NEW ISSUE BOOK ENTRY ONLY

RATINGS:
Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA

Taxable (Federal)
Tax-Exempt (State of California)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Series 2004 Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds. See "Tax Matters" herein.

$454,112,915.70
COUNTY OF SAN DIEGO
TAXABLE PENSION OBLIGATION BONDS

$241,360,000	$147,825,000	$64,927,915.70
Series 2004 A	Series 2004 B	Series 2004 C
(Current Interest Bonds)	(Auction Rate Securities)	(Capital Appreciation Bonds)

Dated: Date of Delivery **Due: August 15, as shown on inside cover page**

The County of San Diego (the "County") is issuing its Taxable Pension Obligation Bonds, Series 2004A, Series 2004B and Series 2004C (collectively, the "Series 2004 Bonds") in an aggregate principal amount of $454,112,915.70 pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3, Division 2, Title 5 of the Government Code of the State of California and a Trust Agreement, dated as of January 1, 1994, by and between the County and U.S. Trust Company of California, N.A. as amended and supplemented by the First Supplemental Trust Agreement, dated as of September 1, 2002 (collectively, the "Existing Trust Agreement"), and the Second Supplemental Trust Agreement (the "Second Supplemental Trust Agreement" and, together with the Existing Trust Agreement, the "Trust Agreement") dated as of June 1, 2004 by and between the County and BNY Western Trust Company, as trustee (the "Trustee"). Pursuant to the County Employees Retirement Law of 1937, as amended (the "Retirement Law"), the Board of Supervisors of the County is required to make the appropriations to pay the amounts required to be paid by the County pursuant to the Retirement Law, including the unfunded accrued actuarial liability which is evidenced by the Series 2004 Bonds, and if it fails or neglects to make the appropriations, the Auditor of the County is required to transfer from any money available in any fund in the County's treasury the sums specified by the Retirement Law, and such transfer will have the same force and effect as it would have had if the required appropriation had been made by the Board of Supervisors of the County. In respect of its statutory obligation as of June 30, 2003, the County will execute a Pension Obligation Debenture (the "Debenture") in favor of the San Diego County Employees' Retirement Association (the "Association"). The Series 2004 Bonds are being issued to refund the Debenture and to pay certain costs of issuing the Series 2004 Bonds. See "Plan of Financing" and "Security and Sources of Payment for the Series 2004 Bonds."

Interest on the Series 2004A Bonds will be payable on February 15 and August 15, commencing on August 15, 2005 interest on the Series 2004B Bonds will be payable on February 15 and August 15, commencing on August 15, 2004. Interest on the Series 2004C Bonds will accrete from their delivery date and compound semiannually on February 15 and August 15 of each year, commencing on August 15, 2004. The Series 2004A Bonds and the Series 2004C Bonds will bear or accrete interest, as applicable, at the rates set forth on the inside front cover page. Interest on the Series 2004B Bonds (the "Auction Rate Securities") will accrue at the Applicable Auction Rates until the Fixed Rate Conversion Date for such Series 2004B Bonds as described under the caption "The Bonds — Series 2004B Bonds" herein and in Appendix F hereto.

The Series 2004 Bonds are being issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") in the United States. DTC will act as securities depository of the Series 2004 Bonds. Individual purchases will be made in book-entry form only in denominations of (i) with respect to Series 2004A Bonds and the Series 2004C Bonds, $5,000 principal amount or any integral multiple thereof and (ii) with respect to Auction Rate Securities, $25,000 principal amount or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Series 2004 Bonds purchased. See Appendix E hereto.

Certain of the Series 2004 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein under the caption "The Series 2004 Bonds."

The scheduled payment of principal of and interest on the Series 2004A Bonds and the Series 2004C Bonds when due will be guaranteed under a municipal bond new issue insurance policy to be issued concurrently with the delivery of the Series 2004A Bonds and the Series 2004C Bonds by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company. See "Bond Insurance" herein and Appendix G hereto. The scheduled payment of principal of and interest on the Series 2004B Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2004B Bonds by XL Capital Assurance Inc. See "Bond Insurance" herein and Appendix H hereto.

The payment of Principal of, Accreted Value and interest on the Series 2004 Bonds are obligations imposed by law payable from funds to be appropriated by the County pursuant to the Retirement Law. Pursuant to section 31584 of the Retirement Law, the Board of Supervisors of the County is obligated to make appropriations to pay the unfunded accrued actuarial liability of the Association and pursuant to such section the County Auditor-Controller must transfer from any money available in any fund in the County treasury the sums specified if the Board of Supervisors fails to make such appropriations. In addition, the Series 2004 Bonds are secured on a parity together with the 1994 Bonds (as defined herein) and the 2002 Bonds (as defined herein) and any additional bonds which hereafter may be issued under the Trust Agreement, and are not secured or limited as to payment by any special source of funds of the County.

The Series 2004 Bonds do not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation. The Series 2004 Bonds do not constitute an indebtedness of the County, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2004 Bonds will be offered when, as and if executed, delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and for the County by the County Counsel. It is anticipated that the Series 2004 Bonds in definitive form will be available for delivery to DTC in New York, New York, or through the Euroclear System and Clearstream, Luxembourg in Europe on or about June 29, 2004.

Citigroup

E. J. De La Rosa & Co., Inc. **UBS Financial Services Inc.**

Dated: June 23, 2004

Maturity Schedule

$241,360,000 Series 2004A Bonds
(Current Interest Bonds)

Maturity (August 15)	Principal Amount	Interest Rate	CUSIP†
2006	$ 9,605,000	3.280%	797398DA9
2007	8,660,000	3.830	797398DB7
2008	10,225,000	4.230	797398DC5
2014	12,275,000	5.365	797398DD3
2016	23,350,000	5.585	797398DE1
2017	26,505,000	5.665	797398DF8
2018	29,900,000	5.715	797398DG6
2019	33,585,000	5.765	797398DH4
2020	37,555,000	5.795	797398DJ0
2021	41,905,000	5.835	797398DK7
2022	7,795,000	5.865	797398DL5

Price: 100%

$147,825,000 Series 2004B Bonds
(Auction Rate Securities)

Subseries	Principal Amount	Maturity (August 15)	Initial Auction Date	Auction Date Generally	Initial Interest Payment Date	Initial Auction Interest Period (Days)	CUSIP†
B-1	$73,925,000	2024	July 27, 2004	Each 4th Tuesday thereafter	August 15, 2004	29	797398CY8
B-2	$73,900,000	2024	August 10, 2004	Each 4th Tuesday thereafter	August 15, 2004	43	797398CZ5

Maturity Schedule
(Continued)

$64,927,915.70 Series 2004C Bonds
(Capital Appreciation Bonds)

Maturity (August 15)	Principal Amount	Yield to Maturity	Accreted Value at Maturity	CUSIP†
2009	$ 9,258,177.25	4.66%	$11,725,000	797398DM3
2010	9,671,578.95	4.93	13,035,000	797398DN1
2011	10,025,541.70	5.14	14,395,000	797398DP6
2012	10,304,869.80	5.32	15,790,000	797398DQ4
2013	10,552,492.50	5.48	17,285,000	797398DR2
2014	3,915,075.60	5.63	6,870,000	797398DS0
2015	11,200,179.90	5.76	21,070,000	797398DT8

(THIS PAGE INTENTIONALLY LEFT BLANK)

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

Dianne Jacob, Chairwoman	Second District
Pam Slater-Price, Vice-Chairwoman	Third District
Greg Cox	First District
Ron Roberts	Fourth District
Bill Horn	Fifth District

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Dan McAllister, *Treasurer - Tax Collector*
Donald F. Steuer, *Chief Financial Officer*
Tracy M. Sandoval, *Auditor-Controller*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Trustee
BNY Western Trust Company
Los Angeles, California

Financial Advisor
Kelling, Northcross & Nobriga
A Division of Zions First National Bank

No dealer, broker, salesperson or other person has been authorized by the County or the Underwriters to give any information or to make any representations in connection with the offer or sale of the Series 2004 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2004 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Series 2004 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the County or the Underwriters. The information and expression of opinion herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or any other parties described herein since the date hereof. All summaries of the Trust Agreement or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County for further information in connection therewith.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the Series 2004 Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2004 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2004 Bonds to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering price stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

TABLE OF CONTENTS

APPENDICES

$454,112,915.70
COUNTY OF SAN DIEGO
TAXABLE PENSION OBLIGATION BONDS
SERIES 2004

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2004 Bonds being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Trust Agreement. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement - Definitions."

General

This Official Statement, including the cover and the appendices attached hereto (the "Official Statement"), provides certain information concerning the Taxable Pension Obligation Bonds, Series 2004A (the "Series 2004A Bonds"), Series 2004B (the "Series 2004B Bonds") and Series 2004C (the "Series 2004C Bonds" and, together with the Series 2004A Bonds and Series 2004B Bonds, the "Series 2004 Bonds") issued by the County of San Diego (the "County"), in an aggregate principal amount of $454,112,915.70. The Series 2004 Bonds will be issued pursuant to a Trust Agreement, dated as of January 1, 1994, by and between the County and U.S. Trust Company of California, N.A. as amended and supplemented by the First Supplemental Trust Agreement, dated as of September 1, 2002 (collectively, the "Existing Trust Agreement"), and the Second Supplemental Trust Agreement (the "Second Supplemental Trust Agreement" and, together with the Existing Trust Agreement, the "Trust Agreement") dated as of June 1, 2004 by and between the County and BNY Western Trust Company, as trustee (the "Trustee").

In satisfaction of a portion of its statutory obligation to pay the County's portion of the San Diego County Employees' Retirement Association's (the "Association") unfunded actuarial accrued liability ("UAAL") of $1.434 billion as of June 30, 2003, the County will execute a Pension Obligation Debenture (the "Debenture") in the amount of $450,000,000 in favor of the Association. The Series 2004 Bonds are being issued to refund the Debenture and to pay certain costs of issuance. See "Plan of Financing" herein.

The Series 2004 Bonds are payable on a parity with the County's outstanding Taxable Pension Obligation Bonds, Series A issued in the initial aggregate principal amount of $430,430,000 (the "1994 Bonds") and the County's outstanding Taxable Pension Bonds, Series 2002A, Series 2002B and Series 2002C (the "2002 Bonds," collectively, the "Prior Bonds" and, together with the Series 2004 Bonds and any additional obligations which may be issued or incurred by the County under the Trust Agreement, the "Bonds"). See "Security and Sources of Payment for the Series 2004 Bonds" herein.

The County

The County, incorporated in 1850, is the southernmost major metropolitan area in the State of California and covers 4,255 square miles. The County population in 2003 was estimated to be 2,989,300, making it the third largest county in California. The County's Fiscal Year 2004-05 budget totals approximately $3.96 billion. The County possesses a diverse economic base consisting of manufacturing, world trade, financial services, tourism, agriculture, defense and aerospace technology industries. For financial, economic and demographic information about the County, see Appendix A hereto.

Security and Sources of Payment for the Series 2004 Bonds

The obligation of the County to make payments with respect to the Bonds is an absolute and unconditional obligation of the County imposed upon the County by law and enforceable against the County pursuant to the County Employees Retirement Law of 1937, as amended (the "Retirement Law"), and payment of Principal of, Accreted Value, premium, if any, and interest on the Bonds is not limited to any special source of funds. The Trust Agreement provides that the County is obligated to deposit or cause to be deposited with the Trustee the amount of the County's obligations on the Bonds for each fiscal year within thirty days of the commencement of such fiscal year. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement – Funds and Accounts – Bond Fund; Deposits to Bond Fund." In the event that the County fails or neglects to make appropriations and transfers in respect of its obligation to pay the Bonds, the judgment in the court action referred to in "Validation" below (the "Validation Action") holds that the County Auditor-Controller will be obligated pursuant to Section 31584 of the Retirement Law to satisfy the County's obligations under the Bonds from any money available in any fund in the County Treasury if the Board of Supervisors of the County (the "Board") fails or neglects to make such appropriations.

THE PAYMENT OF PRINCIPAL OF, ACCRETED VALUE AND INTEREST ON THE BONDS ARE OBLIGATIONS IMPOSED BY LAW PAYABLE FROM FUNDS TO BE APPROPRIATED BY THE COUNTY PURSUANT TO THE RETIREMENT LAW. PURSUANT TO SECTION 31584 OF THE RETIREMENT LAW, THE BOARD OF SUPERVISORS OF THE COUNTY IS OBLIGATED TO MAKE APPROPRIATIONS TO PAY THE COUNTY'S PORTION OF THE UNFUNDED ACCRUED ACTUARIAL LIABILITY OF THE ASSOCIATION AND PURSUANT TO SUCH SECTION THE COUNTY AUDITOR-CONTROLLER SHALL TRANSFER FROM ANY MONEY AVAILABLE IN ANY FUND IN THE COUNTY TREASURY THE SUMS SPECIFIED IF THE BOARD OF SUPERVISORS FAILS TO MAKE SUCH APPROPRIATIONS. THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

THE ASSOCIATION'S ASSETS WILL NOT SECURE OR BE AVAILABLE TO PAY PRINCIPAL OF, ACCRETED VALUE OR INTEREST ON THE BONDS.

The Series 2004 Bonds

Purchases of the Series 2004 Bonds will be made in denominations ("Authorized Denominations") of (i) with respect to the Series 2004A Bonds and the Series 2004C Bonds $5,000 principal amount or any integral multiple thereof and (ii) with respect to the Series 2004B Bonds (the "Auction Rate Securities"), $25,000 principal amount or any integral multiple thereof, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2004 Bonds. Ownership interests in the Series 2004 Bonds may be purchased in book-entry form only. Principal of, Accreted Value, premium, if any, and interest on the Series 2004 Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit such payment to its Participants for subsequent disbursement to the beneficial owners of interests in the Series 2004 Bonds. Interest on the Series 2004A Bonds will be payable on February 15 and August 15 of each year, commencing on August 15, 2005. Interest on the Series 2004B Bonds will be payable on February 15 and August 15 of each year, commencing on August 15, 2004. Interest on the Series 2004C Bonds will compound semiannually on February 15 and August 15 of each year, commencing on August 15, 2004. See "The Series 2004 Bonds" herein. See Appendix E – "Book-Entry Only System and Global Clearance Procedures" attached hereto.

Bond Insurance

The scheduled payment of principal of and interest on the Series 2004A Bonds and the Series 2004C Bonds when due will be guaranteed under a municipal bond new issue insurance policy to be issued concurrently with the delivery of the Series 2004A Bonds and the Series 2004C Bonds by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company. The scheduled payment of principal of and interest on the Series 2004B Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2004B Bonds by XL Capital Assurance Inc. See "Bond Insurance" herein and Appendix G – "Form of Municipal Bond New Issue Insurance Policy" and Appendix H – "Form of Financial Guaranty Insurance Policy" attached hereto.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Series 2004 Bonds is not excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds. See "Tax Matters" herein and Appendix D hereto.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters listed on the front cover page (collectively, the "Underwriters") in complying with SEC Rule 15c2-12(b)(5). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. See "Continuing Disclosure" herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. The County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur, whether or not they prove to be correct.

Miscellaneous

The description herein of the Trust Agreement and any other agreements relating to the Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement." Copies of the documents are on file and available for inspection at the principal corporate trust office of the Trustee at 700 South Flower, Suite 500, Los Angeles, California 90017; Attention: Corporate Trust Department. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Trust Agreement. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement" for definitions of certain words and terms used but not otherwise defined herein.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

PLAN OF FINANCING

Pursuant to Section 31584 of the Retirement Law, the Board is required to appropriate and pay amounts determined to be owing by the County to the Association. In satisfaction of a portion of its statutory obligation to pay the Association the County's portion of the UAAL in the amount of $1.434 billion as of June 30, 2003, the County will execute the Debenture in favor of the Association in the amount of $450,000,000. The Series 2004 Bonds are being issued to refund the Debenture and to pay certain costs of issuance.

APPLICATION OF SERIES 2004 BOND PROCEEDS

The proceeds of the Series 2004 Bonds are expected to be applied approximately as set forth below:

Refunding of Debenture	$450,000,000.00
Costs of Issuance[1]	4,112,915.70
Total	$454,112,915.70

[1] Includes fees of Bond Counsel, Underwriters' Counsel, the Financial Advisor, the Trustee, Underwriters' discount, rating agency fees, printing costs, premium for financial guaranty insurance policies and certain miscellaneous expenses.

THE SERIES 2004 BONDS

General

The Series 2004 Bonds will be issued in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2004 Bonds. Ownership interests in the Series 2004 Bonds may be purchased in book-entry form only. Principal of, Accreted Value, premium, if any, and interest on the Series 2004 Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit such payment to its Participants for subsequent disbursement to the beneficial owners of interests in the Series 2004 Bonds. See "Book-Entry Only System" herein.

Series 2004A Bonds

General. The Series 2004A Bonds will be issued as fully registered bonds, without coupons, in book-entry only form, in denominations of $5,000 principal amount or any integral multiple thereof. The Series 2004A Bonds shall be dated their date of delivery and will bear interest at the respective rates and mature on the dates set forth therefor on the inside cover page of this Official Statement. Interest on the Series 2004A Bonds shall be payable semiannually on February 15 and August 15 of each year (each an "Interest Payment Date"), commencing on August 15, 2005. The Series 2004A Bonds will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is after a Record Date and on or prior to an Interest Payment Date, in which event they shall bear interest from such Interest Payment Date, or unless such date of registration is prior to the Initial Interest Payment Date, in which event they shall bear interest from their date of delivery; provided, however, that if at the time of registration of any Series 2004A Bond interest is then in default on the Outstanding Series 2004A Bonds, such Series 2004A Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2004A Bonds. Interest on the Series 2004A Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Optional Redemption. The Series 2004A Bonds are subject to redemption prior to their maturity, at the option of the County, from any source available for such purpose, in whole or in part on any date, at a redemption price equal to the greater of:

(1) 100 percent of the principal amount of the Series 2004A Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2004A Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 12.5 basis points,

plus in each case, accrued and unpaid interest on the Series 2004A Bonds being redeemed to the date fixed for redemption.

For the purpose of determining the Treasury Rate, the following definitions will apply:

"Treasury Rate" means, with respect to any redemption date for a particular Series 2004A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2004A Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series 2004 A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2004 A Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2004A Bond, (1) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the County.

"Reference Treasury Dealer" means Citigroup Global Markets Inc. and their respective successors and three other firms, specified by the County from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the County shall substitute another Primary Treasury Dealer.

"Reference Treasury Deal Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2004A Bond, the average, as determined by the Designated Investment Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Series 2004B Bonds

General. The Series 2004B Bonds shall be issued in two subseries (each a "Subseries"), designated Subseries 2004B-1 and Subseries 2004B-2. The Series 2004B Bonds will be issued in denominations $25,000 or any integral multiple thereof. The Series 2004B Bonds shall be dated and will mature on the dates set forth on the inside cover page of this Official Statement. Each of the Subseries of the Series 2004B Bonds, prior to the Fixed Rate Conversion Date for any one or more Subseries shall be "Auction Rate Securities." While Series 2004B Bonds are Auction Rate Securities, Series 2004B Bonds will bear interest as set forth under this caption and in Appendix F hereto. Interest on Series 2004B Bonds will be payable semiannually on each Interest Payment Date, commencing on August 15, 2004. The Series 2004B Bonds will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is after a Record Date and on or prior to an Interest Payment Date, in which event they shall bear interest from such Interest Payment Date, or unless such date of registration is prior to the Initial Interest Payment Date, in which event they shall bear interest from their date of delivery; provided, however, that if at the time of registration of any Series 2004B Bond interest is then in default on the Outstanding Series 2004B Bonds, such Series 2004B Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2004B Bonds. Interest on the Series 2004B Bonds will be calculated on the basis of a 360-day year for the actual number of days elapsed.

Optional Redemption. Series 2004B Bonds shall be subject to redemption at the option of the County, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest with respect thereto, on any Interest Payment Date, prior to their respective maturities in any order of maturity from any moneys available therefor, in whole or in part in any Authorized Denomination.

Mandatory Redemption. The Series 2004B Bonds, Subseries B-1 (the "Series 2004B-1 Bonds") shall be subject to mandatory sinking fund redemption prior to maturity at a prepayment price equal to the principal amount of the Series 2004B-1 Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2022 in the principal amounts and on the redemption dates as follows:

Redemption Date (August 15)	Principal Amount
2022	$19,425,000
2023	25,875,000
2024*	28,625,000

*Stated Maturity.

The Series 2004B Bonds, Subseries B-2 (the "Series 2004B-2 Bonds") shall be subject to mandatory sinking fund redemption prior to maturity at a prepayment price equal to the principal amount of the Series 2004B-2 Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2022 in the principal amounts and on the redemption dates as follows:

Redemption Date (August 15)	Principal Amount
2022	$19,400,000
2023	25,875,000
2024*	28,625,000

*Stated Maturity.

Auction Rate Provisions. While any Series 2004B Bonds are Auction Rate Securities, except as otherwise specifically provided in the Trust Agreement, the provisions of the Trust Agreement summarized in Appendix C and the auction and settlement procedures summarized in Appendix F will govern the interest rates per annum and the payment terms of the Series 2004B Bonds. See "Interest Rates" and "Applicable Auction Rates," below. For a further description of the Auction Rate Securities, see also Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement" and Appendix F – "Auction and Settlement Procedures" attached hereto.

It is anticipated that Citigroup Global Markets Inc., E. J. De La Rosa & Co., Inc. and UBS Financial Services, Inc. will act as initial Broker-Dealers with respect to the Series 2004B Bonds. Deutsche Bank Trust Company Americas will act as initial Auction Agent with respect to the Series 2004B Bonds.

Interest Rates. The Series 2004B Bonds will initially bear interest at the Applicable Auction Rate established pursuant to the Auction Procedures described in Appendix F attached hereto. Interest on Auction Rate Securities will accrue for each Auction Interest Period or portion thereof and will be payable in arrears on each succeeding Interest Payment Date. "Auction Interest Period" means, as to the applicable Auction Rate Securities of a Subseries, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Subseries of Auction Rate Securities, which Auction Interest Period may be a twenty-eight (28) day period, or such other period as may be designated from time to time as an Auction Interest Period by the County and the Market Agent pursuant to an Auction Interest Period Adjustment for a Subseries of Auction Rate Securities, each Auction Interest Period running from, and including, the day following the last day of the prior Auction Interest Period for such Subseries of

Auction Rate Securities to the day of the next Auction for such Subseries of Auction Rate Securities; provided that the initial Auction Interest Period shall commence on the date of delivery of the Series 2004B Bonds and shall end on the initial Auction Date for the applicable Subseries set forth on the inside from cover page of this Official Statement. The length of an Auction Interest Period may be adjusted pursuant to the Supplemental Trust Agreement. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement" attached hereto.

Interest payments on the Auction Rate Securities are to be made by the Trustee to the persons who appear as registered owners on the registration books maintained by the Trustee as bond registrar as of the close of business on the second Business Day next preceding each Interest Payment Date (the "Regular Record Date").

