SANDAG

San Diego County Regional Transportation Commission

A Component Unit of San Diego Association of Governments

BASIC FINANCIAL STATEMENTS

2023

For the Fiscal Year Ended June 30, 2023

San Diego, California

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

San Diego, California

Basic Financial Statements

For the year ended June 30, 2023

PREPARED BY THE SAN DIEGO ASSOCIATION OF GOVERNMENTS

FINANCE DEPARTMENT

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San Diego Regional Transportation Commission
A Component Unit of the San Diego Association of Governments

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A Component Unit of the San Diego Association of Governments

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INTRODUCTORY SECTION

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December 22, 2023 File Number 1500100

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

We are pleased to present the basic financial statements of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), for the fiscal year ended June 30, 2023. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management of SANDAG. A comprehensive framework of internal controls has been designed and implemented to ensure the assets of the Commission are protected from loss, theft, or misuse, and to ensure that financial information is accurate and complete. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in financial position including results of the Commission's operations. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

Davis Farr LLP has issued an unmodified ("clean") opinion on the Commission's financial statements for the fiscal year ended June 30, 2023.

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. The 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 Regional Economic Profile

With its midcentury roots as a sleepy Navy town and a leading West Coast leisure destination, San Diego now boasts one of the world's most diversified and dynamic economies. It ranks No. 4 among California counties in terms of gross domestic product (GDP) and population, which spans 18 cities and unincorporated areas of San Diego County.

The region is renowned for its breakthrough technology companies, a highly skilled workforce and intellectual capital fostered by top-tier universities and distinguished research institutions, and its extensive startup ecosystem championing life-changing, next-generation innovation. It is also part of the much larger CaliBaja binational megaregion (including Imperial County and the Mexican state of Baja California) which is home to the largest integrated economic zone along the U.S.-Mexico border.

The San Diego regional economy has been resilient amid a downturn yet nimble enough to evolve. A key contributor is its diversified economy. It has three major sectors: Military (Government and government enterprises), Innovation (mostly Professional, scientific, and technical services and selected Manufacturing subsectors), and Tourism (Accommodation and food services; and Arts, entertainment, and recreation). The region has an additional beneficial dimension of no one sector accounting for more than 16% of the region's 1.6 million workers.

San Diego's economy is rooted in its diverse population of 3.3 million people, deep talent pool, and entrepreneurial spirit. Its population is highly diverse in terms of race/ethnicity (42% White, 35% Hispanic, 12% Asian, 4% Black). Compared with the rest of the nation, San Diegans are younger and more educated. The median age is 37.3 years (39.0 U.S.), and 43.0% of San Diegans who are ages 25 and older hold at least a bachelor's degree (35.7% U.S.). The talent and composition of San Diego's economy translates to a higher per-capita personal income of $72,637 in the region compared to $64,143 for the nation.

Key Economic Sectors

Four sectors have consistently accounted for 55% of the region's GDP since 2001:

- Government and government enterprises
- Real Estate and rental and leasing
- Professional, scientific, and technical services
- Manufacturing

Table 1 shows each sector's contribution to the $268.0 billion economy in 2021.

Table 1: 2021 GDP by Sector	Billions	Share
All industry total	**$ 268.0**	
Government and government enterprises	$ 49.7	19%
Real estate and rental and leasing	$ 36.3	14%
Professional, scientific, and technical services	$ 33.5	12%
Manufacturing	$ 28.6	11%
Healthcare and social assistance	$ 17.0	6%
Retail trade	$ 13.9	5%
Information	$ 13.6	5%
Wholesale trade	$ 13.3	5%
Finance and insurance	$ 12.8	5%
Construction	$ 10.9	4%
Administrative and support and waste management and remediation services	$ 9.4	4%
Accommodation and food services	$ 9.3	3%
Other services (except government and government enterprises)	$ 4.7	2%
Management of companies and enterprises	$ 4.3	2%
Transportation and warehousing	$ 3.0	1%
Educational services	$ 2.4	1%
Arts, entertainment, and recreation	$ 2.2	1%
Utilities	$ 2.1	1%
Agriculture, forestry, fishing and hunting	$ 0.9	0%
Mining, quarrying, and oil and gas extraction	$ 0.1	0%

Source: *Bureau of Economic Analysis, CAGDP2, San Diego MSA, 2021, in current dollars*

Government and government enterprises (including Military): This includes spending and investment by the military as well as federal, state, and local government agencies based here. San Diego is home to the nation's largest concentration of military—110,000 active-duty personnel (2022)—across nearly a dozen installations, notably, Camp Pendleton and the Marine Corps Recruit Depot. San Diego has the Navy's most strategic port, with 24% of all Navy vessels, including the majority of the Pacific Fleet. San Diego also has the nation's largest concentration of Marine

Corps operational and support commands. The military component within the Government sector has been not only sizeable, recession-resistant, and stabilizing but also integral in related sectors, especially Manufacturing and Healthcare and social assistance. Capitalizing on San Diego's highly skilled labor force and high-tech firms in aerospace, shipbuilding and telecommunications, the military sector supports 1 in 5 San Diego jobs (direct and indirect). In Fiscal Year (FY) 2022, spent $19.3 billion in government defense contracts across more than 1,700 companies in the region.

Real estate and rental and leasing: San Diego has a reputation as a desirable place to live and work, given its year-round warmth and sunshine, its location along 70 miles of gorgeous Pacific Ocean coastline, its rich culture, and its laid-back vibe. The purchasing, leasing, rental, appraisal, and management of residential and commercial properties, equipment and vehicles generate the bulk of real estate's almost $36 billion contribution or 14% GDP. In addition to tangible assets, this sector includes activities related to the application and ownership of patents and trademarks. San Diego, as a leading innovation hub, ranks second among U.S. regions and No. 11 globally for patent intensity in 2020.

Professional, scientific, and technical services (included in Innovation): This economic sector is a key driver of the San Diego economy. It accounted for about 9% of the economy from 2003 to 2007 and 12% in 2022. Much of this sector's growth lies in the elevated global profile of San Diego as a premier innovation hub. Blue-chip firms Qualcomm, Illumina, Viasat, Dexcom, General Atomics, and Cubic Corp., are headquartered here. Apple, Amazon, BD, Eli Lilly, Northrop Grumman, and Thermo Fisher Scientific have expanded their footprints here in recent years. Key areas of innovation include aerospace and defense; biotechnology and life sciences (genomics, medical devices, and pharmaceuticals), cybersecurity; computing and software; and environmental technologies (bluetech and cleantech).

San Diego's innovation hub boasts several top 10 national rankings: No. 5 science and tech cluster (No. 9 globally) in 2020; No. 2 market for construction of new lab space in 2022, and No. 5 best place to start a tech career in 2021. The San Diego startup ecosystem of more than 90 incubators, accelerators, and co-working spaces furthers the region's reputation as one of the top-5 U.S. breeding ground for startups, which, in 2021, raised a record $9 billion in venture capital. It is also important to note that several Innovation companies have divisions that contribute to multiple economic sectors. Qualcomm and Viasat, for example, are also major contributors to the Manufacturing and Information (telecommunications).

In terms of employment, 249,000 Innovation jobs, which are mostly but not limited to this Professional, scientific, and technical services sector, have increased 78% from 1990 to 2022, outpacing the region's 37% overall employment growth during those years. Innovation jobs represented 15% of all jobs in 2022, up from 12% in 2021. A key factor in trending Innovation jobs is the region's higher education system that cultivates the talent pipeline to support the knowledge-based economy, innovation firms, and 92 distinguished research institutes. In 2021, more than 320,000 students were enrolled in San Diego's 49 degree-granting (associate degree and higher) colleges and universities, with University of California at San Diego (UC San Diego), San Diego State University, Cal State University at San Marcos, and the University of

San Diego leading the way in the science, technology, engineering, and mathematics (STEM) degrees conferred. The region's most established innovation cluster thrives in UTC, University City, and Sorrento Mesa—all surrounding the La Jolla campus of UC San Diego. In 2022, UC San Diego ranked as the nation's No. 2 public research university (No. 3 overall) and attracted a record $1.7 billion in research funding. Ranked as the nation's No. 1 university in biological sciences and bioengineering, UC San Diego has more than 100 on-campus research centers. It has launched more than 1,000 startups that employ nearly 100,500 Californians. Moreover, UC San Diego-created technologies are used at more than 1,000 local companies, generating an estimated $32.4 billion in annual sales.

Manufacturing (included in Innovation and Military): Shipbuilding in San Diego, specifically along the Barrio Logan bayfront, has a substantial regional economic impact, led by top defense contractors General Dynamics-NASSCO, which has the largest full-service shipyard on the West Coast; BAE Systems; HII and Pacific Ship Repair & Fabrication. Other prominent manufacturing clusters exist for beer, with San Diego having the nation's largest number of operating craft breweries at more than 150 —and for sports and active lifestyles, with golf equipment giants Callaway and TaylorMade and top surf/action sports lifestyle brands Reef, Rusty Surfboards, and Nixon headquartered here. For GDP purposes, the production-related spending and investment of vertically integrated Military and Innovation firms (R&D through production and commercialization) are also included in this sector. For example, manufacturing activities of companies in subsectors such as aerospace and defense, biotechnology/medical devices, pharmaceuticals/therapeutics, and telecommunications contribute economically to Manufacturing even though they also operate in the Military and Innovation spaces.

Accommodation and Food Service (included in Tourism): This sector is often pooled with Arts, entertainment, and recreation to represent the Tourism industry. Collectively, tourism directly accounts for 4% of GDP annually and is an important source of employment. To understand the importance to the San Diego economy, it consistently ranked as a top 10 U.S. destination for business and leisure, San Diego offers sun-soaked beaches and surf town culture, proximity to Mexico, Comic-Con and 70-plus annual events at the San Diego Convention Center, nearly 100 golf courses, 598 art institutions, two cultural districts (Barrio Logan, Balboa Park) and major attractions such as LEGOLAND California, SeaWorld, and the world-famous San Diego Zoo and Safari Park. In 2019, San Diego attracted 35.1 million visitors who directly spent $11.6 billion, supporting an estimated 194,000 Tourism industry jobs and $19.8 billion in total economic impact. In 2022, the industry, which continues to recover from the COVID-impacted 2020 and 2021, directly employed 193,000 to host 28.8 million visitors who spent $13.6 billion in San Diego.

U.S.-Mexico Economic Activity

Spanning 27,000 square miles and encompassing San Diego and Imperial Counties and six municipalities (Ensenada, Mexicali, Rosarito, San Quintin, Tecate, and Tijuana) in the Mexican state of Baja California, the megaregion is a gateway for an estimated $70 billion in cross-border trade. It is already home to the San Ysidro port of entry, the busiest land border crossing in the western hemisphere. Cross-border economic activities that leverage a strong U.S.-Mexico trade relationship, San Diego's innovation sector, and Mexico's advanced manufacturing capabilities are expected increase with the opening of the Otay Mesa East port of entry slated for 2024.

Outlook

Showing resilience since the disruptions caused by the pandemic, the San Diego region had 1.6 million workers in 2022. The unemployment rate of 4.0% in June 2023 remains low, even as the labor force expands. Tourism shows some lingering effects resulting from fewer business and international travelers since 2020 lockdowns, but recovery is trending positive. Military and Innovation sectors have remained strong throughout, both stabilizing and driving the San Diego regional economy that is forecasted to keep growing (Figure 1).

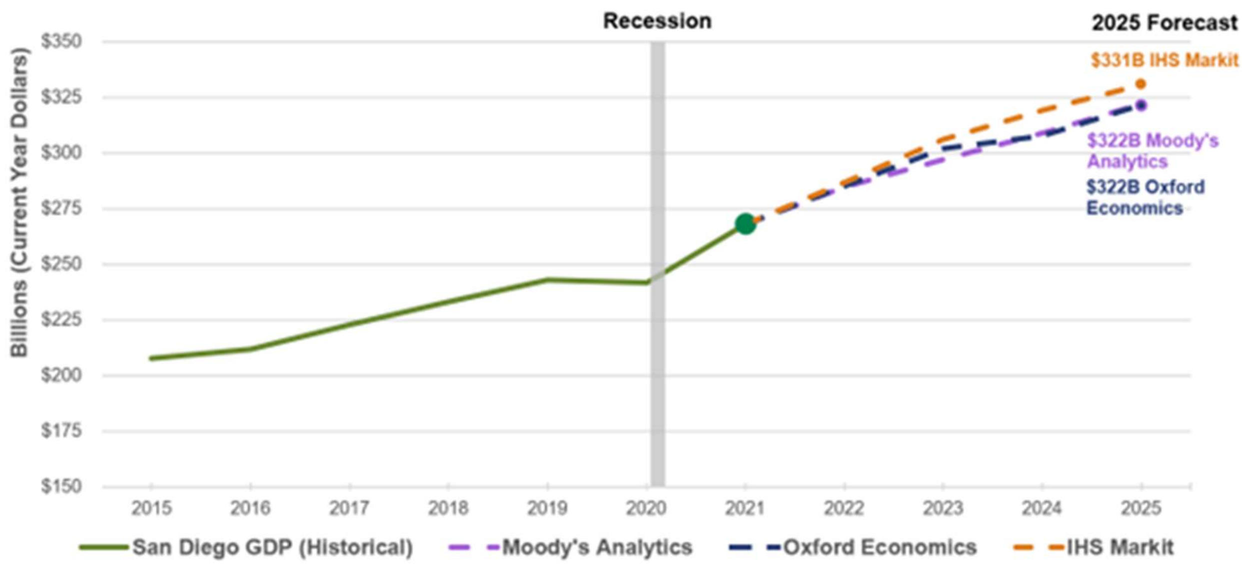

Figure 1: San Diego Regional GDP Trend and Forecast

TransNet Plan of Finance Update

The SANDAG Board of Directors adopted its FY 2023 Program Budget in May 2022. The FY 2023 Program Budget reflects focused investment in regionally significant priority projects, including implementation of the 2021 Regional Plan. The 2021 Regional Plan is built from a bold new vision, which completely rethinks how people get around so that mobility is faster, fairer, and cleaner. The TransNet Extension Ordinance requires consistency with the regional plan and given the adoption of the new plan in December 2021, Ordinance amendments are being considered to reflect consistency with the regional plan. The 2022-2023 Plan of Finance is being developed to reflect new assumptions included in the regional plan and Ordinance.

