490,643,032)	(63,421,032)
OTHER FINANCING SOURCES (USES)				
Transfers in	502,904,000	427,222,000	487,506,591	60,284,591
Transfers out	-	-	(115,870)	(115,870)
Total other financing sources (uses)	502,904,000	427,222,000	487,390,721	60,168,721
Net change in fund balances	\$ -	\$ -	(3,252,311)	\$ (3,252,311)
FUND BALANCES (DEFICIT)				
Beginning of year			(4,636,693)	
End of year			<u>\$ (7,889,004)</u>	

¹ Several transportation projects are completed in partnership with other governmental agencies. The *TransNet* Early Action Program (EAP) portion of the SANDAG Capital Budget is prepared in collaboration with Caltrans, the Metropolitan Transit System, and other governmental agencies in an effort to report, track, and monitor EAP projects on a combined, entire project level and the budgets include all funds received and spent by SANDAG and the other agencies. However, actuals are recorded and presented for funds directly received and spent by SANDAG and do not incorporate funds received and spent by others.

San Diego Association of Governments
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
San Diego County Regional Transportation Commission Debt Service Fund
For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Federal funds	\$ 6,479,618	\$ 6,479,618	\$ 6,548,928	\$ 69,310
Investment earnings	-	-	3,546,408	3,546,408
Debt repayments from other governments	-	-	1,519,755	1,519,755
Total revenues	6,479,618	6,479,618	11,615,091	5,135,473
EXPENDITURES				
Current:				
Debt service:				
Principal retirement	27,120,000	27,120,000	55,906,000	(28,786,000)
Debt issuance costs	-	-	1,557,833	(1,557,833)
Interest and other charges	83,954,461	83,954,461	87,552,444	(3,597,983)
Total expenditures	111,074,461	111,074,461	145,016,277	(33,941,816)
REVENUES OVER (UNDER) EXPENDITURES	(104,594,843)	(104,594,843)	(133,401,186)	(28,806,343)
OTHER FINANCING SOURCES (USES)				
Transfers in	111,074,461	106,050,223	118,000,912	11,950,689
Transfers out	(119,980,843)	(119,980,843)	(394,955,708)	(274,974,865)
Commercial paper issued	-	-	28,650,000	28,650,000
Bonds issued	-	-	537,480,000	537,480,000
Premium on bonds issued	-	-	31,625,092	31,625,092
Total other financing sources (uses)	(8,906,382)	(13,930,620)	320,800,296	334,730,916
Net change in fund balances	\$ (113,501,225)	\$ (118,525,463)	187,399,110	\$ 305,924,573
FUND BALANCES				
Beginning of year			225,652,427	
End of year			<u>\$ 413,051,537</u>	

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Services Fund
For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Federal funds	\$ 23,526,622	\$ 23,295,745	\$ 20,603,008	\$ (2,692,737)
State funds	5,528,787	5,638,802	7,294,331	1,655,529
Other local governmental funding	3,572,443	3,192,231	2,050,678	(1,141,553)
Member agency assessments	200,000	214,000	213,999	(1)
Other revenues	-	-	-	-
Total revenues	32,827,852	32,340,778	30,162,016	(2,178,762)
EXPENDITURES				
Current:				
Modeling and research	7,831,260	7,099,151	6,478,846	620,305
Criminal justice	1,303,384	1,425,892	1,021,489	404,403
Sustainable development	8,482,922	9,691,811	8,172,047	1,519,764
Smart mobility programs and services	25,833,904	24,160,287	20,037,889	4,122,398
Internal and external coordination	8,532,818	7,644,957	6,914,668	730,289
Bicycle facilities	2,398,798	2,398,798	248,001	2,150,797
Smart growth	6,421,106	6,421,106	5,582,669	838,437
Transit system improvements	1,558,000	1,558,000	1,827,753	(269,753)
Total expenditures	62,362,192	60,400,002	50,283,362	10,116,640
REVENUES OVER				
(UNDER) EXPENDITURES	(29,534,340)	(28,059,224)	(20,121,346)	7,937,878
OTHER FINANCING SOURCES (USES)				
Transfers in	29,534,340	28,059,224	22,458,080	(5,601,144)
Total other financing sources (uses)	29,534,340	28,059,224	22,458,080	(5,601,144)
Net change in fund balances	\$ -	\$ -	2,336,734	\$ 2,336,734
FUND BALANCES (DEFICIT)				
Beginning of year			(5,208,037)	
End of year			\$ (2,871,303)	

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
SAFE Program Fund
For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
SAFE program revenue	\$ 2,597,000	\$ 2,597,000	\$ 2,694,729	\$ 97,729
Investment earnings	-	-	167,312	167,312
Total revenues	<u>2,597,000</u>	<u>2,597,000</u>	<u>2,862,041</u>	<u>265,041</u>
EXPENDITURES				
Current:				
SAFE program expense	1,910,006	2,183,006	1,870,670	312,336
Total expenditures	<u>1,910,006</u>	<u>2,183,006</u>	<u>1,870,670</u>	<u>312,336</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>686,994</u>	<u>413,994</u>	<u>991,371</u>	<u>577,377</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(3,528,507)	(2,455,169)	(1,567,544)	887,625
Total other financing sources (uses)	<u>(3,528,507)</u>	<u>(2,455,169)</u>	<u>(1,567,544)</u>	<u>887,625</u>
Net change in fund balances	<u>\$ (2,841,513)</u>	<u>\$ (2,041,175)</u>	<u>(576,173)</u>	<u>\$ 1,465,002</u>
FUND BALANCES				
Beginning of year			8,856,707	
End of year			<u>\$ 8,280,534</u>	

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STATISTICAL SECTION

This part of the San Diego Association of Governments (SANDAG) Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the overall financial health for SANDAG.

<u>Contents</u>	<u>Page</u>
<p>Financial Trends These schedules contain trend information to help the reader understand how SANDAG financial performance and well-being changed over time.</p>	136
<p>Revenue Capacity These schedules contain information to help the reader assess the most significant local revenue source for SANDAG, the sales tax.</p>	142
<p>Debt Capacity These schedules present information to help the reader assess the affordability of current levels of outstanding debt for SANDAG and ability of SANDAG to issue additional debt in the future.</p>	145
<p>Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the financial activities of SANDAG take place.</p>	148
<p>Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the SANDAG CAFR relates to the services SANDAG provides and the activities it performs.</p>	150