Applicable Auction Rate. The rate per annum at which interest is payable on Auction Rate Securities for each Auction Interest Period is referred to as the "Applicable Auction Rate." Interest on Auction Rate Securities shall be computed on the basis of a 360-day year for the actual number of days elapsed. The rates of interest on each subseries of the Series 2004B Bonds for the first Auction Interest Period will be determined by the Broker-Dealers on or prior to the day preceding the date of original delivery of the Series 2004B Bonds. The rate of interest on each Subseries for each subsequent Auction Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix F – "Auction Procedures," subject to the limitations described below.

(A) If a notice of an adjustment in the percentages used to determine the Maximum Auction Rate, the All-Hold Rate and the Non-Payment Rate (in each case, defined in Appendix C hereto) shall have been given by the Market Agent for a Subseries and such adjustment shall not have taken effect because of a failure to satisfy either of the conditions set forth in clause (i) under "Description of Auctions for Auction Rate Securities – Adjustment of Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates" in Appendix F, then an Auction shall not be held with respect to such Subseries for the succeeding Auction Interest Period; and the rate of interest for such subseries of Series 2004B Bonds for such Auction Interest Period shall equal the Maximum Auction Rate.

(B) If, on any Auction Date, an Auction is not held for any other reason, the rate of interest for the next succeeding Auction Interest Period shall equal the Maximum Auction Rate on such Auction Date.

Notwithstanding the foregoing, if the ownership of Auction Rate Securities of any Subseries is no longer maintained in book-entry form by the Securities Depository, the Applicable Auction Rate for each Subseries for any Auction Interest Period thereafter shall equal the Maximum Auction Rate on the Business Day immediately preceding the first day of the applicable Auction Interest Period. In addition, if a payment default shall have occurred, the Applicable Auction Rate for the Auction Interest Period commencing on or immediately after such payment default and for each Auction Interest Period thereafter to and including the Auction Interest Period, if any, during which, or commencing less than two (2) Business Days after, such payment default is cured shall equal the Non-Payment Rate on the first day of each such Auction Interest Period; *provided, however*, that for any Auction that occurred on the Business Day immediately preceding any such Auction Interest Period, the Applicable Auction Rate for that Auction Interest Period shall be the Non-Payment Rate.

Conversion of Auction Rate Securities to Fixed Interest Rates. On any Interest Payment Date, at the option of the County, all but not less than all of the Auction Rate Securities of a Subseries may be converted from Auction Rate Securities to Series 2004B Bonds bearing interest at fixed interest rates and on such date (the "Fixed Rate Conversion Date") the Auction Rate Securities of such Subseries will be subject to mandatory tender for purchase at a price of par, plus accrued but unpaid interest. Not less than

40 days prior to the Fixed Rate Conversion Date, the Trustee is required to mail written notice of the conversion and mandatory tender to the Owners of the Auction Rate Securities of such Subseries to be converted setting forth the information required in the Second Supplemental Trust Agreement. Upon satisfaction of certain conditions set forth in the Second Supplemental Trust Agreement, the Series 2004B Bonds of such Subseries shall be purchased or deemed purchased at the Tender Price. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement – Conversion of Auction Rate Securities to Fixed Interest Rates" and "– Purchase of Auction Rate Securities" attached hereto.

Series 2004C Bonds

General. The Series 2004C Bonds will be dated as of their delivery date and will mature on the dates and in the principal amounts and bear interest at the rates and shall have the Accreted Value as set forth on the inside cover page hereof. Interest on the Series 2004C Bonds of each maturity will be compounded semiannually (with straight-line interpolations between Interest Payment Dates) at the respective rates per annum set forth on the inside cover page hereof (as the Yield To Maturity thereof) on each Interest Payment Date (calculated on the basis of a 360-day year comprised of 12 months of 30 days each) commencing on August 15, 2004. The Accreted Value as of the Closing Date and each Interest Payment Date for a Series 2004C Bond having an Accreted Value of $5,000 at each of the maturity dates set forth on the inside cover page hereof is set forth in the Accreted Value Table. See Appendix I – "Accreted Value Table" attached hereto. The Accreted Value of the Series 2004 C Bonds for any date not indicated on the Accreted Value Table shall be determined by computing and compounding interest in accordance with the Second Supplemental Trust Agreement and assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of 360 days composed of 12 months of 30 days each.

Redemption. The Series 2004C Bonds are not subject to redemption prior to maturity.

Redemption Procedures

Sinking Fund Redemption of Term Bonds. The Trustee will effect each mandatory sinking fund redemption of any Series 2004 Term Bonds (the "Term Bonds") by redeeming from each person who is the registered owner of a Term Bond to be redeemed on the Record Date immediately preceding a redemption date, an amount of such Term Bonds determined by (1) multiplying the principal amount of the Term Bonds to be redeemed on the applicable redemption date by a fraction the numerator of which is the principal amount of the Term Bonds owned by such registered owner and the denominator of which is the principal amount of the Term Bonds outstanding immediately prior to such date of redemption, and (2) then rounding the product down to the next lower integral multiple of $25,000. The Trustee will apply, to the extent possible, any remaining amount of a sinking fund installment to redeem $25,000 units of such Series 2004B Bonds and will select by lot the units to be redeemed from all such Term Bond registered owners.

Notice of Redemption. Notice of the intended redemption shall be given by the Trustee by first class mail to the registered owner at the address of such owner. All such redemption notices shall be given not less than thirty (30) days nor more than sixty (60) days prior to the redemption date. Each notice of redemption shall state the date of such notice, the redemption price, if any, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Series 2004A Bonds or Series 2004B Bonds, as applicable, of such maturity, to be redeemed and, in the case of Series 2004A Bonds or Series 2004B Bonds, as applicable, to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Series 2004 Bonds the redemption price, if any, thereof and in the case of a

Series 2004A Bonds or Series 2004B Bonds to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2004A Bonds or Series 2004B Bonds, as applicable, be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

Notice of such redemption shall also be sent to the Insurer, to each Broker-Dealer (if applicable), to the Rating Agencies, to all municipal registered Securities Depositories and to at least two of the NRMSIRs, no later than simultaneously with the mailing of notices required by the first paragraph above; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Series 2004A Bonds or Series 2004B Bonds, as applicable.

Failure to give notice by mailing to the registered owner of any Series 2004A Bonds or Series 2004B Bonds, as applicable, designated for redemption or tender or to any depository or information service shall not affect the validity of the proceedings for the redemption of such Series 2004A Bonds or Series 2004B Bonds, as applicable, if notice of such redemption shall have been mailed as herein provided.

Effect of Notice of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) with respect to the Series 2004 Bonds so called for redemption will have been duly provided, such Series 2004 Bonds so called will cease to be entitled to any benefit under the Trust Agreement other than the right to receive payment of the principal, interest accrued to the Redemption Date, and premium, if any, and no interest shall accrue with respect thereto from and after the Redemption Date specified in the notice of such redemption..

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

Pursuant to the Retirement Law, the County Board of Supervisors is obligated to appropriate and make payments to the Association for certain amounts arising as a result of retirement benefits accruing to members of the Association. Pursuant to Section 31584 of the Retirement Law, the Board of Supervisors of the County is obligated to make appropriations to pay the County's portion of the UAAL of the Association and pursuant to such Section, the County Auditor-Controller will transfer from any money available in any fund in the County Treasury the sums specified if the Board fails to make such appropriations. The Trust Agreement provides that the County is obligated to deposit or cause to be deposited with the Trustee the amount of the County's obligations on the Bonds for each fiscal year within thirty days of the commencement of such fiscal year. For a description of the method used to determine the amount the County is obligated to deposit with respect to Auction Rate Securities, see Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement" attached hereto.

THE PAYMENT OF PRINCIPAL OF, ACCRETED VALUE AND INTEREST ON THE BONDS ARE OBLIGATIONS IMPOSED BY LAW PAYABLE FROM FUNDS TO BE APPROPRIATED BY THE COUNTY PURSUANT TO THE RETIREMENT LAW. PURSUANT TO SECTION 31584 OF THE RETIREMENT LAW, THE BOARD OF SUPERVISORS OF THE COUNTY IS OBLIGATED TO MAKE APPROPRIATIONS TO PAY THE COUNTY'S PORTION OF THE UNFUNDED ACCRUED ACTUARIAL LIABILITY OF THE ASSOCIATION AND PURSUANT TO SUCH SECTION THE COUNTY AUDITOR-CONTROLLER MUST TRANSFER FROM ANY

MONEY AVAILABLE IN ANY FUND IN THE COUNTY TREASURY THE SUMS SPECIFIED IF THE BOARD OF SUPERVISORS FAILS TO MAKE SUCH APPROPRIATIONS.

The Trust Agreement provides that the County reserves the right to enter into one or more other agreements or indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes. See Appendix C – "Summary of the Second Supplemental Trust Agreement and the Trust Agreement" attached hereto.

THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Fiscal Year Debt Service on Outstanding Pension Obligation Bonds

The following table sets forth the debt service obligations in each fiscal year for the outstanding pension obligation bonds of the County. For information on other County debt service obligations and other information regarding the General Fund of the County, see Appendix A – "Economic, Financial and Demographic Information Regarding the County of San Diego" attached hereto.

COUNTY OF SAN DIEGO
Outstanding Pension Obligation Bonds Fiscal Year Debt Service

Fiscal Year (Ending June 30)	1994 Bonds Debt Service [1]	2002 Bonds Debt Service [2]	Series 2004A Bonds Debt Service	Series 2004B Bonds Debt Service [3]	Series 2004C Bonds Debt Service [4]	Total Debt Service
2005	$21,148,022	$39,216,463	$ --	$2,617,980.75	$ --	$62,982,466
2006	24,257,223	39,216,463	21,595,735.92	4,886,026.88	--	89,955,449
2007	27,527,307	39,216,463	22,714,483.00	4,886,026.88	--	94,344,280
2008	14,538,771	39,216,463	21,446,122.00	7,321,546.41	--	82,522,902
2009	--	53,606,768	22,629,024.25	7,341,605.44	--	83,577,398
2010	--	53,656,378	12,187,765.50	7,321,546.41	11,725,000	84,890,690
2011	--	53,658,700	12,187,765.50	7,321,546.41	13,035,000	86,203,012
2012	--	53,657,157	12,187,765.50	7,321,546.41	14,395,000	87,561,469
2013	--	53,660,373	12,187,765.50	7,341,605.44	15,790,000	88,979,744
2014	--	53,659,971	12,187,765.50	7,321,546.41	17,285,000	90,454,283
2015	--	53,672,292	24,133,488.63	7,321,546.41	6,870,000	91,997,327
2016	--	53,680,568	11,529,211.75	7,321,546.41	21,070,000	93,601,326
2017	--	53,837,650	34,227,163.00	7,341,605.44	--	95,406,418
2018	--	53,902,813	35,979,360.13	7,321,546.41	--	97,203,720
2019	--	53,974,047	37,769,213.50	7,321,546.41	--	99,064,807
2020	--	54,047,338	39,631,733.38	7,321,546.41	--	101,000,618
2021	--	54,118,669	41,545,489.63	7,341,605.44	--	103,005,764
2022	--	54,208,363	43,584,755.13	7,321,546.41	--	105,114,665
2023	--	54,311,078	8,023,588.38	45,177,172.43	--	107,511,839
2024	--	54,397,097	--	55,856,520.97	--	110,253,618
2025	--	54,535,375	--	58,663,868.26	--	113,199,243
2026	--	54,620,572	--	--	--	54,620,572
2027	--	54,747,347	--	--	--	54,747,347
2028	--	54,883,331	--	--	--	54,883,331
2029	--	55,021,819	--	--	--	55,021,819
2030	--	55,180,400	--	--	--	55,180,400
2031	--	55,422,303	--	--	--	55,422,303
2032	--	55,461,797	--	--	--	55,461,797
2033	--	55,477,594	--	--	--	55,477,594
TOTAL	$87,471,323	$1,514,265,652	$425,748,196.17	$281,991,028.39	$100,170,000	$2,409,646,200

Footnotes follow on the next page.

Footnotes to Outstanding Bonds Fiscal Year Debt Service Table above.

(1) The County has proposed economically defeasing all or a portion of the 1994 Bonds from available resources in its Fiscal Year 2004-05 Operational Plan. Such proposal has not been approved by the County Board of Supervisors as of the date hereof.
(2) Assumes the 2002 unhedged auction rate securities at an average rate of 5.41%.
(3) Assumes the 2004 unhedged auction rate securities at an average rate of 5.41%.
(4) Includes compound interest.

VALIDATION

On November 10, 1993, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Sections 53511 and 53589.5, filed a complaint in the Superior Court of the State of California for the County of San Diego seeking judicial validation of the proceedings and transactions relating to the issuance of the Debentures, the Prior Bonds and any future series of bonds, including the Series 2004 Bonds, to be issued by the County in connection therewith (collectively, the "Pension Obligations Bonds") and certain other matters. On December 16, 1993, the court entered a default judgment to the effect, among other things, that the Pension Obligations Bonds are valid, legal and binding obligations of the County and in conformity with all applicable provisions of law. In issuing the opinion as to the validity of the Series 2004 Bonds, Bond Counsel will rely upon the entry of the foregoing default judgment.

BOND INSURANCE

Financial Guaranty

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the County or the Underwriters as to the accuracy or completeness of this information.

Payments Under the Financial Guaranty Policy. Concurrently with the issuance of the Series 2004A Bonds and Series 2004C Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Series 2004A Bonds and Series 2004C Bonds (the "Financial Guaranty Policy"). The Financial Guaranty Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2004A Bonds and Series 2004C Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the County. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or interest is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Financial Guaranty Policy) from an owner of Series 2004A Bonds and Series 2004C Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the County. The Fiscal Agent will disburse such amount due on any Series 2004 A Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series 2004 A Bond includes any payment of principal or interest made to an owner of a Series 2004 A Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Financial Guaranty Policy is non-cancellable by Financial Guaranty. The Financial Guaranty Policy covers failure to pay principal of the Series 2004A Bonds and Series 2004C Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Series 2004A Bonds and Series 2004C Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Financial Guaranty Policy also covers the failure to pay interest on the stated date for its payment. If the Series 2004A Bonds and Series 2004C Bonds are accelerated or become subject to mandatory redemption, Financial Guaranty will be obligated to pay principal and interest on the originally scheduled principal (including mandatory sinking fund redemption) and interest payment dates. Upon such payment, Financial Guaranty will become the owner of the Series 2004 A Bond, appurtenant coupon or right to payment of principal or interest on such Series 2004 A Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Financial Guaranty Policy does not insure any risk other than Nonpayment by the County, as defined in the Financial Guaranty Policy. Specifically, the Financial Guaranty Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Series 2004A Bonds and Series 2004C Bonds, Financial Guaranty may be granted certain rights under the Series 2004 A Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series 2004A Bonds and Series 2004C Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Financial Guaranty Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. The Financial Guaranty Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company. Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom. Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware corporation.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Financial Guaranty Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately $11.3 billion, $42.4 billion and $47.9 billion par value of securities, respectively (of which approximately 50%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $56.4 million, $260.3 million and $232.6 million, respectively. For the three months ended March 31, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately .03% of the risks it had written.

As of March 31, 2004, Financial Guaranty had net admitted assets of approximately $2.864 billion, total liabilities of approximately $1.728 billion, and total capital and surplus of approximately $1.136 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The audited financial statements of Financial Guaranty as of March 31, 2004, December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "Bond Insurance – Financial Guaranty," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by the County with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Series 2004A Bonds and Series 2004C Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings. The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Series 2004A Bonds and Series 2004C Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2004A Bonds and Series 2004C Bonds. Financial Guaranty does not guarantee the market price or investment value of the Series 2004A Bonds and Series 2004C Bonds nor does it guarantee that the ratings on the Series 2004A Bonds and Series 2004C Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Series 2004A Bonds and Series 2004C Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Financial Guaranty Policy under the heading "Bond Insurance – Financial Guaranty" herein. In addition, Financial Guaranty makes no representation regarding the Series 2004A Bonds and Series 2004C Bonds or the advisability of investing in the Series 2004A Bonds and Series 2004C Bonds.

XLCA

XLCA has supplied the following information for inclusion in this Official Statement. No representation is made by the County or the Underwriters as to the accuracy or completeness of this information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XLCA and its affiliates set forth under this heading "XLCA." In addition, the XLCA makes no representation regarding the Series 2004B Bonds or the advisability of investing in the Series 2004B Bonds.

General. XL Capital Assurance Inc. (the "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-eight other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. XLCA has a license application pending with the State of Wyoming, the only state in which it is not currently licensed.

XLCA is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against XLCA.**

XLCA was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance. XLCA has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 90% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the XLCA Policy.

Based on the audited financials of XLFA, as of December 31, 2003, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $831,762,000, $401,123,000, $39,000,000 and $391,639,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to XLCA under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Negative Outlook), XLI's insurance financial strength rating is "Aa2" by Moody's, "AA-" by Standard & Poor's and "AA" by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series 2004B Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the holders of the Series 2004B Bonds will have direct recourse against XLCA only, and neither XLFA nor XLI will be directly liable to the holders of the Series 2004B Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA. XLCA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series 2004B Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series 2004B Bonds. XLCA does not guaranty the market price of the Series 2004B Bonds nor does it guaranty that the ratings on the Series 2004 B Bonds or the Series 2004 C Bonds will not be revised or withdrawn.

Capitalization of XLCA. Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of $180,993,189, total liabilities of $58,685,217 and total capital and surplus of $122,307,972 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2003 filed with the State of New York Insurance Department, XLCA has total admitted assets of $329,701,823, total liabilities of $121,635,535 and total capital and surplus of $208,066,288 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Series 2004B Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of XLCA. XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY XLCA, INCLUDING THE XLCA POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of XLCA are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

TAX MATTERS

General

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Series 2004 Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds. Interest on the Series 2004 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. The proposed form of opinion of Bond Counsel is contained in Appendix D -- "Form of Bond Counsel Approving Opinion" attached hereto.

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 2004 Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series 2004 Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the Series 2004 Bonds that are "U.S. holders" (as defined below), deals only with Series 2004 Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold Series 2004 Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of Series 2004 Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Series 2004 Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a Series 2004 Bond that is not a U.S. Person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the Series 2004 Bonds

The Series 2004 Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Original Issue Discount

All or a portion of the Series 2004 Bonds may be issued with original issue discount ("OID"). Accordingly, a holder of a Series 2004 Bond will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Series 2004 Bond. Thus, the holders of such Series 2004 Bonds will be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such notes with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss. A holder of a Series 2004 Bond that purchases a Series 2004 Bond for less than its adjusted issue price (generally its accreted value) will have purchased such Series 2004 Bond with market discount. If such difference is not considered to be de minimis, then such discount ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Series 2004 Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred. A holder of a Series 2004 Bond that has an allocated basis in the Series 2004 Bond that is greater than its adjusted issue price (generally its accreted value), but that is less than or equal to its stated redemption price at maturity, will be considered to have purchased the Series 2004 Bond with acquisition premium. The amount of OID that such holder of a Series 2004 Bond must include in gross income with respect to such Series 2004 Bonds will be reduced in proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the Series 2004 Bond. A holder of a Series 2004 Bond may have a basis in its pro rata share of the Series 2004 Bonds that is greater than the stated redemption price at maturity of such Series 2004 Bonds. Holders of Series 2004 Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium, if any, with respect to such Series 2004 Bonds under section 171 of the Code.

Sale and Exchange of Series 2004 Bonds

Upon a sale or exchange of a Series 2004 Bond, a holder generally will recognize gain or loss on the Series 2004 Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such Series 2004 Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Series 2004 Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a Series 2004 Bond will (in general) equal its original purchase price increased by any OID (other than OID reduced due to acquisition premium) and decreased by any principal payments received on the Series 2004 Bond. In general, if the Series 2004 Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance

Defeasance of any Series 2004 Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Series 2004 Bond.

Foreign Investors

Distributions on the Series 2004 Bonds to a non-U.S. holder that has no connection with the United States other than holding its Series 2004 Bond generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

ERISA CONSIDERATIONS

Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Internal Revenue Code (the "Code"), prohibit employee benefit plans ("Plans") subject to ERISA or the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the Plan. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA and prohibits certain transactions between a Plan and "parties in interest" with respect to such Plans. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not relevant here). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and parties in interest.

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered "disqualified persons" within the meaning of ERISA or "parties in interest" within the meaning of the Code, with respect to certain employee benefit plans. Prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Series 2004 Bonds are acquired by a Plan with respect to which the Underwriters, or any of their respective affiliates, are "disqualified persons" or "parties in interest." Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those regarding securities purchased during the existence of an underwriting, investments by insurance company separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by a "qualified professional asset manager," and transactions affected by an "in-house asset manager." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA and the Code will take place in connection with the acquisition of a Bond by or on behalf of a Plan, each prospective purchaser of a Bond who is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA and the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary which proposes to cause a Plan to purchase Series 2004 Bonds should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Series 2004 Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery by the County of the Series 2004 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California and for the County by the County Counsel.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing in Appendix B. KPMG LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to its report dated January 12, 2004.

LITIGATION

No litigation is pending or threatened concerning the validity of the Series 2004 Bonds. The County is not aware of any litigation pending or threatened questioning the political existence of the County or contesting the County's ability to issue and pay the Series 2004 Bonds.

There are a number of lawsuits and claims pending against the County. Other than as described in this section and in Appendix A, the County does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the County.

RATINGS

Standard & Poor's ("S&P") has assigned the Series 2004 Bonds a rating of "AAA," Moody's Investors Service, Inc. ("Moody's") has assigned the Series 2004 Bonds a rating of "Aaa," and Fitch Ratings ("Fitch") has assigned the Series 2004 Bonds a rating of "AAA" with the understanding that upon the issuance of the Series 2004A Bonds and the Series 2004C Bonds the municipal bond new issue insurance policy will be issued by Financial Guaranty and upon the issuance of the Series 2004 B Bonds the financial guaranty insurance policy will be issued by XLCA. In addition, S&P has assigned the Series 2004 Bonds an underlying rating of "AA-," Moody's has assigned the Series 2004 Bonds an underlying rating of "Aa3," and Fitch has assigned the Series 2004 Bonds an underlying rating of "AA-." Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Moody's Investors Service, Inc. 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317; Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2004 Bonds.

UNDERWRITING

The Series 2004 Bonds are being purchased by the Underwriters. The Underwriters have agreed, subject to certain conditions, to purchase the Series 2004 Bonds at a price of $452,401,912.22 (representing the principal amount of the Series 2004 Bonds less an Underwriter's discount of $1,711,003.48). The Purchase Contract relating to the Series 2004A Bonds, the Purchase Contract relating to the Series 2004B Bonds and the Purchase Contract relating to the Series 2004C Bonds provide that the Underwriters will purchase all of the Series 2004 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the respective Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 2004 Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters. During and after the offering of the Series 2004 Bonds, the Underwriters may purchase and sell the offered Series 2004 Bonds in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover short positions created in connection with such offering. The Underwriters also may impose penalty bids, whereby selling concessions allowed to other broker-dealers in respect of the Series 2004 Bonds sold in such offerings for their account may be reclaimed by the Underwriters if such securities are repurchased by the Underwriters in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market prices of the Series 2004 Bonds, which may be higher than the prices that might otherwise prevail in the open market.