Financial Highlights

TransNet sales tax revenues increased 3.48% from $412,180,194 in FY 2022 to $426,513,882 in FY 2023. The increase was primarily attributed continued consumer spending amid elevated inflation, and Tourism sector recovery credited to post-COVID travel demand. In FY 2023, spending per visitor increased 20% over the previous year.

The San Diego labor market remains strong, with employers eager to hire and retain quality workers with higher wages, cost-of-living adjustments, and raises. The region continues to benefit from its diversified economy, getting steady contributions from military/government and innovation sectors and a resurgent tourism sector. Inflation, which reached 8.3% in May 2022, has receded to 4.3% in July 2023 while the Fed's rate hikes to cool the economy have raised the cost of borrowing (e.g., rates for credit cards, personal loans, car loans, and mortgages). SANDAG continues to monitor how the effects of inflation, borrowing rates, and other economic headwinds affect consumers because of the combination of falling inflation and reduced spending – two forces that will likely impact our revenue. Entering FY 2024, however, the two-year impact of high inflation and rising cost of living may create a drag on the growth of consumer spending and associated sales tax revenue. Close monitoring is needed to see if these two dynamics lead to declining consumer spending, mounting household debt and further economic uncertainty.

This past year alone, the Commission funded approximately $10.2 million in bicycle facilities, $124.9 million in public transit projects and operations, including operations of new transit services, and $82.2 million in local street and road improvements. In addition, the Commission funded projects of approximately $72.3 million in Major Corridor Capital Projects and approximately $10.5 million of the Environmental Mitigation Program. In total, $300.2 million in public transportation and other infrastructure improvements were funded this past year.

Acknowledgments

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

Respectfully submitted,

ANDRÉ DOUZDJIAN
Chief Financial Officer

RAY MAJOR
Chief Analytics Officer/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) Anna Shepherd, Navy Region Southwest

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(A) = Alternate

SAN DIEGO ASSOCIATION OF GOVERNMENTS

Executive Staff

June 30, 2023

Chief Executive Officer	Hasan Ikhrata
Deputy CEO Business Operations	Ray Major
Deputy CEO Planning, Projects, and Programs	Coleen Clementson
Chief Financial Officer	André Douzdjian
Chief of Staff	Victoria Stackwick
General Counsel	John Kirk
Senior Director, Data Science	Cindy Burke
Senior Director, Organization Effectiveness	Melissa Coffelt
Senior Director, Regional Planning	Antoinette Meier
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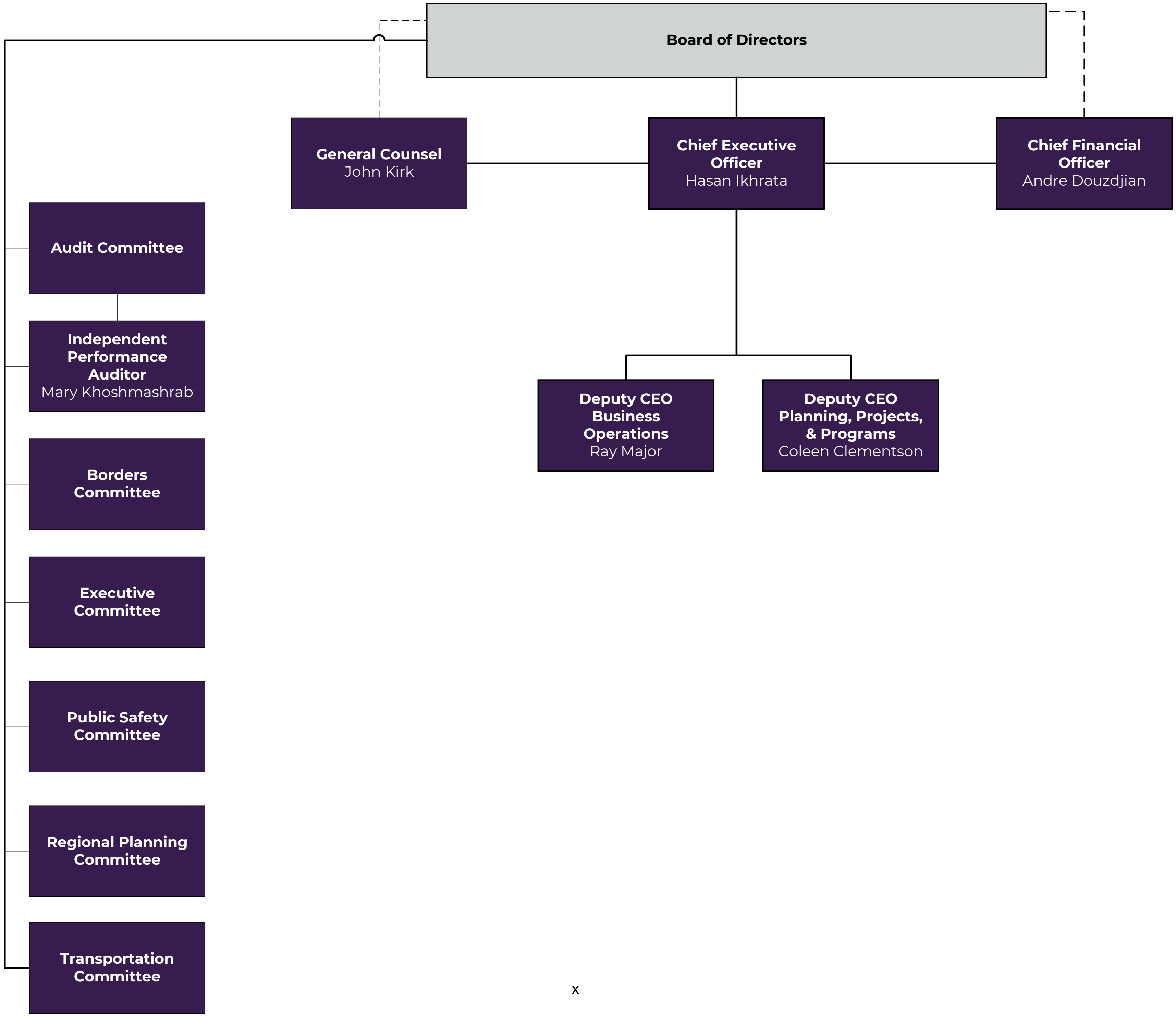
Director of Financial Planning, Budgets & Grants	Susan Huntington
Director of Innovative Finance	Dawn Vettese
Director of Public Affairs	Robyn Wapner
Director of Regional Transportation Services	OPEN
Director of Strategic Projects	Ryan Kohut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Deputy CEO Business Operations
Ray Major
Deputy CEO Planning, Projects, & Programs
Coleen Clementson

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FINANCIAL SECTION

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DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the San Diego County Regional Transportation Commission (Commission), a component unit of the San Diego Association of Governments (SANDAG), as of and for the year June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Commission as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Commission's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

Report on Summarized Comparative Information

The financial statements of the Commission for the year ended June 30, 2022, were audited by other auditors whose report dated December 20, 2022 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The s*upplementary information – budget comparison information for the Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund is* presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *supplementary information – budget comparison information for the Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund-* is the responsibility of management and was derived from and related 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 *supplementary information – budget comparison information for the Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the Annual Comprehensive Financial Report. The other information comprises the *introductory section* and *statistical section* but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance.

Davis Farr LLP

Irvine, California
December 22, 2023

Management’s Discussion and Analysis

As management of the San Diego County Regional Transportation Commission (Commission), we provide this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2023. The intent of this analysis is to assist the readers of the Commission’s financial statements in better understanding the overall financial condition of the Commission. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal.

Financial Highlights

- Liabilities and deferred outflows of resources of the Commission exceeded its assets at the close of the most recent fiscal year, resulting in a current year net deficit of $1,681,633,818. A significant factor related to the net deficit was the issuance of $4,442,459,439 of bonds, loans and notes, $1,242,355,000 of which were refunded and $869,105,000 were cumulative principal paydown. The 2008, 2010, 2012, 2014, and 2016 bond issuances were part of the San Diego Association of Governments (SANDAG) Early Action Program (EAP) to expedite congestion relief projects, the issuance of the 2019 Bonds to partially refund the 2012 and 2014 bonds, the issuance of the 2020 bonds to fully refund the 2010 series B and fund SANDAG’s Bicycle and Pedestrian program, the issuance of 2021 Series AB bonds to refund the 2014A bonds and fund additional Major Corridor Capital Projects as well as the issuance of $537,480,000 in 2021 short-term notes to refinance the 2018 short-term notes. The Commission also issued an additional $1,000,000 2022 revolving notes and drew on the $537,484,439 2021 TIFIA Loan line of credit to paydown the final principal payment on the 2021 short-term note.

- The Commission’s current outstanding debt portfolio is $2,478,472,133, which includes $1,676,365,000 of senior sales tax revenue bonds that were issued from fiscal year 2008 through fiscal year 2021; $116,150,000 2021 Series B bonds, $46,164,000 of commercial paper notes, and $1,000,000 in revolving notes issued for the subordinate lien and $537,484,439 2021 TIFIA Loan for the junior subordinate lien. The total debt portfolio carries a total unamortized premium balance of $101,308,694.

- The Commission’s total net deficit of $1,681,633,818 decreased in the current fiscal year by $59,553,840. The deficit decrease is primarily due a decrease in long term debt through scheduled principal paydown in fiscal year 2023.

As of the close of the current fiscal year, the Commission’s governmental funds reported combined ending fund balances of $744,595,418 an increase of $15,017,148 in comparison with the prior year. The increase in fund balance is primarily due to the decrease in due to SANDAG and Due to other Governments

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission’s basic financial statements. The Commission’s financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) the notes to the basic financial statements. The report also includes required supplementary information and other supplementary information intended to furnish additional detail to support the financial statements themselves.

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

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

The *Statement of Activities* presents information showing changes in the Commission's net position during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

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

Fund financial statements. A *fund* is a group of related accounts that is distinguished by specific activities or objectives in accordance with special regulations or restrictions. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both funds of the Commission are governmental 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 funds use the current financial resources measurement focus. Thus, they report near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund financial statements can be found on pages 25 and 28.

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information provided 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. Reconciliation statements on pages 26 and 28 are shown to facilitate the comparison between governmental funds and government-wide financial statements.

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

Notes to the basic financial statements. Various disclosures accompany the government-wide and fund financial statements in order to provide a full understanding the Commission's finances. The notes to the financial statements are on pages 31 to 63.

Other information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information and statistical information beginning on page 67. The

Commission adopts a spending plan each year. Budgetary comparison schedules are provided for the special revenue fund on page 67 and page 71 for the debt service fund.

Government-Wide Financial Analysis

The Commission’s net position deficit at June 30, 2023 decreased by $59,553,840 or 3.42 percent, when compared to June 30, 2022. The decrease in net position deficit was primarily due to a decrease in long term debt.

The following is a summary of the statement of net position as of June 30, 2023, and 2022.

