



**2019**

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

# **Basic Financial Statements**

For the Fiscal Year Ended  
**June 30, 2019**

*San Diego, CA*





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

San Diego, California

***Basic Financial Statements***

***For the year ended June 30, 2019***

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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# INTRODUCTORY SECTION

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401 B Street, Suite 800  
 San Diego, CA 92101-4231  
 (619) 699-1900  
 Fax (619) 699-1905  
 sandag.org

December 13, 2019

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, 2019. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management of SANDAG. A comprehensive framework of internal controls has been designed and implemented to ensure the assets of the Commission are protected from loss, theft, or misuse, and to ensure that financial information is accurate and complete. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

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

Crowe LLP has issued an unmodified (“clean”) opinion on the Commission’s financial statements for the fiscal year ended June 30, 2019.

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

**Reporting Entity**

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

*MEMBER AGENCIES*

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

*ADVISORY MEMBERS*

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

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

The Commission is a blended component unit of SANDAG and therefore, is considered part of the SANDAG primary government. The SANDAG Board of Directors also serves as the Commission's Board of Directors. The Commission is responsible for the implementation and administration of transportation improvement programs funded by the San Diego countywide one-half percent sales tax. This tax became effective on April 1, 1988, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program, known as *TransNet*. The sales tax funds are used for highway, public transit, local street and road improvements, bicycle and pedestrian facilities, and administration.

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

## **San Diego's Regional Economy**

### **Basics of the San Diego Economy**

San Diego is a diverse, growing region of just under 3.4 million people, who are younger than the national average, richer in terms of per capita income, and better educated with more college and advanced degrees. The \$231 billion economy is also diverse and well positioned for the future in innovative and recession-resilient sectors.

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

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

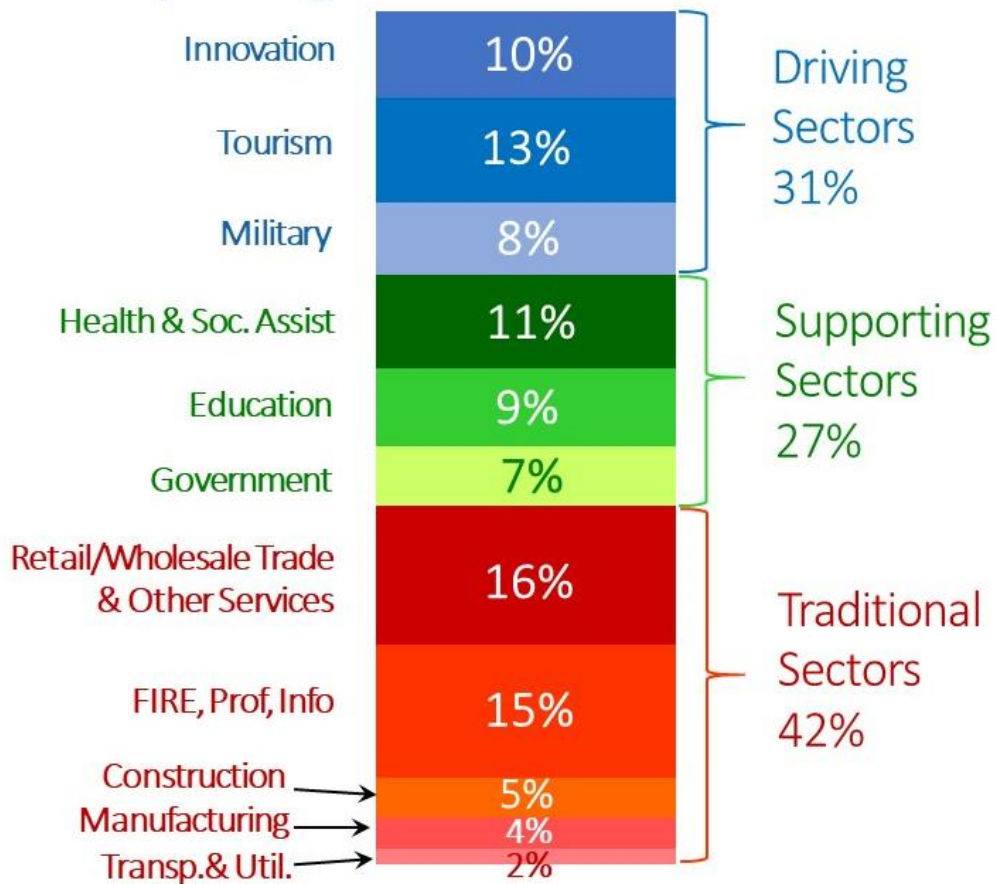
### **History of the San Diego Economy**

Once characterized as a sleepy Navy town, and later as a tourist destination, San Diego’s economy has diversified and matured over the last 75 years. San Diego is a region of just under 3.4 million people. Before WWII, 70 percent of jobs in the local economy were in traditional sectors such as the Military, Manufacturing, Construction, Finance, and Retail and Wholesale Trade; today it is less than 50 percent. The military accounted for about 20 percent of the region’s employment in 1940 (and ballooned to nearly half during the early 1950s) and stayed prominent throughout the Cold War.

The 1960s brought the emergence of the Tourism and Hospitality industry, the opening of UC San Diego (which became a key economic engine), as well as the approval of maquiladoras in Mexico, allowing U.S. firms access to low-cost manufacturing. By the 1980s, tourism was booming, and the nascent life sciences sector was beginning to take root. Base Re-alignment and Closure (BRAC), shuttered the Naval Training Center in the early 1990s and helped reduce the Military sector to today’s 8 percent, despite a steady military presence. The 2000s brought the dot-com bust, 9/11, and the Great Recession.

Today, San Diego boasts an economy that is not dominated by any one sector and, in fact, no sector accounts for more than 16 percent of the regional economy. Several sectors are “economic drivers,” specifically Tourism, the Military, and the “Innovation” sectors, which together make up almost a third of the regional economy. Tourism is a clear winner, with the weather, beaches, San Diego Zoo, and Convention Center. The Military is pivoting toward Asia and has committed to San Diego, as have many military contractors, like General Dynamics (makers of the Predator drone) and ViaSat (satellite communications leaders). Moreover, Innovation will continue to drive San Diego’s economy, with forward-looking technologies with massive growth potential from companies like Illumina (revolutionized DNA sequencing with tremendous potential to improve health care and quality of life), PacketSled and SPAWAR (cybersecurity experts), and Nuvasive (most used products and techniques for adult back surgeries).

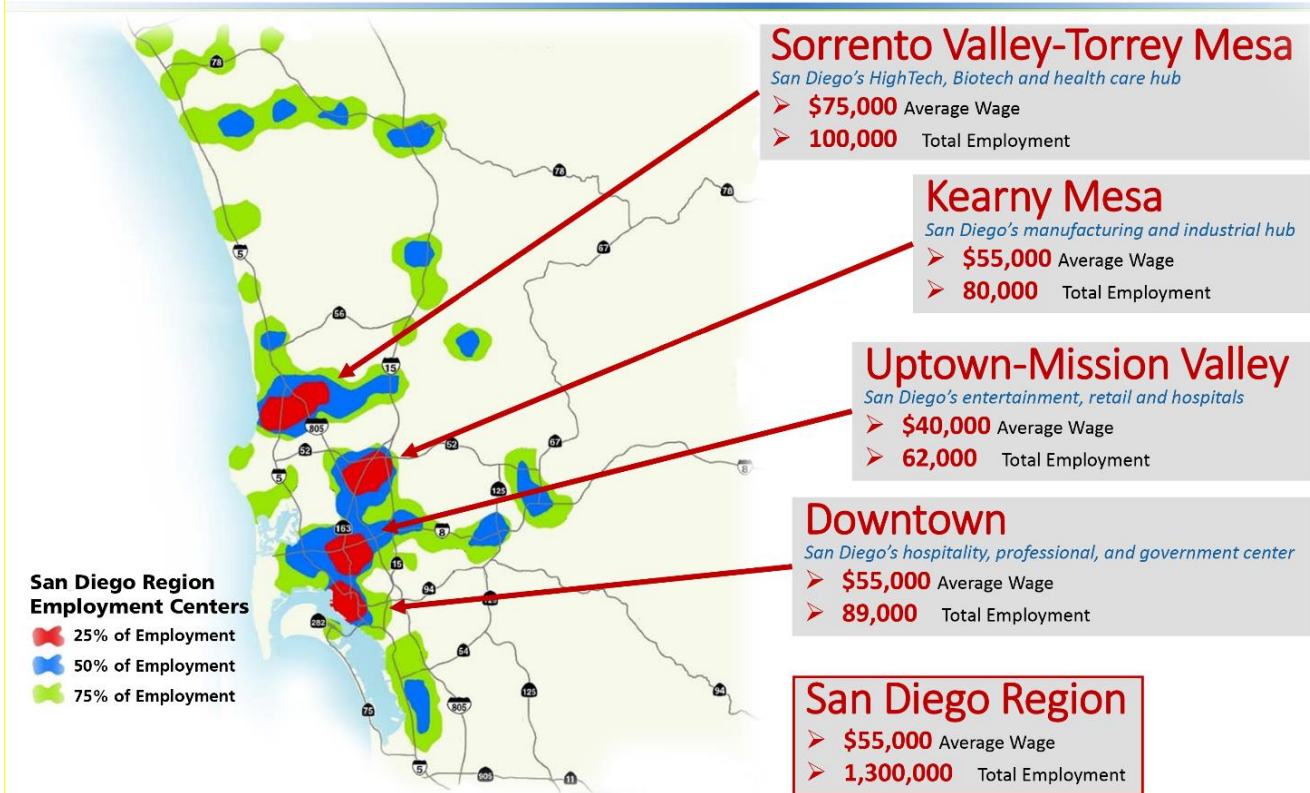
## San Diego 2019: Diverse and Expanding Economic Base



San Diego also fares well in industries like Health Care, Education, and a lean Government sector. These sectors are generally population driven (rising in tandem with population), and together with the economic driver sectors, have proven through the Great Recession to be less affected by economic cycles. In sum, “recession-resilient” sectors account for 58 percent of the San Diego economy.

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

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



## Sectors of the San Diego Economy

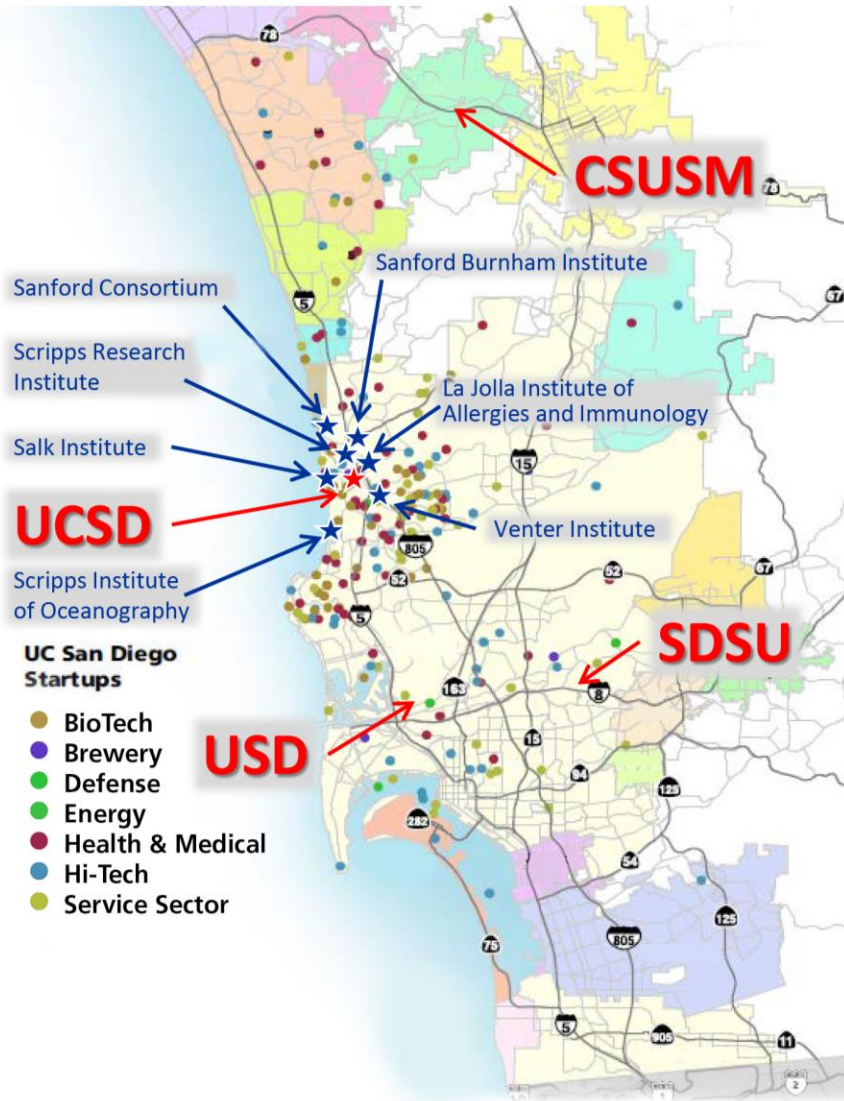
As mentioned, the San Diego economy is balanced and not reliant on any one industry, with the largest sector accounting for 16 percent of regional employment. The diverse distribution of employment helps buffer San Diego from economic downturns, with 58 percent of regional employment in recession-resilient sectors (i.e., sectors less impacted by national business cycles). The Military and Tourism sectors provide a stable and diverse employment base, but the economy is also well-positioned for the 21st century, fueled by the next wave of business drivers, our "Innovation Sector": Biotech and Biomedical, Information Technology, Cleantech, and Aerospace.