These transactions may be effected in the over-the-counter market or otherwise, and these activities, if commenced, may be discontinued at any time.

FINANCIAL ADVISOR

Kelling, Northcross & Nobriga, a Division of Zions First National Bank, served as the Financial Advisor to the County in connection with the issuance of the Series 2004 Bonds. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the Trustee (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided with respect to each fiscal year of the County, commencing with fiscal year 2003-04, by no later than eight months after the end of the respective fiscal year, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") the audited financial statements, if available, or unaudited financial statements, and the annual financial information and operating data with respect to the County, for each fiscal year of the County, as described under the section of this Official Statement entitled "County Financial Information." In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Trustee may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the owners of the Series 2004 Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would, in the opinion of nationally recognized bond counsel, have complied with the requirements of Rule 15c2-12 as of the date of the Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the County shall have delivered to the Trustee an opinion of Bond Counsel, or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the County and the Trustee, to the same effect as set for in clause (2) above; and (4) either (i) the County shall have delivered to the Trustee an opinion of Bond Counsel, or other nationally recognized bond counsel or counsel expert in federal securities laws, or a determination by a person, in each case unaffiliated with the County (such as Bond Counsel or the Trustee) and acceptable to the County, addressed to the County and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Series 2004 Bonds or (ii) the holders of the Series 2004 Bonds consent to the amendment to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Trust Agreement with consent of holders of the Series 2004 Bonds pursuant to the terms of the Trust Agreement as in effect on the date of the Disclosure Agreement. The County shall describe such amendment and the reason therefore in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance or payment in full of all of the Series 2004 Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Series 2004 Bonds and beneficial owners of the Series 2004 Bonds and shall be enforceable by the Trustee on behalf of such owners and any owners of Series 2004 Bonds, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Series 2004 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

The execution and delivery of this Official Statement have been duly authorized by the County.

COUNTY OF SAN DIEGO

By: /s/Donald F. Steuer
Chief Financial Officer

APPENDIX A

ECONOMIC, FINANCIAL AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

THE COUNTY

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County's Fiscal Year 2004-05 proposed General Fund budget is approximately $2.763 billion.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, State and local programs. The County supports a wide range of services to its residents, including, regional services such as medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement by contract and libraries by city's request to incorporated cities; and infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

COUNTY FINANCIAL INFORMATION

The following is a description of the County's budget process, current budget, historical budget information, changes in fund balance, balance sheets, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

Ad Valorem Property Taxation

The following table describes the assessed valuation of property within the County subject to taxation for Fiscal Year 1994-95 through Fiscal Year 2003-04, and the tax collections in such years:

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1994-95 through 2003-04
(In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[1]	Net Assessed Valuation for Tax Purposes[2]
1994-95	$58,065,632	$85,628,280	$7,175,750	$150,869,662	$3,683,231	$147,186,431
1995-96	58,469,323	86,585,240	7,536,344	152,590,907	3,826,612	148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,214	3,799,409	149,111,805
1997-98	59,965,573	87,226,802	10,222,561	157,414,936	4,512,558	152,902,378
1998-99	63,633,576	94,172,901	10,557,494	168,383,971	4,655,382	163,728,589
1999-00	70,120,054	105,048,079	10,221,397	185,389,530	4,840,800	180,548,730
2000-01	76,745,341	112,696,090	11,598,967	201,040,398	5,322,920	195,717,478
2001-02	84,852,228	112,629,978	12,675,786	220,157,994	5,674,325	214,483,668
2002-03	93,104,454	133,459,422	11,773,209	238,337,087	5,474,710	232,862,376
2003-04	103,818,122	145,973,944	11,949,626	261,741,693	6,742,042	254,999,651

Source: County of San Diego Auditor and Controller.

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

(2) Net Assessed Valuation for Tax Purposes figures include local secured, unsecured, state unitary and redevelopment valuation.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2003-04. These tax payments represent approximately 3.2% of the total secured property tax levied by the County.

TEN LARGEST TAXPAYERS
Fiscal Year 2003-04

Property Owners	Business Area	Approximate Tax
San Diego Gas & Electric Company	Gas & Electric Utility	$30,029,353
Southern California Edison	Electric Utility	17,581,288
SBC California	Telecommunications	11,975,344
Kilroy Realty LP	Real Estate	6,362,255
Qualcomm Inc.	Telecommunications	5,499,480
Fashion Valley Mall LLC	Real Estate	4,812,354
Cabrillo Power I. LLC	Electric Utility	3,838,810
Sea World Inc.	Amusement Park	3,329,943
JMS Acquisition Sub. Inc.	Real Estate	3,138,462
L-O Coronado Holding	Real Estate	3,123,262

Source: County of San Diego Auditor and Controller.

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate assessment rolls. The "secured roll" is that assessment roll containing locally assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of growth in situs assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional voter approved debt service and fixed charge assessments on behalf of any taxing agency and special districts within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. A ten dollar cost also applies to all delinquent second installments. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, the ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one half percent per month starting July 1 and continuing until date of redemption (collectively, the "Redemption Amount"). If taxes remain unpaid after five years on the default roll, the property becomes subject to a tax sale by the County Treasurer - Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

Secured Tax Rolls Statistics

The following table sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last nine Fiscal Years, including an estimate for the Fiscal Year ending on June 30, 2004. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each Fiscal Year shown, and the percentage of the taxes levied for each year that were uncollected as of the Fiscal Year end.

SECURED TAX ROLL STATISTICS
Fiscal Years 1995-96 through 2003-04

Fiscal Year	Total Bills	Total Assessed Value[(1)]	Total Tax Amount[(2)]	Delinquent Tax Bills	Delinquent Tax Amount[(3)]	Delinquent Tax Amount as Percent of Tax Amount
1995-96	805,698	$145,681,809,785	$1,623,328,413	30,053	$46,680,249	2.88%
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.90
1998-99	831,497	160,102,387,349	1,791,871,717	33,484	32,513,581	1.60
1999-00	842,959	176,113,891,329	1,962,926,237	36,820	39,059,369	1.70
2000-01	857,777	191,194,756,333	2,126,737,380	33,817	38,805,254	1.82
2001-02	871,191	209,281,264,375	2,335,927,431	31,198	39,156,006	1.68
2002-03	885,452	227,376,419,310	2,552,212,549	29,769	39,156,463	1.53
2003-04[(4)]	898,222	250,071,362,845	2,831,188,116	32,000	43,000,000	1.52

Source: County of San Diego Auditor and Controller.

(1) Total Assessed Value figures include local secured and state unitary valuation.

(2) Amount excludes penalties.

(3) Delinquent Tax Amounts represent the dollar value of tax due for delinquencies in the year shown that had not been collected as of June 30 of that year.

(4) Total Bills, Total Assessed Value and Total Tax Amount figures are actual, remaining columns are estimated.

Liens and Redemption

Properties may be redeemed under a five year installment plan by paying current taxes plus a minimum annual payment of 20% of the original Redemption Amount. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. Redemption interest accrues at 1-1/2% per month on the unpaid balance of the Redemption Amount during the period of the installment plan. If taxes are unpaid after June 30 of the fifth year of default (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property becomes subject to sale by the County Treasurer-Tax Collector.

Before the 1990-91 Fiscal Year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 2003-04 Fiscal Year, the County collected $5,890,818.72 in such fees from cities, special districts and redevelopment agencies.

Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported in compliance with the requirements of Proposition 13. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Limitations on Tax Revenues."

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. Prior to 1992, assessment appeals filings in the County averaged less than 2,000 petitions annually. From 1992 to 1997, assessment appeals filings averaged 22,000 each year. Appeals have declined with the turnaround in real estate values in 1998. From 1998 to 2003, assessment appeals filings have averaged 3,600 each year.

In the current Fiscal Year 2003-04, the County Assessor has processed approximately 2,500 appeals.

Financial Statements

The following tables set forth the audited General Fund Combined Balance Sheet for Fiscal Years ended June 30, 2002 and June 30, 2003 and the audited General Fund Comparison of Revenues, Expenditures and Fund Balances for Fiscal Years 1999-00 through 2002-03.

COUNTY OF SAN DIEGO
GENERAL FUND COMBINED BALANCE SHEET
June 30, 2002 and June 30, 2003
(In Thousands)

	2002	2003
ASSETS		
Equity in Pooled Cash and Investments(1)	$321,938	$355,746
Cash with Fiscal Agent (2)	9,076	150,719
Collections in Transit	3,877	6,996
Imprest Cash	312	314
Investments	2	2
Taxes Receivable	127	15,983
Accounts Receivable	181,829	164,901
Due from Other Funds (2)(3)	198,696	203,886
Advances to Other Funds	689	689
Inventories of Materials and Supplies	7,804	6,748
TOTAL ASSETS	$724,348	$905,984
LIABILITIES AND EQUITIES		
Accounts Payable	$ 45,437	$ 42,361
Accrued Payroll	33,531	35,347
Amount Due for Tax and Revenue Anticipation Notes (2)	0	139,039
Due to Other Funds(3)	23,152	23,476
Deferred Revenue(1)	51,876	67,100
TOTAL LIABILITIES	$153,996	$307,323
FUND BALANCES		
Reserved for Encumbrances	$ 98,676	$ 94,617
Reserved for Notes Receivable and Advances	6,866	7,551
Reserved for Deposits with Others	0	0
Reserved for Inactive Landfill Maintenance	0	0
Reserved for Inventory of Materials and Supplies	7,804	6,748
Reserved for Debt Service	0	0
Reserved for Other Purposes	101,851	101,361
Unreserved:		
Designated for Subsequent Years' Expenditures	120,573	119,421
Undesignated	234,582	268,963
TOTAL FUND BALANCES	$570,352	$598,661
TOTAL LIABILITIES AND FUND BALANCES	$724,348	$905,984

Source: County of San Diego Auditor and Controller.

(1) Pursuant to Governmental Accounting Standards Board Statement No. 33 ("GASB 33"), revenues from all nonexchange transactions are to be recognized when funds are received. In a nonexchange transaction, a governmental entity gives (or receives) value without directly receiving (or giving) equal value in return. In prior years, those funds were included in the Trust and Agency Fund section of the financial statements. Thus, revenues were not earned when received, but when expenditures were incurred.

(2) Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts.

(3) Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

COUNTY OF SAN DIEGO
GENERAL FUND
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
For Fiscal Years 1999-00 through 2002-03
(In Thousands)

SOURCES OF FUNDS	1999-00	2000-01	2001-02	2002-03
Fund Balances Reserved for Encumbrance	$ 56,092	$ 91,888	$ 99,848	$ 98,676
Unreserved Fund Balances	209,989	246,148	351,193	355,155
Taxes	314,570	340,769	369,199	396,415
Licenses, Permits and Franchises	22,233	24,751	28,250	28,840
Fines, Forfeitures and Penalties	27,406	29,511	33,978	36,246
Use of Money and Property	25,284	39,176	22,020	16,691
Aid from Other Government Agencies	1,451,260	1,233,794	1,185,605	1,293,108
Charges for Current Services	189,365	198,522	211,727	243,125
Other Revenue	25,052	31,905	37,092	25,389
Sale of Fixed Assets	900	14	–	11
Long Term Debt Proceeds(1)	–	–	–	560,450
Refunding Bonds Issued(1)	–	–	–	176,890
Operating Transfers-in(2)	2,989	360,791	495,910	478,806
Issuance of Lease Purchases(3)	1,654	–	–	–
TOTAL SOURCES	$2,326,794	$2,597,269	$2,834,822	$3,709,802

USES OF FUNDS	1999-00	2000-01	2001-02	2002-03
General(1)	$ 147,684	$ 134,357	$ 148,326	$ 192,720
Public Protection(1)	650,705	706,978	788,698	1,123,578
Public Ways and Facilities(1)	1,742	2,819	3,185	21,855
Health and Sanitation(1)	355,982	432,210	524,974	569,914
Public Assistance(1)	681,751	692,983	755,737	945,562
Education(1)	383	501	473	6,649
Recreation and Cultural Services(1)	10,836	11,833	14,734	19,884
Capital Outlay	1,654	–	–	–
Debt Service	7,657	12,581	5,495	12,735
Payment to Refunded Bond Escrow Agent(1)	–	–	–	176,890
Operating Transfers-out	124,641	135,296	159,825	156,879
TOTAL USES	$1,983,035	$2,129,558	$2,401,447	$3,226,666

Source: County of San Diego, Auditor and Controller.

(1) Transaction related to the issuance of the 2002 Pension Obligation Bonds and the partial defeasance of the 1994 Pension Obligation Bonds. The proceeds of the 2002 Pension Obligation Bonds were deposited with the San Diego County Retirement Association and are reflected as uses of funds in Fiscal Year 2002-03 in each of the seven functional areas noted.

(2) Beginning in Fiscal Year 2000-01, an accounting method change occurred creating the Special Revenue funds for the Safety Augmentation Sales Tax (Proposition 172), Health and Social Services' Realignment monies and the tobacco securitization proceeds. Revenues from these three sources are recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred.

(3) Excludes refundings.

General Fund Budget

The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeitures and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditures and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other.

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. Increases in the aggregate appropriations based on actual or anticipated increases in available financing can be made after the final budget has been adopted upon approval by a four-fifths vote of the Board of Supervisors.

To ensure that the budget remains in balance throughout the Fiscal Year, quarterly reviews are made covering actual receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to freeze or reduce appropriations. Appropriation reductions would be achieved through a combination of hiring freezes, employee layoffs, and freezes on the purchase of equipment, services and supplies. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer is responsible for monitoring and reporting expenditures within budgeted appropriations.

2003-04 Fiscal Year Financial Outlook of the County

The Fiscal Year 2003-04 Adopted Budget for the County's General Fund included expenditures of approximately $2.785 billion and revenues and other financing sources of approximately $2.785 billion. As is the normal practice of the County, the Fiscal Year 2003-04 Adopted Budget of the County's General Fund (the "2003-04 Adopted Budget") was regularly adjusted throughout the year, and, as of March 31, 2004, the County's Fiscal Year 2003-04 General Fund adjusted budget (the "2003-04 Adjusted Budget") included expenditures of approximately $3.036 billion and revenues and other financing sources of approximately $3.036 billion. As of May 18, 2004, as reported in the Third Quarter Operational Plan Status Report For Fiscal Year Ending June 30, 2004 and Budget Adjustments (the "Third Quarter Report") delivered to the Board of Supervisors from the County's Chief Administrative Officer, which was based on the first nine months of Fiscal Year 2003-04, the County projects that its General Fund expenditures for Fiscal Year 2003-04 will be approximately $2.805 billion and its General Fund revenues and other financing sources will be approximately $2.940 billion. Thus, the County projects that its General Fund expenditures will be below those budgeted in the 2003-04 Adjusted Budget by approximately $230.9 million and its General Fund revenues and other financing sources will be below those budgeted in the 2003-04 Adjusted Budget by approximately $95.9 million resulting in a projected net amount of projected variance of approximately $135.0 million which will be added to the unreserved and undesignated portion of the General Fund Balance as of June 30, 2004.

The lower-than-budgeted expenditures of the General Fund were primarily attributable to the following factors: (1) reduced salary and employee benefit costs as a result of several vacated, under-filled and frozen positions; (2) the postponement by the County of amounts budgeted to be spent for accelerated pay down of outstanding Pension Obligation Bonds which is currently planned to be spent in Fiscal Year 2004-05 (see "San Diego County Employee's Retirement Association—Pension Obligation Bonds" below); (3) lower-than-budgeted expenditures for certain State funded health and human services programs, which resulted in an offsetting variance of budgeted revenues in aid from the State of California; and (4) miscellaneous reductions in expenditures that typically occur each year as a result of the County's practice of conservatively estimating the needed level of expenditures to avoid unexpected disruptions in services. The lower-than-budgeted revenues and other financing sources of the General Fund were primarily attributable to (1) lower-than-expected vehicle license fee revenues from the State (see "Vehicle License Fee Reduction" below) and (2) lower-than-budgeted State aid revenues as a result of lower-than budgeted expenditures for certain health and human services programs that are funded through State aid (for which there is projected to be a offsetting reductions in expenditures for the same programs).

The following table shows the expenditures and revenues and other financing sources of the County's General Fund as set forth in the 2003-04 Adopted Budget and the 2003-04 Adjusted Budget, the projected actual expenditures and revenues and other financing sources of the County's General Fund for the Fiscal Year 2003-04 as reported in the Third Quarter Report, and the amount of the variance between the projected actual amounts and those contained in the 2003-04 Adjusted Budget:

COMPARISON OF GENERAL FUND BUDGET AND PROJECTED ACTUAL RESULTS
Fiscal Year 2003-04
As of May 18, 2004
(In Thousands)

	2003-04 Adopted Budget(1)	2003-04 Adjusted Budget(2)	Projected Year End Results(3)	Variance From Adjusted Budget(4)
EXPENDITURES				
Public Safety	$ 878,769	$ 937,972	$ 905,441	$ 32,530
Health and Human Services	1,421,273	1,471,142	1,391,246	79,896
Land Use and Environmental	95,700	135,312	122,227	13,085
Community Services	38,663	78,497	70,976	7,521
Finance and General Government and Other	337,059	402,132	312,278	89,854
Contingency Reserve and Designations	13,600	10,600	2,600	8,000
Total Appropriations	$2,785,064	$3,035,655	$2,804,768	$230,887
REVENUES				
Current Property Taxes	$356,207	$356,207	$358,165	$1,958
Taxes Other Than Current Property Taxes	59,450	59,450	69,045	9,595
Licenses, Permits and Franchises	31,993	31,993	31,820	(173)
Fines, Forfeitures and Penalties	35,004	42,073	44,565	2,492
Use of Money and Property	16,529	16,529	14,332	(2,197)
Aid from Other Government Agencies	1,391,778	1,457,347	1,359,326	(98,021)
Charges for Current Services	226,646	227,015	224,397	(2,618)
Miscellaneous Revenues and Other Financing Sources	518,286	523,938	517,010	(6,929)
Total Revenues	$2,635,894	$2,714,552	$2,618,659	$(95,893)
Estimated Use of General Fund Balance(5)	$ 149,170	$ 321,103	$ 321,103	$ 0
Total Available Financing	$2,785,064	$3,035,655	$2,939,762	$(95,893)
Net Savings from the 2003-04 Adjusted Budget	—	—	$ 134,994	$ 134,994

Source: County of San Diego Auditor Controller

(1) Indicated amounts reflect those included in the 2003-04 Adopted Budget.

(2) Indicated amounts reflect those included in the 2003-04 Adjusted Budget as of March 31, 2004.

(3) Indicated amounts reflect the projection by the County in the Third Quarter Report as of May 18, 2004 of the actual expenditures and revenues of the County's General Fund for Fiscal Year 2003-04.

(4) Indicated amounts reflect the difference between the budgeted expenditures, revenues and other financing sources of the County's General Fund in the 2003-04 Adjusted Budget as of March 31, 2004 and the projected actual expenditures, revenues and other financing sources of the County's General Fund for Fiscal Year 2003-04. Amounts without parenthesis indicate a variance favorable to the County's General Fund and amounts with parenthesis indicate a variance unfavorable to the County's General Fund.

(5) Indicated amounts reflect (a) estimated use of the unreserved and undesignated portion of the General Fund Balance of approximately $145.6 million contained in the 2003-04 Adopted Budget and an additional approximately $84.1 million contained in the 2003-04 Adjusted Budget, (b) estimated use of $3.6 million from the unreserved and designated portion of the General Fund Balance, and (c) estimated use of approximately $87.8 million from reserves for encumbrances for appropriations carried over from Fiscal Year 2002-03 which is reflected in the 2003-04 Adjusted Budget only and is not reflected in the 2003-04 Adopted Budget.

The unreserved and undesignated portion of the General Fund Balance as of June 30, 2003 was $269.0 million. Included in the 2003-04 Adopted Budget were transfers from the unreserved and undesignated portion of the General Fund Balance of approximately $145.6 million. An additional transfer of approximately $84.1 million was reflected in the 2003-04 Adjusted Budget. Accordingly, unreserved and undesignated portion of the General Fund Balance currently is equal to $39.3 million. As discussed above, the County projects that the General Fund expenditures will be $230.9 million less than budgeted and General Fund revenues will be $95.9 million less than budgeted in the 2003-04 Adjusted Budget. As a result, the net amount of these projected variances of approximately $135.0 million will be added to the unreserved and undesignated portion of the General Fund Balance as of June 30, 2004. Therefore, the County projects that the unreserved and undesignated portion of the General Fund Balance as of June 30, 2004 will be approximately $174.3 million, which will result in a reduction of approximately $94.7 million from the General Fund Balance as of June 30, 2003. All of the transfers from the unreserved and undesignated portion of the General Fund Balance during Fiscal Year 2003-04 have been spent on one-time expenditures such as costs associated with the 2003 fires (see - "Impact of the 2003 Fires in the County" below), quality recognition awards, the extinguishment of debt, operational costs associated with phased-out operations and various capital projects. No one-time resources were spent on any on-going operational expenditures.

Vehicle License Fee Reduction

The State's Vehicle License Fee ("VLF") is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars, and taxicabs are subject to the VLF. Approximately three-fourths of VLF revenues can be used for any lawful purpose and are distributed fifty percent to cities (based on the respective populations of the cities) and fifty percent to counties (based on the respective populations of the counties). The remaining approximately one-fourth of VLF funds are allocated to counties to pay for "realignment" health and social services programs. Under the State of California's Vehicle License Fee Law, beginning January 1, 1999, the vehicle license fee was reduced from 2.0% to 1.5% and was subsequently reduced to 0.65% starting July 1, 2001.

To ensure that local governments are not adversely impacted by the fee reductions, State law provides for an offset from the State's General Fund equal to the amount of the reduction. Under the offset provisions, the State's General Fund pays local governments for lost VLF revenues on a dollar-per-dollar matching basis, from State General Fund revenues. The repayment funds are continuously appropriated, and do not need to be approved in the annual budget process. A statutory, continuous appropriation, however, is not a firm guarantee of a continuing replacement and the repayment is subject to the availability of monies for transfer from the State's General Fund.

VLF is the second largest general purpose revenue source for the County's General Fund (after property taxes). In Fiscal Year 2002-03, the County received $190.8 million in VLF revenues, as compared to the budgeted $184.7 million. In Fiscal Year 2003-04, the County budgeted $195.0 million in VLF revenues, approximately $131.6 million of which were in VLF backfill funds to be appropriated by the State. As noted below under "Supplemental Financing Information - State Budget for Fiscal Year 2003-04," the State's Fiscal Year 2004 budget discontinued the VLF backfill to cities and counties. Under the provisions of the State law, the State Director of Finance determined on June 20, 2003 that insufficient funds were available in the State's General Fund to fund the "offsets" (i.e., the reductions in VLF fees). That determination triggered a return to the 2% level for license fee collections, but not until October 1, 2003. This situation resulted in a two-thirds loss of VLF revenues from July through September 2003, but this "offset gap" loss was considered to be a loan to the State that would be repaid in Fiscal Year 2006-07. The County estimates in the Third Quarter Report that the loss of VLF revenues during this period was $38.5 million.