Table 1
Net Position
Governmental Activities

	2023	2022	
Current and other assets	$ 818,073,815	$ 803,558,486	1.81%
Restricted assets	58,526,397	66,170,442	-11.55%
Total assets	876,600,212	869,728,928	0.79%
Deferred outflows of resources	7,296,710	48,397,236	-84.92%
Current liabilities	79,009,053	116,255,572	-32.04%
Restricted liabilities	29,366,365	30,403,272	-3.41%
Long-term liabilities	2,449,342,150	2,504,362,674	-2.20%
Total liabilities	2,557,717,568	2,651,021,518	-3.52%
Deferred inflows of resources	7,813,172	8,292,305	-5.78%
Net Position			
Restricted	29,160,032	35,767,170	-18.47%
Unrestricted (deficit)	(1,710,793,850)	(1,776,954,829)	-3.72%
Total net position	$ (1,681,633,818)	$ (1,741,187,659)	-3.42%

The increase in current and other assets of $14,515,329, or 1.81 percent, was primarily due to the termination of basis swaps at the end of fiscal year 2023 in which the commission recognized a gain of $17,677,904.

The decrease in restricted assets of $7,644,045 is primarily due to the completion of debt service on 2021A Short-Term Notes. Sales tax is set aside each month to cover monthly 2008 bond interest and swap payments. All other bonds and notes have semi-annual interest payment requirements, therefore, sales tax for one-sixth of upcoming interest payments (with exception to the TIFIA note which has semiannual principal payments), and one-twelfth of the annual principal payments are set aside monthly. The sales tax set aside are held with the trustee and are restricted.

Restricted liabilities consist of funds held for the following purposes:

- $10,029,983 is a restricted deposit for the repayment of outstanding bonds and notes.

- $19,100,000 is restricted investment payable for a portion of the outstanding commercial paper notes issued to buy the North County Transit District (NCTD) Certificates of Participation (COP) investment.

- $236,382 is restricted deposit payable from NCTD for commercial paper interest payments related to the COPs.

Long-term liabilities due in more than one year increased by $483,683,255. This is primarily due to the drawing on the TIFIA loan in fiscal year 2023.

Deferred outflows of resources experienced a decrease of $41,100,526 or 84.92 percent which was primarily attributable to the termination of the basis swaps, and a recognized loss on the interest rate swaps which will be fully terminated in July of 2023.

Deferred inflows of resources experienced a decrease of $479,133 attributable to the amortization of refunding gain on the 2010 Series A and 2012 Series A Bonds.

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

A significant factor contributing to the $1,708,109,385 net position unrestricted deficit on June 30, 2023, is $2,478,472,133 of outstanding debt of the Commission. The debt is issued to advance various *TransNet* projects in the region as part of the SANDAG Early Action Program (EAP), the SANDAG Bicycle and Pedestrian program, the Mid Coast Corridor project, and Major Corridor capital projects. The debt will be repaid using annual sales tax revenue.

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

Governmental activities. Table 2 on the following page is a summary of the Statement of Activities for the years ended June 30, 2023 and 2022.

Table 2
Change in Net Position
Governmental Activities

		2023		2022
Revenues:				
Program revenues:				
Operating contributions	$	11,533,989	$	15,189,050
General revenues:				
Sales tax		426,513,882		412,180,194
Investment earnings (loss)		22,409,298		(1,368,365)
Increase (decrease) upon hedge termination		(17,152,548)		-
Total revenues		443,304,621		426,000,879
Expenses:				
General government		8,594,704		8,076,957
Bicycle facilities		12,717,684		30,429,546
Independent Taxpayer Oversight Committee		281,485		348,498
Major corridor capital projects		74,373,105		96,109,935
Major corridor environmental mitigation		5,529,208		24,399,368
Local project environmental mitigation		5,380,804		3,511,079
Local street improvements		82,234,341		61,126,815
Smart growth		3,368,276		2,501,090
New major corridor transit operations		40,343,225		45,210,362
Transit system improvements		75,806,758		57,255,769
Interest on long-term debt		75,121,190		74,895,613
Revolving Line Issuance Costs		-		140,936
Total expenses		383,750,780		404,005,968
Change in net position		59,553,840		21,994,911
Net position (deficit) - beginning of year		(1,741,187,659)		(1,763,182,570)
Net position (deficit) - end of year	$	(1,681,633,818)	$	(1,741,187,659)

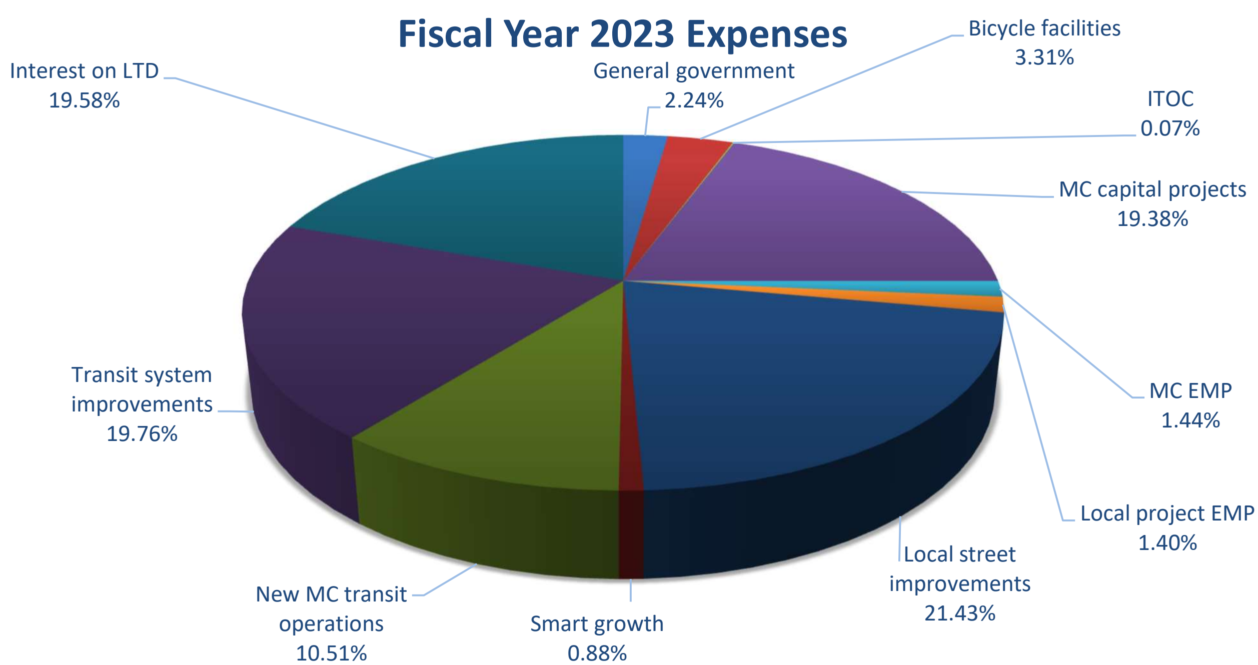
Program revenues decreased by $3,655,061 due to a decrease in major corridor capital projects funding transfer in. Program revenues are comprised of interest income from deposits of funds with the State Treasury for properties purchased with major corridor capital projects funds, federal subsidies received for the 2010 Series A Build America Bond (BAB) interest payments, and a TransNet/Fastrak fund swap approved by the Board of Directors on September 27, 2019.

General revenues increased by $20,958,803 or 5.10%. The increase is attributable to the increase in sales tax revenue of $14,333,688 compared to the prior fiscal year. Overall TransNet sales tax revenues for FY2023 totaled $426.5 million, 5.9% ahead of FY2022 collections. FY2023 receipts were boosted by exceptionally strong monthly receipts in August 2022 ($29.0 million, 19.5% higher than August 2021); September 2022 ($36.9 million, 12.3% higher than September 2021); and November 2022 ($34.5 million, 21.6% higher than November 2021). Those elevated monthly levels track with national consumer spending trends showing consumers took advantage of the early start to the holiday sale season and the year-end discount deals retailers offered to shed inventory. Additionally, a $17.7 million gain was recognized from the termination of the basis swaps in fiscal year 2023.

TransNet expense decreased by $20,255,189 or 5.01 percent, which is primarily due to a decrease in payments for Major Corridor capital projects, Bicycle and Pedestrian projects and interest on long-term debt.

- The Bicycle Facilities project expense decreased by $17,711,862 or 58.21 percent compared to FY22.
- The Major Corridor Capital Projects expense decreased by $21,736,830 or 20.62 percent from $96,109,935 in FY22.
- The Major Corridor Environmental Mitigation Program (EMP) decreased by $18,870,159 or 77.34 percent.
- Expense of Interest on Long-Term Debt increase by $225,577 or .30 percent.
- The Local Street Improvements increased by $21,107,526 or 35 percent.
- Decrease upon hedge termination of $21,483,125 or 100 percent.

Expenses in fiscal year 2023 were broken down as follows:



Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, the Commission's governmental funds reported combined ending fund balances of $744,595,418, an increase of $15,017,148 from the prior year.

The Commission's special revenue fund ended the year with a fund balance of $683,777,924, most of which was restricted. The fund balance increased by $46,579,434 with key contributing factors as follows:

- Total revenues exceeded expenditures by $136,948,119 compared to $85,967,741 in the prior fiscal year.

- Sales tax of $114,807,144 was transferred to the debt service fund for principal and interest payments on outstanding debts. This is offset by the transfers-in of $24,438,459 compared to last year's transfers in of $180,754,180 or a $156,315,721 decrease. Transfers-in are mainly for the use of debt proceeds toward expenditures of the major corridor and major corridor environmental mitigation programs. The decrease in transfers-in compared to last fiscal year is indicative of less project proceeds from bond issuances being used, and a heavier reliance on sales tax revenues.

The Commission's debt service fund ended the year with a fund balance of $60,817,493, all of which was restricted. The fund balance decreased by $31,562,287 with key factors as follows:

- Expenditures in the current year exceeded revenues by $659,563,411 due to required debt payments on commercial paper and the 2008, 2010, 2012, 2014, 2016, 2019, 2020, 2021 bonds, 2021 short-term notes and 2022 revolving note that included principal and interest payments and other charges, offset with the federal subsidy revenue for the 2010 BABs net interest payment.

- Net interfund transfers-in of $90,368,685 were primarily transfers to 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.

- Drawing on the $537,484,439 TIFIA Loan provided for the final principal payment on the 2021 short term note in FY 2023.

Debt Administration

- **Long-term debt.** At the end of the current fiscal year, the Commission's total debt outstanding decreased by 2.21% percent over the prior year and was comprised of $797,575,000 tax-exempt sales tax revenue bonds, $338,960,000 taxable BABs, $506,140,000 taxable sales tax revenue green bonds, and $149,840,000 in federally taxable bonds. These outstanding debts include net premium on the 2014 tax-exempt bonds of $376,758, net premium on the 2016 tax-exempt bonds of $53,203,733, net premium on the 2020 taxable bonds of $16,415,139, and net premium on the 2021 tax-exempt bonds of $31,313,064. The Commission also carries additional debt of $46,164,000 of commercial paper notes, $1,000,000 in revolving notes and $537,484,439 for 2021 TIFIA Loan.

	2023	2022	Change	% Change
Bonds	$ 1,792,515,000	$ 1,831,220,000	$ (38,705,000)	-2.11%
Premium	101,308,694	108,982,889	(7,674,195)	-7.04%
Short-term Notes	-	537,480,000	(537,480,000)	-100.00%
Premium	-	5,936,989	(5,936,989)	-100.00%
Commercial Paper	46,164,000	49,876,000	(3,712,000)	-7.44%
Revolving Notes	1,000,000	1,000,000	-	0.00%
Loan Agreement	537,484,439	-	537,484,439	100.00%
Total	$ 2,478,472,133	$ 2,534,495,878	$ (56,023,745)	-2.21%

Total debt decreased by $56,023,745 which is primarily due to principal payments made towards outstanding debt and amortization of premiums.

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

Economic Factors and Next Year’s Budgets and Rates

- In the first quarter of FY 2024, San Diego’s regional economy displayed continued resilience amid a third year of high inflation and countervailing pressures. Tourism is bouncing back to 2019 levels, and employment has remained healthy. At the same time, the region faced headwinds from the rising cost of living coming from inflation accompanied by only modest wage growth and a softening of real estate markets.

- While labor market conditions remain strong, the cost of living in the region has risen. Modest wage increases raised San Diego household area median income (AMI) to $116,800 in FY 2023, but inflation, especially in housing, has continued. San Diego remains among the country’s top five most expensive places to live. Inflation in San Diego (4.7% in September 2023) is above the national level (3.7%). The price increases (measured against September 2022) were seen mainly in necessities, such as shelter (8.4%), food (3.0%), household electricity (16.2%), and gasoline (5%).

- For the FY 2024 budget, $430 million in *TransNet* sales tax receipts is projected. The sales tax revenue budget will fund general government administration; bicycle, pedestrian, and neighborhood safety projects; the Independent Taxpayer Oversight Committee; major corridor capital projects; major corridor environmental mitigation; local project environmental mitigation; local street improvements; smart growth; new major corridor transit operations; and transit system improvements.