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



# SAN DIEGO: HIGHER EDUCATION AND RESEARCH

19 institutions of higher education enroll over 270,000 students



## University of California San Diego

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

## Statistics:

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

## UCSD companies contribute:

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

Incubated by world-class research institutions, San Diego’s Innovation sector has grown considerably over the last 25 years, posting a growth rate ten times that of the rest of the economy. It now represents 10 percent of our local economy and employs over 150,000 people in high-paying jobs. The Innovation sector is also itself diverse, featuring Information and Communication Technology, Biotechnology and Biomedical, Aerospace and Navigation, and CleanTech. San Diego is the second most patent-intensive county in the United States, behind Santa Clara County, and is the top destination for National Institutes of Health research funding, first in life-sciences laboratory space, and the number one place in the United States to launch a startup, according to Forbes.

As noted, San Diego has a long and successful relationship with the military. San Diego's economy will benefit from the decision (dubbed the "Pacific Pivot") to reallocate 60 percent of military assets to the West Coast over the next decade. During the next few years, 50 percent more ships will be berthed in San Diego, and billions of dollars will be invested by the Navy in infrastructure like the Seal training facility. The presence of the military attracts \$9.4 billion in government contracts each year, and almost 127,000 jobs, about 1 in 12 are directly employed by the military or Department of Defense. Many of these jobs are highly skilled, and all generate indirect employment effects in many other sectors throughout the economy. With a large deepwater port, a dozen military installations, and a well-developed support economy, San Diego is an irreproducible ecosystem for the military.

When most people think about San Diego, they think about it as a tourism destination, and in large part, they are correct. San Diego is routinely listed as the number one domestic travel destination, such as in Money magazine's 2016 assessment. As a result, San Diego's Hospitality sector grew two times as fast as our overall economy during the past 27 years. Nearly 37 million visitors come to San Diego annually, bringing almost \$12 billion into the regional economy. While tourism jobs pay slightly less than the average, they do provide ample entry-level employment.

### **International Trade**

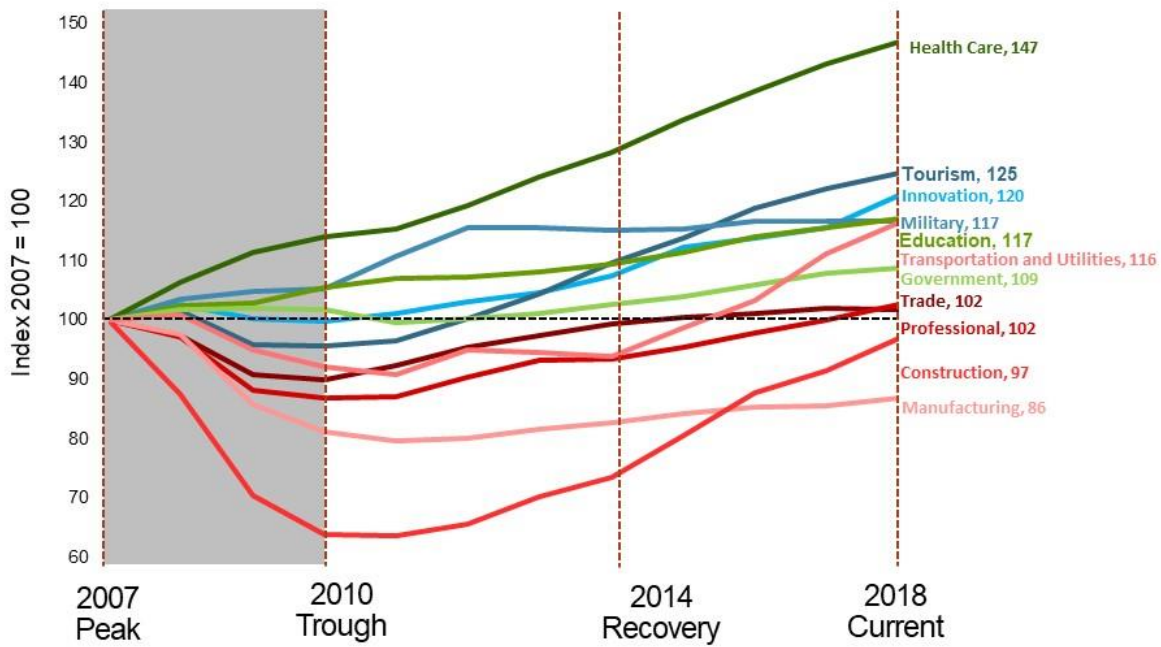
San Diego is home to the busiest land crossing in the western hemisphere, and the economic impact is significant. Over the past 10 years, trade through the border has grown by 70%, and grew 1.5 percent from 2017 to 2018 to \$75 billion. The presence of maquiladoras in Tijuana that provide highly skilled workers in technologically advanced factories where costs average a fraction of that in the United States is a critical advantage for the San Diego economy, and even recent trade tensions have not slowed growth.

### **Jobs, Wages, and Housing**

The diverse and robust San Diego economy presented above has resulted in strong job growth and low unemployment for San Diegans, and also in a regional economy that is less susceptible to traditional business cycles. As of 2019, San Diego's unemployment rate stands at 3.3 percent, lower than both California (4.1%) and the United States as a whole (3.7%). The brutal Great Recession and the protracted national recovery that saw San Diego and the nation take six and a half years to regain the employment level of December 2007 highlighted the importance of San Diego's recession-resilient sectors. Locally, Innovation, Tourism, Military, Health Care, Education, and Government sectors (representing 58% of all jobs in the region) continued to grow through the recession; other traditional sectors like Retail, Professional Services, Construction, Finance, and Manufacturing, endured deep employment contractions, and several sectors (e.g., Construction) have not recovered yet. While wages have been rising, after adjusting for inflation, real wages have remained stagnant, partially due to the large increases in housing costs in San Diego.

# Employment Sectors

Health Care (+47%) was the fastest growing sector after the recession, while Manufacturing (-14%) has still not reached 2007 levels.



Source: CA EDD, Labor Market Information Division, Quarterly Census of Employment and Wages; SANDAG

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

## Outlook

The San Diego economy is healthy, but it is tethered to the global, national, and state economies. Globally, the economies of both advanced and emerging nations have begun to slow. Still, global growth is projected to be in the 2.9 percent range in 2019 according to the Organization for Economic Cooperation and Development, down from 3.6 percent in 2016. Nationally, growth is also expected to slow, with the Federal Open Market Committee revising their growth forecast for 2019 down to 2.2 percent, with the national economy seemingly no longer able to shrug off political tensions. Wage growth has also begun to move slowly forward, after a decade of stasis. In California, the economy



also continues to overcome challenges, with significant increases in High-Tech, Health Care, and Tourism more than offsetting lagging sectors.

In San Diego, economic drivers like the Innovation sector should continue to thrive. However, current economic conditions send mixed signals for the Travel and Hospitality sector. Low unemployment, rising wage growth, and solid consumer confidence would paint a bright economic outlook for 2019. But rising energy prices and trade uncertainty have begun to damage the economy and the potential for a recession looms. The Military will continue to expand its strong presence. For population-driven sectors, the Health Care sector, both in the United States and globally, is expected to see continued growth as the population ages, and as new therapies and treatments are available to more people. Education remains both a stable sector and a long-term driver of economic growth, and Government typically grows proportional to population and is forecasted to increase. Traditional Economic sectors like Trade, Transportation, and Utilities are dominated by retail where the outlook is relatively weak. The Financial, Professional, and Information sector (excluding Innovation sectors), is expected to see slow but steady growth. Construction and Real Estate are expected to decline through 2019, with slowed employment and decreases in the number of housing permits expected. Manufacturing should continue its gradual, but steady, recovery, and Other Services, which includes many types of businesses, will continue to see slow growth through 2019.

### ***TransNet* Plan of Finance Update**

A *TransNet* Program Update was provided to the Board of Directors in February 2019, and then again in July 2019. The program update provided a summary of recent development to the cost estimates of remaining *TransNet* Major Corridors projects, as well as to the long-term forecasts of *TransNet* funds, and state and federal sources. Significant long-term challenges were presented to the Board, including a funding shortfall of approximately \$10 billion to complete all remaining *TransNet* projects. The opportunity to complete some projects, however, remains, and proposals for a budget amendment were planned for early Fall 2019. The ability to advance major projects as discussed below is through the issuance of bonds against the sales tax receipts.

### **Financial Highlights**

*TransNet* sales tax collections increased by \$17,802,343, or 6.04 percent, between 2018 and 2019. The 3% increase from previous years is due to delayed sales tax receipts caused by the implementation of a new automated system by the California Department of Tax and Fee administration (CDTFA). The new system is focused on improving processing, reporting, and distributing sales tax revenues to agencies throughout the state. Additionally, the growth forecasts will be adjusted accordingly to use a base of \$305.3 million, as opposed to the \$312.3 million collected in FY19.

Through the use of timely and prudent debt financing, the Commission was able to provide the financial resources necessary to fund the programmed projects and accumulate a Sales Tax Projects Fund restricted fund balance for future project expenditures of \$553.9 million.

This past year alone, the Commission funded approximately \$21.9 million in bicycle facilities, \$66.1 million in public transit projects and operations, including operations of new transit services, and \$79.7 million in local street and road improvements. In addition, the Commission funded projects of approximately \$156.8 million in major corridors, including I-5, Interstate 805, Mid-Coast Corridor Transit, and the South Line Rail projects, and approximately \$62.4 million of the Environmental

Mitigation Program. In total, \$393.2 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, Crowe LLP. We express our appreciation to the staff members and the auditors who contributed to the preparation of this report.

Respectfully submitted,



ANDRÉ DOUZDJIAN  
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.

## **Chair**

Hon. Steve Vaus

## **Vice Chair**

Hon. Catherine Blakespear

## **Executive Director**

Hasan Ikhtrata

### **City of Carlsbad**

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(A) Hon. Barbara Hamilton, Councilmember  
(A) Hon. Priya Bhat-Patel, Mayor Pro Tem

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(A) Hon. Steve Padilla, Councilmember  
(A) Hon. John McCann, Councilmember

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(A) Hon. Bill Sandke, Councilmember  
(A) Hon. Mike Donovan, Councilmember

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(A) Hon. Paloma Aguirre, Councilmember

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(A) Hon. Colin Parent, Vice Mayor

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(A) Hon. Jerry Jones, Councilmember

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(A) Hon. Chris Cate, Councilmember  
Hon. Georgette Gomez, Council President  
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(A) Hon. Kristi Becker, Councilmember

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(A) Hon. Amanda Rigby, Councilmember  
(A) Hon. John Franklin, Deputy Mayor

### **County of San Diego**

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(A) Hon. Dianne Jacob, Chair  
Hon. Kristin Gaspar, Supervisor  
(A) Hon. Greg Cox, Vice Chair  
(A) Hon. Nathan Fletcher, Supervisor

## **Advisory Members**

### **Imperial County**

Hon. Jesus Eduardo Escobar, Supervisor  
(A) Mark Baza, Imperial County Transportation Commission

### **California Department of Transportation**

Toks Omishakin, Executive Director  
(A) Gustavo Dallarda, Acting District 11 Director  
(A) Ann Fox, Deputy Director

### **Metropolitan Transit System**

Hon. Mona Rios  
(A) Hon. Nathan Fletcher

### **North County Transit District**

Hon. Tony Kranz  
(A) Hon. Priya Bhat-Patel  
(A) Hon. Jewel Edson

### **U.S. Department of Defense**

Joe Stuyvesant, Navy Region Southwest Executive Director  
(A) Steve Chung, Navy Region Southwest