Subsequent to the adoption of the State budget, a new governor, Arnold Schwarzenegger, was elected. He repealed the increase in VLF to 2.0% on November 17, 2003 and reduced it to the 0.65% level. When the State Assembly failed to address this issue and restore the backfill during the special session called by the Governor shortly after taking office, Governor Schwarzenegger, on December 18, 2003, invoked his emergency powers and bypassed the State Legislature to unilaterally restore the backfill. Although the Legislative Analyst's Office has questioned the legality of the Governor's action, the State Controller is making the backfill payments as directed by the Governor.

The County currently projects in the Third Quarter Report that VLF revenues from the State will be $45.0 million less than those budgeted. In addition to the $38.5 million offset gap loss noted above, the County has projected that it will experience an additional VLF revenue shortfall of $6.5 million. This projection is based on year-to-date revenue receipts with the additional shortfall being the result of the State reporting lower vehicle registration values statewide than in Fiscal Year 2002-03 as a result of, according to the State, lower-than-expected new car sales. While the County believes the above estimates to be reasonable, at year end the State will review the vehicle license fee data for the year and will make a final determination of the amounts that are owed to counties and cities for Fiscal Year 2003-04 as well as the amount to be repaid in Fiscal Year 2006-07 for the offset gap loan. As a consequence, the above cited figures may be either higher or lower than the actuals.

Impact of 2003 Fires in the County

In October 2003, fires in the County burned approximately 400,000 acres and destroyed approximately 5,000 structures. The County has appropriated $22.6 million for response and recovery efforts, including, private property debris removal, hiring of additional staff to process building permits, erosion control, burned vehicle removal and operating the local assistance center for the first few weeks after the fires. These appropriations are comprised of $3.0 million from the County's contingency reserve and $19.6 million from the County General Fund balance. The County is seeking reimbursement for most of the costs associated with the 2003 fires from federal and State sources, but no guarantee can be made that such reimbursement will occur. The County has not assumed any reimbursement as part of its projected fund balance as of June 30, 2004 or as a revenue or other financing source for Fiscal Year 2004-05. The County expects that approximately $1.5 million from the County General Fund will be needed in each of the next two fiscal years to compensate for revenue not received as a result of the Board of Supervisors decision to waive building permit fees for homes impacted by the 2003 fires.

2004-05/2005-06 Fiscal Years Operational Plan of the County

The County's operational plan (the "Operational Plan"), which is adopted annually, describes the financial plan for the next two Fiscal Years. The first year of the Operational Plan represents the County budget, while the second year represents a projection. The County's budget is mainly impacted by State and local economic and demographic conditions. The local economy continues to grow at a modest pace, *i.e.*, in terms of the gross regional product, employment and personal income. State budget cuts also impact the County. Governor Schwarzenegger announced his proposed 2004-05 State Budget (the "Proposed 2004-05 Budget") on January 9, 2004, addressing an accumulated State debt of $22.1 billion and projecting a State budget shortfall totaling approximately $14 billion in Fiscal Year 2004-05. The Proposed 2004-05 Budget, if enacted, would be challenging because of the array of categorical programs that are identified for cuts and the shift of property tax revenues to school districts. The County's proposed budget for the County General Fund for Fiscal Years 2004-05 and its plan for 2005-06 is $2.763 billion and $2.701 billion, respectively. This Operational Plan, where applicable, is based on the Governor's Proposed 2004-05 Budget. The proposed budget for the County's General Fund for Fiscal Year 2004-05 represents a 0.8% decrease from the 2003-04 Adopted Budget, and the plan for the

County's General Fund for Fiscal Year 2005-06 represents a decrease of 2.2% from the Fiscal Year 2004-05 proposed budget.

Key assumptions and components of the proposed Operational Plan and comparisons with the Fiscal Year 2003-04 budget include the following:

1. The gross regional product is forecasted to reach $137.2 billion in 2004, an increase of approximately 4.2% (measured in constant dollars) from December 31, 2003 to December 31, 2004. This increase represents a higher growth than the 3.5% (measured in constant dollars) estimated growth in 2003. The County has factored this assumption into certain projections in the Operational Plan.

2. The County's 2004 annual unemployment rate of approximately 3.9% is expected to be slightly lower than the 4.3% level of 2003, and is projected to be below both State and national levels projected to be 5.8% and 6.2%, respectively. The County has factored this assumption into certain projections in the Operational Plan.

3. Total general purpose revenues (revenues not tied to a specific County program) will decrease by $16.4 million from the Fiscal Year 2003-04 Adopted Budget to $630.2 million in Fiscal Year 2004-05 and then increase by $22.9 million to $653.1 million in Fiscal Year 2005-06. The 2.5% decrease projected for Fiscal Year 2004-05 is due primarily to the anticipated shift of local county property taxes to the schools, i.e., the Educational Revenue Augmentation Fund ("ERAF") shift as proposed in the Governor's Proposed 2004-05 Budget. The ERAF reduction is partially offset by growth in property tax, real property transfer taxes and other revenues. A 3.6% growth rate in General Purpose Revenues is anticipated for Fiscal Year 2005-06.

4. Key General Purpose Revenue categories in Fiscal Year 2004-05 will decrease by 6.7%, $23.9 million, for current property taxes, increase by 1.0%, $1.9 million for VLF revenues, and increase by 5.9%, $1 million, for Real Property Transfer Taxes.

5. In Fiscal Year 2004-05, the County will retain the general reserve of $55.5 million and will appropriate an operational contingency reserve of $11.0 million. The general reserve is set aside for any unforeseen catastrophic situations and the contingency reserve will be available for economic and operational uncertainties during Fiscal Year 2004-05.

The proposed Operational Plan contemplates the transfer from the unreserved and undesignated portion of the General Fund Balance of $106.9 million in Fiscal Year 2004-05, all of which are proposed to be spent on one-time expenditures.

The Governor released a revision of the Governor's Proposed 2004-05 Budget (see "May Revision to 2004-05 Proposed State Budget" in Supplemental Financial Information below) after the County released its Proposed Operational Plan for fiscal years 2004-05 and 2005-06. If the revision of the Governor's Proposed 2004-05 Budget is enacted, the most significant change for the County's general fund would be restoration of approximately $27 million of approximately $55 million of property taxes assumed lost in fiscal years 2004-05 and 2005-06. The County will likely wait until the legislature passes and the Governor signs the State budget before determining whether or how it will modify the County's budget for fiscal year 2004-05.

The following table shows the County's General Fund budgets for Fiscal Years 2003-04 and 2004-05.

COUNTY OF SAN DIEGO
GENERAL FUND BUDGET
Fiscal Year 2003-04 and Fiscal Year 2004-05
(In Thousands)

	Adopted Budget 2003-04	Proposed Budget 2004-05
APPROPRIATIONS		
Public Safety	$ 878,769	$ 879,831
Health & Human Services	1,421,273	1,429,355
Land Use & Environment	95,700	94,955
Community Services	38,663	37,791
Finance and General Government and Other	337,059	307,127
Contingency Reserve and Designations	13,600	13,600
Total Appropriations	$2,785,064	$2,762,659
REVENUES		
Current Property Taxes	$ 356,207	$ 332,317
Taxes other than Current Property Taxes	59,450	61,300
Licenses, Permits & Franchises	31,993	31,876
Fines, Forfeitures & Penalties	35,004	44,186
Use of Money & Property	16,529	20,067
Aid from other Government Agencies	1,391,778	1,382,458
Charges for Current Service	226,647	241,637
Miscellaneous Revenues and Other Financing Sources	518,286	537,932
Total Revenues	$2,635,894	$2,651,773
Estimated Use of General Fund Balance	$ 149,170	$ 110,886
Total Available Financing	$2,785,064	$2,762,659

Source: County of San Diego Auditor and Controller.

Teeter Plan

Beginning Fiscal Year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at Fiscal Year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "Series A Teeter Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Series B Teeter Notes," and together with the Series A Teeter Notes, the "Teeter Obligation Commercial Paper Notes"). The Series A Teeter Notes were initially delivered in a principal amount of $25,900,000, which principal amount was not in excess of remaining uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all Fiscal Years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series A Teeter Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all Fiscal Years of the County ended on and prior to June 30, 1993 (the "Initial Debenture), with remaining amounts to pay costs in connection with the initial issuance of the Series A Teeter Notes. The Series B Teeter Notes were initially delivered in a principal amount of $42,400,000, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series B Teeter Notes were applied to refund the remaining Debentures attributable to the Fiscal Years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the initial issuance of the Series B Teeter Notes. There are no Series A Teeter Notes outstanding and the County will not issue any additional Series A Teeter Notes. Beginning in June 1996 and each June thereafter the County has issued its Series B Teeter Notes to refund the demand obligations attributable to the Fiscal Year then ending and to pay costs in connection with the issuance of such Series B Teeter Notes. As of June 4, 2004, $16,000,000 aggregate principal amount of the Series B Notes were outstanding. The County issued additional Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B-1 and Teeter Obligation Taxable Commercial Paper Notes, Series B-2 in the amount of $34.1 million and $12 million, respectively, in June 2004.

The Teeter Obligation Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior to the County's Commercial Paper Notes and other General Fund obligations.

The Series B Teeter Notes have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the Fiscal Years ended June 30, 1995 through June 30, 2004, and such other Fiscal Years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement dated June 22, 1998 by and between Landesbank Hessen-Thüringen Girozentrale (the "Bank") and the County (the "Reimbursement Agreement"), or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the Fiscal Years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to the Law and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the Fiscal Year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded, in accordance with the County's election to be governed by the second alternative, with a $7,153,000 million balance projected for June 30, 2004. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Interfund Borrowing

Section 6 of Article XVI of the California Constitution provides for interfund borrowing (a "Treasurer's Loan") to cover short-term operational deficits occurring as a result of imbalances between receipts and expenditures. The California Constitution prohibits interfund borrowing by Participant's prior to the first day of the Fiscal Year or after the last Monday of April of each Fiscal Year, and of amounts in excess of 85% of the school district taxes levied by a county under Section 21 of Article XIII of the California Constitution and of amounts apportioned to such school district under Section 6 Article IX of the California Constitution. Participants may utilize Treasurer's Loans from time to time for various purposes. A Treasurer's Loan must be repaid from the Participant's first revenues received after the incurrence of a Treasurer's Loan before any other obligation, including the respective Notes, is paid from such revenues.

San Diego County Employees' Retirement Association

General

The San Diego County Employees' Retirement Association (the "Association"), which was established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937 (the "Retirement Law"), is a contributory defined benefit plan covering substantially all compensated employees of the County. The plan is integrated with the federal Social Security System for general members (but not for safety members). As of June 30, 2003, there were 18,434 active members, 10,280 retired members and 3,790 deferred members. Deferred members are those members whose employment has terminated with a participating employer and who left their respective retirement contributions with the Association. The System operates on a fiscal year basis, with its year ending June 30.

The County is one of the employers which participate in the Association. In addition to the County, participating employers include the San Diego Superior Court (the "Courts"), the Local Agency Formation Commission, the San Dieguito River Valley Joint Powers Authority, and the San Diego County Office of Education. The County and these other participating employers are collectively referred to herein as the "Employers." The County is obligated to make 99% of the annual employer contributions to the Association, and the County's General Fund is obligated to make 92% of the annual employer contributions to the Association, which is based on the estimated relative percentage of payroll of the County and the County General Fund for Fiscal Years 2003-04 and 2004-05. State legislation in 1997 provided that effective July 1, 1997, financial responsibility for the Courts, and its employees, including contributions for pension benefits, was transferred to the State, which was to be solely responsible therefore. County Counsel of the County has provided an opinion to the Board and the County to the effect that notwithstanding the transfer of financial responsibility for pension plan payments for the Courts to the State, the County continues to be responsible for making the pension plan payments, whether or not reimbursed by the State. Accordingly, the amounts shown for which the County is responsible reflect employees of the Courts.

General Funding Practices of the Association.

Introduction. An actuarial valuation is required under the Retirement Law at least every three years. The Association's practice has been to conduct an actuarial valuation on an annual basis as of June 30 of each year, which is the end of the Association's fiscal year. The valuation must be completed by an Enrolled Actuary, covering the mortality, service, and compensation experience of the members and beneficiaries, and must evaluate the valuation assets and actuarially determined liabilities of the Association. The Retirement Law requires the Retirement Board of the Association (the "Retirement Board") to recommend to the Board of Supervisors and the other Employers such changes in rates of interest, in the rate of contribution of members, and in the County's and the other Employers' appropriations as necessary. Once the Retirement Board recommends any such changes, the Retirement Law requires the Employers (including the County) to implement such changes.

UAAL and its Calculation. Currently, the Association uses the "entry age normal cost method" to calculate the Employers' annual rates of contribution. The actuarially required contribution has two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). Normal cost represents the portion of the actuarial present value of the benefits that the Employers and their respective employees will be expected to fund that are attributable to a current year's employment. The amortization of the UAAL represents the current year's portion of the unfunded accrued costs (*i.e.*, the UAAL) attributable to past years' employment that is charged to the County and the other Employers. The UAAL typically results from changes in actuarial assumptions, benefit improvements and other experience which differs from that anticipated by the actuarial assumptions. There is a lag between the point in time at which the actuary completes the actuarial valuation and the date that the contribution rates calculated in the valuation go into effect. This lag is typically 12 months. For example, the recommended contributions contained in the actuarial report as of June 30, 2003 would apply to contributions to be made by the County and the other Employers for the year beginning July 1, 2004.

The UAAL is an estimate based on a series of assumptions that operate on demographic data of the Association's membership. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in the Association are to fund, as of the date of calculation, the accrued costs attributable to currently active, vested terminated (*i.e.*, the deferred members) and retired employees. The funding sufficiency is typically expressed as the ratio of the valuation assets to the accrued actuarial liabilities. If the actuarially calculated funding level of a plan is less than 100%, it implies that the plan has a UAAL. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. If the plan experience differs from the assumptions used, the actual amount paid out by a plan could be more or less than the amounts contemplated by the UAAL.

When measuring assets for determining the UAAL, many pension plans, including the Association, "smooth" gains and losses to reduce volatility. If in any given year the actual investment return on the Association's assets is lower or higher than the actuarial assumed rate of return (which is 8.25%), then the shortfall or excess is smoothed or spread over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss. In the case of the Association, as a consequence of this smoothing practice, as of June 30, 2003, there were approximately $70 million of gains and approximately $743 million of losses yet to be smoothed in, leaving a total net unsmoothed loss of $673 million remaining to be spread over the four years ending June 30, 2007.

Further, various plans use differing amortization periods for paying off (or "amortizing") a UAAL. In the actuarial valuation report for the year ending June 30, 2003, the Association used a 15-year rolling period, which means that each year the UAAL is re-amortized over 15 years to determine the amount of the annual employer payment that is due. Other plans use different rolling periods and still others use "fixed" periods such as a 30-year fixed period, meaning that the actuarially required contribution in a particular year would be the unfunded accrued actuarial liability amortized over the remaining years in the fixed period. On June 17, 2004, the Retirement Board changed the Association's amortization period to a 20-year multiple layered amortization period. Pursuant to this amortization method, the UAAL as of June 30, 2004 will be amortized over a 20-year fixed amortization period. Beginning with the valuation report for the year ended June 30, 2005, that portion of the Association's UAAL that is attributable to any incremental increase or decrease to the actuarially determined liabilities of the Association to members in relation to actuarially determined assets of the Association, during any given year will be amortized on a 20-year fixed amortization period. Thus, in the valuation report for each year, a new layer of amortization will be assigned to any actuarial gains or losses in that year. This could be changed at any time by the Retirement Board, as could the other assumptions, which, as a consequence, would cause the Employer's obligations to pay the Association in a particular year to be higher or lower. The contribution to the UAAL as of the end of a given year (as reflected in an actuarial valuation report) is amortized as a level percentage of a payroll that is expected to increase each year at the plan's assumed payroll inflation rate, thus the annual contribution requirements to fund the UAAL also increase at this rate.

Investors are cautioned that in considering the amount of the UAAL as reported by the Association and the resulting amounts of required contributions by the County and the other Employers, this is "forward looking" information in that it reflects the judgment of the Retirement Board and the Association's actuary as to the amount of assets which the Association will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees. These judgments are based upon a variety of assumptions, one or more which may prove to be inaccurate or be changed in the future, and will change with the future experience of the Association.

As required by the Retirement Law, the Retirement Board and the Association's actuary periodically review the various assumptions that are employed in calculating the UAAL against actual experience, which are called experience studies. Most recently, the Association's actuary delivered an experience study to the Retirement Board in February 2004 pursuant to which in March 2004 the Retirement Board elected to modify certain of the assumptions currently used to calculate the UAAL. The changed assumptions include the assumed future pay increases for current employees, the assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. The changed assumptions were included in the actuarial valuation report as of the year ended June 30, 2003.

New Actuary. Beginning with the actuarial valuation report as of the year ending June 30, 2003, the Association retained a new actuary, The Segal Company. The Segal Company is currently evaluating all of the practices and procedures of the Association and over the next several months will be submitting to the Retirement Board several reports regarding changes that The Segal Company recommends that the Retirement Board implement. For example, in the May 6, 2004 meeting of the Retirement Board, The Segal Company recommended and the Retirement Board approved a change of the Association's smoothing methodology such that the expected investment return on the market value of assets (instead of the current methodology of using the valuation value of assets) will be compared to the actual investment return on the market value of assets. This change may accelerate the rate at which investment losses and gains are realized. This change will be applied prospectively and will only take effect with return deviations beginning with the fiscal year ended June 30, 2005.

In addition, on June 17, 2004, the Retirement Board approved a change in the amortization period over which the Association's UAAL is amortized from a 15-year rolling amortization period to a 20-year multiple layered amortization period. See "UAAL and its Calculation" above. Also, The Segal Company is reviewing the Excess Earnings (as defined below) allocation practices of the Retirement Board.

Investment Policy; Historical Investment Return. The Retirement Law grants the Retirement Board exclusive control over the investment of the Association's assets. The Retirement Law provides general guidelines which generally require the Retirement Board to manage the investments for the purpose of providing benefits to members, minimizing Employer contributions, and defraying the reasonable expenses of administering the Association. The Retirement Law further requires the Retirement Board to manage the Association's investments prudently and to diversify investments.

The Retirement Board has adopted an investment policy statement and related policies to ensure that the Association is managed prudently and in compliance with the Retirement Law. These policies set investment return and risk objectives and provide for extensive diversification of assets, securities, lending, commission recapture, value-added strategies, proxy voting, and corporate governance issues. Based on the investment policies of the Retirement Board, the Retirement Board has adopted, upon the recommendation of the Association's actuary, an actuarial assumed rate of return of 8.25%.

The historical net investment return on the market value of the Association's assets was 3.72% for the year ended June 30, 2003, (3.14%) for the three years then ended, 3.37% for the five years then ended, and 8.39% for the ten years then ended. This compares to the 8.25% actuarial assumed rate of return that the Association's actuary uses to calculate the UAAL on a year-to-year basis (which is done by projecting into the future a variety of estimates, including how much will be earned on the assets of the Association in future years). In March 2004, the Retirement Board reaffirmed and approved the continued use of an assumption of an 8.25% return on plan assets of the Association for purposes of calculating UAAL. If a lower investment return rate assumption were used, then the UAAL would be greater, as would the Employers' annual contributions. Conversely, the use of a higher investment return rate assumption would result in a smaller UAAL and Employer annual contributions. Of course, actual investment results that are higher or lower than the assumed rate of return also will affect the UAAL.

Employee Contributions Paid by the Employers. In addition to making annual contributions to the Association in accordance with the applicable actuarial valuation, the Employers also have agreed pursuant to the collective bargaining arrangements with their employee unions to pay a portion of the employees' required contribution to the Association (these payments by the Employers are referred to herein as the "Employer Offsets"), which, for non-safety employees of the Employers range from 3% to 7% of their salary, and for safety employees range from 2.75% to 14.2% of their salary. Some of these collective bargaining agreements expire in 2006 and some expire in 2007, but since 1982, the Employers' agreement to pay Employer Offsets has been a consistent feature of these collective bargaining arrangements. See "*Historical Funding Status*" below for information regarding payments by the Employer of Employer Offsets for each of the ten years ending June 30, 2004.

Ventura Litigation. In the case of *Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association* (the "Ventura Litigation"), the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are to be included in the definition of final compensation within the meaning of the Retirement Law. In 1998, there were three lawsuits filed against the Association which were consolidated into a coordinated proceeding in the County of San Francisco Superior Court. On February 14, 2002, the County of San Francisco Superior Court approved a settlement of these lawsuits. In consideration for the dismissal of these lawsuits, effective March 8, 2002, the Association and the County agreed to increase benefits for active and retired employees. The County believes that after giving effect to these increased benefits, the calculation that the Association uses in calculating final compensation complies with the standards set forth in the Ventura Litigation. The total estimated accrued liability from these increased benefits have been reflected in the actuarial valuation as of June 30, 2003, as it had been reflected in the Association's actuarial valuation reports as of June 30, 2002 and October 3, 2002.

Pension Obligation Bonds.

Introduction. A number of California public agencies, including the County, have issued taxable pension obligation bonds ("POBs") and transferred the proceeds to their respective pension plans so as to reduce the UAAL. Under California law, the obligation to fund the UAAL by making actuarially required contributions is an obligation imposed by law. The effect of issuance of POBs is to refinance that obligation and convert it from an obligation to make actuarially required contributions to an obligation to make interest and principal payments on bonds which are sold to the public. While the UAAL is reduced as a consequence, the public agency's obligation to pay the refinanced amount continues until the bonds are repaid. The duration of the POBs may exceed the amortization period for the UAAL.

County Pension Obligation Bonds. In February 1994, the County issued $430,430,000 in principal amount of POBs (the "1994 POBs"), and in October 2002 issued an additional $737,340,000 in principal amount of POBs (the "2002 POBs"), in part to refund a portion of the 1994 POBs. As a consequence of the issuance of the 1994 POBs and the 2002 POBs the County contributed to the Association the aggregate amount of $978,500,000 towards reduction of the UAAL. As of April 30, 2004, the County has POBs outstanding in the aggregate principal amount of $814,765,000. See subsection (F) of footnote (4) of the County's Comprehensive Annual Financial Report the year ended June 30, 2003 for a description of the County's General Long-Term Obligations, including its POBs. The County may, from time to time, finance all or a portion of the UAAL through the additional issuances of POBs.

Funding Status of the Association

Current Status. As of June 30, 2003, the date of the most recent actuarial valuation report, the actuarial value of assets of the Association was approximately $4.4 billion, the actuarial accrued liability was approximately $5.9 billion and the funded ratio was approximately 75.5%. As of June 30, 2003, the UAAL was approximately $1.435 billion. The Association's funded ratio and the UAAL as of June 30, 2003 reflect the contribution by the County of the proceeds of the 1994 POBs and the 2002 POBs, as described above at the respective times of their issuance.