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

San Diego Association of Governments
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets	\$ 396,389,593	\$ 401,218,096	\$ 194,300,002	\$ 144,582,596	\$ 212,369,791	\$ 287,100,514	\$ 223,634,536	\$ 9,168,262	\$ 15,558,636	\$ 44,564,687
Restricted for:										
Debt service	21,523,955	21,324,637	26,892,891	10,314,653	64,135,550	28,414,519	32,633,420	39,337,425	42,315,044	44,561,875
Environmental mitigation	-	-	1,203,086	1,208,669	1,210,668	1,207,152	1,209,443	1,119,056	1,124,533	1,123,928
Freeway emergency service	-	-	-	-	-	-	-	-	-	8,279,175
Unrestricted (deficit)	(87,120,162)	(100,267,719)	183,072,505	(35,541,644)	(181,431,527)	(257,431,467)	(324,466,756)	(77,096,184)	(67,760,582)	(623,955,231)
Total governmental activities net position	\$ 330,793,386	\$ 322,275,014	\$ 405,468,484	\$ 120,564,294	\$ 96,284,482	\$ 59,290,718	\$ (66,989,357)	\$ (27,471,441)	\$ (8,762,369)	\$ (124,343,566)
Business-type activities										
Net investment in capital assets	\$ -	\$ -	\$ -	\$ 255,259,406	\$ 240,433,508	\$ 224,324,646	\$ 211,156,058	\$ 195,346,143	\$ 179,758,457	\$ 111,360,673
Restricted for:										
Debt service	-	-	-	1,866,486	448	986	1,397	2,133	3,624	16,940,865
Major maintenance post-acquisition	-	-	-	4,540,504	15,761,136	28,505,216	43,823,810	58,640,048	69,230,054	37,153,023
Project revenue	-	-	-	142,000	79,004	261,009	429,952	3,152,752	7,099,391	28,955,820
Toll road operations and improvements	-	-	-	-	-	7,479,433	12,798,483	19,699,661	26,454,909	31,179,457
Customer prepaid	-	-	-	-	-	-	-	-	-	172,395
iCommute	-	-	-	-	-	-	-	-	-	9,744
Property management	-	-	-	-	-	-	-	-	38,563	35,564
Unrestricted (deficit)	762,166	2,263,466	2,611,579	(56,693,496)	(53,302,771)	(58,324,897)	(62,056,526)	(62,030,737)	(63,176,668)	397,238
Total business-type activities net position	\$ 762,166	\$ 2,263,466	\$ 2,611,579	\$ (56,693,496)	\$ (53,302,771)	\$ (58,324,897)	\$ (62,056,526)	\$ (62,030,737)	\$ (63,176,668)	\$ 397,238
Primary government										
Net investment in capital assets	\$ 396,389,593	\$ 401,218,096	\$ 194,300,002	\$ 399,842,002	\$ 452,803,299	\$ 511,425,160	\$ 434,790,594	\$ 204,514,405	\$ 195,317,093	\$ 557,007,360
Restricted for:										
Debt service	21,523,955	21,324,637	26,892,891	12,181,139	64,135,998	28,415,505	32,634,817	39,339,558	42,318,668	61,502,740
Environmental mitigation	-	-	1,203,086	1,208,669	1,210,668	1,207,152	1,209,443	1,119,056	1,124,533	1,123,928
Major maintenance post-acquisition	-	-	-	4,540,504	15,761,136	28,505,216	43,823,810	58,640,048	69,230,054	37,153,023
Project revenue	-	-	-	142,000	79,004	261,009	429,952	3,152,752	7,099,391	28,955,820
Toll road operations and improvements	-	-	-	-	-	7,479,433	12,798,483	19,699,661	26,454,909	31,179,457
Customer prepaid	-	-	-	-	-	-	-	-	-	172,395
Freeway emergency service	-	-	-	-	-	-	-	-	-	8,279,175
iCommute	-	-	-	-	-	-	-	-	-	9,744
Property management	-	-	-	-	-	-	-	-	38,563	35,564
Unrestricted (deficit)	(86,357,996)	(98,004,253)	185,684,084	(92,235,140)	(234,734,298)	(315,756,364)	(386,523,282)	(139,126,921)	(130,937,250)	(623,557,993)
Total primary government net position	\$ 331,555,552	\$ 324,538,480	\$ 408,080,063	\$ 325,679,194	\$ 299,255,807	\$ 261,537,111	\$ 139,163,817	\$ 187,338,559	\$ 210,645,961	\$ 101,861,213

Source: Finance Department

**San Diego Association of Governments
Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)**

	Fiscal Year									
	2009	2010'	2011	2012	2013	2014	2015	2016	2017	2018'
Expenses										
Governmental activities:										
General government, net of cost recovery	\$ 3,490,679	\$ 3,843,933	\$ 4,340,560	\$ (50,395)	\$ (75,055)	\$ (486,437)	\$ (34,313)	\$ 1,916,776	\$ 668,106	\$ 365,593
Transit support activities	63,760,998	48,016,961	-	-	-	-	-	-	-	-
Regional planning	4,123,055	3,326,106	-	-	-	-	-	-	-	-
Transportation service and facility planning	1,969,902	2,225,251	-	-	-	-	-	-	-	-
Transportation development projects	3,974,971	5,600,080	-	-	-	-	-	-	-	-
Systems management	7,745,668	7,815,571	-	-	-	-	-	-	-	-
Program management, project monitoring, and external relations	4,605,674	5,489,182	-	-	-	-	-	-	-	-
Regional information systems	5,278,079	4,275,893	-	-	-	-	-	-	-	-
Modeling and research	-	-	2,945,543	3,906,142	4,458,732	4,545,222	5,102,366	6,212,388	8,198,683	6,437,020
Criminal justice	1,442,777	1,342,462	1,322,882	1,635,255	1,521,582	1,485,834	1,303,563	1,214,864	1,524,153	1,021,489
Planning and forecasting	-	-	5,626,008	4,708,816	4,212,706	4,394,795	-	-	-	-
Sustainable development	-	-	1,640,795	1,269,411	1,304,160	1,003,906	6,806,436	6,765,168	5,275,752	8,172,047
Sustainable mobility programs and services	-	-	46,513,217	46,418,002	47,366,426	21,247,297	18,332,743	18,012,242	20,898,685	17,112,965
Intermodal planning and implementation	-	-	1,554,009	2,602,205	2,114,127	1,528,526	1,296,930	-	-	-
Internal and external coordination	-	-	4,506,081	7,078,166	5,773,179	5,353,344	5,524,869	6,016,306	6,707,729	6,914,668
SAFE program	-	-	-	-	11,216,566	1,600,183	1,669,308	1,438,053	1,631,813	1,870,670
Bicycle facilities	4,238,080	1,044,430	1,108,513	192,495	71,080	1,990,728	2,186,253	2,446,815	2,772,067	880,943
Independent Taxpayer Oversight Committee	260,757	126,063	85,510	356,159	83,071	96,017	367,036	98,320	100,853	385,953
Major corridor capital projects	5,333,453	7,294,773	16,217,358	542,364	126,155	141,223	2,886,200	564,642	1,932,128	165,400
Major corridor environmental mitigation	9,243	439,616	3,239	4,264	-	20,306	23,708	12,172	23,857	8,879
Local project environmental mitigation	3,781	1,913	33,793	1,744	34,019	7,824	8,100	10,845	20,181	14,275
Local street improvements	39,940,542	23,990,084	33,306,399	86,880,721	66,153,631	52,452,895	73,431,440	110,898,814	83,303,412	86,085,711
Smart growth	4,412	95,554	934,701	1,821,384	1,783,732	2,525,948	4,168,356	5,690,797	3,224,585	5,596,218
New/major corridor transit operators	71,628	584	862,901	1,912,773	606,497	2,509,523	11,850,929	11,794,749	11,521,508	12,033,886
Transit system improvements	35,474,000	54,883,491	34,556,716	37,632,167	39,679,702	40,266,354	43,217,224	44,659,647	46,459,496	46,247,104
Transit capital contributions	123,795,904	176,392,592	125,806,324	246,284,592	244,093,156	303,556,952	350,041,508	129,905,775	261,986,096	389,693,612
Interest on long-term debt	25,589,285	28,281,556	36,888,739	46,908,631	58,602,402	57,551,894	70,639,904	71,181,207	85,286,788	78,563,591
Cost of debt issuance	-	-	-	6,256,132	-	-	-	-	-	-
Total governmental activities expenses	\$ 331,113,088	\$ 374,466,065	\$ 318,353,288	\$ 496,361,018	\$ 489,125,868	\$ 501,802,334	\$ 598,822,560	\$ 418,825,590	\$ 541,515,892	\$ 661,549,654
Business-type activities:										
Service Bureau	471,887	357,488	312,016	480,289	504,167	546,715	344,081	513,539	496,667	496,080
SourcePoint	-	-	-	-	-	-	-	-	-	16,565
Interstate 15 FastTrak	2,128,490	3,099,415	3,702,804	5,094,168	6,092,062	6,562,099	6,764,023	7,191,848	7,738,446	8,499,225
State Route 125 Toll Road	-	-	-	12,013,407	29,911,481	30,380,940	30,117,602	30,647,549	33,745,657	33,940,919
Total business-type activities expenses	\$ 2,600,377	\$ 3,456,903	\$ 4,014,820	\$ 17,597,864	\$ 36,507,110	\$ 37,511,754	\$ 37,226,706	\$ 38,352,936	\$ 41,980,770	\$ 42,962,789
Total primary government expenses	\$ 333,713,465	\$ 377,922,968	\$ 322,368,108	\$ 513,958,882	\$ 525,633,578	\$ 539,314,088	\$ 636,049,266	\$ 457,178,516	\$ 583,496,662	\$ 704,502,443