### **Port of San Diego**

Hon. Garry Bonelli, Chairman  
(A) Hon. Michael Zucchet, Commissioner

### **San Diego County Water Authority**

Ron Morrison, Director  
(A) Gary Croucher, Vice Chair  
(A) Mel Katz, Director

### **San Diego County Regional Airport Authority**

April Boling, Chair  
(A) Vacant

### **Southern California Tribal**

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Sycuan Band of the Kumeyaay Nation  
Hon. Robert Smith, Chairman,  
Pala Band of Mission Indians

#### **Mexico**

Hon. Carlos González Gutiérrez  
Cónsul General of Mexico  
(A) Mario Figueroa  
Deputy Cónsul General of Mexico  
(A) Hon. Natalia Figueroa, Vice Consul

**SAN DIEGO ASSOCIATION OF GOVERNMENTS**

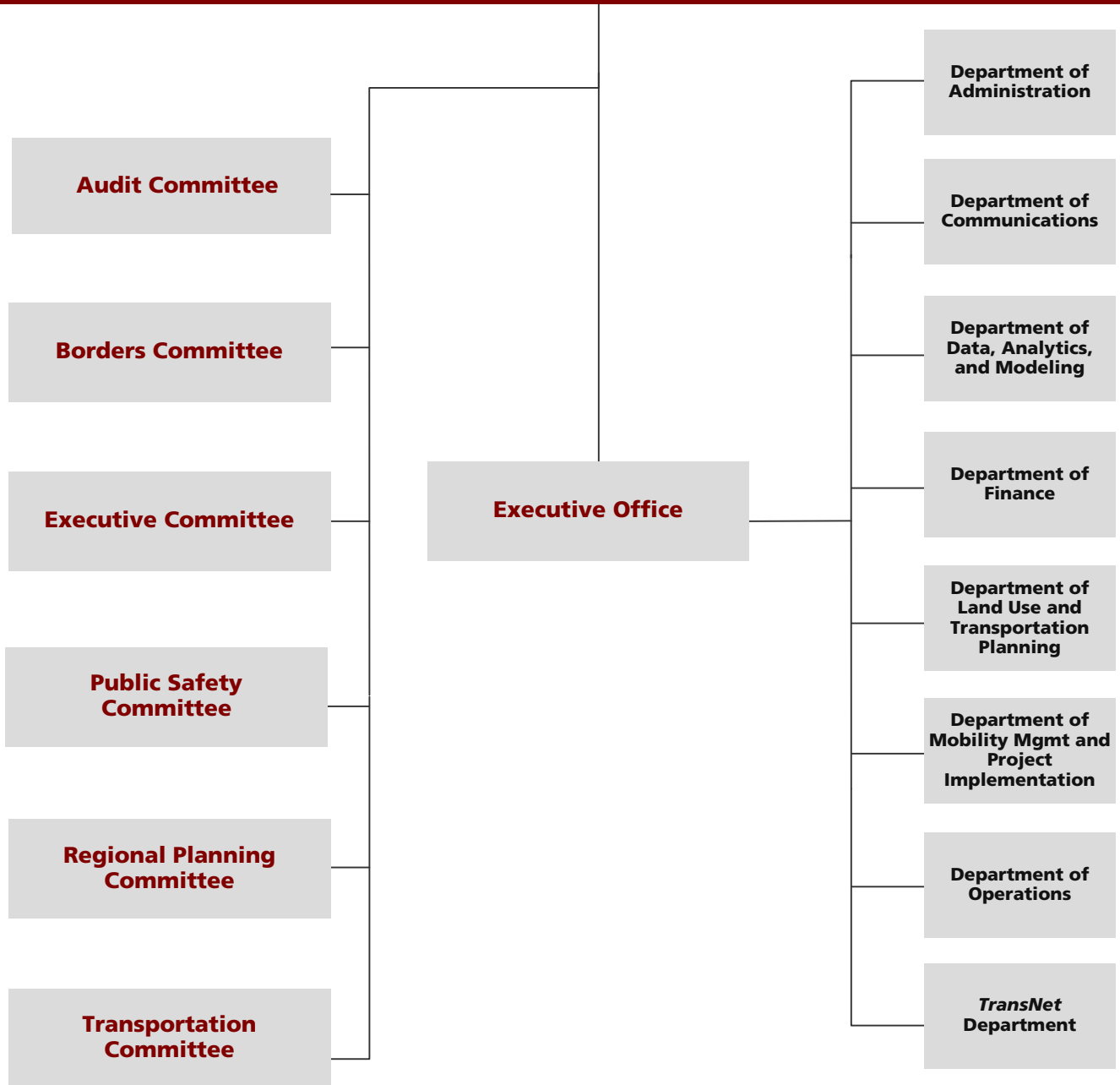
**SANDAG Executive Staff**

As of June 30, 2019

Executive Director	Hasan Ikhata
Chief Deputy Executive Director	Kim Kawada
General Counsel	John Kirk
Director of Administration	Laura Coté
Director of Communications	David Hicks
Director of Finance	André Douzdjian
Director of Land Use and Transportation Planning	Charles “Muggs” Stoll
Director of Mobility Management and Project Implementation	Jim Linthicum
Director of Operations	Ray Traynor
Director of Data, Analytics, and Modeling and Chief Economist	Ray Major
<i>TransNet</i> Department Director	José Nuncio
Principal Government Relations Analyst	Victoria Stackwick

# San Diego Association of Governments Organization Chart

## BOARD OF DIRECTORS



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# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
San Diego County Regional Transportation Commission  
San Diego, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego County Regional Transportation Commission (Commission), a component unit of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

(Continued)



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and each major fund of the Commission, as of June 30, 2019, 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.

## **Other Matters**

### *Prior-Year Comparative Information*

We have previously audited the Commission's 2018 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated December 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, supplementary information - budgetary comparison information for the Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information - budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information - budgetary 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.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

(Continued)

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, professional style.

Crowe LLP

Costa Mesa, California  
December 13, 2019

## 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, 2019. The intent of this analysis is to assist the readers of the Commission's financial statements in better understanding the overall financial condition of the Commission. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal.

### Financial Highlights

- Liabilities of the Commission exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year, resulting in a current year net deficit of \$1,722,176,057. A significant factor related to the net deficit is the issuance of \$2,583,065,000 in bonds issued in 2008, 2010, 2012, 2014, 2016 as part of the San Diego Association of Governments (SANDAG) Early Action Program (EAP) to expedite congestion relief projects, and the issuance of short-term notes in 2018 to provide funding toward the \$2.1 billion Mid-Coast Corridor Transit project, the largest transportation infrastructure project in the history of San Diego.
- The Commission's current outstanding debt portfolio is \$2,430,700,954, which includes \$1,697,290,000 of senior sales tax revenue bonds that were issued from fiscal year 2008 through fiscal year 2016; \$28,692,000 of commercial paper notes, and \$537,480,000 of short-term notes issued in fiscal year 2018. The portfolio carries a total unamortized premium balance of \$167,238,954.
- The Commission's total net deficit of \$1,722,176,057 increased in the current fiscal year by \$148,545,834 primarily a result of the decrease in available cash due to *TransNet* program payments for major corridor projects, most notably the Mid-Coast Corridor Transit Project.
- As of the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$656,520,157 a decrease of \$186,958,657 in comparison with the prior year. The total fund balance is restricted for purposes related to the *TransNet* Extension Ordinance, including debt service.

### 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 18 to 19 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 24 and 26.

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 25 and 27 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 30 to 59.

**Other information.** In addition to the financial statements and accompanying notes, this report presents certain required supplementary information and statistical information beginning on page 63. The Commission adopts a spending plan each year. Budgetary comparison schedules are provided for the special revenue fund on pages 63 and 64, and for the debt service fund on page 67.

## Government-Wide Financial Analysis

The Commission's net position at June 30, 2019 decreased by \$148,545,834 or 9.44 percent, when compared to June 30, 2018. The decrease in net position was primarily due to the decrease in available cash.

The following is a summary of the statement of net position as of June 30, 2019, and 2018:

**Table 1**  
**Net Position**  
**Governmental Activities**

	2019	2018
Current and other assets	\$ 760,989,837	\$ 941,383,371
Restricted assets	78,635,019	85,162,899
Total assets	<u>839,624,856</u>	<u>1,026,546,270</u>
Deferred outflows of resources	95,672,413	68,576,494
Current liabilities	221,950,623	180,631,065
Restricted liabilities	36,576,164	44,248,891
Noncurrent liabilities	2,398,946,539	2,443,873,031
Total liabilities	<u>2,657,473,326</u>	<u>2,668,752,987</u>
Net Position		
Restricted	42,058,855	40,914,008
Unrestricted (deficit)	<u>(1,764,234,912)</u>	<u>(1,614,544,231)</u>
Total net position	<u>\$ (1,722,176,057)</u>	<u>\$ (1,573,630,223)</u>

The decrease in current and other assets of \$180,393,535, or 19.16 percent, was primarily due to the consumption of the 2018 Short-Term Notes and 2016 Bonds, which were used to fund Bicycle and Pedestrian and the Mid-Coast Corridor Transit Projects, respectively.

The decrease in restricted assets of \$6,527,879 or 7.67 percent, was primarily due to the decrease in the 2018 basis rate swap overlay (see Note II.D.2 for further information). Sales tax is set aside each month to cover monthly 2008 bond interest and swap payments. All other bonds and the 2018 short-term notes have semi-annual interest payment requirements, therefore, sales tax for one-sixth of upcoming interest payments, and one-twelfth of the annual principal payments is set aside monthly. The sales tax set aside is held with the trustee and is restricted.

Restricted liabilities consist of funds held for the following purposes:

- \$7,454,415 is a restricted deposit for the repayment of outstanding bonds.
- \$24,300,000 is a 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.
- \$226,794 is a restricted deposit payable from NCTD for commercial paper interest payments related to the COPs.
- \$4,594,956 is a restricted deposit payable from Barclays Bank PLC, which is held as collateral on the 2018 basis rate swaps (see Note II.E.2 for further information).

Deferred outflows of resources experienced an increase of \$27,095,919 or 39.51 percent attributable to a \$28,835,261 decrease in the fair value of hedging swap agreements compared to the prior year.

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 \$1,764,234,913 net position unrestricted deficit at June 30, 2019, is \$2,430,700,954 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) and is repaid using annual sales tax revenue, other than the 2018 short-term note, which will be repaid with the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan proceeds.

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, 2019 and 2018.

**Table 2**  
**Change in Net Position**  
**Governmental Activities**

	2019	2018
Revenues:		
Program revenues:		
Operating contributions	7,033,797	\$ 6,570,684
General revenues:		
Sales tax	303,529,448	302,364,081
Investment earnings	17,840,658	14,641,064
Total revenues	328,403,903	323,575,829
Expenses:		
General government	3,008,966	2,921,326
Bicycle facilities	21,884,501	17,633,821
Independent Taxpayer Oversight Committee	368,376	365,953
Major corridor capital projects	156,792,409	409,593,151
Major corridor environmental mitigation	62,379,890	54,214,331
Local project environmental mitigation	10,002	14,275
Local street improvements	76,323,973	86,271,011
Smart growth	2,851,039	5,755,591
New major corridor transit operations	16,360,503	13,085,981
Transit system improvements	49,806,350	46,309,212
Interest on long-term debt	87,163,728	77,005,758
Cost of debt issuance	-	1,557,833
Total expenses	476,949,737	714,728,243
Change in net position	(148,545,834)	(391,152,414)
Net position (deficit) - beginning of year	(1,573,630,223)	(1,182,477,809)
Net position (deficit) - end of year	\$ (1,722,176,057)	\$ (1,573,630,223)

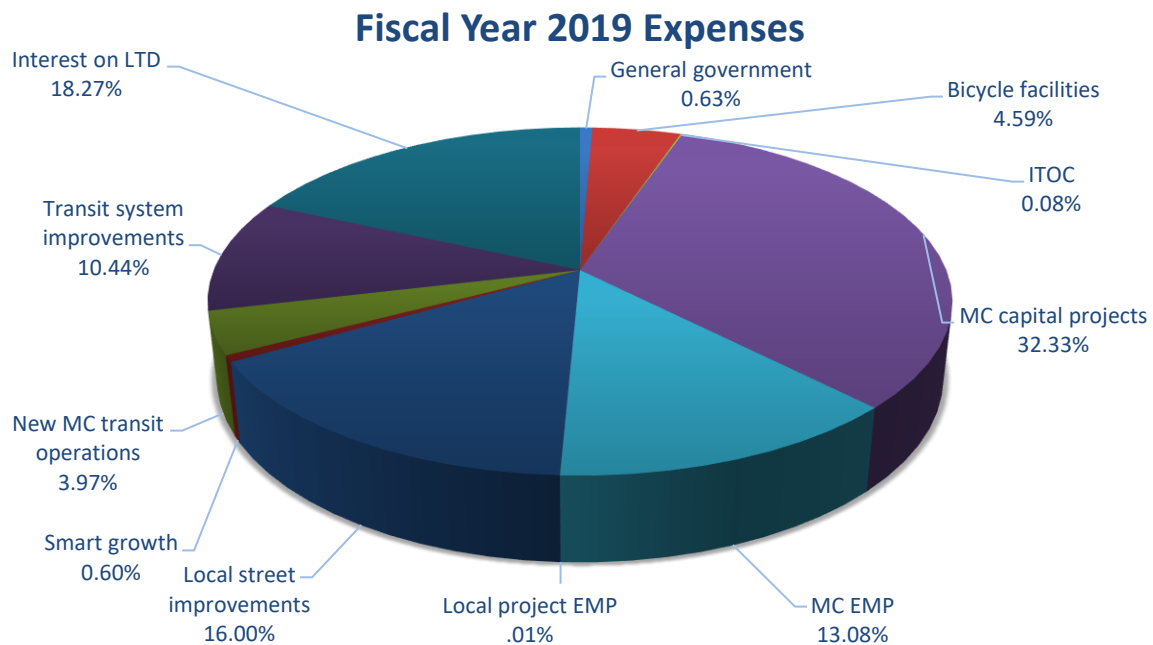
Program revenues stayed relatively level with a slight increase of \$463,113 and are comprised of rental income for property purchased with major corridor capital projects funds and the federal subsidy received for the 2010 Series A Build America Bond (BAB) interest payments.