Historical Funding Status. The following table sets forth for each of the ten years ended June 30, 2004 the amount of the total employer contributions made by the County and the other Employers, the UAAL as of the end of each of such year, and the funded ratio of the Association as of the end of each of such years.

HISTORICAL FUNDING STATUS
Years Ended June 30, 1995 through 2004

Fiscal Year Ending June 30,	Employer Contribution (in millions)[1]	Employer Offsets (in millions)[1]	UAAL (in millions)[2]	Funded Ratio[2]
1995	$33.3	$38.2	($24.3)	101.1%
1996	37.6	37.3	(29.9)	101.3
1997	23.3	38.3	(200.2)	108.1
1998	24.3	37.2	(157.0)	105.9
1999	0.0	36.4	(221.8)	107.4
2000	0.0	38.2	(319.8)	109.9
2001	2.0	39.1	(238.8)	106.8
2002	5.3	45.2	905.1[3]	82.5[3]
2003	12.2	53.9	1,435.4	75.5
2004[4]	175.5[3]	55.6[3]	–	–

(1) Indicated contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. The County General Fund share of Employer contributions and Employer Offsets are estimated to be 92% based on the estimated relative percentage of payroll of the County General Fund for Fiscal Years 2003-04 and 2004-05. See "General" above.

(2) In each year the amounts indicated under the columns Employer Contribution and the Employer Offsets were based on the UAAL as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30. Negative numbers represent an actuarially accrued surplus.

(3) The UAAL and Funded Ratio indicated for the fiscal year ending June 30, 2002 are those calculated in an October 2002 actuarial valuation report which calculated the Association's UAAL and Funded Ratio as of October 3, 2002 and which was used to calculate the contribution amounts of the Employers to be used in the fiscal year ending June 30, 2004. The October 2002 actuarial valuation report reflected the contribution by the County of $550 million of proceeds of the 2002 POBs to the Association on October 3, 2002. The use by the Retirement Board of the October 2002 actuarial valuation to establish the Employer required contributions is currently the subject of litigation pending against the Retirement Board and the County; see "Litigation Relating to the Association—2003-04 Contribution Litigation" for a description of this litigation. If the Retirement Board had established the Employer required contributions based on the June 30, 2002 actuarial valuation report, then the Employer required contributions in the year ended June 30, 2004 would have been approximately $308 million, and the Employer Offsets with respect to the same year would have been the same as indicated above.

(4) Estimated.

Impacts to UAAL. As shown in the foregoing table, from June 30, 2001 to June 30, 2003, the UAAL increased from ($238.8) million to $1.435 billion, and the funded ratio as of the same dates declined from 106.81% to 75.48%. A number of events occurred during this period which adversely affected the UAAL and the funded ratio, including, but not limited to, (1) effective March 8, 2002, the Board of Supervisors increased retirement benefits for active employees which in turn increased actuarially determined liabilities, (2) effective March 8, 2002, the County, as well as a number of other counties in California, in connection with the settlement of the Ventura Litigation, agreed to increase benefits, which in turn required transfers from valuation assets; (3) investment results of the Association were below the actuarially assumed rate of 8.25% per annum as a consequence of declines in the securities market; (4) the Association adjusted several demographic assumptions based on a regular experience study conducted by its actuary that evaluates the reasonableness of the Association's assumptions and implemented those in the actuarial valuation report as of June 30, 2003; (5) the Association ceased including amounts in the Undistributed Reserve (as defined below) as valuation assets when calculating the Association's UAAL; and (6) deviations between actual experience and those assumptions used in calculating the UAAL. In October 2002, the County contributed $550 million from the proceeds of the 2002 POBs, thus refinancing an equal amount of UAAL. In addition, the Retirement Board changed the Association's amortization period from a primarily five-year rolling amortization period to a 15-year rolling amortization period.

Transfers of Investment Earnings by the Association

Introduction. Pursuant to statutory authority under the Retirement Law, the Retirement Board annually directs the crediting of the Association's investment earnings to reserves, some of which are part of valuation assets, and some of which are not. Valuation assets are those assets used in calculating the UAAL and the funded ratio. For purposes of these creditings, the Retirement Board has defined investment earnings as current income (*i.e.*, the interest, dividends, and rents) plus net realized capital gains on the book value of the Association's valuation and non-valuation assets. All of the Association's investment earnings on the Association's assets are transferred to and kept in a reserve entitled the "Undistributed Reserve," and from there such earnings are transferred in accordance with Retirement Board policy. The Undistributed Reserve is currently not part of valuation assets and, except in certain limited circumstances, the terms of the settlement described under "Litigation Relating to the Association—Excess Earnings Litigation" prohibit amounts in the Undistributed Reserve from being included as assets for purposes of calculating the Association's UAAL.

Pursuant to the statutory authority of the Retirement Law, the Retirement Board has adopted certain "Interest Crediting Goals" which direct that investments earnings be transferred from the Undistributed Reserve to the following Association reserves, effectively, in the following order. First, such earnings are credited to the Association's valuation assets up to an amount determined by the Retirement Board's policies, currently in an amount equal to 8.25% of the value of the Association's valuation assets as of the end of the prior fiscal year. Second, an amount of such earnings is transferred to a contingency reserve (the "Contingency Reserve") that is necessary to maintain the amount on deposit in the Contingency Reserve, which is not part of valuation assets, equal to one percent of the total valuation assets of the Association. The Association may transfer amounts from the Contingency Reserve to valuation assets when current investment earnings are insufficient to credit the valuation asset reserves with the 8.25% interest target. Earnings in excess of the amounts transferred to the Contingency Reserve are referred to herein as "Excess Earnings." Finally, the Retirement Board's Interest Crediting Goals direct that the Retirement Board may allocate any Excess Earnings to any other reserves, whether inside or outside of valuation assets, in accordance with its discretion.

The Retirement Law permits the Association to use any Excess Earnings to pay certain supplemental benefits to retirees as well as crediting Excess Earnings to the Association's valuation assets. Pursuant to the authority granted under the Retirement Law, the Retirement Board has historically from time to time transferred Excess Earnings from the Undistributed Reserve to two reserves: (1) a reserve (the "Health Reserve") from which the Association reimburses the Employers for amounts that the Employers contribute for the payment of post-retirement health care benefits; and (2) a reserve established for a supplemental targeted adjustment for a cost of living adjustment ("STAR COLA"). Both the Health Reserve and the STAR COLA reserve are outside of valuation assets, which means that they are not included as assets when calculating the Association's UAAL. For a discussion of the STAR COLA benefits paid by the Association and certain other related issues, see "STAR COLA Benefits" below. For a discussion of post-retirement health care benefits paid by the Association and certain other related issues, see "Post-Retirement Health Care Benefits" below. The Retirement Board has not adopted a policy of annually crediting any certain amount to the STAR COLA reserve and the Health Reserve as it has for the reserves inside of valuation assets, but the Retirement Board does have a practice of maintaining certain levels in the STAR COLA reserve and the Health Reserve. See "Reserve Levels" below. See "General Funding Practices of the Association—New Actuary" for information regarding the review by the new actuary of the Association of the practices and policies of the Association, including the Excess Earnings practices and policies.

See below under "Litigation Relating to the Association—Excess Earnings Litigation" regarding the settlement of certain litigation involving the County and the Association that, in part, governs the use by the Retirement Board of Excess Earnings.

Effect of Transfers of Investment Earnings. If transfers of earnings to valuation reserves are not made, higher Employer contribution rates may result for two reasons. First, when earnings are held outside of valuation assets, those amounts are not available to decrease the UAAL, since they are not available to pay benefits reflected in the UAAL. This, in turn, causes the annual contribution amounts of the County to be larger in later fiscal years than would have been the case if all earnings were deposited in the Association's valuation assets.

Second, the manner in which earnings are calculated for allocation purposes may lead to Excess Earnings being generated in years in which the Association's investment rate of return on valuation assets is less than the actuarially assumed rate of return. This is because the Retirement Board has defined "earnings" for allocation purposes as current income (*i.e.*, the interest, dividends, and rents) plus net realized gains on the book value of the Association's assets, meaning that securities having a gain from their book value could be sold to generate net realized gains, whereas, for purposes of calculating the UAAL, the effective rate of return reflects the smoothed earnings on the actuarial value of assets (the earnings on assets after giving effect to the smoothing of gains and losses over a five-year period). As a consequence, this could lead to the transfer of earnings to non-valuation reserves in years in which the investment rate of return for UAAL purposes is less than the assumed rate of return, as occurred in the year ended June 30, 2002.

Under the Retirement Law, the Retirement Board retains the authority to transfer amounts from non-valuation reserves back to the Association's valuation assets, which, if this occurred, could not then be re-transferred back to the STAR COLA reserve, the Health Reserve or any other reserve outside of valuation assets. However, the terms of the settlement described under "Litigation Relating to the Association—Excess Earnings Litigation" below generally limit the Retirement Board's ability to make such transfers from funds on deposit in these reserves as of June 30, 2002.

Historical Transfers of Investment Earnings. The following table sets forth the amount of the Association's investment earnings that the Retirement Board has transferred from the Undistributed Reserve into reserves that are separate from valuation assets during the ten fiscal years ending June 30, 2003:

TRANSFERS OF INVESTMENT EARNINGS TO NON-VALUATION RESERVES
Years Ended June 30, 1994 through 2003

Fiscal Year Ended June 30,	Post-Retirement Health Care[1] (in millions)	STAR COLA[2] (in millions)	Contingency Reserve[3] (in millions)	Total (in millions)
1994	$8.0	–	–	$8.0
1995	7.9	–	–	7.9
1996	7.4	–	–	7.4
1997	6.5	–	–	6.5
1998	112.3	$50.5	–	162.8
1999	7.3	0.0	–	7.3
2000	32.0	9.8	–	41.8
2001	45.5	8.2	–	53.7
2002	117.0	24.2	$35.3	176.5
2003	0.0	0.0	0.0	0.0
2004[4]	0.0	19.6	14.5	34.1
Total	$343.9	$112.3	$49.8	$506.0

(1) Reflects amounts that the Association has transferred to the Health Reserve from Excess Earnings.

(2) Reflects amounts that the Association has transferred from Excess Earnings to a reserve established for the payment of STAR COLA. The Association began providing STAR COLA benefits in the year ended June 30, 1999, and transfers to the STAR COLA reserve began in the year ended June 30, 1998.

(3) Reflects amounts that the Association has transferred from the Association's investment earnings to the Contingency Reserve. The Contingency Reserve was created in the fiscal year ended June 30, 2002. Before the creation of the Contingency Reserve, the 1% contingency amounts required by the Retirement Law were maintained in the Undistributed Reserve and were not separated from valuation assets.

(4) These transfers were approved by the Retirement Board, in part, in December 2003 and, in part on June 17, 2004. Additional transfers may be made to the Contingency Reserve to ensure that one percent of the total valuation assets as of June 30, 2004.

In certain of the years indicated in the foregoing table, the amounts credited to the STAR COLA reserve and the Health Reserve were actually transferred after the end of the fiscal year with retroactive effect. The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving STAR COLA or health benefits, when in active service, were paid.

Reserve Levels. As of June 30, 2003, approximately $5.2 million was on deposit in the Undistributed Reserve, approximately $35.3 million was on deposit in the Contingency Reserve, approximately $48.5 million was on deposit in the STAR COLA reserve, and approximately $269.1 million was on deposit in the Health Reserve. Since it authorized the payment of STAR COLA benefits in 1998, the Retirement Board's historical practice has been to maintain an amount in the STAR COLA reserve that the Association's actuary estimates will be necessary to cover the costs of the STAR COLA benefits for current eligible retirees for five years. Since 1998, the Retirement Board has followed a practice of ensuring that the amounts in the Health Reserve are equal to an estimate of providing the cost of these non-vested, discretionary post-retirement health care benefits over the lives of active, deferred, and retired members.

Prospective Funding Status of the Association

The following table sets forth projections by the Association's actuary relating to future Employer contribution amounts, Employer Offsets, UAAL, and funded ratio. The following sets forth projections by the Association's actuary that gives effect to the contribution by the County of $450,000,000 from the net proceeds of the Series 2004 Bonds. See "Application of Series 2004 Bond Proceeds" in the Official Statement.

The following table does not reflect any debt service payments on the County's currently outstanding POBs or other POBs that may be issued in the future, which, if included, would raise the Total Employer Payments by the amount of the annual debt service on the POBs, all of which is attributable to the County's General Fund. See "Pension Obligation Bonds" above. See subsection (F)(3) of footnote (4) of the County's Comprehensive Annual Financial Report the year ended June 30, 2003 for a description of the County's long-term obligation activity, including that of its POBs.

The information contained in this table, and the related assumptions, are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various tabular information shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the Association's actuary and the County taking into account a variety of assumptions, a number of which are discussed below. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

PROSPECTIVE FUNDING STATUS OF THE ASSOCIATION
Years Ended June 30, 2004 through 2012

Fiscal Year Ending June 30,	Employer Contributions(1)(3) (in millions)	Employer Offsets(2)(3) (in millions)	Total Employer Payments(1)(2)(3) (in millions)	Funded Ratio(1)	UAAL(1)(3) (in billions)
2004	$176(4)	$56(4)	$232(4)	80.3%	$1,252
2005	260(5)	65(5)	325(5)	78.1	1,505
2006	227(6)	68(6)	295(6)	77.2	1,697
2007	255(6)	71(6)	326(6)	78.1	1,757
2008	280(6)	74(6)	354 (6)	79.7	1,763
2009	295(6)	77(6)	372 (6)	81.3	1,751
2010	308(6)	80(6)	388 (6)	83.0	1,726
2011	320(6)	83(6)	403 (6)	84.5	1,692
2012	332(6)	86(6)	418 (6)	86.0	1,649

(1) The following assumptions have been applied in preparing the foregoing estimates:

(a) Beginning with the fiscal year ending June 30, 2004, the net investment return on the market value of assets will be 8.25% per annum, which has historically been the actuarial assumed rate of return of the Association. This compares to historical net investment return on the market value of the Association's assets of 3.72% for the year ended June 30, 2003; (3.14%) for the three years then ended; 3.37% for the five years then ended and 8.39% for the ten years then ended. See "General Funding Practices of the Association—Investment Policy; Historical Investment Return" for a description of the Association's investment policies and historical results.

Using the Retirement Board's asset valuation method of smoothing gains and losses, if actual return on market value of assets is in excess or is below the expected return on the valuation value of assets (which currently is 8.25% per annum based on the Retirement Board's current assumption of investment rate of return), the difference between the actual and the expected return will be recognized over a five-year period. Accordingly, in developing the above schedule, an unrecognized investment loss of $673 million as of June 30, 2003 is recognized in varying amounts through the year ended June 30, 2007 and would impact Total Employer Payments through June 30, 2009. See "General Funding Practices of the Association—UAAL and its Calculation" for a description of the Association's smoothing practice. On

May 6, 2004, the Retirement Board approved the change to the Association's smoothing methodology. See "General Funding Practices of the Association—New Actuary" above.

(b) All the actuarial assumptions used in developing the contribution rates in the June 30, 2003 valuation will be met in the future, except the actuarial investment return as noted in (a) above.

(c) The payroll for the Association for the year ending June 30, 2005, will increase to $942 million, an increase of 4% over the estimated actual payroll for the year ended June 30, 2004. Thereafter, the payroll for each subsequent year will increase over the prior year by approximately 4%. This compares to an average eligible employee payroll increase in each of the three years ended June 30, 2003 of 9.7%.

(d) For the valuation report as of June 30, 2004 and thereafter the Association's UAAL will be calculated on a 20-year multiple layered amortization period. See "General Funding Practices of the Association—UAAL and its Calculation" above.

(e) Other than as described in (d) above, the Retirement Board's current valuation methodologies, such as the five-year smoothing asset valuation method (described in (a) above), will remain unchanged.

(f) Neither the County nor any of the other Employers will make any additional contributions (such as, for example, from additional issuances of POBs) other than the contribution by the County of the net proceeds from the Series 2004 Bonds as discussed above.

(2) The Employer Offsets for the year ended June 30, 2005 will increase to $9.4 million over the Employer Offsets paid and payable for the year ended June 30, 2004. Thereafter, Employer Offsets for each subsequent year will increase over the prior year by approximately 4%. This compares to an average annual increase of Employer Offsets for each of the five years ended June 30, 2003 of $3.5 million or 8.0%. As indicated above, Employer Offsets are governed by collective bargaining agreements with the Employers' employee groups and reflect in part actual membership demographics, since the actual amount of contributions depend upon length of service with the County.

(3) The County is responsible for approximately 99% of the indicated amounts based on the estimated relative percentage of payroll of the County for Fiscal Years 2003-04 and 2004-05, and the other Employers are responsible for the balance. The County's General Fund is responsible for approximately 92% of the indicated amounts based on the estimated relative percentage of payroll of the County's General Fund for Fiscal Years 2003-04 and 2004-05, and other funds of the County are responsible for the balance of the County's portion. See "General" above.

(4) Based on the UAAL as of October 3, 2002, which was approximately $905.1 million. See "Funding Status of the Association—Historical Funding Status" above.

(5) Based on the UAAL as of June 30, 2003, which was approximately $1.435 billion. See "Funding Status of the Association—Current Status" above.

(6) In each year the Employer-Required Contribution and the Employer Offsets will be based on the UAAL as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30.

The amounts shown in the foregoing table do not give effect to any transfers of Excess Earnings to non-valuation assets (such as to the Health Reserve or to the STAR COLA reserve); however, a transfer of earnings sufficient to maintain the amount on deposit in the Contingency Reserve equal to 1% of the market value of all of the Association's assets is reflected in the indicated amounts. Historically, the Association has transferred an average annual amount from Excess Earnings to the Health Reserve and the STAR COLA reserve, collectively, of approximately $55.9 million for the five years ended June 30, 2003. See "Transfers of Excess Earnings by the Association—Effect of Transfers of Excess Earnings" for a description of how transfers from excess earnings remove assets from valuation assets which, over time, may increase the UAAL and the required contributions of the County and the other Employers. If such transfers occur in one or more of the years shown, which will most likely occur but the amounts to be transferred or when any transfers will in fact occur is not known, the effect of such transfers will be to increase Employer Contributions and UAAL.

STAR COLA Benefits

STAR COLA Benefits. The STAR COLA benefits provide retirees with additional cost-of-living adjustments. The Retirement Board's STAR COLA policy originally sought to preserve at least 75% of a retiree's purchasing power calculated against when that retiree retired. As a result of the Ventura Litigation described above, the Association agreed to increase the minimum level of purchasing power from 75% to 80%. The Retirement Law does not require the Association to provide any STAR COLA payments. In addition, in the opinion of County Counsel, the County has not entered into any collective bargaining agreements or other arrangements that require the County or the Association to maintain STAR COLA benefits. Therefore, in the view of County Counsel, the Association's payments of STAR COLA benefits is an unvested benefit which can be cancelled at any time and for any reason by the Association. Nonetheless, the Association has continuously provided such benefits since 1998.

STAR COLA Reserve; Historical Payments. As of June 30, 2003, approximately $48.5 million is on deposit in the STAR COLA reserve. Since it authorized the payment of STAR COLA benefits in 1998, the Retirement Board's historical practice has been to maintain an amount in the STAR COLA reserve that the Association's actuary estimates will be necessary to cover the costs of the STAR COLA benefits for current eligible retirees for five years. Each year, the Association's actuary prepares an estimate of the amounts necessary to be contributed to the STAR COLA reserve to meet this targeted level. On June 3, 2004 The Segal Company presented a report to the Retirement Board in which it estimated, as of June 30, 2003, that expected STAR COLA payments for the five years ending June 30, 2008 would the approximately $56.9 million. On June 17, 2004, the Retirement Board authorized a transfer from Excess Earnings to the STAR COLA reserve in the amount of $19.6 million in order to remain consistent with this practice. However, the Retirement Board is currently reviewing this practice and may modify it in the future.

The Association has, since 1998, paid approximately $11.5 million, $9.2 million, $8.2 million, $8.1 million, and $7.2 million, respectively, to retirees out of the STAR COLA reserve. **The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving STAR COLA benefits, when in active service, were paid.**

Post-Retirement Healthcare Benefits

General. The Association offers to its retirees a health benefit to offset or reimburse the cost of medical insurance premiums. A variety of health care and dental plans with varying providers and levels of premiums are sponsored by the Association. Once a retiree elects a particular health care or dental plan, the amount of the premium is deducted from the retiree's monthly retirement check. Alternatively, retirees may be reimbursed for health insurance premiums of non-Association sponsored plans. With respect to those retirees who have 10 or more years of service credit before retirement, the Association offers a monthly medical allowance that ranges from $200 to $400 depending on the years of service credit and Medicare eligibility. With respect to those retirees who are Medicare eligible, the maximum monthly medical allowance is reduced to $300, but the Association reimburses such retirees for their Medicare Part B premium which for 2004 is $66.60.

Nature of the Post-Retirement Health Care Payments. The Retirement Law does not require the Association to provide any post-retirement health care payments. In addition, in the opinion of County Counsel, the County has not entered into any collective bargaining agreements or other arrangements that require the County or the Association to maintain post-retirement health care benefits (although some members of the Association have stated that the County did promise retirees such benefits, which the County disputes). Therefore, in the view of County Counsel, the Association's payment of post-retirement health care benefits is an unvested benefit which can be cancelled at any time and for any reason by the Association. Nonetheless, the Association has continuously provided post-retirement health care benefits for many years.

Source of Payment. The Retirement Law authorizes a mechanism for the payment of post-retirement health care benefit costs pursuant to which a portion of the Employers' contributions are applied to the payment of these post-retirement health care benefits and the amounts of those contributions are reimbursed. The Employers currently designate up to 25% of their respective normal cost annual contributions to the payment of the monthly medical allowance and Medicare Part B premium reimbursement. Upon the Employers' contributions, the Association transfers from the Health Reserve an amount equal to that contributed by the Employers to the Association's valuation assets as a credit for the Employers' current-year contributions.

Health Reserve. The Association has transferred varying annual amounts to the Health Reserve from Excess Earnings, as described above under "Transfers of Excess Earnings." As of June 30, 2003, approximately $269.1 million was on deposit in the Health Reserve. Since 1998, the Retirement Board has followed a practice of ensuring that the amounts in the Health Reserve are equal to an estimate of providing the cost of these non-vested, discretionary post-retirement health care benefits over the lives of active, deferred, and retired members. On June 3, 2004 The Segal Company presented a report to the Retirement Board in which it estimated, as of June 30, 2003, that this amount was approximately $548.4 million. On June 17, 2004, the Retirement Board determined that no amounts will be transferred from Excess Earnings to the Health Reserve for the year ended June 30, 2004. The Retirement Board made this determination because the amounts on deposit in the Health Reserve exceeded an amount necessary to pay these current non-vested, discretionary post-retirement health care benefits through the fiscal year ended June 30, 2009.