- In FY 2024, the Commission is expecting disbursements of $40,190,000 in bond principal repayments and approximately $69,422,602, net of BABs subsidy, in interest expenditures related to the 2008, 2010, 2014, 2016, 2019, 2020, 2021, 2023 sales tax revenue bonds. The Commission also is expecting commercial paper principal repayments of $1,647,000 with $27,807 of estimated commercial paper interest payments, costs and interest payments on the 2022 revolving notes of $25,000 and interest payment on 2021 TIFIA loan agreement of $9,542,676 based on the current outstanding balance. NCTD will be funding the commercial paper principal repayment and most of the interest payments, with the balance paid with sales tax funds.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Statement of Net Position
June 30, 2023
(With comparative information for the prior year)

	Governmental Activities	
	2023	2022
ASSETS		
Cash and investments	$ 643,104,031	$ 635,275,740
Prepaid items and other assets	21,315	45,345
Interest receivable	2,126,889	1,568,719
Swap termination payment receivable	17,677,904	-
Due from other governments	155,130,489	153,321,355
Derivative instrument - swap asset	13,187	13,347,327
Restricted assets:		
Cash and investments restricted for debt service	57,286,787	64,978,587
Cash and investments restricted for environmental mitigation	1,239,610	1,191,855
Total assets	876,600,212	869,728,928
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging swap agreements	-	40,379,064
Deferred loss on bond refunding	7,296,710	8,018,172
Total deferred outflows of resources	7,296,710	48,397,236
LIABILITIES		
Accounts payable	663,828	378,552
Retentions payable	4,905	4,905
Due to SANDAG	21,500,013	34,305,165
Due to other governments	10,934,272	18,360,091
Accrued interest payable	21,738,445	22,827,795
Swap termination payment payable	24,167,590	-
Derivative instrument - swap liability	-	40,379,064
Liabilities payable from restricted assets:		
Deposits payable	236,382	270,068
Long-term debt payable - due within one year	29,129,983	30,133,204
Noncurrent liabilities:		
Long-term debt payable - due within one year	57,224,017	595,927,796
Long-term debt payable - due in more than one year	2,392,118,133	1,908,434,878
Total liabilities	2,557,717,568	2,651,021,519
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging swap agreements	13,187	-
Deferred gain on bond refunding	7,799,985	8,292,305
Total deferred inflows of resources	7,813,172	8,292,305
NET POSITION		
Restricted for:		
Debt service	27,920,422	34,575,315
Environmental mitigation	1,239,610	1,191,855
Unrestricted (deficit)	(1,710,793,850)	(1,776,954,829)
Total net position	(1,681,633,818)	$ (1,741,187,659)

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Statement of Activities
For the year ended June 30, 2023
(With comparative information for the prior year)

		Program Revenues	Net Revenue (Expenses) and Changes in Net Position	
		Operating	Governmental Activities	
Functions	Expenses	Contributions	2023	2022
Primary government:				
Governmental activities:				
General government	$ 8,594,704	$ -	$ (8,594,704)	$ (8,076,957)
Bicycle facilities	12,717,684	-	(12,717,684)	(30,429,546)
Independent Taxpayer Oversight Committee	281,485	-	(281,485)	(348,498)
Major corridor capital projects	74,373,105	4,521,415	(69,851,690)	(87,533,742)
Major corridor environmental mitigation	5,529,208	-	(5,529,208)	(24,399,368)
Local project environmental mitigation	5,380,804	-	(5,380,804)	(3,511,079)
Local street improvements	82,234,341	-	(82,234,341)	(61,126,815)
Smart growth	3,368,276	-	(3,368,276)	(2,501,090)
New major corridor transit operations	40,343,225	-	(40,343,225)	(45,210,362)
Transit system improvements	75,806,758	-	(75,806,758)	(57,255,769)
Interest on long-term debt	75,121,190	7,012,574	(68,108,616)	(68,282,756)
Revolving Line Issuance Costs	-	-	-	(140,936)
Total governmental activities	383,750,780	11,533,989	(372,216,791)	(388,816,918)
Total primary government	$ 383,750,780	$ 11,533,989	(372,216,791)	(388,816,918)
General revenues:				
Sales tax			426,513,882	412,180,194
Investment earnings (loss)			22,409,298	(1,368,365)
Increase (decrease) upon hedge termination			(17,152,548)	-
Total general revenues			431,770,632	410,811,829
Change in net position			59,553,840	21,994,911
Net position (deficit) - beginning of year			(1,741,187,659)	(1,763,182,570)
Net position (deficit) - end of year			$ (1,681,633,818)	$ (1,741,187,659)

See accompanying Notes to the Basic Financial Statements.

FUND FINANCIAL STATEMENTS

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GOVERNMENT FUND FINANCIAL STATEMENTS

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San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Balance Sheet
Governmental Funds
June 30, 2023
(With comparative information for the prior year)

	Major Governmental Funds			
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt Service	Total Governmental Funds 2023	Total Governmental Funds 2022
ASSETS				
Cash and investments	$ 636,723,375	$ 6,380,656	$ 643,104,031	$ 635,275,740
Prepaid items and other assets	21,315	-	21,315	45,345
Interest receivable	2,055,764	71,125	2,126,889	1,304,609
Due from other governments	76,840,650	78,176,137	155,016,787	153,246,747
Cash and investments - restricted	1,239,610	57,286,787	58,526,397	66,170,442
Total assets	$ 716,880,714	$ 141,914,705	$ 858,795,419	$ 856,042,883
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 663,828	$ -	$ 663,828	$ 378,552
Retentions payable	4,905	-	4,905	4,905
Due to SANDAG	21,499,785	228	21,500,013	34,305,165
Due to other governments	10,934,272	-	10,934,272	18,360,091
Deposits payable	-	2,684,465	2,684,465	15,579
Liabilities payable from restricted assets	-	236,382	236,382	254,489
Total liabilities	33,102,790	2,921,075	36,023,864	53,318,781
Deferred inflows of resources:				
Unavailable revenues	-	78,176,137	78,176,137	73,145,832
Total deferred inflows of resources	-	78,176,137	78,176,137	73,145,832
Fund Balances:				
Nonspendable:				
Prepaid items	20,973	-	20,973	45,345
Total nonspendable	20,973	-	20,973	45,345
Restricted for:				
Debt-service	-	54,365,940	54,365,940	64,708,519
Environmental mitigation	1,239,610	-	1,239,610	1,191,855
TransNet- eligible projects	682,517,341	6,451,553	688,968,895	663,632,551
Total restricted	683,756,951	60,817,493	744,574,445	729,532,925
Total fund balances	683,777,924	60,817,493	744,595,418	729,578,270
Total liabilities, deferred inflows of resources and fund balances	$ 716,880,714	$ 141,914,705	$ 858,795,419	$ 856,042,883

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2023

Total Fund Balances - Total Governmental Funds	$	744,595,418
Amounts reported for governmental activities in the statement of net position are different because:		
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.		
Interest receivable - commercial paper		113,702
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.		78,176,137
Derivative instruments are not reported in the funds but must be reported in the statement of net position.		
Accumulated increase in fair value of hedging swap agreements		(13,187)
Derivative instrument - swap asset		13,187
Gain (loss) on termination of interest rate swap		(3,805,220)
Long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued interest payable - bond		(21,624,742)
Accrued Interest payable - commercial paper		(113,703)
Commercial paper payable		(46,164,000)
Bonds payable		(2,330,999,440)
Governmental funds report the effect of premiums, discounts, and refundings and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Bond premium		(101,308,694)
Deferred gain on bond refunding		(7,799,985)
Deferred loss on bond refunding		7,296,710
Net position of governmental activities	$	(1,681,633,818)

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2023
(With comparative information for the prior year)

	Major Governmental Funds			
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt Service	Total Governmental Funds 2023	Total Governmental Funds 2022
REVENUES:				
Sales tax	$ 426,513,882	$ -	$ 426,513,882	$ 412,180,194
Investment earnings (loss)	14,690,412	7,943,902	22,634,314	(4,007,948)
Debt repayments from other governments	-	2,130,269	2,130,269	3,638,000
Federal funds	-	-	-	6,612,857
Other revenues	4,521,415	-	4,521,415	8,576,193
Total revenues	445,725,709	10,074,171	455,799,880	426,999,296
EXPENDITURES:				
Current:				
General government	8,594,704	-	8,594,704	8,076,957
Bicycle facilities	12,717,684	-	12,717,684	30,429,546
Independent Taxpayer Oversight Committee	281,485	-	281,485	348,498
Major corridor capital projects	74,373,105	-	74,373,105	96,109,935
Major corridor environmental mitigation	5,529,208	-	5,529,208	24,399,369
Local project environmental mitigation	5,380,804	-	5,380,804	3,511,079
Local street improvements	82,382,341	-	82,382,341	61,126,815
Smart growth	3,368,276	-	3,368,276	2,501,090
New major corridor transit operations	40,343,225	-	40,343,225	45,210,362
Transit system improvements	75,806,758	-	75,806,758	57,255,769
Debt service:				
Principal retirement	-	580,045,000	580,045,000	37,592,000
Revolving line issuance costs	-	-	-	140,937
Interest and other charges	-	89,592,582	89,592,582	105,792,758
Total expenditures	308,777,590	669,637,582	978,415,172	472,495,115
REVENUES OVER (UNDER) EXPENDITURES	136,948,119	(659,563,411)	(522,615,292)	(45,495,819)
OTHER FINANCING SOURCES (USES):				
Transfers in	24,438,459	114,807,144	139,245,603	297,032,775
Transfers out	(114,807,144)	(24,438,459)	(139,245,603)	(297,032,775)
Commercial paper issued	-	148,000	148,000	-
TIFIA Loan issued	-	537,484,439	537,484,439	1,000,000
Total other financing sources (uses)	(90,368,685)	628,001,124	537,632,439	1,000,000
Change in fund balances	46,579,434	(31,562,287)	15,017,147	(44,495,819)
FUND BALANCES:				
Beginning of year	637,198,490	92,379,780	729,578,270	774,074,089
End of year	$ 683,777,924	$ 60,817,493	$ 744,595,417	$ 729,578,270

See accompanying Notes to the Basic Financial Statements.

San Diego County Regional Transportation Commission
A Component Unit of the 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, 2023

Net Change in Fund Balances - Total Governmental Funds	$	15,017,147
Amounts reported for governmental activities in the statement of activities are different because:		
Interest revenues in the government-wide statement of activities that do not provide current financial resources are not reported as interest revenues in the funds.		
Commercial paper accrued interest revenue		(225,016)
Federal subsidies		7,012,574
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are 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		38,705,000
Short-term note principal retirement		537,480,000
Commercial paper issued		(148,000)
Bond pass-through payments to other governments		148,000
Debt repayments from other governments - bond		(1,333,337)
Debt repayments from other governments - commercial paper		(796,932)
Commercial paper repayments		3,860,000
TIFIA loan issued		(537,484,439)
Amortization expense on unamortized premium on bonds issued		13,611,183
Amortization expense on deferred loss on bond refunding		(721,462)
Amortization expense on deferred gain on bond refunding		492,320
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Change in accrued interest payable - bonds		1,128,445
Change in accrued interest payable - commercial paper		(39,094)
Gain (loss) on interest rate swap termination		(17,152,548)
Change in net position of governmental activities	$	59,553,840

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

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

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

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

B. Government-wide and fund financial statements

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

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

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

The government-wide financial statements are reported using the "*economic resources*" measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales tax is recognized as revenue in the year in which it is earned.

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

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

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

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

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

The Commission reports the following major governmental funds:

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

The *Commercial Paper, TIFIA Loan and Sales Tax Revenue Bonds Debt Service Fund (Debt Service Fund)* accounts for the activities and resources accumulated for principal and interest payments on the long-term debt sales tax revenue bonds, the short-term notes, commercial paper and TIFIA loan. Revenues are derived from interest earned on the investments accumulated for the payment of principal and interest on the revenue bonds, TIFIA loan and commercial paper, payment of interest on the short-term notes, proceeds of bonds, debt repayments from other governmental agencies, and the federal subsidy related to the 2010 Build America Bonds (BABs) issuance.

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

D. Budgetary information

1. Budgetary basis of accounting

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

2. Expenditures in excess of appropriations

The Commission debt service fund had an excess of $7,375,688 expenditures over appropriations for the year ended June 30, 2023, which was primarily due to the 2010A interest expense being budgeted net of subsidy receipts while actual amounts are recorded at gross interest payments.

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

1. Cash and investments

The Commission 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.

The Commission's investment policies are consistent with SANDAG policies and in accordance with California Government Code Section 53601. See Note II.A.4 for further detail of allowable investments.

The Commission voluntarily participates in an investment pool managed by the State of California, titled Local Agency Investment Fund (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. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is at amortized cost and is not rated. At June 30, 2023, LAIF had an average maturity of 260 days.

The Commission is a voluntary participant in the California Asset Management Program (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. The Commission 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, 2023, the pool had an average maturity of 26 days.