General revenues increased \$4,364,961, which is 1.38 percent more than the prior year, and is mainly attributable to the increase in investment earnings of \$3,199,593 or 21.85 percent, based on higher yields of return in investments.

*TransNet* expenses decreased \$237,778,506, or 33.27 percent, which is primarily due to a 61.72 percent decrease in payments made for major corridor capital projects offset by increases in several other expense categories.

- The major corridor capital projects decrease of \$252,800,742 is primarily due to the receipt of \$280 million in the Full-Funding Grant Agreement (FFGA) funds that were used in lieu of *TransNet* revenue to finance the Mid-Coast Corridor Project. The Mid-Coast Corridor Transit Project is well in its construction phase and continues to spend upwards of \$300 million per year.
- New major corridor transit operations increased from \$13,085,981 to \$16,360,503 or 25.02 percent. Major contributing factors include a decrease in fare revenue and increases in operating and maintenance costs such as restroom cleaning, power washing, landscaping, and security.
- The major corridor environmental mitigation program (EMP) increased \$8,165,559 or 15.06 percent over the prior year is primarily due to the timing of the lagoon restoration projects. San Elijo Lagoon Restoration began construction in 2018 and this capital cost will continue to increase until construction is complete in 2021.
- Interest on long-term debt increased due to debt service payments on the 2018 short-term notes, which were issued late FY 2018.

Expenses in fiscal year 2019 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 \$656,520,157, a decrease of \$186,958,657 from the prior year.

The Commission's special revenue fund ended the year with a fund balance of \$553,927,258, most of which was restricted. The fund balance increased by \$123,499,981 with key contributing factors as follows:

- Total expenditures exceeded revenue by \$73,484,218 which decreased from the \$327,265,240 excess of expenditures over revenues reported in the prior year.
- Sales tax of \$129,147,071 was transferred to the debt service fund for principal and interest payments on outstanding debt offset with transfers in of \$326,131,270 mainly for the use of debt proceeds toward expenditures of the major corridor and major corridor environmental mitigation program.

The Commission's debt service fund ended the year with a fund balance of \$102,592,899, all of which was restricted. The fund balance decreased by \$310,458,638 with key factors as follows:

- Expenditures in the current year exceeded revenues by \$116,891,439 due to required debt payments of commercial paper and the 2008, 2010, 2012, 2014, and 2016 bonds that included principal and interest payments and other charges, offset with the receipt of federal subsidy revenue for the 2010 BABs net interest payment.
- Net interfund transfers out of \$196,984,199 were primarily transfers with the special revenue fund for the use of debt proceeds toward expenditures of the major corridor and major corridor environmental mitigation programs and to meet required principal and interest payments on outstanding debt obligations.

### Debt Administration

**Long-term debt.** At the end of the current fiscal year, the Commission's total debt outstanding decreased by 1.85% percent over the prior year and was comprised of \$1,358,330,000 tax-exempt sales tax revenue bonds, \$338,960,000 taxable BABs, net premium on the 2010 tax-exempt bonds of \$261,292, net premium on the 2012 tax-exempt bonds of \$37,135,569, net premium on the 2014 tax-exempt bonds of 43,318,138, and net premium on the 2016 tax-exempt bonds of \$67,780,957; \$537,480,000 2018 sales tax revenue short-term notes, net premium on the 2018 short-term notes of \$18,742,998, and \$28,692,000 of commercial paper notes:

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Bonds	\$ 1,697,290,000	\$ 1,725,705,000	\$ (28,415,000)	-1.65%
Premium	148,495,955	157,107,559	(8,611,604)	-5.48%
Short-term Notes	537,480,000	537,480,000	-	0.00%
Premium	18,742,998	29,636,301	(10,893,303)	-36.76%
Commercial paper	<u>28,692,000</u>	<u>26,614,000</u>	<u>2,078,000</u>	<u>7.81%</u>
Total	<u>\$ 2,430,700,953</u>	<u>\$ 2,476,542,860</u>	<u>\$ (45,841,907)</u>	<u>-1.85%</u>

Total debt decreased by \$45,841,907, which is primarily due to bond principal payments of \$28,415,000, premium amortization of \$19,504,906, and commercial paper repayments of \$1,339,000.

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

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

- *TransNet* sales tax collections increased by \$17,802,343, or 6.04 percent, between 2018 and 2019. The 3% increase from previous years is due to delayed sales tax receipts caused by the implementation of a new automated system by the California Department of Tax and Fee administration (CDTFA). The new system is focused on improving processing, reporting, and distributing sales tax revenues to agencies throughout the state. Additionally, the growth forecasts will be adjusted accordingly to use a base of \$305.3 million, as opposed to the \$312.3 million collected in FY19.
- For the fiscal year 2020 budget, \$313,174,654 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.
- The Commission is expecting fiscal year 2020 disbursements of \$29,875,000 in bond principal repayments and approximately \$110,548,380, net of BABs subsidy, in interest expenditures related to the 2008, 2010, 2012, 2014, and 2016 sales tax revenue bonds, and the 2018 short-term notes. The Commission also is expecting commercial paper principal repayments of \$1,857,000 with \$554,494 of estimated commercial paper interest payments and costs 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](mailto:pio@sandag.org).

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# **BASIC FINANCIAL STATEMENTS**

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# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Statement of Net Position**  
**June 30, 2019**  
**(With comparative information for the prior year)**

	Governmental Activities	
	2019	2018
<b>ASSETS</b>		
Cash and investments	\$ 632,408,788	\$ 765,062,098
Prepaid items and other assets	36,719	32,620
Interest receivable	2,928,615	2,062,280
Due from other governments	107,162,921	114,501,543
Due from SANDAG	680,055	35,605,829
Derivative instrument - swap asset	17,772,739	24,119,001
Restricted assets:		
Cash and investments restricted for debt service	77,475,210	84,038,971
Cash and investments restricted for environmental mitigation	1,159,810	1,123,928
<b>Total assets</b>	<b>839,624,857</b>	<b>1,026,546,270</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated decrease in fair value of hedging swap agreements	93,100,070	64,264,809
Deferred refunding charge	2,572,343	4,311,685
<b>Total deferred outflows of resources</b>	<b>95,672,413</b>	<b>68,576,494</b>
<b>LIABILITIES</b>		
Accounts payable	336,990	446,657
Retentions payable	4,905	4,905
Due to SANDAG	101,149,287	88,351,102
Due to other governments	4,322,529	5,217,434
Accrued interest payable	23,036,842	22,346,158
Derivative instrument - swap liability	93,100,070	64,264,809
Liabilities payable from restricted assets:		
Deposits payable	4,821,750	11,579,062
Long-term debt payable - due within one year	31,754,415	32,669,829
Noncurrent liabilities:		
Long-term debt payable - due within one year	26,722,585	22,359,171
Long-term debt payable - due in more than one year	2,372,223,954	2,421,513,860
<b>Total liabilities</b>	<b>2,657,473,327</b>	<b>2,668,752,987</b>
<b>NET POSITION</b>		
Restricted for:		
Debt service	40,899,045	39,790,080
Environmental mitigation	1,159,810	1,123,928
Unrestricted (deficit)	(1,764,234,912)	(1,614,544,231)
<b>Total net position</b>	<b>\$ (1,722,176,057)</b>	<b>\$ (1,573,630,223)</b>

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, 2019**  
**(With comparative information for the prior year)**

Functions	Expenses	Program Revenues Operating Contributions	Net Revenue (Expenses) and Changes in Net Position	
			Governmental Activities	
			2019	2018
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 3,008,966	\$ -	\$ (3,008,966)	\$ (2,921,326)
Bicycle facilities	21,884,501	-	(21,884,501)	(17,633,821)
Independent Taxpayer Oversight Committee	368,376	-	(368,376)	(365,953)
Major corridor capital projects	156,792,409	470,028	(156,322,381)	(409,571,395)
Major corridor environmental mitigation	62,379,890	-	(62,379,890)	(54,214,331)
Local project environmental mitigation	10,002	-	(10,002)	(14,275)
Local street improvements	76,323,973	-	(76,323,973)	(86,271,011)
Smart growth	2,851,039	-	(2,851,039)	(5,755,591)
New major corridor transit operations	16,360,503	-	(16,360,503)	(13,085,981)
Transit system improvements	49,806,350	-	(49,806,350)	(46,309,212)
Interest on long-term debt	87,163,728	6,563,769	(80,599,959)	(70,456,830)
Cost of debt issuance	-	-	-	(1,557,833)
Total governmental activities	<u>476,949,737</u>	<u>7,033,797</u>	<u>(469,915,940)</u>	<u>(708,157,559)</u>
<b>Total primary government</b>	<u>\$ 476,949,737</u>	<u>\$ 7,033,797</u>	<u>(469,915,940)</u>	<u>(708,157,559)</u>
<b>General revenues:</b>				
Sales tax			303,529,448	302,364,081
Investment earnings			17,840,658	14,641,064
<b>Total general revenues</b>			<u>321,370,106</u>	<u>317,005,145</u>
<b>Change in net position</b>			(148,545,834)	(391,152,414)
<b>Net position (deficit) - beginning of year</b>			<u>(1,573,630,223)</u>	<u>(1,182,477,809)</u>
<b>Net position (deficit) - end of year</b>			<u>\$ (1,722,176,057)</u>	<u>\$ (1,573,630,223)</u>

See accompanying Notes to the Basic Financial Statements.