**San Diego Association of Governments
Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)**

	Fiscal Year									
	2009	2010 ¹	2011	2012	2013	2014	2015	2016	2017	2018 ²
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 547,425	\$ 547,424	\$ 547,426	\$ 547,426	\$ 565,386	\$ 547,425	\$ 547,426	\$ 547,424	\$ 547,428	\$ 547,426
Transit support activities	888,532	1,431,222	1,106,349	1,208,837	1,184,459	-	-	-	-	-
Criminal justice	200,000	200,001	200,000	199,999	200,001	200,000	200,001	200,001	200,000	213,989
SAFE program	-	-	-	-	1,614,190	2,757,111	2,787,196	2,896,366	2,954,988	2,694,729
Operating grants and contributions	86,646,372	70,900,310	62,912,380	65,142,256	78,195,117	34,298,223	33,690,470	31,489,804	32,714,717	34,414,426
Capital grants and contributions	35,229,222	33,912,628	91,481,754	114,897,279	112,147,740	150,652,714	175,682,343	132,821,561	202,046,295	174,146,558
Total governmental activities program revenues	123,511,551	106,991,595	156,247,869	181,995,797	193,906,893	188,455,473	212,897,436	167,955,156	238,463,426	212,017,138
Business-type activities:										
Charges for services:										
Service Bureau	468,365	349,823	332,478	534,763	547,760	639,983	384,544	559,527	524,076	531,285
SourcePoint	-	-	-	-	-	-	-	-	-	226,362
Interstate 15 FasTrak	2,164,606	3,251,352	4,005,920	4,796,063	6,141,283	6,449,971	10,156,279	12,216,648	12,992,560	13,510,720
State Route 125 Toll Road	-	-	-	15,134,831	26,134,191	29,764,264	32,031,279	35,075,079	37,618,422	41,748,531
Total business-type activities program revenues	2,633,971	3,600,175	4,338,398	20,455,657	32,823,234	36,854,218	42,572,102	47,851,454	51,135,058	56,016,898
Total primary government program revenues	\$ 126,145,522	\$ 110,591,769	\$ 160,586,267	\$ 202,451,454	\$ 226,730,127	\$ 225,309,691	\$ 255,469,538	\$ 215,806,610	\$ 289,598,484	\$ 268,034,036
Net (expense)/revenue										
Governmental activities	\$ (207,601,537)	\$ (267,474,480)	\$ (162,105,399)	\$ (314,365,221)	\$ (295,216,975)	\$ (313,376,861)	\$ (385,925,124)	\$ (250,870,424)	\$ (303,052,466)	\$ (449,532,516)
Business-type activities	33,594	143,272	323,578	2,857,793	(3,684,476)	(657,536)	5,346,396	9,498,518	9,154,288	13,064,109
Total primary government net expense	\$ (207,567,943)	\$ (267,331,208)	\$ (161,781,821)	\$ (311,507,428)	\$ (298,901,451)	\$ (314,034,397)	\$ (380,578,728)	\$ (241,371,906)	\$ (293,898,178)	\$ (436,468,407)
General Revenues and Other Change in Net Position										
Governmental activities:										
Local Transfer sales tax funds	\$ 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	\$ 302,364,081
Local Transportation Development Act sales tax funds	8,032,786	6,552,873	7,012,535	7,488,972	8,135,581	9,932,385	11,284,888	12,144,169	15,635,044	10,200,837
Investment earnings (loss)	24,947,560	9,765,173	14,321,473	(6,984,702)	12,212,398	4,604,966	10,894,328	550,944	14,043,487	15,120,087
Other revenues	468,059	677,295	35,625	32,336	64,454	9,832	3,582	173,282	53,972	53,195
Transfers in (out)	(31,326)	(43,072)	(10,427)	(210,146,639)	(1,492,360)	109,622	(2,086,871)	1,136,158	5,063,080	7,694,442
Total governmental activities	252,568,940	225,477,022	245,298,869	29,461,031	288,440,206	276,365,096	290,576,403	290,398,340	321,761,538	335,432,642
Business-type activities:										
Investment earnings	51,705	8,488	14,108	(10,501,111)	37,141	36,226	201,842	294,466	468,559	1,532,640
Other revenues	-	-	-	-	11,400	-	-	-	38,563	-
Transfers in (out)	31,326	43,072	10,427	210,146,639	1,492,360	(103,622)	2,086,871	(1,136,158)	(5,063,080)	(7,694,442)
Total business-type activities	83,031	51,560	24,535	199,645,528	1,540,901	(67,396)	2,288,713	(841,692)	(4,555,958)	(6,161,802)
Total primary government	\$ 252,671,971	\$ 225,528,582	\$ 245,323,404	\$ 229,106,559	\$ 269,981,107	\$ 276,315,700	\$ 292,865,116	\$ 289,546,648	\$ 317,205,580	\$ 329,270,840
Change in net position										
Governmental activities	\$ 44,967,403	\$ (41,997,458)	\$ 83,193,470	\$ (284,904,190)	\$ (26,776,769)	\$ (36,965,765)	\$ (95,346,721)	\$ 39,517,916	\$ 18,709,072	\$ (114,099,674)
Business-type activities	116,625	194,832	346,113	202,503,321	(2,143,575)	(724,932)	7,635,109	8,656,826	4,598,330	6,902,307
Total primary government	\$ 45,104,028	\$ (41,802,626)	\$ 83,541,583	\$ (82,400,869)	\$ (28,922,344)	\$ (37,176,697)	\$ (87,711,612)	\$ 48,174,742	\$ 23,307,402	\$ (107,197,367)
Source: Finance Department										

¹ Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

² Beginning in 2018, SourcePoint was classified as a blended component unit of SANDAG and was included in business-type activity.