The Commission 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 Commission's investment in the Pool is reported at amounts based upon the Commission's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, 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'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), the Commission adheres to certain disclosure requirements. See Note II.A.3 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 Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

3. Receivables

Receivables of the Commission are comprised of two reporting categories:

- Interest receivable, represents interest earned on investments at year end but not yet received; and
- Due from other governments, represents sales tax received from the state after year end that was collected for the period ending June 30, 2023, and funds due from local jurisdictions that have borrowing arrangements to advance local street and road improvements projects.

4. Restricted assets

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

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

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

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

5. Deferred outflows/inflows of resources

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

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has two items that qualify for reporting in this category: unavailable revenue and deferred gain on refunding. The item, deferred gain on refunding, is reported on the government-wide statement. See Note II.F for more information on the Commission's long-term debts. The governmental funds report unavailable revenues for the revenues collected in a future period for the repayment of long-term debt proceeds issued to the local agencies for their local street improvement projects. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

6. Due from/to SANDAG

Due from SANDAG, represents the return of sales tax for projects after SANDAG receives state or federal funding after year end; and

Due to SANDAG, represents the Commission reimbursing SANDAG for *TransNet*-eligible expenditures with sales tax, bond proceeds and commercial paper, depending on the type of SANDAG project and expenditure.

7. Net position

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

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

<u>Restricted for debt service</u> – Net position restricted for payments of future debt service.

<u>Restricted for environmental mitigation</u> – Net position restricted for funding of various environmental mitigation projects.

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

The governmental activities unrestricted net deficit of $1,708,109,385 results primarily from the long-term debt payable of $2,449,342,150 issued to primarily fund major corridor, transportation facilities, public infrastructure improvements and the bicycle pedestrian program. The

Commission plans to repay the bonds and TIFIA loan with future sales tax revenue which is dedicated for transportation projects. See Note II.F on long-term debt for further information.

8. Net position flow assumption

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

9. Fund balance

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

Nonspendable fund balance

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

Spendable fund balance

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

Committed fund balance – This includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Commission considers a resolution to constitute a formal action of the Board for the purposes of establishing committed fund balance.

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

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

10. Fund balance flow assumptions

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

11. Long-term debts

The Commission's long-term debts 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 using the effective interest method. Debt payable is reported net of the applicable bond premium or discount. Debt issuance costs are expensed in the period in which they are incurred.

See Note II.F for more information on the Commission's long-term debts.

12. Other financing sources and uses

In the fund financial statements, issuance of debt, including commercial paper, bonds, short-term notes, revolving notes, loans and premium on bonds issued, and transfers in are reported as other financing sources. Transfers out, payments to refunding escrow agent and discounts on bonds issued are reported as other financing uses.

13. Estimates

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

14. Prior year comparative information

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

II. DETAILED NOTES ON ALL FUNDS

A. Cash and investments

Cash, cash equivalents, and investments consisted of the following on June 30, 2023:

	Fair Value	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:			
Cash - Demand Deposits	$ 1,348,478	1	Not rated
Cash - Money Market Funds	47,063,870	30	NR, AAAm
Cash equivalents - Certificates of Participation	19,100,000	92	NR,A1
State of California Local Agency Investment Fund	66,130,239	260	Not rated
California Asset Management Program	225,915,742	26	AAAm
San Diego County Treasurer's Pooled Money Fund	6,484,749	438	AAAf/S1
Total cash and cash equivalents	366,043,079	78	
Investments:			
U.S. Agencies	251,893,702	449	AA+/Aaa
Corporate Medium-Term Notes	66,172,638	743	A-/AAA
Supra-National Agency Bond/Note	17,521,010	904	AAA/Aaa
Total investments	335,587,349	530	
Total cash, cash equivalents, and investments	$ 701,630,428		

At year end, the Commission’s carrying amount of deposits and bank balance was $1,348,478. This balance was covered by federal depository insurance or by collateral held in the Commission’s name.

1. Swap investments

The Commission is invested in two forward contract pay-variable, receive-variable investment derivative instruments with initial notional amounts of $156,600,000 each. At the effective date of April 1, 2018, the Commission 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 three-month London Interbank Offered Rate (LIBOR). At June 30, 2023, these investment derivative instruments were reported as an asset with a fair value of $13,187, net of interest. Other applicable risks (credit risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with the Commission’s derivative instrument investments are described in Note II.D.

2. 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, the Commission does not have callable step-up United States Agency securities and holds investments in liquidity to sustain operations for the next 6 months. The Commission is in compliance with all provisions of the investment policy.

3. 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 the price to decline. The Commission 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 the Commission is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Chief Financial Officer shall review the security. The course of action to be followed will then be decided by the Chief Financial Officer and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board along with the findings and any actions taken.

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

4. 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 shares. As disclosed in the table below, the Commission maintains investment policies that establish thresholds for holdings of individual securities. The Commission did not have any holdings meeting or exceeding the allowable threshold levels as of June 30, 2023.

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, 2023, 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, the Commission did not have any investments with more than 5 percent of the total investments under one issuer except for the following U.S. Agency security:

Investment	Total	Concentration of Credit Risk
Federal Farm Credit Bank	$ 28,485,176	8.49%

5. Custodial credit risk

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

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

B. Receivables

Receipts of funds from other governmental entities that are outstanding at year end are referred to as 'due from other governments' and were as follows:

Sales tax receivable - State of California Department of Tax and Fee Administration	$ 76,835,355
Rental income receivable	5,295
BABs Subsidy Receivable	7,012,574
Advances for local street and road improvements made to:	
County of San Diego	14,271,897
City of Del Mar	2,518,828
City of Imperial Beach	649,434
City of San Diego	26,167,000
City of San Marcos	16,164,628
City of Santee	5,891,776
City of Solana Beach	5,500,000
Total due from other governments	$ 155,016,787 *

*Total 'due from other governments' on the Statement of Net Position includes $113,701 of interest receivable.

C. Transfers in/out

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

Transfers from the sales tax projects fund totaling $114,807,144:

To the debt service fund consists of the following items:

- Transfer of $112,402,449 in *TransNet* sales tax revenue for bond and commercial paper principal and interest payments.
- Transfer of $2,404,695 for debt-related costs.

Transfers from the debt service fund totaling $24,438,459:

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

- $2,130,269 of bond and commercial paper repayments for the County of San Diego and cities of Del Mar, Imperial Beach, La Mesa, Oceanside, and Santee.
- $21,512,402 of bond proceeds used to fund *TransNet*-eligible capital projects.
- $148,000 of commercial paper proceeds issued to the City of Imperial Beach for *TransNet*-eligible projects.
- $647,761 related to surplus funds transferred to the sales tax project account when closing the 2021A short-term notes investment account
- $27 related to debt investment fee allocation to the various programs in the sales tax project fund

The Commission records expenditures when funds are transferred to SANDAG for the administration of the *TransNet* program and *TransNet*-funded projects administered and implemented by SANDAG. The SANDAG Annual Comprehensive Financial Report (ACFR) classifies this activity as a transfer-out in the sales tax project fund resulting in the following difference in reporting:

	Sales Tax Projects Fund		
	Commission Basic Financial Statements	SANDAG ACFR	Variance
EXPENDITURES:			
General government	$ 8,594,704	$ 517,747	$ 8,076,957
Bicycle facilities	12,717,684	(17,705,394)	30,423,078
Independent Taxpayer Oversight Committee	281,485	281,485	-
Major corridor capital projects	74,373,105	(21,615,352)	95,988,457
Major corridor environmental mitigation	5,529,208	(22,360,468)	27,889,676
Local project environmental mitigation	5,380,804	5,380,804	-
Local street improvements	82,382,341	82,197,042	185,299
Smart growth	3,368,276	297,205	3,071,071
New major corridor transit operations	40,343,225	32,744,682	7,598,543
Transit system improvements	75,806,758	73,931,608	1,875,150
Total expenditures	308,777,590	133,669,359	175,108,231
OTHER FINANCING SOURCES (USES):			
Transfers out	(114,807,144)	(289,915,374)	175,108,231

D. Derivative instruments

The Commission 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 the Commission and a counterparty in order to potentially obtain a lower cost of funding than traditional fixed rate bonds, or to hedge interest rate exposure. The Commission 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 the Commission 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 the Commission currently participates:

1. 2008 interest rate swaps

***Objective*.** In 2005, the Commission entered into three forward interest rate swaps for $200,000,000 each in order to hedge the interest rate risk associated with future variable-rate revenue bonds expected to be issued in 2008 by “locking in” a fixed interest rate. The intention of the Commission in entering into the swaps was to lock in a relatively low cost of funds on a substantial portion of the *TransNet* Early Action Program (EAP). The variable-rate bonds were issued in March 2008.

On May 23, 2012, the Commission refunded $151,500,000 of the outstanding variable-rate bonds with fixed-rate bonds and terminated the associated interest rate swaps. The low fixed municipal interest rates at that time provided the opportunity for the Commission to refund the 2013 through 2022 maturities of the Series 2008 variable-rate bonds ($151,500,000 in par) and terminate the associated swaps (also equal to $151,500,000 in notional amount) without increasing annual debt service. The purpose of this transaction was to reduce variable-rate exposure and swap counterparty risk at no additional cost to the Commission. The current notional amounts of the swaps are, following the refunding described above, $134,100,000 each, totaling $402,300,000.

Objective and terms of hedging derivative instruments

The following table displays the objective and terms of the Commission’s hedging derivative instruments outstanding on June 30, 2023, 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	7/13/2023	Pay 3.8165%; receive SIFMA	Aa2/A+
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B and C bonds	$134,100,000	5/23/2012	7/13/2023	Pay 3.8165%; receive SIFMA	Aa2/AA-
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series C and D bonds	$134,100,000	5/23/2012	7/13/2023	Pay 3.41%; receive 65% of USD-LIBOR	Aa2/A+

Fair values. The fair value balances and notional amount of derivative instruments outstanding at June 30, 2023, classified by type, and the changes in fair value of such derivative instruments for the year ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred inflow	($13,347,327)	Debt	$13,187	$402,300,000

The fair values of the derivative instruments were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2023. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps. The fair value does not include the contractual swap termination payment of $24,167,590 due on July 13, 2023.

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2023, the Commission was not exposed to credit risk on these swaps because they had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the swaps' fair values. Favorable credit ratings of the counterparties, as shown in the table above, mitigate this risk. In addition, the fair value of the swaps will be fully collateralized by the counterparty with cash or U.S. government securities if the counterparty's credit quality falls below a rating of Baa2 by Moody's or BBB by Standard & Poor's. Collateral would be posted with a third-party custodian.

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

Basis risk**.** This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable-rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on historical experience, the expectation is that the payments received under the agreements will approximate the expected bond payments over the 30-year term of the swaps. During fiscal year 2023, the Commission was exposed to basis risk since the variable rate received from the counterparty, was less than the variable rate the Commission paid on the bonds.

Termination risk and termination payments**.** This is the risk that the transaction is terminated in a market dictating a termination payment by the Commission. The Commission can terminate the swap at the fair value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. The Commission or the counterparties may terminate the swap if the other party fails to perform under the terms of the contracts, such as the failure to make swap payments. If the swap is terminated, the variable-rated demand bond (VRDBs) would no longer be hedged.

The Commission effectively reduced the ongoing termination risk by refunding $151,500,000 in VRDBs and terminating the same amount of the outstanding interest rate swaps in May 2012 under favorable market conditions with low fixed rates. Refunding additional maturities and terminating more of the interest rate swaps would have led to a net increase in debt service under a fixed-rate structure, which was contrary to the Commission's programmatic objectives. Consequently, the reduced amount of variable-rate bonds and interest rate swaps was left in place.

Future Termination. On June 27, 2023, the commission entered into a forward termination on the fixed payor swap with Bank of America and Goldman Sachs, to be fully terminated on July 13, 2023 with the commission paying $24,167,590 to the swap counter parties. The commission used proceeds from the Barclays basis swap termination to majority fund the payment.

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

Market access risk. This is the risk that the Commission will not be able to enter credit markets or that credit will become more costly. The Commission's financial rating is tied to the credit strength of the sales tax revenue. The Commission also is exposed to market access risks caused by disruptions in the municipal bond market.

Reset rates paid and received by the* Commission*. The range of weekly variable interest rates paid on the 2008 *TransNet* bonds by the Commission to the bondholders for the period July 1, 2022 through June 30, 2023 are as follows:

	Commission Pays Weekly Reset Rates	
Bondholder	Low	High
Barclays Bank	0.45%	3.75%
Goldman, Sachs & Co.	0.45%	3.75%
JP Morgan Securities, Inc.	0.48%	3.50%
Stifel, Nicolaus & Company	0.48%	3.75%

Fixed rates are paid by the Commission to the swap provider counterparties and sixty-five percent of LIBOR or SIFMA is received by the Commission from the swap provider counterparties.

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 July 1, 2022, through June 30, 2023.