Payments. The following table sets forth the amounts for each of the ten years ended June 30, 2004 that the Association has paid to its members from the Health Reserve:

PAYMENTS FROM HEALTH RESERVE
Years Ended June 30, 1995 through 2004

Fiscal Year Ending June 30,	Payments from Health Reserve (in millions)
1995	$ 7.9
1996	7.4
1997	6.5
1998	6.6
1999	8.0
2000	9.0
2001	10.8
2002	14.3[2]
2003	20.0[2]
2004	26.5[1][2]

(1) Estimated.
(2) A portion of the indicated amounts are allocated to the administrative expenses related to the provision of the post-retirement health care benefits.

The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving post-retirement health care benefits, when in active service, were paid.

Accounting Considerations. Currently, governmental agencies that are on a pay-as-you-go basis, such as the County, are not required to accrue for post-employment healthcare benefits in the same manner as they accrue for pension benefits. On January 30, 2004, the Governmental Accounting Standards Board ("GASB") published a proposed statement (the "Proposed Statement") covering accounting and financial reporting by employers of post-employment benefits other than pensions. On June 21, 2004, GASB adopted the Proposed Statement with certain modifications (as modified, the "Statement"). The Statement requires substantially different financial accounting of any post-employment benefits that are provided separately from a pension plan (such benefits are referred to herein as "OPEB"), such as post-employment healthcare. For the County, the affected benefits include the post-employment health care benefits paid by the Association. The Statement seeks to associate the costs of the OPEB with the periods in which the employee services are rendered in exchange for the OPEB. Currently, however, OPEB is accounted for by the County on a pay-as-you-go basis, which does not require the accrual of costs associated with OPEB that are attributable to current and past fiscal years.

The core requirement of the Statement is that at least biennially, agencies such as the County would be required to have an actuarial analysis done with respect to projected benefits ("Plan Liabilities"); against this would be measured the actuarially determined value of the related assets (the "Plan Assets"). To the extent that Plan Liabilities exceeded Plan Assets, then similar to the actuarial and accounting practices for pension plan liabilities, the difference would be amortized over a period which could be up to 30 years. The method of financial reporting for OPEB costs would be similar to financial reporting for pension plan normal costs and UAAL.

The requirements that the Statement impose on the County only affect the County's financial statements and would not impose any requirements regarding the funding of any OPEB plans. The

County is required to include the disclosure required by the Statement beginning with the fiscal year ended June 30, 2009.

Litigation Relating to the Association

Excess Earnings Litigation. Two employee organizations and several individual members of the Association sued the County and the Association in three separate but substantially identical lawsuits. In general, the plaintiffs allege that since the Fiscal Year ending June 30, 1996, contrary to requirements of the Retirement Law and the California Constitution, the Association treated earnings of the System, in excess of total interest credited to contributions and reserves during a year, to be regarded as unrestricted assets of the System for purposes of ascertaining both the amount of the assets available to fund previously promised benefits and the amount of additional funds of the County needed to fund the previously promised benefits. Plaintiffs further allege that by failing to treat these excess earnings and surplus assets as available only for deficiencies in interest earnings in other years and losses on investments and other contingencies, the Association breached its duties to Association members when it recommended to the County Board of Supervisors that the County's contributions to the System be reduced or eliminated, by having improperly regarded those assets as being available to fund previously promised benefits. Plaintiffs also allege that the County or Retirement Board failed to discharge statutory obligations to "meet and confer" with the plaintiff employee organizations prior to determining a course of action to be taken with respect to the recommendations contained in the actuarial valuation. For each of the Fiscal Years in issue, the County has either made reduced payments or no payments to the System based upon the actuarial report and the Retirement Board's recommendations, which the County believes were made in accordance with Retirement Law.

The plaintiffs requested that the Association be mandated to limit the use of such excess earnings to the purposes alleged by them, to cause revised actuarial valuations of assets to be done reflecting the plaintiff's allegations, and to require the submission of revised recommendations to the County regarding necessary County appropriations based upon corrected actuarial valuations; and that the County be mandated to implement these revised recommendations and pay to the System all arrears emanating from the revised recommendation, plus accrued interest.

All of the plaintiffs entered into settlement agreements with the County and the Association resolving this litigation. Under these settlements, the County and the Association have agreed (1) to pay certain of the plaintiffs' attorneys' fees, (2) to meet and confer, upon request, with specified employee association representatives as to future decisions based upon actuarial valuations and (3) not to use excess earnings in the undistributed reserve as an actuarial asset for purposes of determining employer contributions in Fiscal Year 2003-04 or in any other subsequent Fiscal Year or with contributions to be made on or after July 1, 2004, until and unless certain reserve levels and certain benefit levels are achieved. The settlement arrangements with the plaintiffs do not impose any requirement on the County to make additional contributions to the System either in arrears or for the future. The period in which any plaintiff class member was required to file an appeal challenging the settlement expired on April 17, 2003, and the settlement is now final.

Deferred Retirement Litigation. Three former employees of the County have brought an action against the County and the Retirement Board alleging that the Association is, in certain cases, improperly calculating the retirement allowances of deferred members of the Association. The plaintiffs have brought this case as a class action law suit, meaning that they are bringing the law suit in their own right and also on behalf of all other similarly situated deferred members of the Association. Under the Retirement Law, when an employee of the County terminates employment, that employee, if vested in the System, may elect to leave his accumulated contributions in the System and be granted a deferred retirement allowance. If an employee so elects, in general, the Retirement Law requires that the deferred retirement allowance be calculated according to the provisions of Retirement Law as they exist at the time that a deferred retiree begins to receive his retirement allowance.

The plaintiffs in this litigation have complained that the Association has calculated deferred retirement benefits as of the time the member commences deferred status. The plaintiffs have not yet specified which benefits that they believe the Association is not properly calculating. The County Counsel cannot determine the County's potential exposure with respect to this litigation and is unable to determine the impact, if any, that this litigation may have on the County's financial condition, should the plaintiffs prevail. Any order to the Association to recalculate retirement benefits would not constitute a direct obligation of the County but would contribute to the UAAL, which would cause an increase in Employer contributions in order to amortize a larger UAAL.

On March 30, 2004, the trial judge issued an order dismissing the claims of the plaintiffs in favor of the County and the Retirement Board. The trial judge has not yet entered a judgment in this case.

2003-04 Contribution Litigation. Two retired employees of the County who are members in the Association have brought an action against the County and the Board of Retirement claiming that the Board of Retirement has not required an adequate contribution to the Association with respect to Fiscal Year 2003-04. The amount of the County's annual contribution varies depending on the results of an annual actuarial valuation of the assets in and obligations of the pension fund. The Association prepared an actuarial valuation as of June 30, 2002, and the Board of Retirement authorized a contribution by the County of approximately $260 million (the "First Valuation"). As a result of a number of factors, the Association undertook a revised actuarial valuation as of October 3, 2002 that reflected a lower amount necessary to contribute to the Association, which equaled approximately $184 million (the "Second Valuation"), which the Board of Retirement has now authorized. The major factors that reduced the amount of the County's contribution between the First Valuation and the Second Valuation were (1) the County's contribution to the Association of amounts received from the County's Taxable Pension Obligation Bonds and (2) the change by the Board of Retirement of the amortization period over which the County funds the unfunded liability of the Association from five and ten years rolling (depending on the type of unfunded liability) to a rolling 15 years (with respect to all unfunded liabilities). The essence of the plaintiffs' complaint is that when the Board of Retirement authorized the First Valuation, the County became legally obligated to contribute approximately $260 million notwithstanding the results of the Second Valuation. In addition, the plaintiffs may also contest the validity of the Second Valuation, which may include a challenge to the number of years over which the County may amortize the Association's unfunded liability.

Although the plaintiffs' complaint is unclear, it appears as though the plaintiffs are seeking a contribution by the County to the Association in the range of $80-100 million. If the plaintiffs were to succeed, this contribution would be required to be made in Fiscal Year 2003-04, unless stayed on appeal. Accordingly, if the plaintiffs were to succeed on the merits of this litigation any resulting obligations to contribute additional amounts to the Association may have an adverse effect on the financial condition of the County; but the County Counsel does not believe that any resulting obligations would affect the

County's ability to fulfill its obligations under the Series 2004 Bonds (as defined in the Official Statement).

On May 18, 2004, the trial judge entered a ruling denying the claims of the plaintiffs, but judgment has not yet been entered. Once judgment is entered, the plaintiffs may appeal the judgment for a period of 60 days after notice of entry of judgment.

Risk Management

The County is required to obtain and maintain public liability insurance and workers' compensation insurance under various types of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than $5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers' compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and annual certification to the trustee with respect to such financing leases by an authorized representative of the County's risk management division or an independent insurance consultant of the sufficiency of coverage. Appropriation of such funds as may be necessary for self-funding, are made by the County.

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or workers' compensation. In accordance with Government Accounting Standards Board Statement 10, "Accounting and Financial Reporting for Risk Financing and Relating Insurance Items," the County established two Internal Service Funds, the Public Service Liability Fund and the Worker's Compensation Fund (collectively, the "ISF") to report all of its uninsured risk management activities. The County annually appropriates sufficient funds to pay that year's anticipated claims expenses. In 1996, the County adopted a ten-year phased funding program to build a reserve within the ISF to fund the liability for outstanding claims. The County has deposited the following amounts into the reserves in its ISF: $2 million in Fiscal Year 1996-97, $4 million in Fiscal Year 1997-98, $6 million in Fiscal Year 1998-99, $8 million in Fiscal Year 1999-00, $8 million in Fiscal Year 2000-01 and $8 million in Fiscal Year 2001-02. In Fiscal Year 2002-03, $2 million was deposited into the Workers' Compensation Fund reserve and $2 million were deposited into the Public Service Liability Fund. No amounts have been withdrawn from the reserves. Actuarial evaluations estimated that at June 30, 2003, claims of $100.6 million, including $17.2 million in public liability and $83.4 million in workers' compensation, were probable. As of June 30, 2003, the ISF had reserves of $51.5 million. The estimate of claims liabilities were recorded in the ISF. In Fiscal Year 2003-04, the County did not deposit any amounts into the reserves of the ISF, but appropriated sufficient funds to pay anticipated claims for the year. For Fiscal Year 2004-05, the County will deposit $2 million into the Workers' Compensation Fund Reserve in addition to appropriating sufficient funds to pay anticipated claims.

Litigation

Retirement Litigation. The County is a named defendant in various litigation actions relating to the System. See "Litigation Relating to the Association" above.

General. The County is a named defendant in multiple other lawsuits, some of which may be material to the County. These lawsuits are in varying stages of development and as a consequence the County Counsel is unable to exactly predict how the aggregate of such lawsuits will impact the financial condition of the County. However, the County Counsel does not believe that any amounts that the County may be required to pay as a result of these other lawsuits, as such lawsuits mature and are resolved, would affect the County's ability to fulfill its obligations under the Teeter Obligation Commercial Paper Notes.

County of San Diego Employees

The following table lists the number of County employees for the years 1994 to 2003:

TOTAL COUNTY EMPLOYEES

June 30	Total Employees(1)
1994	17,256
1995	17,470
1996	17,626
1997(2)	17,623
1998	17,790
1999	17,988
2000	18,215
2001	18,725
2002	19,882
2003	19,458

Source: County of San Diego Auditor and Controller.
(1) Includes permanent and temporary employees of the County.
(2) State legislation in 1997 provided that, effective July 1, 1997, financial responsibility for the Court employees was transferred to the State.

County employees are represented by eight unions representing 24 bargaining units. The unions represent approximately 85% of the County's approximately 19,000 employees and include the Deputy Sheriffs' Association of San Diego County; Social Services Union, Local 535, SEIU, AFL-CIO; Deputy District Attorneys Association; San Diego County Probation Officers' Association, SEIU, Local 2028, AFL-CIO and CLC; District Attorney Investigators Association; the Service Employees International Union, Local 2028, AFL-CIO and CLC; San Diego Deputy County Counsels Association and the Public Defender Association of San Diego County.

Labor agreements are in place for most unions, through June 22, 2006 covering approximately 16,000 employees. The Deputy Sheriffs' Association and the District Attorney Investigators Association have agreements through June 21, 2007. The labor contracts for the Deputy District Attorneys' Association and the Public Defenders' Association expired on June 30, 2001. The County Board of Supervisors imposed final offers on these two labor unions on January 10, 2002 and recently concluded negotiations for successor contracts through June 22, 2006. The remaining employees are unrepresented.

Short-Term Borrowing

The County executed and delivered its 2003-04 Tax and Revenue Anticipation Notes (the "2004 TRANs") in an aggregate principal amount of $255,000,000 on July 1, 2003. The 2004 TRANs are scheduled to mature on June 30, 2004. The County has met its required set asides with respect to the 2004 TRANs. The County expects to execute and deliver its 2004-05 Tax and Revenue Anticipation Notes in an aggregate principal amount of $360,000,000 on July 1, 2004.

In addition, the County has authorized and issued its Series B Teeter Notes as taxable and tax-exempt obligations, secured by (i) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all Fiscal Years ended before June 30, 2002 and (ii) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. **The amounts pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the 2004 TRANs and the amounts pledged to pay the 2004 TRANs will not be available to pay the Teeter Obligation Commercial Paper Notes.** See "County Financial Information – The Teeter Plan."

During the 1990s, the County has utilized Treasurer's Loans from time to time for various purposes, including the finance of County library programs and other County programs. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

General Obligation Debt, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. The annual long-term lease payments of the County for Fiscal Year 2003-04 amounted to approximately $103 million and as of April 1, 2004 there was approximately $1.2 billion aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments for the obligations will aggregate approximately $112 million in Fiscal Year 2004-05.

On April 1, 2004, the County defeased all remaining principal outstanding of its San Diego County Capital Asset Leasing Corporation 1993A Certificates of Participation and 1993 Vista Refunding Bonds, using County General Fund cash.

A summary of general fund long-term obligations payable from the general fund is presented as follows:

COUNTY OF SAN DIEGO
SUMMARY OF GENERAL LONG-TERM OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of April 1, 2004
(In Thousands)

	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
CERTIFICATES OF PARTICIPATION (COPs)				
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Master Refunding, issued May 1993	2.50-5.625%	2012	203,400	86,725
1996 Regional Communication System, issued May 1996	4.30-5.50	2018	52,230	33,740
1996 North & East County Courthouse, issued December 1996	4.30-5.60	2019	37,690	31,910
1997 Master Refunding, issued June 1997	4.00-4.80	2004	28,035	3,430
1997 Central Jail Refunding, issued July 1997	4.00-5.42	2025	80,675	69,755
1998 Downtown Courthouse Refunding, issued December 1998	4.00-4.94	2023	73,115	60,475
1999 East Mesa Refunding, issued September 1999	3.60-4.75	2009	15,010	9,750
2000 Information Technology, issued May 2000	4.50-5.125	2010	51,620	38,775
2002 Motorola, issued March 2002	2.00-5.00	2010	26,060	20,770
Total SANCAL			$ 567,835	$ 355,330
San Diego Regional Building Authority (SDRBA):				
2001 MTS Tower Refunding, issued September 2001	2.15-5.25	2019	36,960	33,960
Total SANCAL and SDRBA			$ 604,795	$ 389,290
Third-Party Financing Leases:				
Others, various beginning dates from March 1991 to the present	4.24-8.00	2000-07	11,336	6,089
Total Third Party Financing Leases			$ 11,336	$ 6,089
Pension Bonds:				
San Diego County Pension Obligation Bonds, Series A, issued February 1994	6.38-6.60	2008	$ 430,430	$ 77,425
San Diego County Pension Obligation Bonds, issued October 2002				
Series A	3.88-4.95	2015	132,215	132,215
Series B	Variable Rate	2032	505,125	505,125
Series C (PINES)	6.13	2032	100,000	100,000
Total Pension Bonds			$1,167,770	$ 814,765
Total General Long Term Obligations			$1,783,901	$1,210,144

Anticipated Financings

The County expects to issue certificates of participation in Fiscal Year 2004-05 through the San Diego County Capital Asset Leasing Corporation in the approximate aggregate principal amount of $65 million to finance the reconstruction of Edgemoor Hospital, a skilled-nursing facility located in Santee, California.

The County also expects to issue approximately $25 million of certificates of participation to finance the development and installation of a new Property Tax System.

The County sold its 2004-05 Tax and Revenue Anticipation Notes in an aggregate principal amount of $360,000,000 on June 23, 2004 and expects to deliver such Notes on July 1, 2004.

The County may approve additional financings from time to time.

Direct and Overlapping Debt

The County contains numerous municipalities, school districts and special purpose districts such as water districts, many of which have issued debt obligations. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. as of April 1, 2004. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(as of April 1, 2004)

2003-04 Assessed Valuation:	$254,999,650,595	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	18,390,021,187	
Adjusted Assessed Valuation:	$236,609,629,408	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/1/04	
Metropolitan Water District of Southern California	18.213%	$ 81,498,622	
San Diego Community College District	100.	93,685,000	
Other Community College Districts	100.	93,455,000	
Poway Unified School District School Facilities Improvement District No. 2002-1	100.	75,000,000	
San Diego Unified School District	100.	1,114,978,826	
Vista Unified School District	100.	112,359,882	
Other Unified School Districts	100.	114,584,892	
Sweetwater Union High School District	100.	85,225,000	
Other Union High School Districts	100.	66,550,117	
Chula Vista City School District	100.	75,510,000	
Other School Districts	100.	257,786,708	
Otay Municipal Water District Improvement Districts	100.	10,710,000	
Cities	100.	22,970,000	
San Diego Open Space Park Facilities District	100.	31,385,000	
Special Districts	100.	1,190,000	
Community Facilities Districts	100.	1,052,753,754	
1915 Act Bonds (Estimated)	100.	200,632,520	
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$3,490,275,321	
Less: San Diego Open Space Park Facilities District (100% self-supporting)		31,385,000	
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$3,458,890,321	
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Diego County General Fund Obligations	**100. %**	**$ 435,144,990**	(1)
San Diego County Pension Obligations	**100.**	**814,765,000**	
San Diego County Superintendent of School Obligations	100.	2,077,500	
Community College District Certificates of Participation	100.	28,320,000	
Unified School District Certificates of Participation	100.	82,860,454	
High School District Certificates of Participation	100.	47,271,500	
School District Certificates of Participation	100.	149,180,000	
Municipal Water District Certificates of Participation	100.	27,725,000	
City of Chula Vista General Fund and Pension Obligations	100.	105,675,445	
City of Escondido General Fund Obligations	100.	84,555,010	
City of San Diego General Fund Obligations	100.	533,840,000	
Other City General Fund Obligations	100.	261,020,385	
San Miguel Consolidated Fire Protection District Certificates of Participation	100.	10,005,000	
Fallbrook Sanitary District Certificates of Participation	100.	9,520,000	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$2,591,960,284	
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		25,380,000	
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		7,389,000	
City of Oceanside Certificates of Participation		1,895,000	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$2,557,296,284	
GROSS COMBINED TOTAL DEBT		$6,082,236,605	(2)
NET COMBINED TOTAL DEBT		$6,016,186,605	

(1) Excludes issues to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2003-04 Assessed Valuation:
Total Gross Overlapping Tax and Assessment Debt 1.37%
Total Net Overlapping Tax and Assessment Debt 1.36%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($1,249,909,990) 0.53%

Gross Combined Total Debt 2.57%
Net Combined Total Debt 2.54%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: $1,619,839

SUPPLEMENTAL FINANCIAL INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the budget may be found at the Department of Finance website, *www.dof.ca.gov*, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at *www.lao.ca.gov*. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, *www.treasurer.ca.gov*. The information referred to is prepared by the respective State agency maintaining each website and not by the County or the Underwriter, and the County and the Underwriter can take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2003-04

On August 2, 2003, Governor Davis signed the 2003-04 Budget Act (the "2003-04 Budget Act") into law. The 2003-04 Budget Act projected that State General Fund (the "State General Fund") revenues would increase from $70.9 billion for Fiscal Year 2002-03, excluding the proceeds of any fiscal recovery bonds, to $72.8 billion in Fiscal Year 2003-04, an increase of 2.8 percent. State General Fund expenditures were projected to decrease from $78.1 billion in Fiscal Year 2002-03 to $70.8 billion in Fiscal Year 2003-04, or 10 percent. A significant portion of this 10 percent decrease was attributable to the VLF increase which eliminated the need for the State to backfill local governments, new federal funds, borrowings to cover the State's 2003-04 pension obligations, and the Medi-Cal accounting shift from an accrual to a cash basis.

The 2003-04 Budget Act contained various reductions in local revenues provided by the State, including a reduction in VLF revenues of approximately $825 million during the period between the elimination of the State's VLF backfill and the increase in the VLF rate on October 1, 2003. The 2003-04 Budget Act assumed that the VLF rate would increase from the rate of 0.65 percent to 2.0 percent beginning October 1, 2003. During the approximately 90 day period between the date when the State backfill ended on July 1, 2003, and the date when the VLF rate increased, local governments would only receive revenues based on the 0.65 percent VLF rate. The 2003-04 Budget Act and related legislation required the State to repay the $825 million VLF "gap" loss to local governments no later than August 15, 2006. Since the passage of the 2003-04 Budget Act, the State has estimated that the VLF "gap" for Fiscal Year 2003-04 will be approximately $1.3 billion.

The 2003-04 Budget Act identified a budget shortfall of $38.2 billion between expenditures and revenues and attempted to close this shortfall through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals. Program savings were primarily achieved in the 2003-04 Budget Act through significant reductions in spending for certain programs. Some reductions in program spending were to be offset by higher fees. The year-end reserve was projected to be approximately $2 billion and reflected the issuance of $10.7 billion in fiscal recovery bonds to eliminate the Fiscal Year 2002-03 deficit and the issuance of a second series of tobacco securitization bonds. Governor Schwarzenegger subsequently proposed, and the State Legislature approved, placing a bond measure on the March 2, 2004 ballot which authorized the issuance of up to $15 billion of economic recovery bonds to replace the fiscal recovery bonds. See "Proposed Governor's Budget for Fiscal Year 2004-05" below.

Certain of the features of 2003-04 Budget Act affecting counties included the following:

1. The Senate budget package required redevelopment agencies to shift $250 million of redevelopment agency funds to the Educational Revenue Augmentation Fund (the "ERAF") in Fiscal Year 2003-04. The Assembly version of the budget also required such a one-time shift to the ERAF but set the amount at $135 million.

2. The 2003-04 Budget Act repealed six mandates and suspended local government requirements to implement 37 other mandates in Fiscal Year 2003-04. The 2003-04 Budget Act deferred (to an unspecified date) State funding to reimburse local agencies for: (1) implementing 40 active mandates in Fiscal Year 2003-04 (about $200 million) and (2) unpaid prior-year mandate claims (about $700 million).

3. The 2003-04 Budget Act reduced funding for the Citizens' Option for Public Safety and Juvenile Crime Prevention Grants program by $32.6 million (leaving $200 million to be divided equally between the two programs).

4. The Senate budget package eliminated the $38 million continuous appropriation for local government booking fees and county authority to charge local agencies fees for booking people into county jail. The Assembly budget package, in contrast, maintained the continuous appropriation and county fee authority.