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

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

	2009	2010	2011 ¹	2012	2013
General fund					
Reserved	\$ 68,342	\$ 52,759	\$ -	\$ -	\$ -
Unreserved	4,252,570	5,599,803	-	-	-
Nonspendable	-	-	44,896	113,560	59,670
Assigned	-	-	263,449	376,736	-
Unassigned	-	-	6,204,099	9,132,124	11,542,244
All other governmental funds					
Reserved	\$ 55,536,856	\$ 56,527,024	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	178,822,011	284,688,750	-	-	-
Capital projects fund	(784,745)	(4,156,878)	-	-	-
Debt service fund	298,173,715	157,891,614	-	-	-
Nonspendable, reported in:					
Special revenue funds	-	-	508	1,182,899	315
Capital projects fund	-	-	25,832,151	19,451,327	8,737,107
Restricted, reported in:					
Special revenue funds	-	-	380,945,586	447,198,151	422,030,465
Debt service fund	-	-	436,660,863	393,359,255	291,362,816
Assigned, reported in:					
Special revenue funds	-	-	1,089,608	366,605	-
Capital projects fund	-	-	17,044,959	-	-
Unassigned, reported in:					
Special revenue funds	-	-	1,738,947	(3,258,178)	(1,074,869)
Capital projects fund	-	-	-	-	(14,079,322)
Total all other governmental funds	\$ 531,747,837	\$ 494,950,510	\$ 863,312,622	\$ 858,300,059	\$ 706,976,512
			Fiscal Year		
	2014	2015	2016	2017	2018
General fund					
Nonspendable	\$ 465,189	\$ 191,813	\$ 107,893	\$ 256,879	\$ 371,896
Restricted	-	-	-	-	4,771,795
Committed	-	-	-	-	7,990,000
Assigned	-	-	-	-	140,460
Unassigned	13,817,185	14,670,176	13,128,367	16,435,274	3,846,604
Total general fund	\$ 14,282,374	\$ 14,861,989	\$ 13,236,260	\$ 16,692,153	\$ 17,120,755
All other governmental funds					
Nonspendable, reported in:					
Special revenue funds	\$ 1,917	\$ 24,403	\$ 150,835	\$ 125,131	\$ 232,555
Capital projects fund	7,129,070	3,814,294	5,769,471	256,119	272,330
Restricted, reported in:					
Special revenue funds	509,764,607	580,925,918	567,247,729	489,563,141	438,673,832
Debt service fund	62,883,888	231,030,381	69,088,189	225,652,427	413,051,537
Unassigned, reported in:					
Special revenue funds	-	(3,058,296)	(1,955,396)	(5,301,881)	(3,069,879)
Capital projects fund	(10,095,000)	(22,651,697)	(10,295,468)	(4,892,812)	(8,161,334)
Total all other governmental funds	\$ 569,684,482	\$ 790,085,003	\$ 630,005,360	\$ 705,402,125	\$ 840,999,041

Source: Finance Department

¹ SANDAG adopted GASB Statement 54 in fiscal year 2011.

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

	Fiscal Year									
	2009	2010 ¹	2011	2012	2013	2014	2015	2016 ²	2017	2018
Revenues										
Federal funds	\$ 33,735,151	\$ 31,995,005	\$ 58,782,786	\$ 65,491,578	\$ 62,203,796	\$ 97,537,254	\$ 58,992,094	\$ 109,641,390	\$ 199,748,046	\$ 141,139,315
State funds	24,041,976	29,205,281	50,665,783	81,143,207	74,185,732	89,207,154	94,902,014	40,544,354	15,741,066	55,524,721
Local TransNet sales tax funds	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	302,364,081
Local Transportation Development Act sales tax funds	8,032,786	6,552,873	7,012,535	7,488,972	8,135,581	9,932,385	11,284,888	12,144,169	15,635,044	10,200,837
Other local governmental funding	5,687,036	3,241,951	6,451,622	5,982,868	10,517,389	5,347,828	41,345,625	23,076,654	20,646,249	10,997,231
Prepaid fare media sales revenue	56,746,947	41,534,073	31,954,282	28,764,525	27,178,362	-	-	-	-	-
SAFE program revenue	-	-	-	-	1,614,190	2,757,111	2,787,196	2,896,366	2,954,988	2,694,729
Member agency assessments	747,425	747,425	747,426	747,425	747,427	747,425	747,427	747,425	747,426	761,425
Investment earnings	24,947,560	9,212,254	4,661,340	5,149,714	4,338,235	6,411,023	7,057,123	10,059,633	7,615,586	11,603,006
Debt repayments from other governments	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	1,519,755
Other revenues	3,019,075	945,146	611,701	596,467	4,708,500	185,844	89,642	278,598	185,787	53,195
Total revenues	376,645,967	333,120,989	386,257,491	435,378,997	444,774,072	475,451,840	489,418,454	477,652,128	552,047,101	536,856,295
Expenditures										
Current:										
General government	28,395,131	29,538,756	31,551,416	29,908,171	36,081,584	40,237,955	40,232,641	41,834,324	44,077,916	44,806,974
Cost recovery	(26,015,616)	(27,654,909)	(28,897,881)	(30,048,643)	(36,320,981)	(40,829,605)	(39,803,511)	(40,055,697)	(43,552,068)	(45,001,056)
Modeling and research	-	-	2,945,543	3,961,210	4,404,320	4,520,203	5,088,282	6,203,055	8,194,350	6,478,846
Criminal justice	1,442,777	1,342,462	1,322,882	1,635,255	1,521,582	1,495,834	1,303,563	1,214,864	1,524,153	1,021,489
Planning and forecasting	-	-	5,626,008	4,708,816	4,212,706	4,394,795	-	-	-	-
Sustainable development	-	-	1,640,795	1,269,411	1,304,160	1,033,906	6,806,436	6,765,168	5,275,752	8,172,047
Sustainable mobility programs and services	-	-	46,561,518	45,016,226	47,420,104	21,159,246	19,015,421	18,084,006	18,629,735	20,037,889
Intermodal planning and implementation	-	-	1,554,009	2,602,205	2,114,127	1,528,526	1,296,930	-	-	-
Internal and external coordination	-	-	4,506,081	7,078,166	5,773,179	5,353,344	5,524,869	6,016,306	6,707,729	6,914,668
SAFE program	-	-	-	-	11,216,566	1,600,183	1,669,308	1,436,053	1,631,813	1,870,670
Transit support activities	63,760,998	48,016,961	-	-	-	-	-	-	-	-
Regional planning	4,123,055	3,326,106	-	-	-	-	-	-	-	-
Transportation service and facility planning	1,969,902	2,225,251	-	-	-	-	-	-	-	-
Transportation development projects	3,974,971	5,600,080	-	-	-	-	-	-	-	-
Systems management	7,745,688	7,815,571	-	-	-	-	-	-	-	-
Program management, project monitoring, and external relations	4,605,874	5,489,182	-	-	-	-	-	-	-	-
Regional information systems	5,278,079	4,275,893	-	-	-	-	-	-	-	-