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# 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, 2019**  
**(With comparative information for the prior year)**

	Major Governmental Funds		Total	
	Sales Tax Projects Special Revenue	Commercial Paper and Sales Tax Revenue Bonds Debt Service	Governmental Funds	
			2019	2018
<b>ASSETS</b>				
Cash and investments	\$ 602,544,111	\$ 29,864,677	\$ 632,408,788	\$ 765,062,098
Prepaid items and other assets	36,719	-	36,719	32,620
Interest receivable	2,615,936	75,949	2,691,885	1,745,897
Due from other funds	-	-	-	22,348
Due from SANDAG	680,055	-	680,055	35,605,829
Due from other governments	52,703,151	54,442,813	107,145,964	114,484,949
Cash and investments - restricted	1,159,810	77,475,210	78,635,020	85,162,899
<b>Total assets</b>	<b>\$ 659,739,782</b>	<b>\$ 161,858,649</b>	<b>\$ 821,598,431</b>	<b>\$ 1,002,116,640</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 335,803	\$ 1,187	\$ 336,990	\$ 446,657
Retentions payable	4,905	-	4,905	4,905
Due to SANDAG	101,149,287	-	101,149,287	88,351,102
Due to other funds	-	-	-	22,348
Due to other governments	4,322,529	-	4,322,529	5,217,434
Deposits payable	-	4,594,956	4,594,956	11,357,085
Liabilities payable from restricted assets	-	226,794	226,794	221,977
<b>Total liabilities</b>	<b>105,812,524</b>	<b>4,822,937</b>	<b>110,635,461</b>	<b>105,621,508</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenues	-	54,442,813	54,442,813	53,016,318
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>54,442,813</b>	<b>54,442,813</b>	<b>53,016,318</b>
<b>Fund Balances:</b>				
Nonspendable:				
Prepaid items	36,719	-	36,719	32,620
<b>Total nonspendable</b>	<b>36,719</b>	<b>-</b>	<b>36,719</b>	<b>32,620</b>
Restricted for:				
Debt-service	-	72,653,460	72,653,460	83,816,994
Environmental mitigation	1,159,810	-	1,159,810	1,123,928
<i>TransNet</i> -eligible projects	552,730,729	29,939,439	582,670,168	758,505,272
<b>Total restricted</b>	<b>553,890,539</b>	<b>102,592,899</b>	<b>656,483,438</b>	<b>843,446,194</b>
<b>Total fund balances</b>	<b>553,927,258</b>	<b>102,592,899</b>	<b>656,520,157</b>	<b>843,478,814</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 659,739,782</b>	<b>\$ 161,858,649</b>	<b>\$ 821,598,431</b>	<b>\$ 1,002,116,640</b>

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, 2019**

<b>Total Fund Balances - Total Governmental Funds</b>	<b>\$ 656,520,157</b>
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	16,957
Interest receivable - swap	236,730
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.	
	54,442,813
Derivative instruments are not reported in the funds but must be reported in the statement of net position.	
Accumulated decrease in fair value of hedging swap agreements	93,100,070
Derivative instrument - swap asset	17,772,739
Derivative instrument - swap liability	(93,100,070)
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	(23,020,248)
Accrued Interest payable - commercial paper	(16,594)
Commercial paper payable	(28,692,000)
Bond premium	(167,238,954)
Deferred refunding charge	2,572,343
Bonds payable	(2,234,770,000)
<b>Net position of governmental activities</b>	<b>\$ (1,722,176,057)</b>

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, 2019**  
**(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	
			2019	2018
<b>REVENUES:</b>				
Sales tax	\$ 303,529,448	\$ -	\$ 303,529,448	\$ 302,364,081
Investment earnings	15,719,315	8,546,895	24,266,210	11,123,983
Debt repayments from other governments	-	1,990,505	1,990,505	1,519,755
Federal funds	-	6,563,769	6,563,769	6,548,928
Other revenues	470,028	-	470,028	21,756
<b>Total revenues</b>	<b>319,718,791</b>	<b>17,101,169</b>	<b>336,819,960</b>	<b>321,578,503</b>
<b>EXPENDITURES:</b>				
Current:				
General government	3,008,966	-	3,008,966	2,921,326
Bicycle facilities	21,884,501	-	21,884,501	17,633,821
Independent Taxpayer Oversight Committee	368,376	-	368,376	365,953
Major corridor capital projects	156,792,409	-	156,792,409	409,593,151
Major corridor environmental mitigation	62,379,890	-	62,379,890	54,214,331
Local project environmental mitigation	10,002	-	10,002	14,275
Local street improvements	79,740,973	-	79,740,973	87,335,011
Smart growth	2,851,039	-	2,851,039	5,755,591
New major corridor transit operations	16,360,503	-	16,360,503	13,085,981
Transit system improvements	49,806,350	-	49,806,350	46,309,212
Debt service:				
Principal retirement	-	29,754,000	29,754,000	55,906,000
Debt issuance costs	-	-	-	1,557,833
Interest and other charges	-	104,238,608	104,238,608	87,552,444
<b>Total expenditures</b>	<b>393,203,009</b>	<b>133,992,608</b>	<b>527,195,617</b>	<b>782,244,929</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(73,484,218)</b>	<b>(116,891,439)</b>	<b>(190,375,657)</b>	<b>(460,666,426)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	326,131,270	129,147,071	455,278,341	512,956,620
Transfers out	(129,147,071)	(326,131,270)	(455,278,341)	(512,956,620)
Commercial paper issued	-	3,417,000	3,417,000	28,650,000
Bonds issued	-	-	-	537,480,000
Premium on bonds issued	-	-	-	31,625,092
<b>Total other financing sources (uses)</b>	<b>196,984,199</b>	<b>(193,567,199)</b>	<b>3,417,000</b>	<b>597,755,092</b>
<b>Change in fund balances</b>	<b>123,499,981</b>	<b>(310,458,638)</b>	<b>(186,958,657)</b>	<b>137,088,666</b>
<b>FUND BALANCES:</b>				
Beginning of year	430,427,277	413,051,537	843,478,814	706,390,148
End of year	\$ 553,927,258	\$ 102,592,899	\$ 656,520,157	\$ 843,478,814

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, 2019**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(186,958,657)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Commercial paper accrued interest revenue		(79,290)
Change in fair value of derivative instrument		(6,346,262)

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		28,415,000
Commercial paper issued		(3,417,000)
Bond pass-through payments to other governments		3,417,000
Debt repayments from other governments - bond		(1,467,593)
Debt repayments from other governments - commercial paper		(522,912)
Commercial paper repayments		1,339,000
Amortization expense on unamortized premium on bonds issued		19,504,906
Amortization expense on unamortized loss on bond refunding		(1,739,342)

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		(711,848)
Change in accrued interest payable - commercial paper		21,164

<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(148,545,834)</b>
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See accompanying Notes to the Basic Financial Statements.



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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting entity**

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

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

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

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

**B. Government-wide and fund financial statements**

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

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

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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

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

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

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

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

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

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

The Commission reports the following major governmental funds:

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

The *Commercial Paper and Sales Tax Revenue Bonds Debt Service Fund (Debt Service Fund)* accounts for the activities and resources accumulated for principal and interest payments on the long-term debt sales tax revenue bonds, the short-term notes and commercial paper. Revenues are derived from interest earned on the investments accumulated for the payment of principal and interest on the revenue bonds 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.

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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 fund.

**2. *Expenditures in excess of appropriations***

The Commission sales tax projects fund ended the year with \$92,306,393 of expenditures in excess of appropriations, which is primarily the result of bond proceeds used for major corridor capital and environmental mitigation program projects; and large payments of sales tax to bicycle facilities. This fund is budgeted based on estimated sales tax revenues and does not include the use of debt proceeds or unspent revenue received in prior years.

The Commission debt service fund had an excess of \$9,638,802 expenditures over appropriations at June 30, 2019, which was primarily the result of the excess of variable-rate interest and swap payments and other costs on the 2008, 2010, 2012, 2014 and 2016 Series bonds.

**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, 2019, LAIF had an average maturity of 173 days.

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

The Commission is a voluntary participant in the CAMP, which is an investment pool, offered by the California Asset Management Trust. The trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500, *et seq.*) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. In accordance with Section 53601(p) of the California Government Code, CAMP's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601. 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, 2019, the pool had an average maturity of 54 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](http://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.

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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 five reporting categories:

- Interest receivable, represents interest earned on investments at year end but not yet received;
- Due from other funds, represents activities between funds that are representative of short-term lending and borrowing arrangements outstanding at the end of the fiscal year;
- Due from SANDAG, represents the return of sales tax for projects after SANDAG receives state or federal funding after year end; and
- Due from other governments, represents sales tax received from the state after year end that was collected for the period ending June 30, 2019, 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.

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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

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

**5. *Deferred outflows/inflows of resources***

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, which represents a consumption of assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has two items that qualify for reporting in this category: the accumulated decrease in fair value of the hedging swap agreement, and the deferred charge on refunding loss reported in the government-wide statement of net position. See Note II.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 one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for the revenues collected in a future period for the repayment of long-term debt proceeds issued to the local agencies for their local street improvement projects. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

**6. *Due to SANDAG***

The Commission reimburses 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 fund 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:

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

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



**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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

The governmental activities unrestricted net deficit of \$1,764,234,915 results primarily from the issuance of the \$2,431,565,000 sales tax revenue bonds in 2008 (net of refunding), 2010, 2012, 2014, and 2016, and the sales tax revenue short-term note in 2018, for transportation-related projects, primarily major corridor and environmental mitigation. The Commission plans to repay the bonds with future sales tax revenue which is dedicated for transportation projects. The short-term note will be repaid with the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. 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.

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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 statements 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, and premium on bonds issued, and transfers in are reported as other financing sources. Transfers out and discounts on bonds issued are reported as other financing uses.

**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.

**San Diego County Regional Transportation Commission**  
**A Component Unit of the San Diego Association of Governments**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

**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.

**15. *Effects of new pronouncements***

Statement No. 83

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations.

Existing laws and regulations require state and local governments to take specific actions to retire certain tangible capital assets, such as the decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines. Obligations to retire certain tangible capital assets also arise from contracts or court judgments. Accounting and financial reporting standards exist for costs of the closure and postclosure care of municipal solid waste landfills, but those standards do not address retirement obligations associated with other types of tangible capital assets.

There was no material impact on the Commission financial statements as a result of implementation of this Statement.

Statement No. 88

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor), and to provide financial statement users with additional essential information about debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

For purposes of disclosures in notes to financial statements, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For disclosure purposes, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable.

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In addition to other requirements to disclose information related to debt in notes to financial statements, a government should disclose in notes to financial statements summarized information about the following items:

- a. Amount of unused lines of credit
- b. Assets pledged as collateral for debt
- c. Terms specified in debt agreements related to (1) significant events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

The Commission implemented the new reporting requirements for the fiscal year ending June 30, 2019.

**II. DETAILED NOTES ON ALL FUNDS**

**A. Cash and investments**

Cash, cash equivalents, and investments consisted of the following on June 30, 2019:

	Fair Value	Weighted Average Maturity (Days)	NRSRO Rating
Cash and cash equivalents:			
Cash - demand deposits	\$ 2,587,478	1	Not rated
Cash equivalents - Certificates of Participation	24,300,000	74	NR,A1
State of California Local Agency Investment Fund	62,202,240	173	Not rated
California Asset Management Program	200,125,928	54	AAAm
San Diego County Treasurer's Pooled Money Fund	48,113,728	528	AAAf/S1
Total cash and cash equivalents	337,329,374	145	
Investments:			
U.S. Agencies	229,689,971	511	AA+/Aaa
Corporate Medium Notes	94,193,738	473	BBB+ to AAA
Supra-National Agency Bond/Note	24,574,340	395	AAA/Aaa
Certificates of Deposit	17,046,785	250	AA- to A-1+
Asset-Backed Securities	8,209,600	879	AAA/Aaa
Total investments	373,714,434	491	
Total cash, cash equivalents, and investments	\$ 711,043,808		

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At year end, the Commission's carrying amount of deposits was \$2,587,478 and the bank balance was \$2,590,978. 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 derivatives with 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, 2019, these investment derivatives had a fair value of \$17,772,738, net of interest, and are not rated. Other applicable risks (credit risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with the Commission's derivative 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 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 Director of Finance shall review the security. The course of action to be followed will then be decided by the Director of Finance and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price

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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, 2019.

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, 2019, 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 securities:

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Investment	Total	Concentration of Credit Risk
Federal Home Loans Bank (FHLB)	\$ 58,986,182	15.78%
Federal Home Loan Mortgage Corp (FHLMC)	47,455,623	12.70%
Federal National Mortgage Association (FNMA)	58,141,756	15.56%
Federal Farm Credit Bank	29,511,126	7.90%

**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	\$ 52,688,926
Rental income receivable	5,483
City of San Diego Funds Return	8,741
Advances for local street and road improvements made to:	
County of San Diego	16,954,568
City of Del Mar	2,694,392
City of La Mesa	2,000,000
City of National City	280,287
City of Oceanside	1,977,468
City of San Marcos	16,164,627
City of Santee	8,871,472
City of Solana Beach	<u>5,500,000</u>
Total due from other governments	<u>\$ 107,145,964</u> *

\* Total 'due from other governments' on the Statement of Net Position includes \$16,957 of interest receivable.

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**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 \$129,147,071:***

To the debt service fund consists of the following items:

- Transfer of \$126,747,326 in *TransNet* sales tax revenue for bond and commercial paper principal and interest payments.
- Transfer of \$2,399,745 for debt-related costs.

***Transfers from the debt service fund totaling \$326,131,270:***

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

- \$1,990,505 of bond and commercial paper repayments for the County of San Diego and cities of Del Mar, La Mesa, National City, Oceanside, and Santee.
- \$6,563,769 return of *TransNet* sales tax funds that were advanced to the trustee for debt service payments and returned upon receipt of the 2010 Series A BABs federal subsidy.
- \$314,129,996 of bond proceeds used to fund *TransNet*-eligible capital projects.
- \$1,417,000 of commercial paper proceeds issued to the City of Oceanside for *TransNet*-eligible projects.
- \$2,000,000 of commercial paper proceeds issued to the City of La Mesa for *TransNet*-eligible projects.
- \$30,000 of administrative transactions transferred for reporting purposes.