Proposed Governor's Budget for Fiscal Year 2004-05

On January 9, 2004, Governor Schwarzenegger (the "Governor") released his proposed budget for Fiscal Year 2004-05 (the "2004-05 Proposed Governor's Budget"). The 2004-05 Proposed Governor's Budget projects the State General Fund revenues for Fiscal Year 2004-05 to be $76.4 billion, an increase over the current fiscal year of 2.4 percent, and State General Fund expenditures to be $76.1 billion, a decrease over the current fiscal year of 2.4 percent.

The revenue increases forecasted by the 2004-05 Proposed Governor's Budget include significant gains in the personal income tax, sales tax and corporation tax. Personal income tax revenues are forecasted to be $35.1 billion in Fiscal Year 2003-04 and $38 billion in Fiscal Year 2004-05. This forecast assumes that moderate growth will resume in Fiscal Year 2003-04. Sales and use tax revenue is forecasted at $23.7 billion in Fiscal Year 2003-04 and $25 billion in Fiscal Year 2004-05. This forecast assumes a 2.3 percent increase in taxable sales for Fiscal Year 2003-04 and that taxable sales increase at a faster rate in Fiscal Year 2004-05 and Fiscal Year 2005-06 due to the improving economy, increasing by 5.8 percent and 5.4 percent, respectively. Corporate tax revenues are expected to total approximately $7.5 billion in Fiscal Year 2003-04 and approximately $7.6 billion in 2004-05. The 2004-05 Proposed Governor's Budget also forecasts $500 million in additional revenue from a 25 percent share of tribal gaming operations annual income.

Certain of the features of the 2004-05 Proposed Governor's Budget affecting counties include the following:

1. The 2004-05 Proposed Governor's Budget includes provisions for full reimbursement to local governments, including counties, for the VLF offset program in Fiscal Year 2004-05, resulting in payments estimated at $4.1 billion in such fiscal year.

2. The 2004-05 Proposed Governor's Budget includes a $1.3 billion shift of local property taxes that would have been payable to certain local governments, including counties, to the ERAF, resulting in a decrease in payments of such taxes to such local governments of approximately 10 percent.

3. The 2004-05 Proposed Governor's Budget includes a provision to reduce and, by October 2004, eliminate federal Temporary Assistance to Needy Families ("TANF") funds used to support counties' juvenile probation services, including prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders.

4. The 2004-05 Proposed Governor's Budget includes a provision to eliminate State reimbursement of jail booking fees that would have been payable to counties.

5. The 2004-05 Proposed Governor's Budget proposes major reform in the health and human services area, including, with respect to the Medi-Cal program, realigning eligibility standards, requiring co-payments, implementing a tiered benefit structure and conforming basic optional benefits to those offered under private plans, and with respect to the CalWORKs program, increasing work incentives and reducing services and assistance payments thereunder. The 2004-05 Proposed Governor's Budget proposes budgeting $31.2 billion for the Medi-Cal program in Fiscal Year 2004-05. The State General Fund increase of 16.2 percent reflects the costs of using one-time savings in Fiscal Year 2003-04 because of a change in the Medi-Cal program from accrual accounting to cash accounting and Federal Medical Assistance Program amounts received in Fiscal Year 2003-04.

6. The 2004-05 Proposed Governor's Budget assumes implementation of the 2003-04 Mid-Year Spending Reduction Proposals to achieve State General Fund savings of $206.9 million in Fiscal Year 2003-04 and $479.4 million in Fiscal Year 2004-05.

7. The 2004-05 Proposed Governor's Budget identifies an existing deficit of more than $22 billion, which includes an accumulated deficit through Fiscal Year 2002-03 of $9.3 billion and a pre-existing operating deficit in Fiscal Year 2003-04 of $3.0 billion. The 2004-05 Proposed Governor's Budget assumed the issuance of up to $15 billion in Economic Recovery Bonds (the "Economic Recovery Bonds"), approved by voters on March 2, 2004, to finance the State General Fund reserve and other State obligations incurred prior to June 30, 2004. In connection therewith, the 2004-05 Proposed Governor's Budget also includes a provision for the creation of a deficit recovery fund to finance what would otherwise be the State General Fund's costs of the existing debt. The amount of Economic Recovery Bond proceeds received but not used to finance the accumulated budget deficit through Fiscal Year 2002-03 will be transferred into this new fund. The new fund is to be used in Fiscal Year 2004-05 to finance outstanding State obligations due in Fiscal Year 2003-04 and Fiscal Year 2004-05. The Economic Recovery Bonds are general obligations of the State and secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent starting July 1, 2004. Such taxes would revert to their current levels when the Economic Recover Bonds are repaid. The portion of sales and use tax that otherwise would have been allocated to local governments, including the County, would be decreased by a commensurate amount. Commencing in Fiscal Year 2004-05, local government's share of local property tax revenues would be restored by an amount equal to the one-quarter cent reduction in the local sales and use tax.

May Revision to 2004-05 Proposed State Budget

On May 13, 2004, the Governor released the May Revision to the 2004-05 Proposed Governor's Budget (the "May Revision"). The May Revision assumes an approximate $3.6 billion increase in revenues from tax shelter amnesty proceeds ($1.3 billion), accounting changes resulting in accrual of additional revenues ($1 billion) and increases in revenue forecasts for fiscal years 2003-04 and 2004-05

($1.3 billion). The net effect is an increase in the reserve at the end of fiscal year 2004-05, from the $635 million projected in the 2004-05 Proposed Governor's Budget to the $998 million projected in the May Revision. However, pressures on the General Fund have also increased primarily due to caseload increases, an increase in the Proposition 98 guarantee, and court cases, resulting in a continuing structural budget problem that will require additional ongoing budget solutions.

The May Revision projects the State General Fund revenues for Fiscal Year 2004-05 to be approximately $76.7 billion, an increase over the current fiscal year of 2.8 percent, and State General Fund expenditures to be approximately $77.6 billion, a decrease over the current fiscal year of 0.1 percent.

Personal income tax revenue forecasts have increased by $949 million in Fiscal Year 2003-04 from the $35.1 billion forecast in the 2004-05 Proposed Budget and increased by $559 million in Fiscal Year 2004-05 from the $38 billion forecast in the 2004-05 Proposed Budget. This forecast is due, in part, to the stock market recovery that began in mid-2003. Sales and use tax revenue forecasts are reduced by $105 million in Fiscal Year 2003-04 from the $23.7 billion forecast in the 2004-05 Proposed Budget and by $417 million in Fiscal Year 2004-05 from the $25 billion forecasted in the 2004-05 Proposed Budget. The $417 million reduction forecasted is due, in part, to an increased transfer to the Public Transportation Account and a reduced expectation of taxable sales growth in Fiscal Years 2004-05 and 2005-06 than assumed in the 2004-05 Proposed Budget. Corporate tax revenues are expected to decrease by $173 million in Fiscal Year 2003-04 from the $7.5 billion forecasted in the 2004-05 Proposed Budget and increase by $358 million in Fiscal Year 2004-05 from the $7.6 billion forecasted in the 2004-05 Proposed Budget.

The 2004-05 Proposed Budget identified an operating deficit of $14 billion and a projected year-end deficit of over $26 billion. On March 2, 2004, California voters approved Proposition 57, a bond act authorizing issuance of up to $15 billion of Economic Recovery Bonds to fund the accumulated State budget deficit. To repay these bonds, a new one-quarter cent sales tax will become effective July 1, 2004. This sales tax will automatically cease as soon as the bonds are repaid. The total base statewide sales tax will remain at 7.25 percent because the local portion of the sales tax will decrease on July 1, 2004. Revenues from the one-quarter cent sales tax are estimated at $1.136 billion in Fiscal Year 2004-05, and approximately $1.3 billion annually thereafter. To eliminate the deficit and create a small reserve, the 2004-05 Proposed Budget proposed $12.3 billion in proceeds from Economic Recovery Bonds and $14.6 billion in various other solutions.

The May Revision relies on an agreement with representatives from local government (the "Local Government Agreement"). The Local Government Agreement replaces the proposal in the 2004-05 Proposed Budget to permanently shift $1.3 billon in local property taxes from counties cities, special districts and redevelopment agencies to the Education Revenue Augmentation Fund ("ERAF"). The proposed $1.3 billion shift will be replaced by a Vehicle License Fee ("VLF")/property tax swap. Specifically, the Local Government Agreement reduces the VLF rate from 2% to 0.65%. This reduction in VLF to cities and counties will be replaced by an increase in the amount of property tax received by the cities and counties. However, in Fiscal Years 2004-05 and 2005-06, the State will not provide the full amount of property taxes to the cities and counties. Under the Local Government Agreement, the State will retain $700 million, comprised of $350 million from counties and $350 million from cities in Fiscal Years 2004-05 and 2005-06. Further, in Fiscal Years 2004-05 and 2005-06, the Local Government Agreement provides that special districts will contribute $350 million in property taxes and redevelopment agencies will contribute $250 million in property tax revenues. In addition, the Local Government Agreement includes a future constitutional amendment to protect local governments' property, sales, and vehicle license fee revenues in future years.

Certain of the features of the May Revision include the following:

1. The estimated General Fund contribution to the Proposition 98 guarantee for Fiscal Year 2004-05 is approximately $4.3 billion higher than the $29.7 billion estimated in the 2004-05 Proposed Budget.

2. Annual fixed increases in base State General Fund support of the University of California and the California State University systems in the amount of 3% in Fiscal Years 2005-06 and 2006-07, increasing to 4% in Fiscal Years 2007-08, and then to 5% in Fiscal Years 2008-09 through 2010-11.

3. Total Medi-Cal expenditures of $28.7 billion, a decrease of $491 million from the 2004-05 Proposed Budget. General Fund expenditures for Medi-Cal have increased by $181.9 million, or 2 percent. The estimate of the number of persons eligible for Medi-Cal in Fiscal Year 2003-04 is expected to decrease by 59,000 to 6,561,000, representing a decrease of 0.9% below the level projected in the 2004-05 Proposed Budget. The net General Fund increase includes the following adjustments: $282.2 million increase due to erosions of the Mid-Year Spending Reduction Proposals as a result of caseload adjustments, legislative delays in enacting certain proposals, legal challenges, and the Administration's rescission of certain proposals; $20.3 million decrease in fiscal intermediary expenditures; and $19.9 million decrease in county administration expenditures.

4. An increase of $1.7 million to provide increased oversight and policy direction to departments under supervision of the Youth and Adult Correctional Agency. Funding for this proposal is provided through corresponding reductions to the California Department of Corrections ($1.5 million) and the California Department of the Youth Authority ($200,000).

The Final Budget for Fiscal Year 2004-05 (the "Final Budget") must be implemented by the adoption of appropriations bills. It cannot be predicted how these future actions may affect the spending plan represented by the Final Budget bill adopted by the Legislature and signed by the Governor. Further, it cannot be predicted what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures, what the Final Budget will include or the affect of national and state economic conditions on future State budgets.

LAO Report

On May 17, 2004, the State's Legislative Analyst's Office (the "LAO") released its analysis report of the 2004-05 May Revision (the "LAO Report"), which is available on the LAO website at www.lao.ca.gov. Information on this website is not incorporated herein by reference.

According to the LAO Report, the State's short-term fiscal outlook has improved significantly since the 2004-05 Proposed Governor's Budget but the State's long-term fiscal outlook has worsened and the State continues to have a structural budget problem. The LAO Report attributes this negative outlook to the May Revision's reliance on less ongoing savings than the 2004-05 Proposed Governor's Budget and the May Revision's addition of future spending commitments of the State. The LAO Report suggests that the State look for additional ongoing budget solutions, as well as avoid actions which either add to the State's future spending commitments or reduce its flexibility to deal with its projected future budget shortfalls.

Future State Budgets

No prediction can be made by the County as to whether the State will continue to encounter budgetary problems in this or in any future Fiscal Years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control.

SAN DIEGO COUNTY INVESTMENT POOL

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The Treasury Pool's Portfolio

As of March 31, 2004, the securities in the Treasury Pool had a market value of $4,178,036,420 and a book value of $4,178,143,650, for a net unrealized loss of $107,229 of the book value of the Treasury Pool. As of March 31, 2004, the weighted average maturity of the Pool portfolio was approximately 333 days. As of March 31, 2004, 11.35% of the Pool was invested in securities with maturities ranging from 1-30 days, 26.48% of the Pool was invested in securities with maturities ranging from 31-90 days, 16.28% of the Pool was invested in securities with maturities ranging from 91-180 days, 11.66% of the Pool was invested in securities with maturities ranging from 181-365 days, 11.0% of the Pool was invested in securities with maturities ranging from 366 days to 2 years, and 23.23% of the Pool was invested in securities with maturities between 2 and 5 years.

The effective duration for the Treasury Pool was 0.51 years as of March 31, 2004. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.51 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.51%

As of March 31, 2004, approximately 3.05% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 6.45% by community colleges, 32.90% by the County, and 49.36% by K-12 school districts.

Standard & Poor's, a Division of the McGraw Hills Companies, Inc. maintains ratings on the Pool's ability to meet its financial commitments of "AAAf" (long-term) and "S1" (short-term volatility). The rating reflects only the view of the rating agency and any explanation of the significance of such rating may be obtained from such rating agency as follows: Standard & Poor's, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing from one year to five years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business March 31, 2004. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on March 31, 2004, the Pool necessarily would have received the values specified. The County has no Pool investments in any corporation that has filed for bankruptcy.

TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS
AS OF MARCH 31, 2004

	Percent of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/ (Loss)	Yield to Maturity	Weighted Average Days to Maturity
Federal Farm Credit Bank Notes	9.16%	$389,000,000	99.97%	$1,846,961	$388,879,721	($120,279)	2.30%	817
Federal Home Loan Bank Notes	7.44	316,038,905	99.93	1,802,082	315,731,167	(307,738)	2.23	798
Federal National Mortgage Association Notes	8.97	380,837,308	100.00	2,132,915	380,707,147	(130,161)	2.19	747
Federal Home Loan Mortgage Corporation Notes	5.09	215,503,769	100.23	1,571,535	215,990,683	486,914	2.20	454
Corporate Medium Term Notes	1.19	50,288,769	100.97	205,451	50,484,223	195,454	2.10	670
Money Market Funds	1.18	50,100,000	100.00	134,685	50,100,000	$0	0.93	1
Repurchase Agreements	3.53	150,000,000	100.00	4,705	150,000,000	$0	1.13	1
Negotiable Certificates of Deposit	28.85	1,225,035,177	99.95	4,245,967	1,224,412,664	(622,513)	1.23	201
Commercial Paper	34.56	1,466,514,477	99.78	0	1,466,659,758	145,281	1.11	75
Collateralized Certificates of Deposit	0.01	392,000	100.00	1,202	392,000	0	1.47	106
Totals for March 2004	100.00%	$4,243,710,406	99.94%	$11,945,504	$4,243,357,363	($353,043)	1.50%	330
Totals for February 2004	100.00%	$4,178,143,650	99.95%	$12,303,800	$4,178,036,420	($107,229)	1.54%	333
Change from Prior Month		65,566,756	-0.01%		$65,320,943	($245,814)	-0.04%	-3
Portfolio Effective Duration		0.51 years						

	March '04 Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.129%	1.524%	1.229%	1.632%	0.394%	1.580%
Market Value	0.154	1.811	1.080	1.434	0.561	2.248

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIIIA

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIIIA to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIIIA provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIIIA (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The Participants are unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace any lost property tax revenues. Article XIIIA effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIIIA Litigation

In June 1978, Article XIIIA of the California Constitution was amended by Proposition 13 to, among other things, limit a County assessor's ability to annually adjust for inflation to 2% per year. See "Constitutional and Statutory Limitations on Taxes and Appropriations-Article XIIIA" herein. On December 27, 2001, an Orange County Superior Court ruled in County of Orange v. Orange County Assessment Appeals Board No. 3 (the "Orange County Litigation") that the Orange County Assessor raised a homeowner's assessment in violation of Article XIII A by increasing the assessment on the homeowner's property by more than 2% per year, when the price appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action. On January 30, 2003, the Superior Court held a hearing and ruled that the Orange County

Tax Collector must notify the affected taxpayers of their right to file tax refund claims. Implementation of the motion is pending further review by the appellate courts on the entire case. On April 18, 2003, the Superior Court entered a Final Judgment which held that the current statewide practice of restoring property assessment, after a prior assessment reduction due to an economic downturn, based on the market value was invalid. On June 12, 2003, an appeal was filed with the Court of Appeal, Fourth District, Division Three. On March 26, 2004, the Court of Appeal reversed the Superior Court and directed it to enter a judgment in favor of Orange County. On May 5, 2004, the Respondent filed a petition to the California Supreme Court for a review of the decision published by the Court of Appeal on March 26, 2004. The California Supreme Court is expected to issue its decision to accept or deny this petition for review within 60 to 90 days.

A class action complaint seeking only declaratory relief and comparable to the one involved in the Orange County Litigation was filed against the County for the 2000-01 property tax levy. The Superior Court ruled in favor of the County in this class action on September 25, 2002 and the appeal period has now expired without any appeal by the plaintiffs. However, as described above, if the Orange County Superior Court's ruling in the Orange County Litigation is upheld on appeal, additional lawsuits would most likely be filed against the County. The County cannot predict the outcome of the Orange County Litigation. If the Orange County Superior Court's reasoning is upheld on appeal, the loss of tax revenue to communities could be significant. The County cannot predict the effect, if any, that the outcome of the Orange County Litigation would have on property tax revenues to be received by the County, although the effect could be adverse.

Article XIIIB

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIIIB to the California Constitution. In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Article XIIIB of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior Fiscal Year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 Fiscal Year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIIIB include generally any authorization to expend during the Fiscal Year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIIIB do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIIIB includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two Fiscal Years.

As amended in June 1990, the appropriations limit for the Participants in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the Participants' option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIIIB permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The County Board of Supervisors adopted the annual appropriation limit for the Fiscal Year 2003-04 of $2,948,830,380. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. Based on the 2003-04 Adopted Budget, the funds subject to limitation total $714,246,477 (total General Operating Budget minus non-proceeds of taxes, debt service, and the Fiscal Year 2002-03 carry-over) and are approximately $2.2 billion below the Article XIII B limit.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIA of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority* v. *Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid. The decision did not address the question of whether or not it should be applied retroactively.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. No challenge has been instituted against the imposition or collection of this tax. The County has collected an average of approximately $326,713 from the increase in the transient occupancy tax in each year from Fiscal Years 1997-98 through 2002-03, totaling approximately $1.96 million, and has collected $178,805 thus far in Fiscal Year 2003-04. The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax or order to refund any previously collected taxes will not adversely affect the ability of the County to repay the Notes or any of its other obligations as and when due.

Right to Vote on Taxes Initiative-Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges, However, other than any impact resulting from the exercise of this initiative power, presently the County does not believe that the potential financial impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay the principal of and interest on the Notes as and when due and its other obligations payable from the General Fund.

Article XIIIC of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIIIC of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in Rossi v. Brown, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in Rossi v. Brown by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998 assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIIIC or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIIC as they do in Article XIIID, as described below. Accordingly, the scope of the initiative power under Article XIIIC could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIIIC of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest represented by the Notes as and when due or any of its other obligations payable from the General Fund.

Article XIIID of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the principal of and interest represented by the Notes as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIIID of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees under Article XIIID of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the County to pay the principal of and interest represented by the Notes as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The County has a clean water enterprise fund which is self-supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIIID of Proposition 218. Further, the fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIIID of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIIIC of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIIIA and Article XIIIB were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the County's revenues or its ability to expend revenues.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The County is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

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

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately $10 billion annually to the retail and service businesses of the area.

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

The San Diego Convention Center began operation in November 1989. The Convention Center contains 615,701 square feet of exhibit space and 204,114 square feet of meeting/banquet rooms. In September 2001, a major expansion of the Convention Center was completed which increased the square footage by approximately 50%. Major conventions and trade shows are scheduled into the year 2009.

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

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (i) regional services such as courts, probation, medical examiner, jails, elections and public health; (ii) health, welfare and human services such as mental health, senior citizen and child welfare services; (iii) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (iv) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

County Government

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population as of January 2004 was estimated to be approximately 3,017,200, making it the third largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2003 population increased 1.8% from 2002. As of January 2004, the unincorporated population of the County was 470,000.

The following table shows changes in the population in the County, the State and the United States for the years 1994 to 2003.

POPULATION ESTIMATES[1]
(In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States[2]	Percent Change
1994	2,604	.40%	31,418	.86%	260,327	.98%
1995	2,613	.33	31,617	.63	262,803	.94
1996	2,621	.31	31,837	.70	265,229	.91
1997	2,653	1.23	32,207	1.16	267,784	.95
1998	2,703	1.86	32,657	1.40	270,248	.91
1999	2,751	1.78	33,140	1.48	272,691	.90
2000	2,806	2.00	33,753	1.85	282,178	3.48
2001	2,856	1.79	34,367	1.82	285,094	1.03
2002	2,909	1.84	35,000	1.84	287,974	1.01
2003	2,962	1.83	35,591	1.69	290,810	0.98

Sources: State of California Department of Finance; U.S. Bureau of the Census
(1) As of January 1 of the year shown.
(2) As of July 1 of the year shown.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,481,400 in 2003. The number of employed workers in the labor force averaged approximately 1,418,300. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1999 through 2003.

LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 1999-2003
By Place of Residence
(In Thousands)

	1999	2000	2001	2002	2003
County of San Diego					
Labor Force	1,361.6	1391.6	1417.7	1457.2	1,481.4
Employment	1,319.6	1349.4	1371.8	1394.8	1,418.3
Unemployment Rate	3.1%	3.0%	3.2%	4.3%	4.3%
State of California					
Labor Force	16,375.6	16,892.0	17,171.6	17,375.8	17,460.0
Employment	15,522.3	16,056.5	16,249.1	16,241.9	16,282.7
Unemployment Rate	5.2%	4.9%	5.4%	6.7%	6.7%
United States					
Labor Force	139,368.0	142,583.0	143,734.0	144,863.0	146,510.0
Employment	133,488.0	136,891.0	136,933.0	136,485.0	137,736
Unemployment Rate	4.2%	4.0%	4.7%	5.8%	6.0%

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

* Data not seasonally adjusted; March 2003 Benchmark.

The following table sets forth the annual average employment within the County, by employment sector for the Fiscal Years 1999 through 2003. The service sector constitutes the largest non-farm employment sector in the County, representing approximately 51% of all non-farm employment.

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
1999-2003
(In Thousands)

Employment Sector	1999	2000	2001	2002	2003
Mining	0.3	0.3	0.3	0.3	0.3
Construction	67.0	69.7	75.1	76.4	79.6
Manufacturing	122.9	122.9	119.0	112.3	105.4
Wholesale and Retail Trade	165.0	172.9	177.1	179.3	181.3
Transportation, Warehousing and Utilities	29.2	29.8	32.0	29.3	27.3
Services					
Information	36.2	39.2	38.8	37.7	37.1
Financial Activities	70.4	71.2	72.0	75.0	80.5
Professional and Business Services	185.0	195.2	198.2	201.7	201.6
Educational and Health Services	112.2	115.3	116.0	119.7	122.0
Leisure and Hospitality	124.4	129.0	131.4	133.8	139.9
Other Services	40.9	42.2	44.9	45.6	47.2
Government	199.3	206.6	213.8	219.7	219.8
Total, All Non- Farm Industries	1,152.9	1,193.8	1,218.4	1,230.7	1,241.9

Source: California Employment Development Department.