**San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	2009	2010 ¹	2011	2012	2013	2014	2015	2016 ²	2017	2018
Highway improvements	165,343	-	-	-	-	-	-	-	-	-
Public transit improvements and operations	1,114,806	-	-	-	-	-	-	-	-	-
Bicycle facilities	4,238,080	1,044,430	1,108,513	192,495	71,080	1,990,728	2,186,253	2,446,815	2,772,067	880,943
Independent Taxpayer Oversight Committee	260,757	126,063	85,510	356,159	83,071	96,017	367,036	98,320	100,853	365,953
Major corridor capital projects	5,168,110	7,294,773	16,217,358	542,364	126,155	141,223	2,886,200	564,642	1,932,128	165,400
Major corridor environmental mitigation	9,243	439,616	3,239	4,264	-	20,306	23,708	12,172	23,857	8,879
Local project environmental mitigation	3,781	1,913	33,793	1,744	34,019	7,824	8,100	10,845	20,181	14,275
Local street and road improvements	42,940,542	29,440,084	33,306,399	94,061,810	78,188,231	61,583,853	76,691,415	113,647,914	85,032,205	87,149,711
Smart growth	4,412	95,554	934,701	1,821,384	1,783,732	2,525,948	4,168,356	5,680,797	3,224,585	5,596,218
New major corridor transit operations	71,628	564	862,901	1,912,773	606,497	2,509,523	11,850,929	11,794,749	11,521,508	12,033,896
Transit system improvements	34,359,194	54,883,491	34,556,716	37,632,167	39,679,702	40,266,354	43,217,224	44,659,647	46,459,496	46,247,104
Regional transportation improvements	203,674,807	183,167,335	157,934,729	282,966,853	325,735,127	427,710,598	362,366,104	371,790,100	531,402,710	664,502,130
Debt service:										
Principal retirement	-	-	20,048,000	165,460,000	20,260,000	16,585,000	60,050,000	22,455,000	72,510,000	55,906,000
Debt issuance costs	10,800,000	11,962,000	2,864,732	2,296,858	-	-	553,594	-	1,284,951	1,557,833
Interest and other charges	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	87,552,444
Total expenditures	424,364,416	395,109,662	367,874,438	722,664,566	598,204,833	650,893,032	672,090,048	686,938,658	882,106,770	1,006,282,311
Excess of revenues over (under) expenditures	(47,718,449)	(61,988,673)	18,383,053	(287,285,569)	(153,430,761)	(175,441,192)	(182,671,594)	(209,286,530)	(330,059,669)	(469,424,016)
Other financing sources (uses)										
Transfers in	388,388,597	357,834,060	309,509,142	592,295,624	409,359,665	409,359,665	492,307,922	573,094,870	667,372,977	1,023,074,533
Transfers out	(388,419,923)	(357,877,132)	(309,519,569)	(784,295,624)	(409,350,914)	(409,350,914)	(492,294,556)	(571,958,712)	(662,279,212)	(1,015,380,091)
Commercial paper issued	3,000,000	5,450,000	-	921,000	1,579,000	1,579,000	1,999,000	46,445,000	-	28,650,000
Bonds issued	-	-	350,000,000	420,585,000	-	-	350,000,000	-	325,000,000	537,480,000
Premium on bonds issued	-	-	849,368	55,876,982	-	-	55,305,483	-	78,818,562	31,625,092
Total other financing sources (uses)	2,968,674	5,406,928	350,838,941	285,382,982	1,587,751	1,587,751	407,317,749	47,581,158	408,912,327	605,449,534
Net change in fund balances	\$ (44,749,775)	\$ (56,581,745)	\$ 389,221,994	\$ (1,902,587)	\$ (151,843,010)	\$ (173,853,441)	\$ 224,646,155	\$ (161,705,372)	\$ 78,852,668	\$ 136,025,518
Debt service as a percentage of noncapital expenditures	7.60%	6.84%	15.79%	33.27%	14.32%	13.96%	18.87%	21.29%	21.29%	19.71%

Source: Finance Department

¹Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

²Beginning in 2016, Regional transportation improvements replaced Capital outlay.

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

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

Fiscal Year	Sales Tax
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
2018	302,364,081

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 Association of Governments
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
2009	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	0.50%	7.75%
2018 ³	0.50%	7.75%

Source: California Department of Tax and Fee Administration
<http://www.cdtfa.ca.gov/formspubs/cdtfa95.pdf>

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

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

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

³ Rates Effective 10/1/18

San Diego Association of Governments
San Diego Region Taxable Sales by Jurisdiction
Fiscal Year 2017¹ and Nine Years Prior

	FY 2017 ²			FY 2008 ³		
	Taxable Sales (in thousands)	Rank	Percentage of Total	Taxable Sales (in thousands)	Rank	Percentage of Total
San Diego	\$ 23,323,251	1	41.5%	\$ 20,073,731	1	42.6%
Escondido	3,123,465	3	5.6%	2,572,790	4	5.5%
Carlsbad	2,953,268	4	5.2%	2,380,006	5	5.1%
Chula Vista	2,707,712	5	4.9%	2,583,971	3	5.5%
El Cajon	2,242,097	6	3.9%	2,023,048	6	4.3%
Oceanside	1,735,918	7	3.1%	1,590,986	7	3.4%
National City	1,572,876	9	2.8%	1,325,559	9	2.8%
Vista	1,586,687	8	2.8%	1,182,793	10	2.5%
San Marcos	1,387,048	10	2.5%	1,364,476	8	2.9%
Encinitas	1,123,462	12	2.1%	982,843	13	2.1%
Poway	1,137,027	11	2.0%	1,063,662	11	2.3%
La Mesa	1,105,016	13	2.0%	1,003,415	12	2.1%
Santee	1,089,387	14	2.0%	721,420	14	1.5%
Lemon Grove	456,807	15	0.8%	373,064	15	0.8%
Coronado	296,041	16	0.5%	223,088	17	0.5%
Solana Beach	273,415	17	0.5%	260,087	16	0.6%
Del Mar	190,829	18	0.4%	132,966	18	0.3%
Imperial Beach	84,695	19	0.2%	73,460	19	0.2%
Incorporated	46,389,001			39,931,365		
Unincorporated	9,948,419	2	17.2%	7,140,612	2	15.2%
San Diego Region Total	<u>\$ 56,337,420</u>		<u>100.0%</u>	<u>\$ 47,071,977</u>		<u>100.2%</u>

Source: California Board of Equalization, "Taxable Sales by City"

¹ Annual data for 2018 are not yet available.

² Sum of data for third and fourth quarters of 2016 and first and second quarters of 2017.

³ Sum of data for third and fourth quarters of 2007 and first and second quarters of 2008.

San Diego Association of Governments

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Percentage of Personal Income ¹	Debt Per Capita ¹
	Sales Tax Revenue				Toll Revenue						
	Revenue Bonds	Short-Term Bonds	Commercial Paper	Total	TIFIA Notes	Bonds	Total				
2009	\$ 589,200,000	-	\$ 37,000,000	\$ 626,200,000	\$ -	-	-	\$ -	\$ 626,200,000	0.417%	204
2010	577,800,000	-	41,888,000	619,688,000	-	-	-	-	619,688,000	0.406%	200
2011	916,463,741	-	34,000,000	950,463,741	-	-	-	-	950,463,741	0.599%	305
2012	1,228,392,144	-	33,821,000	1,262,213,144	95,629,359	-	-	95,629,359	1,357,842,503	0.818%	434
2013	1,208,452,472	-	33,989,000	1,242,441,472	100,572,988	-	-	100,572,988	1,342,714,460	0.799%	426
2014	1,191,472,800	-	73,001,000	1,264,473,800	159,790,992	-	-	159,790,992	1,424,264,792	0.829%	446
2015	1,578,319,665	-	30,440,000	1,608,759,665	160,299,501	-	-	160,299,501	1,769,059,166	1.030%	554
2016	1,554,507,253	-	75,000,000	1,931,871,334	161,363,534	-	-	161,363,534	2,093,234,868	1.041%	555
2017	1,928,648,386	-	26,750,000	1,955,398,386	164,765,823	-	-	164,765,823	2,120,164,209	1.142%	645
2018	1,882,812,559	567,116,301	26,614,000	2,476,542,860	- ³	194,140,000	194,140,000	194,140,000	2,670,682,860	1.401% ²	807 ²

Source: Finance Department

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

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

² Used the most recent data available (2017).