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 Comprehensive Annual Financial Report (CAFR) classifies this activity as a transfer out in the sales tax project fund resulting in the following difference in reporting:



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	<u>Sales Tax Projects Fund</u>		
	<b>Commission</b>		
	<b>Basic Financial</b>		
	<u>Statements</u>	<u>SANDAG CAFR</u>	<u>Variance</u>
<b>EXPENDITURES:</b>			
General government	\$ 3,008,966	\$ -	\$ 3,008,966
Bicycle facilities	21,884,501	-	21,884,501
Independent Taxpayer Oversight Committee	368,376	368,376	-
Major corridor capital projects	156,792,409	-	156,792,409
Major corridor environmental mitigation	62,379,890	7,979	62,371,911
Local project environmental mitigation	10,002	10,002	-
Local street improvements	79,740,973	79,555,673	185,300
Smart growth	2,851,039	3,412	2,847,627
New major corridor transit operations	16,360,503	16,255,635	104,868
Transit system improvements	49,806,350	48,056,740	1,749,610
<b>Total expenditures</b>	<b>393,203,009</b>	<b>144,257,817</b>	<b>248,945,192</b>
<b>REVENUES OVER</b>			
<b>(UNDER) EXPENDITURES</b>	<b>(73,484,219)</b>	<b>175,460,973</b>	<b>(248,945,192)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	326,131,270	326,131,270	-
Transfers out	(129,147,071)	(378,092,263)	248,945,192
<b>Total other financing sources (uses)</b>	<b>196,984,199</b>	<b>(51,960,993)</b>	<b>248,945,192</b>
<b>Change in fund balances</b>	<b>\$ 123,499,980</b>	<b>\$ 123,499,980</b>	<b>\$ -</b>

**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.

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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 at June 30, 2019, along with the credit rating of the associated counterparty:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating Moody's/S&P
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series A and B bonds	\$134,100,000	5/23/2012	4/1/2038	Pay 3.8165%; 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	4/1/2038	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	4/1/2038	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, 2019, 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, 2019		
	Classification	Amount	Classification	Amount	Notional
<b>Governmental activities</b>					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflows	(\$28,835,261)	Debt	(\$93,100,070)	\$402,300,000

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The fair values of the derivatives were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2019. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

**Credit risk.** This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2019, the Commission was not exposed to credit risk on these swaps because they had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the swaps' fair values. Favorable credit ratings of the counterparties (Bank of America and Goldman Sachs Mitsui Marine Derivative Products) mitigate this risk. As of June 30, 2019, Bank of America was rated Aa2 by Moody's and A+ by Standard and Poor's; and Goldman Sachs Mitsui Marine Derivative Products was rate Aa2 by Moody's and AA- by Standard and Poor's. The ratings are monitored by staff on a weekly basis. In addition, the fair value of the swaps will be fully collateralized by the counterparty with cash or U.S. government securities if the counterparty's credit quality falls below a rating of Baa2 by Moody's or BBB by Standard & Poor's. Collateral would be posted with a third-party custodian.

**Interest rate risk.** This is the risk that changes in market interest rates will adversely affect the net payment on the swaps. The Commission is exposed to interest rate risk on its swaps when LIBOR 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. Due to the unfavorable market conditions during fiscal year 2019, 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

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a fixed-rate structure, which was contrary to the Commission's programmatic objectives. Consequently, the reduced amount of variable-rate bonds and interest rate swaps was left in place.

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

**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, 2018 through June 30, 2019 are as follows:

Bondholder	Commission Pays Weekly Reset Rates	
	Low	High
Barclays Bank	0.60%	2.10%
Goldman, Sachs & Co.	0.49%	2.18%
JP Morgan Securities, Inc.	0.75%	2.05%
Stifel, Nicolaus & Company	0.60%	2.15%

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, 2018, through June 30, 2019.

Swap Counterparty	Commission Receives 65% LIBOR		Commission Receives SIFMA		Commission Pays Fixed
	Low	High	Low	High	
Bank of America	1.28860%	1.63792%			3.410%
Bank of America			1.08581%	1.79067%	3.8165%
Goldman Sachs Mitsui Marine Derivative Products			1.08581%	1.79067%	3.8165%

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***Actual debt service requirements versus the projected debt service on the swap transaction.***

For the fiscal year ending June 30, 2019, actual debt service was less than projected resulting in less variable-rate payments made on the bonds as compared to the variable-rate payments received from the swap in the amount of \$1,142,740 for fiscal year 2019:

Swap Counterparty	Actual Debt Service	Projected Debt Service	Variance	
			\$	%
Bank of America	\$ 4,192,428	\$ 4,572,811	\$ (380,383)	-8.3184%
Bank of America	4,742,341	5,117,926	(375,585)	-7.3386%
Goldman Sachs Mitsui Marine Derivative Products	4,731,154	5,117,926	(386,772)	-7.5572%
	<u>\$ 13,665,923</u>	<u>\$ 14,808,663</u>	<u>\$ (1,142,740)</u>	<u>-7.7167%</u>

Over the life of the swaps from the issuance of the bonds through June 30, 2019, 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 \$3,241,851. 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 39 basis points, the Series C bonds is 35 basis points, and the SBPA cost for the Series D bonds is 34 basis points.

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

**Objective.** On March 19, 2009, 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 initial notional amounts of the swaps are \$156,600,000 each. Under two of the 2008 Interest Rate Swaps, the Commission pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. The 2018 Basis Rate Swaps overlay these two 2008 Interest Rate Swaps with a payment of the SIFMA index and a receipt of 107.4 percent of LIBOR for the last 20 years of the swap (April 2018 to April 2038).

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**Fair values.** The swaps had a total combined positive fair value of \$17,772,738 at fiscal year-end. The fair values of the derivatives were estimated by an independent third party based on mid-market levels as of the close of business on June 30, 2019. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

	Changes in Fair Value		Fair Value at June 30, 2018		
	Classification	Amount	Classification	Amount	Notional
Investment derivatives:					
Pay-floating Receive floating interest rate swaps	Investment earnings	(\$6,346,263)	Investment	\$17,772,738	\$313,200,000

**Terms and fair value of investment derivative instruments**

The following table displays the terms and fair value of the Commission's investment derivative instruments outstanding at June 30, 2019, along with the credit rating of the associated swap counterparty:

Variable Rate Paid	Variable Rate Received	Trade Date	Effective Date	Maturity Date	Fair Value	Notional Amount	Counterparty Credit Rating*
SIFMA Swap Index	107.4% of 3-month USD-LIBOR	3/19/2009	4/1/2018	4/1/2038	\$8,886,369	\$156,600,000	A2/A/A
SIFMA Swap Index	107.4% of 3-month USD-LIBOR	3/19/2009	4/1/2018	4/1/2038	\$8,886,369	\$156,600,000	A2/A/A

\*Moody's/S&P/Fitch

**Credit risk.** This is the risk that the counterparty will fail to perform under the terms of the agreements. As of June 30, 2019, the Commission was exposed to credit risk on these swaps in the amount of \$17,772,738, which is the fair value of the derivatives. However, should interest rates change and the fair value of the swaps become negative, the Commission would not be exposed to any credit risk. The favorable credit rating of the counterparty mitigates this risk.

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

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interest earned, as deposits payable. At June 30, 2019, there was \$4,594,956 reported as deposits payable.

**Netting.** Under terms of the ISDA Master Agreement, in respect of the same transaction, the Commission and Barclays may elect a net amount due and payable for the party with the larger aggregate amount over the smaller aggregate amount. The Commission and Barclays elected the netting option, which resulted in net receipts of \$3,662,162 by the Commission at year end.

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

**Basis risk.** This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable-rate debt issued in 2008. The Commission is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Commission pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on current and historical experience, staff expects the overlay of the SIFMA to LIBOR Basis Rate Swaps to significantly reduce the costs of financing after 2018, assuming a return to normal, or even near to normal trading relationships. Due to the favorable market conditions during fiscal year 2019, the Commission was not exposed to basis risk since the variable rate received was more than the variable rate paid and amounted to \$3,662,162.

**Termination risk and termination payments.** This is the risk that the transaction is terminated in a market dictating a termination payment by the Commission. The Commission can terminate a swap at the fair market value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. Given the positive fair value at June 30, 2019, the Commission was in a favorable termination position relative to the market.

SANDAG Board Policy No. 032: San Diego County Regional Transportation Commission Interest Rate Swap Policy requires a contingency plan to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. Should a swap be terminated, the excellent credit rating of the Commission would allow it to assign the swap to another counterparty. Alternatively, if a swap is terminated and it has a negative fair value, the Commission could use *TransNet* sales tax receipts to fund the termination payment.

**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, 2019:

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	June 30, 2019	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>Investments by fair value level</b>				
U.S. Agencies	\$ 229,689,971	\$ 35,595,282	\$ 194,094,689	\$ -
Corporate Medium-Term Notes	94,193,738	-	94,193,738	-
Supra-National Agency Bond/Notes	24,574,340	-	24,574,340	-
Certificates of Deposit	17,046,785	-	17,046,785	-
Asset-Backed Securities	8,209,600	-	8,209,600	-
Total investments by fair value level	373,714,434	35,595,282	338,119,152	-
<b>Investment derivative instruments</b>				
Interest rate swaps	\$ (93,100,070)		\$ (93,100,070)	
Basis rate swaps	\$ 17,772,738		\$ 17,772,738	
Total investment derivative instruments	\$ (75,327,332)		\$ (75,327,332)	

Investment securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investment securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investment derivative instruments is comprised of three forward interest rate swaps valued at (\$93,100,070) and two basis swap overlays valued at \$17,772,738, for a net value of (\$75,327,332).

**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
2020	\$ -	\$ 11,232,001	\$ 13,080,652	\$ 24,312,653
2021	-	11,232,001	13,080,652	24,312,653
2022	-	11,232,001	13,080,652	24,312,653
2023	18,600,000	11,102,175	12,929,459	24,031,634
2024	19,200,000	10,578,686	12,319,808	22,898,494
2025-2029	108,300,000	44,306,099	51,598,343	95,904,442
2030-2034	131,100,000	27,805,695	32,382,173	60,187,868
2035-2038	125,100,000	8,038,713	9,361,786	17,400,499
<b>Total</b>	<b>\$ 402,300,000</b>	<b>\$ 135,527,371</b>	<b>\$ 157,833,525</b>	<b>\$ 293,360,896</b>



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The bonds bear interest at a variable rate, which is reset weekly. See Note II.D for the annual reset rate ranges for each remarketing agent. The above table incorporates the net receipts/payments of the hedging derivative instruments that are associated with this debt. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note II.D 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 5.911 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.

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
2020	\$ -	\$ 13,556,307
2021	-	13,556,307
2022	-	13,556,307
2023	-	13,556,308
2024	-	13,556,308
2025-2029	-	67,781,536
2030-2034	-	67,781,536
2035-2039	28,440,000	67,781,536
2040-2044	159,455,000	49,820,509
2045-2048	151,065,000	15,388,424
	<u>\$ 338,960,000</u>	<u>\$ 336,335,078</u>

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2020	\$ 750,000	\$ 225,550
2021	395,000	195,550
2022	410,000	179,750
2023	430,000	163,350
2024	445,000	146,150
2025-2029	2,515,000	438,600
2030	570,000	22,800
	<u>\$ 5,515,000</u>	<u>\$ 1,371,750</u>

Under GASB 88, the 2010 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 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 2012 Series A bonds**

On June 14, 2012, the Commission issued \$420,585,000 of 2012 Series A sales tax revenue fixed-rate bonds (2012 Series A bonds) to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to refund \$151,500,000 of the Series 2008 bonds, terminate a corresponding portion of the interest rate swaps relating to the Series 2008 bonds, and pay the costs of issuing the 2012 Series A bonds. The 2012 Series A bonds included a premium of \$55,876,982 and carry a fixed interest rate of 3.703 percent with a maturity date of April 1, 2048.

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2020	\$ 18,700,000	\$ 14,839,750
2021	19,970,000	13,954,750
2022	20,965,000	12,956,250
2023	3,525,000	11,908,000
2024	3,790,000	11,731,750
2025-2029	20,895,000	55,712,750
2030-2034	27,985,000	49,866,250
2035-2039	39,900,000	42,187,500
2040-2044	76,065,000	28,340,006
2045-2048	74,750,000	8,780,806
<b>Total</b>	<u>\$ 306,545,000</u>	<u>\$ 250,277,812</u>

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Under GASB 88, the 2012 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 2014 Series A bonds**

On September 10, 2014, SANDAG issued \$350,000,000 Series 2014 A sales tax revenue bonds to finance continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$42,725,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2014 bonds. The Series A sales tax revenue bonds include a premium of \$55,305,484 and carry an overall all-in interest rate of 3.85 percent with a maturity date of April 1, 2048.