	Commission Receives 65% LIBOR		Commission Receives SIFMA		Commission Pays
Swap Counterparty	Low	High	Low	High	Fixed
Bank of America	1.11354%	3.36078%			3.410%
Bank of America			0.82645%	3.48967%	3.8165%
Goldman Sachs Mitsui Marine Derivative Products			0.82645%	3.48967%	3.8165%

Actual debt service requirements versus the projected debt service on the swap transaction. For the fiscal year ending June 30, 2023, actual debt service was less than projected resulting in savings of variable-rate payments made on the bonds as compared to the variable-rate payments received from the swap in the amount of $1,895,712:

Swap Counterparty	Actual Debt Service	Projected Debt Service	Variance $	Variance %
Bank of America	$ 3,887,067	$ 4,537,573	$ (650,506)	-14.3360%
Bank of America	4,429,677	5,078,489	(648,812)	-12.7757%
Goldman Sachs Mitsui Marine Derivative Products	4,482,095	5,078,489	(596,394)	-11.7435%
	$ 12,798,839	$ 14,694,551	$ (1,895,712)	-12.9008%

Over the life of the swaps from the issuance of the bonds through June 30, 2023, 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 $294,285. This means that the net variable rates that the Commission is paying on the 2008 *TransNet* bonds is more than the variable rate that the Commission is receiving; these rates originally were intended to offset and net to zero.

The total net cost of the program includes liquidity facilities with J.P. Morgan (Series A and B), 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 37 basis points, the Series C bonds is 30 basis points, and the SBPA cost for the Series D bonds is 35 basis points.

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

Objective. On March 19, 2009, the Commission entered into a SIFMA versus LIBOR floating-to-floating or "basis" swap. The combination of the Basis Swaps and the existing 2008 Interest Rate Swaps effectively amended the existing swaps without having to change the existing floating-to-fixed interest rate swaps. This overlay allowed the Commission to bid out the new transaction to a group of potential counterparties without changing the existing 2008 Interest Rate Swaps. The Commission entered into a new transaction with Barclays Bank PLC to overlay the terms under two of the 2008 Interest Rate Swaps, with an expected benefit to the Commission of a substantial reduction in the cost of debt after the effective date of April 1, 2018.

Terms. The notional amounts of the swaps were $140,100,000 each. Under two of the 2008 Interest Rate Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. The 2018 Basis Rate Swaps overlay these two 2008 Interest Rate Swaps with a payment of the SIFMA index and a receipt of 107.4 percent of LIBOR for the last 20 years of the swap (April 2018 to April 2038).

Termination. On June 27, 2023, the basis swap between Barclays and the Commission was terminated. On July 11, 2023, the Commission received $17,677,904 as part of the termination agreement which was used to majority fund the termination of the fixed-pay interest rate swaps. This is presented on the accompanying statement of net position as a swap termination payment receivable.

E. Fair value measurement

The Commission categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Commission has the following recurring fair value measurements as of June 30, 2023:

		Fair Value Measurements		
	June 30, 2022	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Agencies	$ 251,893,702	$ 187,230,104	$ 64,663,598	$ -
Corporate Medium-Term Notes	66,172,639	-	66,172,639	-
Supra-National Agency Bond/Notes	17,521,010	-	17,521,010	-
Total investments by fair value level	335,587,351	187,230,104	148,357,247	-
Derivative instruments				
Interest rate swaps	$ 13,187		$ 13,187	
Total derivative instruments	$ 13,187		$ 13,187	

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 $13,187.

F. Long-term Debt

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.

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
2024	$ 19,200,000	$ 10,438,695	$ 13,187	$ 10,451,882
2025	20,100,000	9,903,536	-	9,903,536
2026	21,000,000	9,343,582	-	9,343,582
2027	21,300,000	8,762,966	-	8,762,966
2028	22,500,000	8,167,886	-	8,167,886
2029-2033	126,300,000	30,950,359	-	30,950,359
2034-2038	153,300,000	11,961,521	-	11,961,521
Total	$ 383,700,000	$ 89,528,545	$ 13,187	$ 89,541,732

The bonds bear interest at a variable rate, which is reset weekly. The above table incorporates the net receipts/payments of the hedging derivative instruments that are associated with this debt. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note II.D.1 for additional information regarding the derivative instruments associated with the debt of the Commission.

Under GASB 88, the 2008 Series ABCD bonds are classified as other debts. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

2. *The 2010 Series A and B bonds*

On November 10, 2010, the Commission issued $350,000,000 Series 2010 A and B sales tax revenue fixed-rate bonds (2010 Series A and B bonds) to finance the Commission’s continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire $7,316,000 in outstanding commercial paper notes, and to pay the costs of issuing the Series 2010 bonds. The 2010 Series A (BAB) bonds totaled $338,960,000 and carry a fixed interest rate of 5.91 percent (net interest rate of 3.991 percent after deducting the BABs federal subsidy) with a maturity date of April 1, 2048. The 2010 Series B bonds (tax-exempt) totaled $11,040,000 and included a premium of $849,367, with a fixed interest rate of 3.14 percent, based on an interest rate range of 2.00 to 5.00 percent and a maturity date of April 1, 2030.

On February 19, 2020, the Commission fully refunded $4,765,000 of the 2010 Series B bonds with the issuance of the 2020 Bonds.

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
2024	$ -	$ 13,423,068
2025	-	13,423,068
2026	-	13,423,068
2027	-	13,423,068
2028	-	13,423,068
2029-2033	-	67,115,342
2034-2038	-	67,115,342
2039-2043	153,555,000	55,411,737
2044-2048	185,405,000	22,579,355
	$ 338,960,000	$ 279,337,118

Under GASB 88, the 2010 Series A bonds are classified as other debt. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

3. *The 2014 Series A bonds*

On September 10, 2014, SANDAG issued $350,000,000 2014 Series A sales tax revenue bonds to finance continued implementation of the *TransNet* program, principally consisting of transportation acility 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 A 2014 bonds. The 2014 Series A 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.

On December 19, 2019, the Commission partially refunded $155,335,000 of 2014 Series A bonds with the issuance of the 2019 Series A bonds.

On March 25, 2021, the Commission partially refunded $146,365,000 of 2014 Series A bonds with the issuance of the 2021 Series A and B Bonds.

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2024	$ 6,460,000	$ 323,000
Total	$ 6,460,000	$ 323,000

Under GASB 88, the 2014 Series A bonds are classified as other debts. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

4. The 2016 Series A bonds

On August 17, 2016, the Commission issued $325,000,000 2016 Series A sales tax revenue bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire $46,445,000 in outstanding commercial paper notes, and to pay the costs of issuing the 2016 Series A bonds. The 2016 Series A bonds included a premium of $78,818,562 and carry an overall all-in interest rate of 3.28 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
2024	$ 6,105,000	$ 14,563,250
2025	6,410,000	14,258,000
2026	6,730,000	13,937,500
2027	7,065,000	13,601,000
2028	7,420,000	13,247,750
2029-2033	43,035,000	60,289,500
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	$ 291,265,000	$ 225,375,500

Under GASB 88, the 2016 Series A bonds are classified as other debts. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

5. The 2017 Transportation Infrastructure Finance and Innovation Act loan (Direct Borrowing)

On June 27, 2017, the Commission entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement with the United States Department of Transportation to finance the Commission's continued implementation of the *TransNet* program for up to $537,484,439 of costs to complete the Mid-Coast Corridor Transit Project. Under terms of the agreement, the Commission will pay an interest rate of 2.72 percent. The Commission's plan was to issue short-term financing during the period of project construction and use the TIFIA loan proceeds to repay the short-term borrowing.

On January 14, 2021, the Commission renegotiated the terms of the loan with the U.S. Department of Transportation to reduce the annual interest rate from 2.72 percent to 1.75 percent.

On October 1, 2022, the Commission disbursed $537,484,439 of loan proceeds to repay the 2021 Series A short-term notes. At June 30, 2023, there was an outstanding obligation of $542,590,458 due and there is no unused portion. Under the terms of the agreement, $24,347,394 of interest will be accrued from October 1, 2022 to April 1, 2025 and will be repaid as principal.

The principal requirements to maturity for the 2021 TIFIA Loan (including $24,347,394 of interest to be repaid as principal), are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2024	$ -	$ -
2025	-	-
2026	12,022,385	9,781,016
2027	13,180,029	9,565,630
2028	14,374,679	9,342,436
2029-2033	92,358,901	42,308,264
2034-2038	132,645,301	32,720,579
2039-2043	183,107,013	19,208,211
2044-2046	114,143,526	3,054,786
Total	$ 561,831,833	$ 125,980,924

Under GASB 88, the TIFIA loan is classified as a direct borrowing. The full line of credit balance of $537,484,439 is used at June 30, 2023. Sales tax revenues are pledged as collateral for the loan.

In the event of default, the TIFIA Lender is entitled and empowered to institute any actions or proceedings at law or in equity for the collection of any sums due and unpaid under the TIFIA loan documents and may prosecute any judgment or final decree against SANDAG and collect in the manner provided by law out of SANDAG's property the money adjudged or decreed to be payable. The TIFIA Lender will have all the rights and remedies of a creditor, including all rights and remedies, to the extent applicable to the Trust Estate, of a secured creditor under the Uniform Commercial Code and may take other actions necessary or desirable to collect all amounts payable by SANDAG under the loan agreement; provided, however, that any monetary judgment against SANDAG will be payable solely from the Trust Estate or from any other funds made available by SANDAG, in our discretion.

Whenever any Event of Default has occurred and continues, the TIFIA Lender may suspend or debar SANDAG from further participation in any Government program administered by the TIFIA Lender and may notify other departments and agencies of such default.

6. The 2019 Series A bonds

On December 19, 2019, the Commission issued $442,620,000 2019 Series A sales tax revenue bonds to refund $246,910,000 of the 2012 Series A and $155,335,000 of the 2014 Series A bonds, and to pay the costs of issuing the Series 2019 bonds. The 2019 Series A bonds were issued at par and carry an overall all-in interest rate of 3.19 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2019 Series A bonds, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2024	$ 6,640,000	$ 13,498,629
2025	6,585,000	13,370,743
2026	6,570,000	13,233,445
2027	7,185,000	13,089,891
2028	6,940,000	12,926,145
2029-2033	38,525,000	61,952,384
2034-2038	43,825,000	56,131,237
2039-2043	139,825,000	44,069,102
2044-2048	180,090,000	17,922,464
Total	$ 436,185,000	$ 246,194,039

Under GASB 88, the 2019 Series A bonds are classified as other debts. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

7. The 2020 Series A bonds

On February 19, 2020, the Commission issued $74,820,000 2020 Series A sales tax revenue bonds to finance the Commission’s continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego including bicycle and pedestrian facilities, to refund $4,765,000 of the 2010 Series B bonds, and to pay the costs of issuing the 2020 Series A bonds. The 2020 Series A sales tax revenue bonds include a premium of $20,448,312 and carry an overall all-in interest rate of 2.62 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2020 Series A bonds, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2024	$ 1,785,000	$ 3,310,500
2025	1,880,000	3,221,250
2026	1,965,000	3,127,250
2027	2,065,000	3,029,000
2028	2,145,000	2,946,400
2029-2033	10,865,000	13,088,250
2034-2038	12,680,000	10,273,250
2039-2043	16,175,000	6,771,250
2044-2048	20,395,000	2,551,550
Total	$ 69,955,000	$ 48,318,700

Under GASB 88, the 2020 Series A bonds are classified as other debts. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

8. The 2021 Series A and B bonds

On March 25, 2021, the Commission issued $265,990,000 2021 Series A and B sales tax revenue bonds to finance costs associated with Major Corridor Capital Projects, to refund $146,365,000 of the 2014 Series A bonds, and to pay the costs of issuing the 2021 Series A and B bonds. The federally taxable 2021 Series A bonds totaled $149,840,000 were issued at par and carry an overall all-in interest rate of 2.21 percent with a maturity date of April 1, 2039. The subordinate 2021 Series B bonds totaled $116,150,000 and included a premium of $36,072,813 and carry an overall all-in interest rate of 2.72 percent with a maturity date of April 1, 2048.

The advance refunding of the 2014 Series B bonds resulted in a reduction of total debt service payments over the period from 2021 to 2039 by $23,767,676 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $21,716,799.