³ The SR 125 TIFIA Notes were repaid in fiscal year 2018.

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

Fiscal Year	Sales Tax Revenue	Sales Tax Revenue								Coverage
		Bonds		Short-Term Notes		Commercial Paper		Total		
		Debt Service		Debt Service		Debt Service		Debt Service		
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
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	-	-	1,805,000	581,493	26,065,000	81,031,934	2.68
2018	302,364,081	27,120,000	84,878,338	-	-	1,200,000	788,060	28,320,000	85,666,398	2.65

Source: Finance Department

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

San Diego Association of Governments
Pledged-Revenue Coverage - SR 125 Toll Road
Last Seven Fiscal Years

	Fiscal Year						
	2012	2013	2014	2015	2016	2017	2018
SR 125 Project revenue	\$ 15,125,130	\$ 26,134,191	\$ 29,743,159	\$ 31,951,777	\$ 35,346,500	\$ 38,049,829	\$ 42,826,499
Less: Operating and maintenance costs	(5,196,570)	(8,172,275)	(8,768,921)	(8,914,720)	(11,384,338)	(11,540,125)	(10,980,405)
Net available revenue	<u>\$ 9,928,560</u>	<u>\$ 17,961,916</u>	<u>\$ 20,974,238</u>	<u>\$ 23,037,057</u>	<u>\$ 23,962,162</u>	<u>\$ 26,509,704</u>	<u>\$ 31,846,094</u>
TIFIA Pledged-Revenue Coverage¹							
Net available revenue	9,928,560	17,961,916	20,974,238	23,037,057	23,962,162	26,509,704	31,846,094
Debt service							
Principal	-	135,018	656,988	1,468,175	1,140,315	637,212	-
Interest	1,860,488	3,541,164	3,533,930	3,482,998	3,664,849	3,886,914	-
Total debt service	<u>\$ 1,860,488</u>	<u>\$ 3,676,182</u>	<u>\$ 4,190,918</u>	<u>\$ 4,951,173</u>	<u>\$ 4,805,164</u>	<u>\$ 4,524,126</u>	<u>\$ -</u>
Coverage	5.34	4.89	5.00	4.65	4.99	5.86	n/a
First Subordinate Obligation Pledged-Revenue Coverage¹							
Net available revenue	9,928,560	17,961,916	20,974,238	23,037,057	23,962,162	26,509,704	31,846,094
Less:							
TIFIA debt service	(1,860,488)	(3,676,182)	(4,190,918)	(4,951,173)	(4,805,164)	(4,524,126)	-
Major maintenance reserve fund deposits	(4,540,504)	(10,865,173)	(5,684,084)	(12,727,141)	(15,572,916)	(16,485,768)	(14,602,762)
Adjusted net available revenue	<u>\$ 3,527,568</u>	<u>\$ 3,420,561</u>	<u>\$ 11,099,236</u>	<u>\$ 5,358,743</u>	<u>\$ 3,584,082</u>	<u>\$ 5,499,810</u>	<u>\$ 17,243,332</u>
Debt service							
Principal	2,044,204	1,044,422	528,080	-	-	-	-
Interest	112,585	316,883	2,674,226	2,649,982	2,649,982	2,649,982	662,495
Total debt service	<u>\$ 2,156,789</u>	<u>\$ 1,361,305</u>	<u>\$ 3,202,306</u>	<u>\$ 2,649,982</u>	<u>\$ 2,649,982</u>	<u>\$ 2,649,982</u>	<u>\$ 662,495</u>
Coverage	1.64	2.51	3.47	2.02	1.35	2.08	26.03
Bond Pledged-Revenue Coverage							
Net available revenue	9,928,560	17,961,916	20,974,238	23,037,057	23,962,162	26,509,704	31,846,094
Debt service							
Principal	-	-	-	-	-	-	3,070,000
Interest	-	-	-	-	-	-	5,913,294
Total debt service	-	-	-	-	-	-	8,983,294
Coverage	0.00	0.00	0.00	0.00	0.00	0.00	3.55

Source: Finance Department

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

SR 125 toll road was acquired by SANDAG in fiscal year 2012.

¹ The TIFIA and First Subordinate obligations were defeased in fiscal year 2018.

San Diego Association of Governments
Demographic and Economic Statistics
Last Ten Available Calendar Years¹

Calendar Year	Population ²	Personal Income ³	Per Capita Personal Income ³	Median Age ⁴	Unemployment Rate ⁵
2008	3,032,689	\$ 160,190,447	\$ 53,006	34.6	6.0%
2009	3,064,436	154,730,259	50,545	34.6	9.4%
2010	3,095,313	157,468,033	50,725	34.7	10.8%
2011	3,119,963	163,063,036	51,919	34.8	10.3%
2012	3,153,521	168,207,323	52,871	34.9	9.1%
2013	3,193,688	171,511,656	53,290	35.1	7.8%
2014	3,230,269	178,929,978	54,905	35.3	6.4%
2015	3,264,449	186,498,152	56,682	35.6	5.2%
2016	3,284,477	188,548,734	56,831	35.9	4.7%
2017	3,309,509	190,621,862	56,980	36.1	4.0%

Source: Data compiled by SANDAG.

¹ Data for 2018 is not yet available, therefore, 2017 data is the most current year provided.

² California Department of Finance, "January Population and Housing Estimates";

³ U.S. Bureau of Economic Analysis (BEA), Regional Economic Accounts "Local Area Personal Income Accounts," Table CA5N; Bureau of Labor Statistics (BLS), retrieved from FRED, Chained Consumer Price Index (CPI), "Series CUUSA424SA0."

⁴ SANDAG Preliminary Estimates, Vintage 2017 (2010-2017), SANDAG Estimates, Vintage 2009 (2004-2009);

⁴ California Employment Development Department (EDD), Local Area Unemployment Statistics (LAUS), Annual Average; Notes: Year-to-year variation for Educational Attainment and Poverty are the result of both actual change and sampling error. Personal Income and Per Capita Personal Income were inflation-adjusted to 2017 dollars. Methodology for determining the age and sex structure of the population has changed starting with the SANDAG Preliminary Estimates, Vintage 2017. The methodology is now based on the age and sex structure from the California Department of Finance population projections. As a result, Median Age from 2011 to 2017 was revised. Median Age for 2018 and Personal Income and Per Capita Personal Income for 2017 were estimated using the prior year's growth rate. BEA Personal Income definition: "Personal income is the income received by, or on behalf of, all persons from all sources: from participation as laborers in production, from owning a home or business, from the ownership of financial assets, and from government and business in the form of transfers. It includes income from domestic sources as well as the rest of world. It does not include realized or unrealized capital gains or losses."