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2020	\$ 5,315,000	\$ 16,448,450
2021	5,580,000	16,182,700
2022	5,860,000	15,903,700
2023	6,155,000	15,610,700
2024	6,460,000	15,302,950
2025-2029	37,480,000	71,334,250
2030-2034	47,835,000	60,979,750
2035-2039	61,050,000	47,763,500
2040-2044	77,915,000	30,897,000
2045-2048	77,420,000	9,633,375
<b>Total</b>	<b>\$ 331,070,000</b>	<b>\$ 300,056,375</b>

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.

**5. The 2016 Series A bonds**

On August 17, 2016, the Commission issued \$325,000,000 Series 2016 A sales tax revenue bonds to finance the Commission's continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$46,445,000 in outstanding commercial paper notes, and to pay the costs of issuing the Series 2016 bonds. The Series A sales tax revenue bonds included a

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premium of \$78,818,562 and carry an overall all-in interest rate of 3.283 percent with a maturity date of April 1, 2048.

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

Maturity (April 1, Oct 1)	Principal Amount	Interest Amount
2020	\$ 5,020,000	\$ 15,645,000
2021	5,270,000	15,394,000
2022	5,535,000	15,130,500
2023	5,810,000	14,853,750
2024	6,105,000	14,563,250
2025-2029	35,415,000	67,921,000
2030-2034	45,185,000	58,137,750
2035-2039	57,680,000	45,652,750
2040-2044	73,605,000	29,718,000
2045-2048	73,275,000	9,382,750
<b>Total</b>	<b>\$ 312,900,000</b>	<b>\$ 286,398,750</b>

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.

**6. The 2017 Transportation Infrastructure Finance and Innovation Act loan (Direct Borrowing, unused credit line)**

On June 27, 2017, the Commission entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement with the United States Department of Transportation to finance the Commission's continued implementation of the *TransNet* program for up to \$537,484,439 of costs to complete the Mid-Coast Corridor Transit Project. Under terms of the agreement, the Commission will pay an interest rate of 2.72 percent with anticipated disbursement of loan proceeds in 2021. The Commission'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. At June 30, 2019, there was no outstanding obligation due and the unused portion is equal to the maximum borrowing amount of \$537,484,439.

Under GASB 88, the TIFIA loan is classified as a direct borrowing. The full line of credit balance of \$537,484,439 is unused at June 30, 2019. 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

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**For the Fiscal Year Ended June 30, 2019**

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.

**7. The 2018 short-term notes**

On April 1, 2018, the Commission issued \$537,480,000 Series A subordinate sales tax revenue short-term notes (2018 short-term notes) to finance costs associated with the Mid-Coast Corridor Transit Project, in advance of the TIFIA loan, to retire \$27,586,000 of outstanding commercial paper notes related to the Mid-Coast Corridor Transit Project, and to pay the costs of issuing the series 2018 short-term notes. The 2018 short-term notes included a premium of \$31,625,092 and carries an overall all-in interest rate of 1.812% with a maturity date of April 1, 2021.

The principal requirements to maturity for the 2018 short-term notes, are as follows:

Maturity (April 1)	Principal Amount	Interest Amount
2020	\$ -	\$ 20,499,200
2021	537,480,000	20,499,200
<b>Total</b>	<b>\$ 537,480,000</b>	<b>\$ 40,998,400</b>

Under GASB 88, the 2018 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 notes. 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. 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.

At June 30, 2019, the Commission CPN was authorized to issue up to \$100,000,000 aggregate principal, with \$100,000,000 in letters of credit in place. Rates paid under the Reimbursement Agreement with Bank of America supporting the CPN are 32 basis points and are set to expire

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**For the Fiscal Year Ended June 30, 2019**

on September 10, 2021. Commission CPN are issued with maturity dates ranging from one to 270 days at various interest rates.

During the fiscal year, the balance of notes issued and outstanding was \$28,692,000. Interest rates during the current year have varied from 1.37 percent to 1.78 percent, with maturities from 24 days to 91 days. The interest rate on the outstanding amount at June 30, 2019, was 1.42 percent on \$28,692,000 of notes, with a maturity of 66 days on \$2,000,000, 82 days on \$1,857,000 and 91 days on \$24,835,000. As such, the outstanding amounts have been classified as current liabilities.

The scheduled principal requirements to maturity for the CPN are as follows:

Scheduled Repayment	Principal Amount	Interest Amount
2020	\$ 1,857,000	\$ 554,494
2021	2,459,000	538,034
2022	3,009,000	521,574
2023	2,267,000	505,114
2024	1,350,000	498,014
2025 - 2029	7,500,000	2,490,070
2030 - 2034	8,450,000	2,490,070
2035	1,800,000	498,014
Total	<u>\$ 28,692,000</u>	<u>\$ 8,095,384</u>

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 \$71,308,000 is unused at June 30, 2019. 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) By notice to SANDAG, declare all Obligations to be, and such amounts shall become immediately due and payable with presentment, demand, protest or other notice of any kind, all of which are waived by SANDAG; provided that upon the occurrence of an Event of Default such acceleration shall automatically occur (unless such automatic acceleration is waived by the lender in writing);
- b) By notice of the occurrence of any Event of Default to the Issuing and Paying Agent (which notice shall constitute a "Notice of No Issuance" for purposes of the Issuing and Paying

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**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

Agent Agreement) prohibit, until such time, if any, as the lender shall withdraw (in writing) such notice, the issuance of additional Commercial Paper Notes, reduce the Stated Amount of the Letter of Credit to the amount of the then Outstanding Commercial Paper Notes supported by the Letter of Credit and interest payable thereon at maturity of such Commercial Paper Notes and/or terminate and/or permanently reduce such Stated Amount as the then Outstanding Commercial Paper Notes are paid;

- c) Issue the Final Drawing Notice (the effect of which shall be to cause the Termination Date of the Letter of Credit to occur on the 15th day after the date of receipt thereof by the Issuing and Paying Agent);
- d) Pursue any rights and remedies it may have under the Related Documents or the Law or the Ordinance; or
- e) Pursue any other action available at law or in equity

**9. Changes in long-term debt**

Long-term debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance July 1, 2018	Increases	Decreases	Ending Balance June 30, 2019	Due Within One Year
Senior lien debt:					
2008 bonds	\$ 402,300,000	\$ -		\$ 402,300,000	\$ -
2010 A bonds	338,960,000	-		338,960,000	-
2010 B bonds	6,235,000	-	(720,000)	5,515,000	750,000
2012 bonds	324,400,000	-	(17,855,000)	306,545,000	18,700,000
2014 bonds	336,130,000	-	(5,060,000)	331,070,000	5,315,000
2016 bonds	317,680,000	-	(4,780,000)	312,900,000	5,020,000
Premium	157,107,559	-	(8,611,603)	148,495,956	
Total senior lien debt	1,882,812,559	-	(37,026,603)	1,845,785,956	29,785,000
Subordinate lien debt:					
2018 short-term notes	537,480,000	-	-	537,480,000	-
Premium	29,636,301	-	(10,893,303)	18,742,998	-
CPN (Direct)	26,614,000	3,417,000	(1,339,000)	28,692,000	28,692,000
Total subordinate lien debt	593,730,301	3,417,000	(12,232,303)	584,914,998	28,692,000
Total long-term debt	<u>\$ 2,476,542,860</u>	<u>\$ 3,417,000</u>	<u>\$ (49,258,906)</u>	<u>\$ 2,430,700,954</u>	<u>\$ 58,477,000</u>

**10. 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 \$3,406,416,988 for payments through fiscal year 2048.

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**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2019**

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 2019 Amount of Pledged Revenue	Fiscal Year 2019 Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Sales Tax	\$ 303,529,448	\$ 131,997,061	43.49%

**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	\$ 4,225,416
Investment operations	113,205
Debt financing	35,000
Other	9,145
Total Encumbrances	<u>\$ 4,382,766</u>

**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 Comprehensive Annual Financial Report for further details.



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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**San Diego County Regional Transportation Commission**  
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**Sales Tax Projects Special Revenue Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2019**

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Sales tax	\$ 300,896,616	\$ 300,896,616	\$ 303,529,448	\$ 2,632,832
Investment earnings	7,392,917	7,392,917	15,719,315	8,326,398
Other revenues	-	-	470,028	470,028
<b>Total revenues</b>	<b>308,289,533</b>	<b>308,289,533</b>	<b>319,718,791</b>	<b>11,429,258</b>
<b>EXPENDITURES:</b>				
Current:				
General government	3,008,966	3,008,966	3,008,966	-
Bicycle facilities	6,017,932	6,017,932	21,884,501	(15,866,569)
Independent Taxpayer Oversight Committee	399,019	399,019	368,376	30,643
Major corridor capital projects	110,758,865	110,272,012	156,792,409	(46,520,397)
Major corridor environmental mitigation	12,824,711	13,311,564	62,379,890	(49,068,326)
Local project environmental mitigation	5,246,473	5,246,473	10,002	5,236,471
Local street improvements	84,817,973	84,817,973	79,740,973	5,077,000
Smart growth	6,120,885	6,120,885	2,851,039	3,269,846
New major corridor transit operations	23,609,127	23,609,127	16,360,503	7,248,624
Transit system improvements	48,092,665	48,092,665	49,806,350	(1,713,685)
<b>Total expenditures</b>	<b>300,896,616</b>	<b>300,896,616</b>	<b>393,203,009</b>	<b>(92,306,393)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,392,917</b>	<b>7,392,917</b>	<b>(73,484,218)</b>	<b>(80,877,135)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	123,583,576	123,583,576	326,131,270	202,547,694
Transfers out	(117,827,730)	(124,353,806)	(129,147,071)	(4,793,265)
<b>Total other financing sources (uses)</b>	<b>5,755,846</b>	<b>(770,230)</b>	<b>196,984,199</b>	<b>196,213,969</b>
<b>Net change in fund balances</b>	<b>\$ 13,148,763</b>	<b>\$ 6,622,687</b>	<b>123,499,981</b>	<b>\$ 116,877,294</b>
<b>FUND BALANCES:</b>				
Beginning of year			430,427,277	
End of year			<b>\$ 553,927,258</b>	

See accompanying Notes to Required Supplementary Information.

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**Notes to Required Supplementary Information**  
**For the Fiscal Year Ended June 30, 2019**

**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 project expenditures of the special revenue fund.

The Commission sales tax projects fund ended the year with \$92,306,393 of expenditures in excess of appropriations, which is primarily the result of bond proceeds used for major corridor capital and environmental mitigation program projects; and large payments of sales tax to bicycle facilities and transit system improvements. This fund is budgeted based on estimated sales tax revenues and does not include the use of debt proceeds or unspent revenue received in prior years.