The principal requirements to maturity for the 2021 Series A bonds, are as sfollows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2024	$ -	$ 2,968,100
2025	9,660,000	2,968,100
2026	8,915,000	2,887,342
2027	9,010,000	2,794,983
2028	9,135,000	2,669,293
2029-2033	48,120,000	10,902,924
2034-2038	53,500,000	5,520,665
2039	11,500,000	300,495
Total	$ 149,840,000	$ 31,011,902

The principal requirements to maturity for the 2021 Series B bonds, are as follows:

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2024	$ -	$ 5,807,500
2025	-	5,807,500
2026	3,240,000	5,807,500
2027	3,400,000	5,645,500
2028	3,570,000	5,475,500
2029-2033	20,710,000	24,514,750
2034-2038	26,430,000	18,793,750
2039-2043	26,700,000	11,997,000
2044-2048	32,100,000	4,971,250
Total	$ 116,150,000	$ 88,820,250

Under GASB 88, the 2021 Series A and B bonds are classified as other debts. Sales tax revenues are pledged as collateral for these bonds. There is no unused line of credit on the Series A while the Series B line of credit remains at $116,150,000. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

9. *The 2021 short-term notes*

On March 23, 2021, the Commission issued $537,480,000 2021 Series A subordinate sales tax revenue short-term notes (2021 short-term notes) to retire $537,480,000 of the 2018 short-term notes which were issued to finance costs associated with the Mid-Coast Corridor Transit Project, in advance of the TIFIA loan. A portion of the issuance was also used to pay the costs of issuing the series 2021 short-term notes. The 2021 short-term notes included a premium of $36,149,667 and carries an overall all-in interest rate of 0.31 percent with a maturity date of October 1, 2022.

On October 1, 2022, the Commission fully refunded $537,480,000 of 2021 Series A short-term notes drawing upon the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement.

Under GASB 88, the 2021 short-term notes are classified as other debts. Sales tax revenues are pledged as collateral for these notes. There is no unused line of credit on these bonds. In the event of default, the Commission shall immediately transfer to the Trustee all revenues held by it and the Trustee shall apply all revenues and any other funds then held of thereafter received by the Trustee under any of the provision of the Indenture.

10. The 2022 Revolving Notes

On March 24, 2022, the Commission entered into a Revolving Credit Agreement dated March 1, 2022 and issued $1,000,000 Series I subordinate sales tax revenue revolving notes (2022 revolving notes) for lending to the Commission up to $100,000,000 to fund various transportation facility and service improvements within the County of San Diego. The Series I revolving notes bear interest at a rate equal to the SIFMA Index Rate while funds are available on a revolving basis through a date of September 23, 2024.

The principal requirements to maturity for the 2022 revolving notes, are as follows:

Maturity (September)	Principal Amount	Interest Amount
2024	$ -	$ 35,700
2025	1,000,000	35,700
Total	$ 1,000,000	$ 71,400

Under GASB 88, the 2022 Series I revolving notes are classified as direct borrowing. The line of credit balance of $99,000,000 is unused at June 30, 2023. Sales tax revenues are pledged as collateral for these notes.

Upon the occurrence of any Event of Default, the Bank may take one or more of the following actions at any time and from time to time:

(a) By written notice to the Commission, terminate the obligation of the Bank to make any new Revolving Loans to the Commission;

(b) By written notice to the Commission and the Trustee direct a mandatory redemption of the Loans and Note pursuant to the Fourth Supplement;

(c) Either personally or by attorney or agent without bringing any action or proceeding, or by a receiver to be appointed by a court in any appropriate action or proceeding, take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and payable under the Related Documents or to enforce performance or observance of

any obligations, agreement or covenant of the Commission under the Related Documents, whether for specific performance of any agreement or covenant of the Commission or in aid of the execution of any power granted to the Bank in the Related Documents;

(d) Cure any Default, Event of Default or event of nonperformance hereunder or under any Related Document; provided, however, that the Bank shall have no obligation to effect such a cure; and

(e) Exercise, or cause to be exercised, any and all remedies as it may have under the Related Documents and as otherwise available at law and at equity.

11. Commercial Paper Notes (Direct Borrowing)

The Commission 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.

On August 26, 2021, the Commission was authorized to issue up to $100,000,000 aggregate principal CPN, with $100,000,000 in letters of credit in place. Rates paid under the Reimbursement Agreement with Bank of America supporting the CPN are 30 basis points and are set to expire on August 26, 2024.

On June 30, 2023, the balance of notes issued and outstanding was $46,164,000. Interest rates during the current year have varied from 0.20 percent to 3.55 percent, with maturities from 1 day to 92 days. The interest rate on the outstanding amount on June 30, 2023, was 3.10 percent with a maturity of 92 days. As such, the outstanding amounts have been classified as current liabilities.

The scheduled principal requirements to maturity for the CPN are as follows with an assumed variable rate of 3.1%:

Scheduled Repayment	Principal Amount	Interest Amount
2024	$ 1,647,000	$ 838,984
2025	3,157,000	829,777
2026	6,834,000	775,310
2027	6,734,000	608,406
2028	6,783,000	446,152
2029-2033	17,459,000	283,929
2034-2035	3,550,000	-
Total	$ 46,164,000	$ 3,782,558

Under the terms of the CPN, maturing principal amounts can be rolled over by issuing new notes. It is the intention of the Commission 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 above include expected payments through the date of expiration of the current CPN agreements.

Under GASB 88, the commercial paper notes are classified as direct borrowings. The line of credit balance of $53,836,000 is unused at June 30, 2023. Sales tax revenues are pledged as collateral for these notes.

Upon the occurrence of any Event of Default, all Obligations shall bear interest at the Default Rate and the lender may exercise any one or more of the following rights and remedies in addition to any other remedies by law:

a) Exercise, or cause to be exercised, any and all remedies as it may have under the Related Documents and as otherwise available at law and at equity.

b) From and after the occurrence and during the continuance of an Event of Default, all amounts owing to the Bank and all amounts owing to the Noteholders hereunder and amounts owing on the Note and the Loans, as applicable and without duplication shall bear interest at the Default Rate, payable on demand.

12. *Changes in long-term debt*

Long-term debt activity for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023	Due Within One Year
Senior lien debt					
2008 bonds	$ 402,300,000	$ -	$ (18,600,000)	$ 383,700,000	$ 19,200,000
2010 A bonds	338,960,000	-	-	338,960,000	-
2014 bonds	12,615,000	-	(6,155,000)	6,460,000	6,460,000
2016 bonds	297,075,000	-	(5,810,000)	291,265,000	6,105,000
2019 bonds	442,620,000	-	(6,435,000)	436,185,000	6,640,000
2020 bonds	71,660,000	-	(1,705,000)	69,955,000	1,785,000
2021 A bonds	149,840,000	-	-	149,840,000	-
Premium	75,569,937	-	(5,574,306)	69,995,630	-
Total senior lien debt	1,790,639,937	-	(44,279,306)	1,746,360,630	40,190,000
Subordinate lien debt					
2021 short-term notes	537,480,000	-	(537,480,000)	-	-
2021 B bonds	116,150,000	-	-	116,150,000	-
Premium	39,349,941	-	(8,036,877)	31,313,064	-
CPN (Direct)	49,876,000	148,000	(3,860,000)	46,164,000	46,164,000
2022 Revolving Notes	1,000,000	-	-	1,000,000	-
Total subordinate lien debt	743,855,941	148,000	(549,376,877)	194,627,064	46,164,000
Junior subordiante lien debt					
2021 TIFIA Loan	-	537,484,439	-	537,484,439	-
Total junior subordinate lien del	-	537,484,439	-	537,484,439	-
Total long-term debt	$ 2,534,495,878	$ 537,632,439	$ (593,656,184)	$ 2,478,472,133	$ 86,354,000

13. Pledged revenue

The Commission has several debt issuances outstanding that are collateralized by the pledging of revenues from a one-half percent sales tax imposed within the County of San Diego. 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 $2,859,244,607 for payments through fiscal year 2048.

The following table provides the pledged future revenue information for the Commission's debt for which a pledge exists:

Description of Pledged Revenue	Fiscal Year 2023 Amount of Pledged Revenue	Fiscal Year 2023 Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Sales Tax	$ 426,513,882	$ 129,512,067	30.37%

G. Commitments

The Commission 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. The total fund balance of the special revenue fund is restricted for purposes related to the *TransNet* Extension Ordinance, including the following encumbrances:

Purpose	Restricted
New major corridor transit operations	$ 21,696,280
Investment operations	131,978
Debt financing	33,100
Debt counsel	50,220
Other	30,095
Total Encumbrances	$ 21,941,673

H. Risk management

Insurance coverage is maintained for the Commission by SANDAG. 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. 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. Claim payments have not exceeded insurance coverage for each of the past three fiscal years. See the SANDAG Annual Comprehensive Financial Report for further details.

I. Subsequent Events

On July 17, 2023, the Commission issued $433,355,000 2023 Series A sales tax revenue bonds to fully redeem $383,700,000 of the 2008 Series A/B/C/D bonds, terminate the associated swap agreements, partially refund $80,960,000 and tender $41,163,000 of the 2019 Series A bonds, and pay the costs of issuing the 2023 Series A bonds. The federally taxable 2023 Series A bonds totaled $433,355,000 were issued at par and carry an overall all-in interest rate of 3.23 percent with a maturity date of April 1, 2042.

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REQUIRED SUPPLEMENTARY INFORMATION

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San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Sales Tax Projects Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2023

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES:				
Sales tax	$ 424,047,234	$ 425,804,071	$ 426,513,882	$ 709,811
Investment earnings	6,743,127	17,830,883	14,690,412	(3,140,471)
Other revenues	-	-	4,521,415	4,521,415
Total revenues	430,790,361	443,634,954	445,725,709	2,090,755
EXPENDITURES:				
Current:				
General government	8,480,945	8,516,081	8,594,704	(78,623)
Bicycle facilities	8,480,945	8,516,081	12,717,684	(4,201,603)
Independent Taxpayer Oversight Committee	461,610	461,610	281,485	180,125
Major corridor capital projects	154,517,019	155,157,915	74,373,105	80,784,810
Major corridor environmental mitigation	17,891,444	17,965,653	5,529,208	12,436,445
Local project environmental mitigation	7,319,227	7,349,585	5,380,804	1,968,781
Local street improvements	118,327,507	118,818,297	82,382,341	36,435,956
Smart growth	8,539,098	8,574,516	3,368,276	5,206,240
New major corridor transit operations	32,936,522	33,073,134	40,343,225	(7,270,091)
Transit system improvements	67,092,916	67,371,199	75,806,758	(8,435,559)
Total expenditures	424,047,233	425,804,071	308,777,590	117,026,481
REVENUES OVER (UNDER) EXPENDITURES	6,743,128	17,830,883	136,948,119	119,117,236
OTHER FINANCING SOURCES (USES):				
Transfers in	172,408,463	173,123,568	24,438,459	(148,685,109)
Transfers out	(124,777,455)	(124,777,455)	(114,807,144)	9,970,311
Total other financing sources (uses)	47,631,008	48,346,113	(90,368,685)	(138,714,798)
Net change in fund balances	$ 54,374,136	$ 66,176,996	46,579,434	$ (19,597,562)
FUND BALANCES:				
Beginning of year			637,198,490	
End of year			$ 683,777,924	

Actual expenditure amounts vary from Statement of Revenues, Expenditures, and Change in Fund Balance Government Funds due to interfund activities.

See accompanying Notes to Required Supplementary Information.

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2023

Budgetary Information

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

After the annual budget is adopted, the San Diego Association of Governments Board of Directors (Board) can legally amend the budget at any time during the fiscal year to incorporate new grants or contracts which may become available during the year. Management can legally amend or transfer appropriations between programs or projects within the adopted or amended budget, once the budget has been approved, up to a maximum of $300,000 with monthly reporting of these delegated budget amendments to the Board. However, management may not exceed the authorization of any individual fund. The fund level is the legal level of control (the expenditure level on which expenditures may not legally exceed appropriations) for each budget for which data are presented in the annual financial report.