San Diego Association of Governments
San Diego Region Employment by Industry
Calendar Year 2017¹ and Nine Years Prior

Industry Type	2017 ¹		2008	
	Annual Employment	% of Total Employment	Annual Employment	% of Total Employment
Agriculture	8,600	0.6%	10,800	0.8%
Natural Resources and Mining	300	0.0%	400	0.0%
Construction	79,300	5.4%	76,100	5.7%
Manufacturing	109,000	7.5%	103,100	7.8%
Wholesale Trade	48,200	3.3%	46,900	3.5%
Retail Trade	148,700	10.2%	142,000	10.7%
Transportation, Warehousing and Utilities	31,900	2.2%	29,000	2.2%
Information	24,400	1.7%	31,500	2.4%
Financial Activities	74,100	5.1%	75,200	5.7%
Educational and Health Services	204,500	14.0%	154,200	11.6%
Leisure and Hospitality	196,400	13.4%	164,000	12.4%
Other Services	54,900	3.8%	48,400	3.6%
Government (civilian)	248,100	17.0%	225,100	17.0%
Total, All Industries	1,461,800	100.0%	1,326,900	100.0%

Source: California Employment Development Department, Labor Market Information Division, March 2017 Benchmark.

Note: Employment figures may not add up to totals due to rounding.

¹ Data for 2018 is not yet available; therefore, 2017 data is provided.

San Diego Association of Governments
Operating Indicators: Employees by Functional Department
Last Ten Fiscal Years

Functional Department	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Regular Full-Time Equivalent (FTE) Employees: ¹										
Administration	35	38	33	32	33	33	33	35	34	35
Communications	-	-	-	-	-	-	-	9	9	9
Finance	19	18	17	16	17	17	15	16	16	16
Executive	16	16	21	30	32	31	31	15	11	12
Technical Services	47	49	49	49	53	55	55	54	49	51
Land Use and Transportation Planning	30	31	31	31	35	35	35	36	39	36
Operations	-	-	-	-	-	4	4	20	26	26
TransNet Department	-	-	-	-	-	-	9	8	8	8
Mobility Management and Project Implementation	45	43	46	41	42	40	37	29	30	29
Total Regular FTE Employees	192	195	197	199	212	215	219	222	222	222
Limited Term FTE Employees: ²										
Administration	2	-	-	1	4	4	13	15	17	16
Communications	-	-	-	-	-	-	-	9	8	8
Finance	1	1	-	-	1	1	1	1	2	2
Executive	1	1	5	9	7	7	12	3	2	2
Technical Services	7	4	4	4	9	9	10	10	10	10
Land Use and Transportation Planning	3	4	8	7	9	9	7	6	6	6
Operations	-	-	-	-	-	-	1	2	4	4
TransNet Department	-	-	-	-	-	-	1	2	2	2
Mobility Management and Project Implementation	12	7	6	6	4	4	6	5	4	5
Total Limited Term FTE Employees	26	17	23	27	34	34	51	53	55	55
Toll Operations Personnel (TOP) FTE Employees:										
Operations	-	-	-	52	51	51	47	50	50	50
Finance	-	-	-	-	-	-	4	4	4	4
Total Toll Operations Personnel (TOP) FTE Employees	-	-	-	52	51	51	51	54	54	54
Temporary, Interns, Part-time, or Seasonal (TIPS) Employees: ³										
Administration	2	2	-	4	3	4	4	4	4	4
Communications	-	-	-	-	-	-	-	4	5	5
Finance	-	-	-	-	-	-	1	4	1	1
Executive	2	2	4	3	4	4	4	4	2	5
Technical Services	9	13	11	9	9	9	15	15	6	9
Land Use and Transportation Planning	7	6	13	8	14	16	18	18	16	16
Operations	-	-	-	-	-	1	5	5	5	6
TransNet Department	-	-	-	-	-	-	2	2	2	2
Mobility Management and Project Implementation	11	11	9	13	13	13	5	4	4	4
Total TIPS Employees	31	34	37	37	43	47	54	60	45	52
Total Employees	249	246	257	315	340	347	375	389	376	383

¹ Regular positions make up the core Board of Director authorized positions. Most regular positions are full-

² Limited Term positions are considered part of the contingent workforce, hired to fill a short-term need for additional staff. Most Limited Term positions are full-time positions authorized for a term of one year.

³ TIPS positions are determined by the number of authorized positions on the active payroll as of June 30 each year. TIPS employees are part of the contingent workforce, the majority of which are interns working on a part-time basis.

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

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

San Diego Association of Governments
Capital Asset Statistics by Program
Last Ten Fiscal Years

	Fiscal Year				
	2009	2010	2011	2012	2013
Functions/Programs					
Transit capital funding - construction-in-progress (CIP)					
Major improvements - light rail transit	\$ 3,538,273	\$ 4,564,873	\$ 18,549,163	\$ -	\$ -
Major improvements - bus	14,924,821	1,828,961	3,053,173	6,596,210	19,889,933
Operations capital - light rail transit	5,803,140	5,573,754	6,524,570	1,933,123	3,299,086
Major corridor projects	349,655,143	355,997,202	346,482,102	381,020,889	434,535,412
Operations capital - SANDAG	11,621,959	20,231,739	33,718,421	727,253	829,468
Goods movement projects	1,484,923	5,624,733	10,874,326	17,314,284	25,124,387
Total transit capital funding - CIP	387,665,072	394,439,825	421,157,998	446,195,532	526,336,392
Capital assets					
Transit capital contributions - land	2,932,171	2,932,171	5,241,439	5,241,439	5,241,439
General government	118,714	172,574	207,301	169,239	237,256
Modeling and research	-	-	-	55,068	35,048
Smart mobility programs and services activities	5,673,636	3,673,526	8,272,769	369,093	388,378
Total capital assets	\$ 396,389,593	\$ 401,218,096	\$ 434,879,507	\$ 452,030,371	\$ 532,238,513
	Fiscal Year				
	2014	2015	2016	2017	2018
Functions/Programs					
Transit capital funding - construction-in-progress (CIP)					
Major improvements - light rail transit	\$ 24,186	\$ 123,725	\$ -	\$ 104,122	\$ -
Major improvements - bus	21,723,804	20,830,535	56,947,198	22,735,116	7,192,862
Operations capital - light rail transit	2,644,422	152,432	35,550	66,836	138,150
Major corridor projects	581,750,439	561,353,084	799,180,616	1,083,592,246	1,345,361,329
Operations capital - SANDAG	1,337,743	2,197,159	2,358,602	2,720,640	1,791,005
Major improvements - SANDAG	12,865,882	22,183,660	34,710,936	47,212,160	63,249,252
Goods movement projects	24,601,264	49,090,652	5,861,783	6,095,318	7,198,362
Total transit capital funding - CIP	644,947,739	655,931,247	899,094,685	1,162,526,438	1,424,930,960
Capital assets					
Transit capital contributions - land	5,241,439	5,241,439	5,241,439	7,979,613	6,829,613
Transit capital contributions - easements	-	-	-	-	15,950,412
Transit capital contributions - building	-	-	-	4,837,918	4,740,510
General government	258,070	370,868	342,908	273,354	335,902
Modeling and research	28,025	13,941	4,608	275	-
Smart mobility programs and services activities	334,719	276,997	384,921	509,006	178,204
Major Corridor Capital Projects	5,147,169	4,044,204	2,941,239	1,838,274	3,656,758
Transit System Improvements	315,811	404,675	253,147	120,196	80,131
Total capital assets	\$ 656,272,972	\$ 666,283,371	\$ 908,262,947	\$ 1,178,085,074	\$ 1,456,702,490

Source: Finance Department

Note: No capital asset indicators are available for the above functions.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the San Diego Association of Governments (“SANDAG”) and Digital Assurance Certification LLC, as dissemination agent (the “Dissemination Agent”) in connection with the issuance of \$335,000,000 aggregate principal amount of the San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project) (the “Bonds”). The Bonds are being issued pursuant to the Trust Indenture, dated as of August 1, 2019 (the “Indenture”), between SANDAG and U.S. Bank National Association, as trustee. Pursuant to the Indenture, SANDAG 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 SANDAG for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by SANDAG pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Audited Financial Statements” means the audited financial results of SANDAG for the applicable Fiscal Year.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“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 SANDAG designated to act as the Disclosure Representative, or such other person as SANDAG shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” means an entity selected and retained by SANDAG, or any successor thereto selected by SANDAG. The initial Dissemination Agent shall be Digital Assurance Certification LLC.