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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, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Investment earnings	\$ -	\$ -	\$ 8,546,895	\$ 8,546,895
Debt repayments from other governments	-	-	1,990,505	1,990,505
Federal funds	6,479,618	6,479,618	6,563,769	84,151
<b>Total revenues</b>	<b>6,479,618</b>	<b>6,479,618</b>	<b>17,101,169</b>	<b>10,621,551</b>
<b>EXPENDITURES:</b>				
Current:				
Debt service:				
Principal retirement	28,415,000	28,504,000	29,754,000	(1,250,000)
Interest and other charges	89,412,730	95,849,806	104,238,608	(8,388,802)
<b>Total expenditures</b>	<b>117,827,730</b>	<b>124,353,806</b>	<b>133,992,608</b>	<b>(9,638,802)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(111,348,112)</b>	<b>(117,874,188)</b>	<b>(116,891,439)</b>	<b>982,749</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	117,827,730	124,353,806	129,147,071	(4,793,265)
Transfers out	(123,583,576)	(123,583,576)	(326,131,270)	202,547,694
Commercial paper issued	-	-	3,417,000	(3,417,000)
<b>Total other financing sources (uses)</b>	<b>(5,755,846)</b>	<b>770,230</b>	<b>(193,567,199)</b>	<b>194,337,429</b>
<b>Net change in fund balances</b>	<b>\$ (117,103,958)</b>	<b>\$ (117,103,958)</b>	<b>(310,458,638)</b>	<b>\$ (193,354,680)</b>
<b>FUND BALANCES:</b>				
Beginning of year			413,051,537	
End of year			<u>\$ 102,592,899</u>	



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# STATISTICAL SECTION

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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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
Financial Trends These schedules contain trend information to help the reader understand how the Commission's financial performance and well-being changed over time.	71
Revenue Capacity These schedules contain information to help the reader assess the Commission's most significant local revenue source, the sales tax.	74
Debt Capacity These schedules present information to help the reader assess the affordability of the Commission's current levels of outstanding debt and the Commission's ability to issue additional debt in the future.	76

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				
	2010	2011 <sup>1</sup>	2012	2013	2014
Reserved					
Special revenue fund	\$ 1,190,744	\$ -	\$ -	\$ -	\$ -
Debt service fund	55,324,637	-	-	-	-
Total reserved	<u>\$ 56,515,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Unreserved, reported in:					
Special revenue funds	\$ 283,589,217	\$ -	\$ -	\$ -	\$ -
Debt service fund	157,891,614	-	-	-	-
Restricted, reported in:					
Special revenue funds	-	380,945,586	447,198,151	416,962,635	502,568,971
Debt service fund	-	436,660,863	393,359,255	291,362,816	62,883,888
Total all other governmental funds	<u>\$ 441,480,831</u>	<u>\$ 817,606,449</u>	<u>\$ 840,557,406</u>	<u>\$ 708,325,451</u>	<u>\$ 565,452,859</u>

	Fiscal Year				
	2015	2016	2017	2018	2019
Nonspendable, reported in:					
Special revenue funds	\$ -	\$ 32,083	\$ 31,287	\$ 32,620	\$ 36,719
Restricted, reported in:					
Special revenue funds	573,714,521	558,745,889	480,706,434	430,394,657	553,890,538
Debt service fund	231,030,381	69,088,189	225,652,427	413,051,537	102,592,899
Total all other governmental funds	<u>\$ 804,744,902</u>	<u>\$ 627,866,161</u>	<u>\$ 706,390,148</u>	<u>\$ 843,478,814</u>	<u>\$ 656,520,156</u>

Source: Finance Department

<sup>1</sup> The Commission adopted GASB Statement 54 in fiscal year 2011.

**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				
	2010 <sup>1</sup>	2011	2012	2013	2014
<b>Revenues</b>					
Local <i>TransNet</i> sales tax funds	\$ 208,504,753	\$ 223,939,663	\$ 239,071,064	\$ 249,520,133	\$ 261,732,291
Investment earnings	9,212,254	4,640,961	5,148,699	4,328,023	6,393,467
Debt repayments from other governments	1,182,228	1,430,353	943,177	1,624,727	1,593,525
Federal funds	-	2,746,591	7,012,574	7,012,574	6,455,074
Other revenues	91,664	35,168	82,920	4,476,536	21,934
<b>Total revenues</b>	<b>218,990,899</b>	<b>232,792,736</b>	<b>252,258,434</b>	<b>266,961,993</b>	<b>276,196,291</b>
<b>Expenditures</b>					
Current:					
General government	1,997,922	2,035,283	2,251,010	2,428,258	2,624,782
Bicycle facilities	1,006,807	1,146,136	2,389,972	1,790,439	7,341,136
Independent Taxpayer Oversight Committee	126,063	85,510	356,159	83,071	96,017
Major corridor capital projects	127,632,511	110,766,113	287,803,173	189,116,968	249,053,945
Major corridor environmental mitigation	19,388,696	22,224,499	40,962,875	1,999,891	18,362,651
Local project environmental mitigation	1,913	33,793	1,744	7,917,042	508,632
Local street improvements	32,927,959	33,306,399	94,405,896	78,188,231	62,038,187
Smart growth	875,303	934,697	1,841,385	2,372,485	2,545,943
New major corridor transit operations	2,180,492	1,630,633	1,912,773	2,972,076	3,368,969
Transit system improvements	54,038,344	35,848,596	37,723,736	39,734,615	40,308,350
Debt service:					
Principal retirement	11,962,000	20,048,000	165,460,000	20,260,000	16,585,000
Debt issuance costs	-	2,864,732	2,296,858	-	-
Interest and other charges	26,678,486	33,107,476	69,284,878	53,909,872	56,961,271
<b>Total expenditures</b>	<b>278,816,496</b>	<b>264,031,867</b>	<b>706,690,459</b>	<b>400,772,948</b>	<b>459,794,883</b>
Excess of revenues over (under) expenditures	(59,825,597)	(31,239,131)	(454,432,025)	(133,810,955)	(183,598,592)
<b>Other financing sources (uses)</b>					
Transfers in	197,740,119	179,635,644	443,933,392	193,538,830	348,973,909
Transfers out	(197,740,119)	(179,635,644)	(443,933,392)	(193,538,830)	(348,973,909)
Commercial paper issued	5,450,000	-	921,000	1,579,000	40,726,000
Bonds issued	-	350,000	420,585,000	-	-
Premium on bonds issued	-	849,368	55,876,982	-	-
<b>Total other financing sources (uses)</b>	<b>5,450,000</b>	<b>1,199,368</b>	<b>477,382,982</b>	<b>1,579,000</b>	<b>40,726,000</b>
<b>Net change in fund balances</b>	<b>\$ (54,375,597)</b>	<b>\$ (30,039,763)</b>	<b>\$ 22,950,957</b>	<b>\$ (132,231,955)</b>	<b>\$ (142,872,592)</b>
<b>Debt service as a percentage</b>					
<b>of noncapital expenditures</b>	14.10%	22.83%	34.04%	14.32%	21.90%

Source: Finance Department

<sup>1</sup> Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. Prior years are not restated. The comparability impact be

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				
	2015	2016	2017	2018	2019
<b>Revenues</b>					
Local <i>TransNet</i> sales tax funds	\$ 270,482,476	\$ 276,383,787	\$ 286,965,955	\$ 302,364,081	\$ 303,529,448
Investment earnings	7,057,123	9,986,050	7,537,881	11,123,983	24,266,210
Debt repayments from other governments	1,729,969	1,879,752	1,806,954	1,519,755	1,990,505
Federal funds	6,504,162	6,518,187	6,532,213	6,548,928	6,563,769
Other revenues	21,934	27,396	21,934	21,756	470,027
<b>Total revenues</b>	<b>285,795,664</b>	<b>294,795,172</b>	<b>302,864,937</b>	<b>321,578,503</b>	<b>336,819,959</b>
<b>Expenditures</b>					
Current:					
General government	2,699,655	2,834,638	3,253,760	2,921,326	3,008,966
Bicycle facilities	9,903,097	7,629,790	12,359,549	17,633,821	21,884,501
Independent Taxpayer Oversight Committee	367,036	98,320	100,853	365,953	368,376
Major corridor capital projects	140,687,406	210,648,700	287,491,607	409,593,151	156,792,409
Major corridor environmental mitigation	32,491,051	25,774,110	21,833,308	54,214,331	62,379,890
Local project environmental mitigation	157,593	405,130	599,181	14,275	10,002
Local street improvements	76,876,715	113,824,414	85,217,505	87,335,011	79,740,973
Smart growth	4,188,347	5,700,803	2,144,441	5,755,591	2,851,039
New major corridor transit operations	11,857,463	11,803,461	11,530,015	13,085,981	16,360,503
Transit system improvements	43,690,447	44,664,969	46,501,493	46,309,212	49,806,350
Debt service:					
Principal retirement	60,050,000	22,455,000	72,510,000	55,906,000	29,754,000
Debt issuance costs	553,594	-	1,284,951	1,557,833	-
Interest and other charges	66,587,190	72,279,578	83,332,849	87,552,444	104,238,608
<b>Total expenditures</b>	<b>450,109,594</b>	<b>518,118,913</b>	<b>628,159,512</b>	<b>782,244,929</b>	<b>527,195,617</b>
Excess of revenues over (under) expenditures	(164,313,930)	(223,323,741)	(325,294,575)	(460,666,426)	(190,375,658)
<b>Other financing sources (uses)</b>					
Transfers in	296,214,096	309,040,484	325,982,709	512,956,620	455,278,341
Transfers out	(296,214,096)	(309,040,484)	(325,982,709)	(512,956,620)	(455,278,341)
Commercial paper issued	1,999,000	46,445,000	-	28,650,000	3,417,000
Bonds issued	350,000,000	-	325,000,000	537,480,000	-
Premium on bonds issued	55,305,483	-	78,818,562	31,625,092	-
<b>Total other financing sources (uses)</b>	<b>407,304,483</b>	<b>46,445,000</b>	<b>403,818,562</b>	<b>597,755,092</b>	<b>3,417,000</b>
<b>Net change in fund balances</b>	<b>\$ 242,990,553</b>	<b>\$(176,878,741)</b>	<b>\$ 78,523,987</b>	<b>\$ 137,088,666</b>	<b>\$(186,958,658)</b>
<b>Debt service as a percentage</b>					
<b>of noncapital expenditures</b>	<b>28.78%</b>	<b>18.28%</b>	<b>24.81%</b>	<b>18.34%</b>	<b>25.42%</b>

Source: Finance Department

<sup>1</sup> Beginning in 2010, the methodology for accruing sales tax changed between years is minimal since each year represents 12 months of sales tax.

Note: Certain amounts from prior years have been reclassified in order

**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)*

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Fiscal Year	Sales Tax
2010	\$ 208,504,753
2011	223,939,663
2012	239,071,064
2013	249,520,133
2014	261,732,291
2015	270,482,476
2016	276,383,787
2017	286,965,955
2018	302,364,081
2019	303,529,448

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**

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Fiscal Year	<i>TransNet</i> Sales Tax Proposition A <sup>1</sup>	County of San Diego <sup>2</sup>
2010	0.50%	8.75%
2011	0.50%	8.75%
2012	0.50%	7.75%
2013	0.50%	8.00%
2014	0.50%	8.00%
2015	0.50%	8.00%
2016	0.50%	8.00%
2017	0.50%	7.75%
2018	0.50%	7.75%
2019 <sup>3</sup>	0.50%	7.75%

Source: California Department of Tax and Fee Administration.

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

<sup>2</sup> The following six cities within the County of San Diego have a sales tax rate other than 7.75%:

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

<sup>3</sup> Rates Effective 07/1/19



**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				Percentage of Personal Income <sup>1</sup>	Debt Per Capita <sup>1</sup>
	Sales Tax Revenue					
	Bonds	Short-Term	Commercial	Total		
		Bonds	Paper			
2010	\$ 577,800,000	\$ -	\$ 41,888,000	\$ 619,688,000	0.380%	200
2011	916,463,741	-	34,000,000	950,463,741	0.563%	305
2012	1,228,392,144	-	33,821,000	1,262,213,144	0.723%	403
2013	1,208,152,472	-	33,989,000	1,242,141,472	0.695%	394
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% <sup>2</sup>	725 <sup>2</sup>

Source: Finance Department..

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

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

<sup>2</sup> Used the most recent data available (2018).

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

Fiscal Year	Sales Tax Revenue	Sales Tax Revenue								Coverage
		Bonds		Short-Term Notes		Commercial Paper		Total		
		Debt Service		Debt Service		Debt Service		Debt Service		
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ 208,504,753	\$ 11,400,000	\$ 21,583,544	\$ -	\$ -	\$ 562,000	\$ 221,555	\$ 11,962,000	\$ 21,805,099	6.17
2011	223,939,663	12,160,000	29,792,943	-	-	572,000	381,768	12,732,000	30,174,711	5.22
2012	239,071,064	164,360,000	42,798,432	-	-	1,100,000	737,393	165,460,000	43,535,825	1.14
2013	249,520,133	18,640,000	50,723,216	-	-	1,620,000	584,452	20,260,000	51,307,668	3.49
2014	261,732,291	15,080,000	54,038,836	-	-	1,505,000	370,577	16,585,000	54,409,413	3.69
2015	270,482,476	15,490,000	63,254,010	-	-	1,835,000	401,719	17,325,000	63,655,729	3.34
2016	276,383,787	20,570,000	70,123,201	-	-	1,885,000	415,880	22,455,000	70,539,081	2.97
2017	286,965,955	24,260,000	80,450,441	-	-	1,805,000	581,493	26,065,000	81,031,934	2.68
2018	302,364,081	27,120,000	84,878,338	-	-	1,200,000	788,060	28,320,000	85,666,398	2.65
2019	303,529,448	28,415,000	101,809,081	-	-	1,339,000	433,980	29,754,000	102,243,061	2.30

Source: Finance Department

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

INDEPENDENT AUDITOR'S 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*

Board of Directors  
San Diego County Regional Transportation Commission  
San Diego, California

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 component unit of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2019, 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 13, 2019.

### **Internal Control Over Financial Reporting**

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

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

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

(Continued)

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting 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.



Crowe LLP

Costa Mesa, California  
December 13, 2019