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

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SUPPLEMENTARY INFORMATION

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San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2023

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES:				
Investment earnings	$ -	$ -	$ 7,943,902	$ 7,943,902
Debt repayments from other governments	-	-	2,130,269	2,130,269
Federal funds	7,012,574	7,012,574	-	(7,012,574)
Total revenues	7,012,574	7,012,574	10,074,171	3,061,597
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	580,045,000	580,045,000	580,045,000	-
Interest and other charges	82,216,894	82,216,894	89,592,582	(7,375,688)
Total expenditures	662,261,894	662,261,894	669,637,582	(7,375,688)
REVENUES OVER (UNDER) EXPENDITURES	(655,249,320)	(655,249,320)	(659,563,411)	(4,314,091)
OTHER FINANCING SOURCES (USES):				
Transfers in	124,777,455	124,777,455	114,807,144	9,970,311
Transfers out	(172,408,463)	(173,123,568)	(24,438,459)	(148,685,109)
Commercial paper issued	-	-	148,000	(148,000)
Notes issued	537,484,439	537,484,439	537,484,439	-
Total other financing sources (uses)	489,853,431	489,138,326	628,001,124	(138,862,798)
Net change in fund balances	$ (165,395,889)	$ (166,110,994)	(31,562,287)	$ 134,548,707
FUND BALANCES:				
Beginning of year			92,379,780	
End of year			$ 60,817,493	

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STATISTICAL SECTION

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

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

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San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year 2014	2015	2016	2017	2018
Nonspendable, reported in:					
Special revenue funds	$ -	$ -	$ 32,083	$ 31,287	$ 32,620
Restricted, reported in:					
Special revenue funds	502,568,971	573,714,521	558,745,889	480,706,434	430,394,657
Debt service fund	62,883,888	231,030,381	69,088,189	225,652,427	413,051,537
Total all other governmental funds	$ 565,452,859	$ 804,744,902	$ 627,866,161	$ 706,390,148	$ 843,478,814

	Fiscal Year 2019	2020	2021	2022	2023
Nonspendable, reported in:					
Special revenue funds	$ 36,719	$ 45,766	$ 17,982	$ 45,345	$ 20,973
Restricted, reported in:					
Special revenue funds	553,890,538	524,113,468	486,737,182	637,153,145	683,756,951
Debt service fund	102,592,899	152,314,193	287,318,925	92,379,780	60,817,493
Total all other governmental funds	$ 656,520,156	$ 676,473,427	$ 774,074,089	$ 729,578,270	$ 744,595,417

Source: Finance Department

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year 2014	2015	2016	2017	2018
Revenues					
Local *TransNet* sales tax funds	$ 261,732,291	$ 270,482,476	$ 276,383,787	$ 286,965,955	$ 302,364,081
Investment earnings	6,393,467	7,057,123	9,986,050	7,537,881	11,123,983
Debt repayments from other governments	1,593,525	1,729,969	1,879,752	1,806,954	1,519,755
Federal funds	6,455,074	6,504,162	6,518,187	6,532,213	6,548,928
Other revenues	21,934	21,934	27,396	21,934	21,756
Total revenues	276,196,291	285,795,664	294,795,172	302,864,937	321,578,503
Expenditures					
Current:					
General government	2,624,782	2,699,655	2,834,638	3,253,760	2,921,326
Bicycle facilities	7,341,136	9,903,097	7,629,790	12,359,549	17,633,821
Independent Taxpayer Oversight Committee	96,017	367,036	98,320	100,853	365,953
Major corridor capital projects	249,053,945	140,687,406	210,648,700	287,491,607	409,593,151
Major corridor environmental mitigation	18,362,651	32,491,051	25,774,110	21,833,308	54,214,331
Local project environmental mitigation	508,632	157,593	405,130	599,181	14,275
Local street improvements	62,038,187	76,876,715	113,824,414	85,217,505	87,335,011
Smart growth	2,545,943	4,188,347	5,700,803	2,144,441	5,755,591
New major corridor transit operations	3,368,969	11,857,463	11,803,461	11,530,015	13,085,981
Transit system improvements	40,308,350	43,690,447	44,664,969	46,501,493	46,309,212
Debt service:					
Principal retirement	16,585,000	60,050,000	22,455,000	72,510,000	55,906,000
Debt issuance costs	-	553,594	-	1,284,951	1,557,833
Interest and other charges	56,961,271	66,587,190	72,279,578	83,332,849	87,552,444
Total expenditures	459,794,883	450,109,594	518,118,913	628,159,512	782,244,929
Excess of revenues over (under) expenditures	(183,598,592)	(164,313,930)	(223,323,741)	(325,294,575)	(460,666,426)
Other financing sources (uses)					
Transfers in	348,973,909	296,214,096	309,040,484	325,982,709	512,956,620
Transfers out	(348,973,909)	(296,214,096)	(309,040,484)	(325,982,709)	(512,956,620)
Commercial paper issued	40,726,000	1,999,000	46,445,000	-	28,650,000
Bonds/Notes issued	-	350,000,000	-	325,000,000	537,480,000
Payment to refunded debt agent	-	-	-	-	-
Premium on bonds issued	-	55,305,483	-	78,818,562	31,625,092
Total other financing sources (uses)	40,726,000	407,304,483	46,445,000	403,818,562	597,755,092
Net change in fund balances	$(142,872,592)	$ 242,990,553	$(176,878,741)	$ 78,523,987	$ 137,088,666
Debt service as a percentage of noncapital expenditures[1]	21.90%	28.78%	18.28%	24.81%	18.34%

Source: Finance Department

[1]In FY 2020, the Commission recorded $446 million in principal and interest payments as part of the refinancing of the 2010 Series B, 2012 Series A, and 2014 Series A bonds.

[2]In FY 2023, $537.6M was drawn on the TIFIA loan to pay down $537M of principal on the 2021 short term note, therefore is not included in calculation of debt service as a percentage of noncapital expenditures.

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

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2019	2020	2021	2022	2023
Revenues					
Local *TransNet* sales tax funds	$ 303,529,448	$ 313,251,738	$ 347,716,393	$ 412,180,194	$ 426,513,882
Investment earnings	24,266,210	20,001,817	3,151,659	(4,007,948)	22,634,314
Debt repayments from other governments	1,990,505	4,150,792	3,439,190	3,638,000	2,130,269
Federal funds	6,563,769	6,588,313	6,605,845	6,612,857	-
Other revenues	470,028	10,765,253	8,826,881	8,576,193	4,521,415
Total revenues	336,819,960	354,757,913	369,739,968	426,999,296	455,799,880
Expenditures					
Current:					
General government	3,008,966	3,099,234	3,081,652	8,076,957	8,594,704
Bicycle facilities	21,884,501	22,404,909	29,100,112	30,429,546	12,717,684
Independent Taxpayer Oversight Committee	368,376	376,416	644,536	348,498	281,485
Major corridor capital projects	156,792,409	70,373,145	89,072,197	96,109,935	74,373,105
Major corridor environmental mitigation	62,379,890	30,585,452	16,056,669	24,399,369	5,529,208
Local project environmental mitigation	10,002	10,381	2,423,027	3,511,079	5,380,804
Local street improvements	79,740,973	109,289,482	81,381,288	61,126,815	82,382,341
Smart growth	2,851,039	6,934,242	8,121,247	2,501,090	3,368,276
New major corridor transit operations	16,360,503	25,306,778	26,022,907	45,210,362	40,343,225
Transit system improvements	49,806,350	51,083,017	49,012,120	57,255,769	75,806,758
Debt service:					
Principal retirement	29,754,000	31,642,000	35,638,000	37,592,000	580,045,000
Debt issuance costs	-	854,744	1,143,184	140,937	-
Interest and other charges	104,238,608	99,827,008	88,195,273	105,792,758	89,592,582
Payments to refunding escrow agent		4,240,102	10,690,521	-	-
Total expenditures	527,195,617	456,026,909	440,582,733	472,495,115	978,415,172
Excess of revenues over (under) expenditures	(190,375,657)	(101,268,996)	(70,842,765)	(45,495,819)	(522,615,292)
Other financing sources (uses)					
Transfers in	455,278,341	216,526,373	171,897,655	297,032,775	139,245,603
Transfers out	(455,278,341)	(216,526,373)	(171,897,655)	(297,032,775)	(139,245,603)
Commercial paper issued	3,417,000	29,378,000	553,000	-	148,000
Bonds/Notes issued	-	517,440,000	803,470,000	1,000,000	537,484,439
Payment to refunded debt agent	-	(446,044,046)	(707,802,052)	-	-
Premium on bonds issued	-	20,448,312	72,222,479	-	-
				-	-
Total other financing sources (uses)	3,417,000	121,222,266	168,443,427	1,000,000	537,632,439
Net change in fund balances	$ (186,958,657)	$ 19,953,270	$ 97,600,662	$ (44,495,819)	$ 15,017,147
Debt service as a percentage of noncapital expenditures[1,2]	25.42%	29.76%	30.53%	30.53%	13.51%

Source: Finance Department

1In FY 2020, the Commission recorded $446 million in principal and interest payments as part of the refinancing of the 2010 Series B, 2012 Series A, and 2014 Series A bonds.

[2]In FY 2023, $537.6M was drawn on the TIFIA loan to pay down $537M of principal on the 2021 short term note, therefore is not included in calculation of debt service as a percentage of noncapital expenditures.

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

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

Fiscal Year	Sales Tax
2014	$ 261,732,291
2015	270,482,476
2016	276,383,787
2017	286,965,955
2018	302,364,081
2019	303,529,448
2020	313,251,738
2021	347,716,393
2022	412,180,194
2023	426,513,882

Source: Finance Department

San Diego Regional County Transportation Commission
A Component Unit of the San Diego Association of Governments
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Fiscal Year	*TransNet* Sales Tax Proposition A[1]	County of San Diego[2]
2014	0.50%	8.00%
2015	0.50%	8.00%
2016	0.50%	8.00%
2017	0.50%	7.75%
2018	0.50%	7.75%
2019	0.50%	7.75%
2020	0.50%	7.75%
2021	0.50%	7.75%
2022	0.50%	7.75%
2023[3]	0.50%	7.75%

Source: California Department of Tax and Fee Administration.

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

[2] The following seven 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%
Imperial Beach	8.75%
La Mesa	8.50%
National City	8.75%
Oceanside	8.25%
Solana Beach	8.75%
Vista	8.25%

[3] Rates Effective beginning 10/1/23

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities: Sales Tax Revenue Bonds	Sales Tax Revenue Short-Term Notes	Sales Tax Revenue Commercial Paper	Revolving Notes	TIFIA Loan	Total	Percentage of Personal Income[1]	Debt Per Capita[1]
2014	$ 1,191,472,800	$ -	$ 73,001,000	$ -	$ -	$ 1,264,473,800	0.675%	396
2015	1,578,319,665	-	30,440,000	-	-	1,608,759,665	0.823%	504
2016	1,554,507,253	-	75,000,000	-	-	1,629,507,253	0.822%	505
2017	1,928,648,386	-	26,750,000	-	-	1,955,398,386	0.979%	595
2018	1,882,812,559	567,116,301	26,614,000	-	-	2,476,542,860	1.239%	748
2019	1,845,785,956	556,222,998	28,692,000	-	-	2,430,700,954	1.207%	725
2020	1,884,918,254	545,512,713	56,213,000	-	-	2,486,643,967	1.152%	744
2021	1,983,127,060	567,428,810	53,488,000	-	-	2,604,043,870	1.179%	779
2022	1,940,202,889	543,416,989	49,876,000	1,000,000	-	2,534,495,878	1.148%	771
2023	1,893,823,694	-	46,164,000	1,000,000	537,484,439	2,478,472,133	1.014% [2]	754 [2]

Source: Finance Department..

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

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

[2] Used the most recent data available (2022).

San Diego County Regional Transportation Commission
A Component Unit of the San Diego Association of Governments
Pledged-Revenue Coverage
Last Ten Fiscal Years

		Sales Tax Revenue						
		Bonds Debt Service		Commercial Paper Debt Service		Total Debt Service		
Fiscal Year	Sales Tax Revenue	Principal	Interest	Principal	Interest	Principal	Interest	Coverage
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
2019	303,529,448	28,415,000	101,809,081	1,339,000	433,980	29,754,000	102,243,061	2.30
2020	313,251,738	29,785,000	100,754,710	1,857,000	329,770	31,642,000	101,084,480	2.36
2021	347,716,393	32,360,000	98,154,855	1,978,000	76,972	34,338,000	98,231,827	2.62
2022	412,180,194	33,980,000	96,739,265	3,612,000	86,079	37,592,000	96,825,344	3.07
2023	426,513,882	38,705,000	86,577,308	3,860,000	610,580	42,565,000	87,187,888	3.29

Source: Finance Department

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

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

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

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund, of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 22, 2023.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described below as *(2023-001)* to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(2023-001) Adjustments Detected During the Audit

During our audit, we identified material errors in the accounting records that required correcting and adjusting journal entries as follows:

a. To record unavailable revenue of $7M in the fund financial statements related to receivables not collected within the availability period,
b. To increase interest payable by $5.1M related to the 2021 TIFIA Loan, and
c. To record assets of $17.7M and liabilities of $21.5M related to the interest rate swap termination activities.

Potential Effect

The financial statements could be materially misstated if year-end adjustments are not recorded, and amounts are not reconciled to the subsidiary records.

Recommendation

Auditing standards indicate that material adjustments identified through the audit process are evidence of a weakness in the Commission's internal control structure. Efforts should be made to enhance the Commission's year-end closing procedures to include areas that resulted in audit adjustments.

Management's Comments Regarding Corrective Actions Planned

Due to staff turnover and the implementation of a new ERP system, the year-end close process was delayed, causing adjustments to the financials towards the end of the audit. However, management will have a more robust review process with the new ERP system for the upcoming audit years. The Commission relies on third-party asset management services to provide derivative data that will make the year-end process efficient. However, there was extra discussion needed to reconcile the reports that were provided and how they should be reflected in the financial statements regarding swap terminations. Accounting for derivative transactions such as swap terminations are complex and unusual and require more time and resources. SANDAG will continue to promote continued educational opportunities to be better prepared in the future.

Report on Compliance and Other Matters

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

Commission's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Commission's response to the findings identified in our audit and described above. The Commissions' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Davis Farr LLP

Irvine, California
December 22, 2023

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