“Financial Obligation” shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section 5(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“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 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (“EMMA”) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the final official statement, dated July 30, 2019 relating to the Bonds.

“Participating Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Project” shall mean the Mid-Coast Corridor Transit Project.

“Repository” shall mean, until otherwise designated by the Securities and Exchange Commission, EMMA.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities Exchange Commission under the Securities Exchange Act of 1934, as amended from time to time.

“State” shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) SANDAG shall, or shall cause the Dissemination Agent to, not later than two hundred and ten (210) days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2019, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of SANDAG may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If SANDAG’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than one Business Day prior to the date specified in subsection (a) for providing the Annual Report to the Repository, SANDAG shall provide the Annual Report to the Dissemination Agent (if other than SANDAG). SANDAG 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 SANDAG is unable to provide to the Repository an Annual Report by the date required in subsection (a), SANDAG 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 SANDAG 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.

(a) The Annual Report shall contain or include by reference the following:

(i) The Audited Financial Statements of SANDAG 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 and the Audited Financial Statements shall be filed in the same manner as the Annual Report when such Audited Financial Statements become available.

(ii) The debt service schedule for the Bonds, showing any redemptions, retirements or defeasances during the prior Fiscal Year and the outstanding Bonds.

(iii) The date(s) and amount(s) of Grant Receipts received by SANDAG for the most recently completed federal fiscal year.

(iv) To the extent not contained in the financial statements, for the most recently ended fiscal year, the data substantially in the form presented in the Official Statement as follows:

- (1) Table 6 – Summary of Baseline Cost Estimate, Expenditures Paid, and Estimates of Costs to Completion; and
- (2) Table 9 – Project Milestones, Baseline Schedule and Current Projection.

Any or all of the items required to be included in the Annual Report may be included by specific reference to other documents, including official statements of debt issues of SANDAG or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. SANDAG 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, SANDAG shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the occurrence of 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 Bonds or other material events affecting the tax status of the Bonds;

(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.

(10) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of SANDAG, any of which reflect financial difficulties.

For these purposes, any event described in subparagraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for SANDAG 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 SANDAG, 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 SANDAG.

(b) Pursuant to the provisions of this Section 5, SANDAG shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten (10) Business Days after the occurrence of the event:

(1) Unless described in Section 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(2) Modifications to rights of Bond holders;

(3) Optional, unscheduled or contingent Bond calls;

(4) Release, substitution, or sale of property securing repayment of the Bonds;

(5) Non-payment related defaults;

(6) The consummation of a merger, consolidation, or acquisition involving SANDAG or the sale of all or substantially all of the assets of SANDAG, 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;

(7) Appointment of a successor or additional trustee or the change of name of a trustee;

or

(8) Incurrence of a Financial Obligation of SANDAG, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of SANDAG, any of which affect security holders.

(c) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which SANDAG determines would be material under applicable federal securities laws, SANDAG shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(d) SANDAG intends to comply with the Listed Events described in Section 5(a)(10) and Section 5(b)(8), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

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. SANDAG’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, SANDAG shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 8. Dissemination Agent. SANDAG 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 SANDAG.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, SANDAG may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of SANDAG with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, SANDAG shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by SANDAG. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent SANDAG 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 SANDAG 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, SANDAG 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 SANDAG to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause SANDAG 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 SANDAG 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 SANDAG 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 SANDAG 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 SANDAG, the Trustee, the Holders, or any other party. The obligations of SANDAG under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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 SANDAG, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August 14, 2019

SAN DIEGO ASSOCIATION OF
GOVERNMENTS

By: _____

DIGITAL ASSURANCE CERTIFICATION
LLC, as Dissemination Agent

By: _____

EXHIBIT A

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: **SAN DIEGO ASSOCIATION OF GOVERNMENTS**

Name of Issue: San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project)

Date of Issuance: August 14, 2019

NOTICE IS HEREBY GIVEN that SANDAG has not provided an Annual Report with respect to the above-named Bonds as required by the Trust Indenture, dated as of August 1, 2019, between SANDAG and U.S. Bank National Association, as trustee. [SANDAG anticipates that the Annual Report will be filed by _____.]

Dated: _____

SAN DIEGO ASSOCIATION OF GOVERNMENTS

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and SANDAG takes no responsibility for the accuracy or completeness thereof. SANDAG cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds (the “Securities”). The Securities 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 Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 SANDAG or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or SANDAG, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of SANDAG 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to SANDAG or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

Upon the delivery of the Bonds, Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Closing Date]

San Diego Association of Governments
401 B Street
San Diego, California 92101

\$335,000,000

San Diego Association of Governments
Capital Grant Receipts Revenue Bonds
(Mid-Coast Corridor Transit Project)

\$210,000,000	\$125,000,000
Series 2019A	Series 2019B
(Green Bonds)	(Green Bonds)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the San Diego Association of Governments, a consolidated regional transportation agency established under the laws of the State of California (“SANDAG”), of \$210,000,000 in aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019A (Green Bonds) (the “Series 2019A Bonds”) and \$125,000,000 in aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019B (Green Bonds) (the “Series 2019B Bonds,” and together with the Series 2019A Bonds, the “Bonds”).

The Bonds are issued pursuant to Section 132370.1 of the California Public Utilities Code, and a Trust Indenture, dated as of August 1, 2019 (the “Indenture”), by and between SANDAG and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are payable from Grant Receipts, Additional Security to the extent provided by SANDAG and amounts on deposit in certain funds and accounts established under the Indenture. Proceeds of the Bonds will be used by the SANDAG to finance the construction of its Mid-Coast Corridor Transit Project. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of SANDAG in connection with the issuance of the Bonds. We have also examined such certificates of officers of SANDAG and others and made such investigations of law as we have considered necessary for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

1. The Bonds constitute valid and binding limited obligations of SANDAG as provided in the Indenture, and are entitled to the benefits of the Indenture.

2. The Indenture has been duly authorized, executed and delivered by SANDAG and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of SANDAG, enforceable against SANDAG in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Grant Receipts, the Additional Security and other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. Assuming continuing compliance by SANDAG with certain covenants in the Indenture and other documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation. Interest on the Bonds is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax.

4. Under existing law, interest on the Bonds is exempt from personal income taxes of the State of California.

Other than as provided in paragraphs 3 and 4 above, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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