The following table sets forth the major employers in the County.

SAN DIEGO COUNTY
LARGEST EMPLOYERS

Employer	Service/Product	Number of Employees
Federal Government	Administration of federal functions, services and agencies	39,800
University of California, San Diego	Higher education, health care, research	19,301
County of San Diego	County services	17,951
Sharp HealthCare	Health care, health plans, hospitals	11,642
San Diego Unified School District	Education	9,100
Scripps Health	Health care, hospitals, home health services	8,237
SBC	Telephone service and internet provider	7,178
Kaiser Permanente	Health care, health plans	7,145
U.S. Postal Service San Diego District	Hard copy and electronic communications services	6,619
Jack in the Box Inc.	Jack in the Box restaurants operator and franchisee	5,566
Qualcomm Inc.	Develops and delivers digital wireless communications products	5,100
Science Applications International	High-technology research and engineering company	4,635
Sempra Energy	Energy management provider	4,400
San Diego State University	Higher education	4,045
Children's Hospital and Health Center	Health care, child protection, education, clinical research	3,392
National Steel and Shipbuilding Co.	Shipbuilding and repair	3,100
Grossmont Union High School District	Education	3,025
Sony	Consumer electronics manufacturer	3,000
Grossmont-Cuyamaca Community College District	Community college education	2,530
Zoological Society of San Diego	Nonprofit operations of San Diego Zoo, San Diego Wild Animal Park and Center of Reproduction of Endangered Species	2,500

Source: San Diego Business Journal, Book of Lists 2003 Online.

Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

The Gross Regional Product ("GRP") for 2003 rose to $129.2 billion from $122.5 billion in 2002 and is forecast to rise to $137.2 billion in 2004. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1996 through 2004.

COUNTY OF SAN DIEGO
GROSS REGIONAL PRODUCT
1996-2004

	Gross Regional Product	Annual Percent Change	
		Current Dollars	Real Change*
Year	(In Billions)	San Diego	San Diego
1996	$ 79.6	5.9%	4.1%
1997	86.1	8.2	6.5
1998	94.4	9.7	8.5
1999	103.1	9.2	8.1
2000	112.4	9.0	7.0
2001	117.0	4.1	2.0
2002(1)	122.5	4.7	2.7
2003(1)	129.2	5.5	3.5
2004(2)	137.2	6.2	4.2

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.
* Adjusted using the GDP/GSP Implicit Price Deflator.
(1) Estimate.
(2) Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about $10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

Building Activity

Building permit valuation for both residential and non-residential construction in the County in 2003 increased over 2002 levels by more than 4%. Measures limiting new housing remain in effect in areas throughout the County, resulting in a 6.0% increase in residential valuations. Non-residential valuations increased 0.06%.

Annual total building permit valuation and the annual unit total of new residential permits from 1999 through 2003 are shown in the following table.

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
1999-2003
(In Thousands)

	1999	2000	2001	2002	2003
Valuation:					
Residential	$2,985,960	$3,008,203	$3,169,516	$3,475,113	$3,683,986
Non-Residential	1,336,629	1,391,497	1,189,910	1,168,866	1,169,577
Total	$4,322,589	$4,399,700	$4,359,426	$4,643,979	$4,853,562
New Housing Units:					
Single Family	9,993	9,167	9,326	9,749	9,382
Multiple Family	6,434	6,760	6,324	5,989	8,942
Total	16,427	15,927	15,650	15,738	18,324

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for 2002 resulted in approximately $38,595,547 in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for the years 1999-2002.

COUNTY OF SAN DIEGO
TAXABLE SALES
1999-2002
(In Thousands)

Type of Business	1999	2000	2001	2002
Apparel Stores	$ 1,050,003	$ 1,182,173	$1,274,552	1,374,858
General Merchandise	3,966,854	4,307,562	4,445,352	4,557,457
Specialty Stores	3,311,320	3,663,924	3,718,292	3,803,803
Food Stores	1,469,238	1,557,244	1,595,933	1,650,104
Home Furnishings/ Appliances	1,085,001	1,237,271	1,314,860	1,353,158
Eating and Drinking Establishments	2,929,084	3,211,306	3,366,463	3,505,859
Building Materials and Group	1,882,514	2,104,100	2,343,008	2,510,931
Automotive	5,868,743	6,955,856	7,426,582	7,862,366
All Other Retail Stores	672,926	733,653	778,296	803,063
Business and Personal Services	1,863,511	1,954,589	1,957,109	1,977,606
All Other Outlets	8,653,211	9,337,740	9,478,886	9,196,342
TOTAL ALL OUTLETS	$32,752,405	$36,245,418	$37,699,333	$38,595,547

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

Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 1999 and 2003.

PERSONAL INCOME
1999 through 2003

Year and Area	Total Effective Buying Income (In Thousands)	Median Household Effective Buying Income
1999		
San Diego County	$ 46,056,143	$36,296
California	551,999,317	37,091
United States	4,621,491,730	35,377
2000		
San Diego County	49,907,828	39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233
2001		
San Diego County	54,337,662	44,292
California	652,190,282	44,464
United States	5,230,824,904	39,129
2002	55,210,119	44,146
San Diego County	650,521,407	43,532
California	5,303,481,498	38,365
United States		
2003		
San Diego County	54,831,958	42,315
California	647,879,427	42,484
United States	5,340,682,818	38,035

Source: Sales and Marketing Management – Survey of Buying Power.

Transportation

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

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

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

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

Visitor and Convention Activity

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

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $5.3 billion in 2003, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately $249.9 million from the prior year. The County hosted 60 conventions and trade shows in 2003, attended by approximately 450,000 delegates, who spent approximately $498,819,767.

Education

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California at San Diego, National University, the University of San Diego, Point Loma College, California State University - San Marcos, United States International University, and the University of Phoenix.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

SAN DIEGO COUNTY GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(THIS PAGE INTENTIONALLY LEFT BLANK)

KPMG

KPMG LLP
Suite 1500
750 B Street
San Diego, CA 92101

Independent Auditors' Report

The Honorable Board of Supervisors
of the County of San Diego:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Diego, California (the County) as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Diego, California as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 21 through 34, the budgetary comparison schedules on pages 88 through 93, and 116 through 132, and the schedule of funding progress on page 95 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2004 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 12, 2004

(THIS PAGE INTENTIONALLY LEFT BLANK)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2003. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides you with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

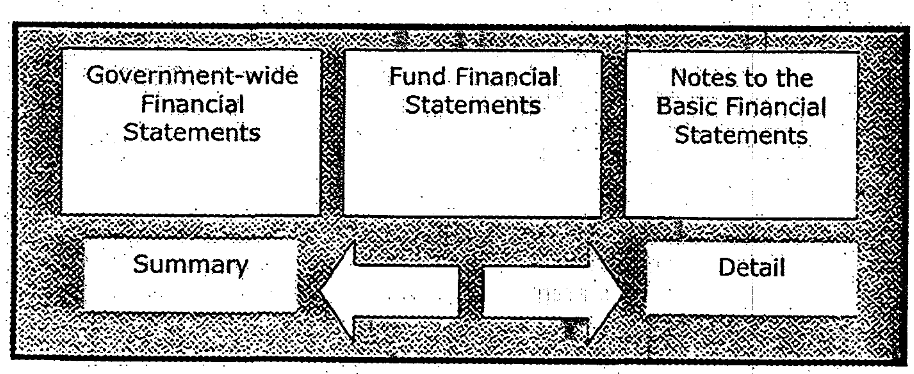
FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the fiscal year 2002-2003 by $2.3 billion (*net assets*). Of this amount, approximately $244 million is restricted for specific purpose (*restricted net assets*), and $2.3 billion is invested in capital assets, net of related debt. The remaining portion of the net assets represents a deficit balance in unrestricted net assets of approximately $237 million.
- The County's total net assets decreased by approximately $418 million due in large part to the deficit. The deficit was due to increased contributions attributed to the increased unfunded accrued actuarial liability owed to the San Diego County Employees Retirement Association (SDCERA) as a result of the approved enhanced retirement benefits for members of SDCERA.
- In October 2002, the County issued approximately $737 million of Taxable Pension Obligation Bonds. A portion of the proceeds were used to escrow a principal amount of $156 million of the County's outstanding 1994 Taxable Pension Obligation Bonds.
- General revenues were $1.1 billion. Of this amount, approximately $636 million or 56 percent was attributable to state sales tax and motor vehicle fees while property taxes accounted for approximately $459 million or 41 percent.
- The net expense for governmental activities was $1.5 billion. Public protection accounted for approximately $782 million or 50 percent of this amount while health and sanitation accounted for $265 million or 17 percent.
- At June 30, 2003, the General Fund's total fund balance was approximately $599 million. Of this amount, the unreserved-undesignated fund balance was $269 million or 9 percent of the total fiscal year 2002-2003 expenditures of $2.9 billion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) **Government-wide** financial statements 2) **Fund** financial statements, and 3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

The illustration below depicts the required components of the basic financial statements.



Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

The *statement of net assets* presents information on all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreational and cultural. The business-type activities of the County include airport operations, wastewater management and sanitation districts.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary 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 financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

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

The County maintains twenty-eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Tobacco Securitization Special Revenue Fund, and the Tobacco Securitization Joint Special Revenue Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the Combining Financial Statement and Supplementary Information section in this report.

Proprietary funds are generally used to account for services for which the County charges customers – either outside customers, or internal departments of the County. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The County maintains the following types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Airport, Wastewater Management and Sanitation Districts. Each is considered to be a major fund of the County.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

- **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the County's various functions. Internal service funds are used to account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); for start up services for new and existing county service districts; for the County's uninsured risk management activities; the financing of fleet services; for mail, printing and record storage services; for facilities management activities; for the financing of information technology services; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

  The County's nine internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the Combining Financial Statement and Supplementary Information section in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information is presented concerning the County's General Fund budgetary schedule, and SDCERA pension schedules. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. In addition, a budgetary comparison schedule has been provided for the Tobacco Securitization Special Revenue Fund for it was determined to be a major governmental fund. The SDCERA pension schedules have been provided to present SDCERA's progress in funding its obligation to provide pension benefits to County employees.

Combining Financial Statement and Supplementary Information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise and internal service funds and are presented immediately following the Required Supplementary Information section of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year that the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments.* Because this reporting model changed significantly both the recording and presentation of financial data, the County's CAFR for fiscal year ending June 30, 2003 did not provide comparative information other than in its MD&A. This year marks the first time that two years of financial information in the GASB 34 format are available.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

Net Assets
June 30, 2003

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and other assets	$ 1,861,646	1,724,081	82,211	84,625	1,943,857	1,808,706
Capital assets	2,665,784	2,618,279	71,756	66,371	2,737,540	2,684,650
Total assets	4,527,430	4,342,360	153,967	150,996	4,681,397	4,493,356
Liabilities:						
Long-term liabilities	1,999,103	1,502,993	464	477	1,999,567	1,503,470
Other liabilities	340,172	226,728	1,836	5,847	342,008	232,575
Total liabilities	2,339,275	1,729,721	2,300	6,324	2,341,575	1,736,045
Net assets:						
Invested in capital assets, Net of related debt	2,261,697	2,178,892	71,293	66,026	2,332,990	2,244,918
Restricted	243,815	161,838	15	34,151	243,830	195,989
Unrestricted	(317,357)	271,909	80,359	44,495	(236,998)	316,404
Total net assets (restated)	$ 2,188,155	2,612,639	151,667	144,672	2,339,822	2,757,311

Analysis of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $2.3 billion at the close of fiscal year 2002-2003. At the end of fiscal year 2002-2003, the County had positive balances in two of its categories of net assets, (Invested in capital assets net of related debt and Restricted net assets), however, its unrestricted assets had a deficit balance of $237 million.

The largest portion of the County's net assets (99 percent) reflects its investment of $2.3 billion in capital assets (e.g. land, infrastructure, buildings, and equipment); less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net assets, $244 million (10 percent), represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation.

The remaining portion of the County's net assets represents a deficit unrestricted net assets balance of $237 million (deficit of 10 percent). This deficit is due in large part to the increased unfunded accrued actuarial liability owed to the SDCERA as the result of approved enhanced retirement benefits for members of SDCERA.

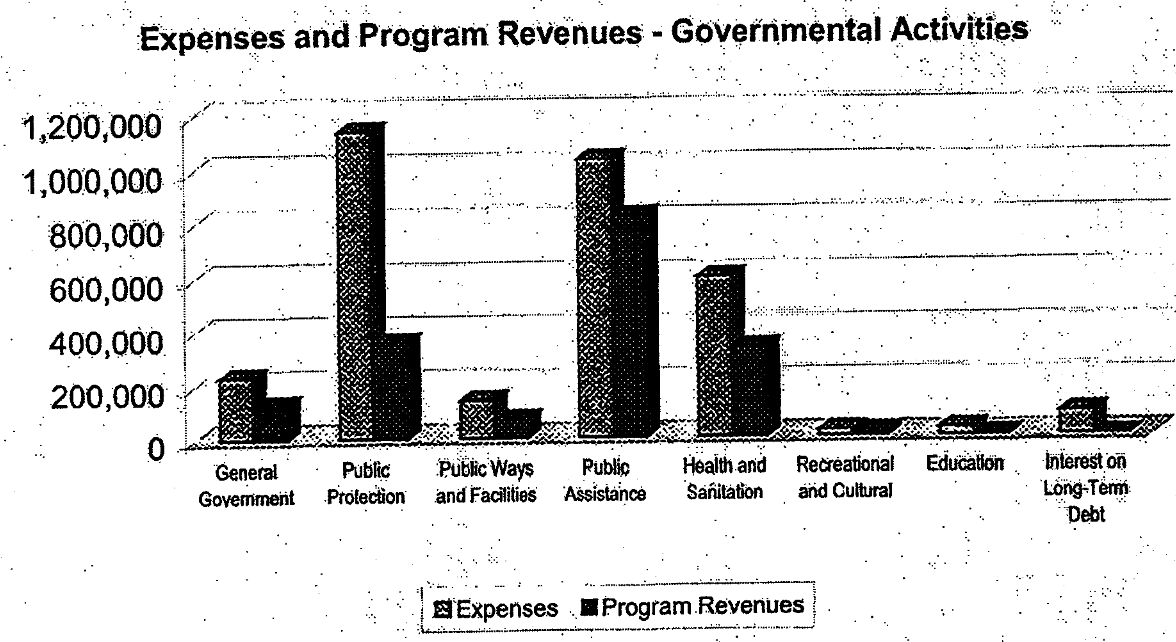
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

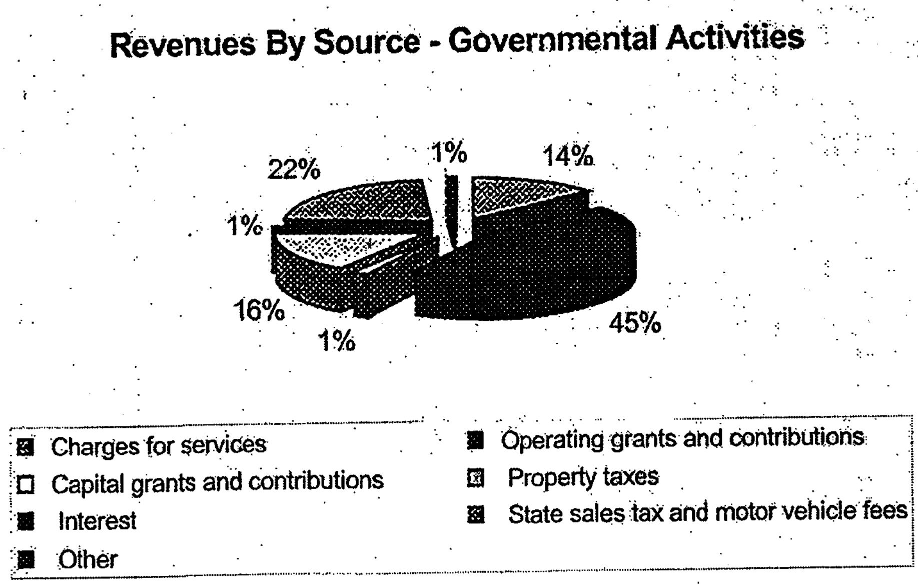
Changes in Net Assets
June 30, 2003

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues:						
Charges for services	$ 408,860	380,996	27,336	42,345	436,196	423,341
Operating grants and contributions	1,288,166	1,173,494	3,769	5,763	1,291,935	1,179,257
Capital grants and contributions	40,587	30,128	839	501	41,426	30,629
General revenues:						
Property taxes	459,340	412,400			459,340	412,400
Interest	30,213	39,041	1,437	2,694	31,650	41,735
State sales tax and motor vehicle fees	636,225	605,175			636,225	605,175
Other	3,964	5,011			3,964	5,011
Total revenues	2,867,355	2,646,245	33,381	51,303	2,900,736	2,697,548
Expenses:						
General government	234,062	171,273			234,062	171,273
Public protection	1,140,484	823,520			1,140,484	823,520
Public ways and facilities	142,356	168,202			142,356	168,202
Public assistance	1,035,065	825,028			1,035,065	825,028
Health and sanitation	598,189	547,200			598,189	547,200
Recreational and cultural	23,520	18,021			23,520	18,021
Education	30,850	24,119			30,850	24,119
Interest on long-term debt	87,627	61,340			87,627	61,340
Airport			7,125	7,973	7,125	7,973
Wastewater Management			4,357	3,808	4,357	3,808
Transit				17,085		17,085
Sanitation Districts			15,216	15,306	15,216	15,306
Total expenses	3,292,153	2,638,703	26,698	44,172	3,318,851	2,682,875
Excess (deficiency) before special item and transfers	(424,798)	7,542	6,683	7,131	(418,115)	14,673
Special item: gain (loss) on sale of properties	474	1,054	27	(5,145)	501	(4,091)
Transfers	(160)	359	160	(359)		
Increase (decrease) in net assets	(424,484)	8,955	6,870	1,627	(417,614)	10,582
Net assets at beginning of year (restated)	2,612,639	2,603,684	144,797	143,045	2,757,436	2,746,729
Net assets at end of year	$ 2,188,155	2,612,639	151,667	144,672	2,339,822	2,757,311

Analysis of Changes in Net Assets
The County's net assets decreased by $417,614 during the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)





Governmental activities
Governmental activities decreased the County's net assets by approximately $424 million. This decrease was largely due to the increase in expenses of approximately $653 million or 25 percent while the increase in revenues was approximately $221 million or eight percent. These activities are further discussed below.

Revenue
Operating and capital grants and contributions increased by approximately $125 million or ten percent, due in part to additional revenue realized for increased costs in various programs, including In Home Supportive Services costs, which were higher in fiscal year 2002-2003 due to caseload growth and higher individual

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

provider costs. Additionally, this increase may be attributable to reimbursement of increased expenditures incurred for the East Mesa Detention Facility project.

Property tax revenues increased by approximately $47 million or eleven percent during the year. Most of this increase is attributable to a continued strong real estate market and consequent growth in the assessed value of property.

State sales tax and motor vehicle fees increased by approximately $31 million or five percent. Most of this increase is attributable to an increase in motor vehicle license fee revenue. The growth in this revenue is due to an increase in the number and values of vehicles registered statewide, influenced by the number and cost of new car purchases. Additionally, in fiscal year 2002-2003, the County received one-time commercial vehicle revenues.

Expenses
Total expenses for governmental activities were $3.3 billion, The majority of these expenses were for public protection and public assistance. Of the total expenses, approximately $1 billion, or 33 percent, were ultimately financed by taxes.

Public protection expenses increased by approximately $317 or thirty-eight percent. Most of this increase is attributable to the public protection's share of the increased unfunded accrued actuarial liability owed to the SDCERA. In February 2002, the County Board of Supervisors adopted enhanced retirement benefits for members of SDCERA resulting in this increased obligation to SDCERA.

Public assistance expenses increased by approximately $210 million or twenty-five percent. This was due in part to the public assistance's share of the increased unfunded accrued actuarial liability owed to the SDCERA as referred to above. Additionally, services and supplies expenses increased due to an increase in the In Home Supportive Services' individual providers' costs attributable to an increase in hourly wages and health benefits, and an increase in demand for services.

Recreational and cultural expenses increased by approximately $5 million or thirty-one percent. This increase is attributable to an increase in salaries and benefits and other charges consisting of payments to external entities for the purchase of land for open space preservation and habitat in the Department of Parks and Recreation.

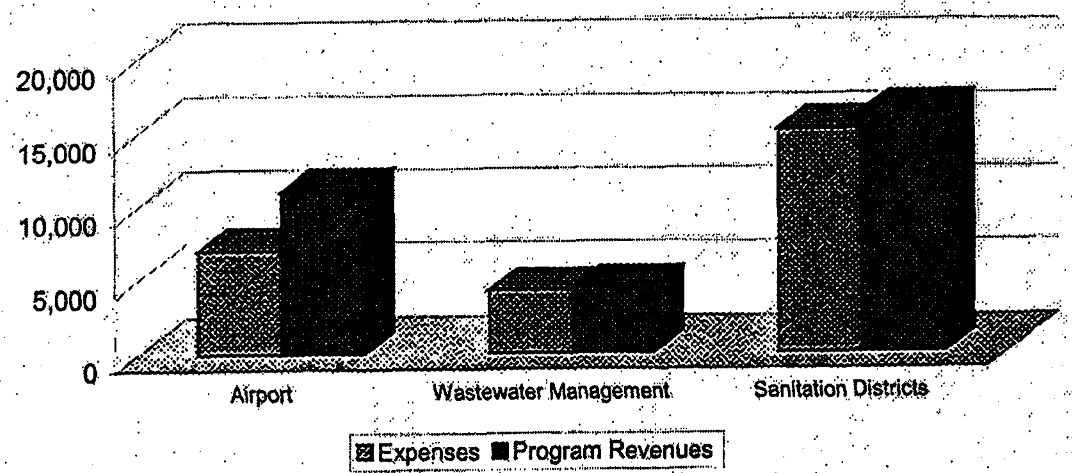
The charts on the previous page illustrate the County's governmental expenses and revenues by function and revenues by source. The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown, for governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (45 percent). Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenue for public assistance programs and for health and sanitation programs. General revenues such as property taxes and state sales tax and motor vehicle fees are not shown by program, but are effectively used to support program activities Countywide. State sales tax and motor vehicle fees (22 percent) and property taxes (16 percent) are the second and third largest sources of funds for the County. Public protection is the largest function in expense (35 percent), followed by public assistance (31 percent) and health and sanitation (18 percent). These ratios for revenues and expenses are substantially similar to 2002.

At the end of fiscal year 2002-2003, total revenue for the governmental activities was approximately $2.9 billion, while total expenses for governmental activities were approximately $3.3 billion.

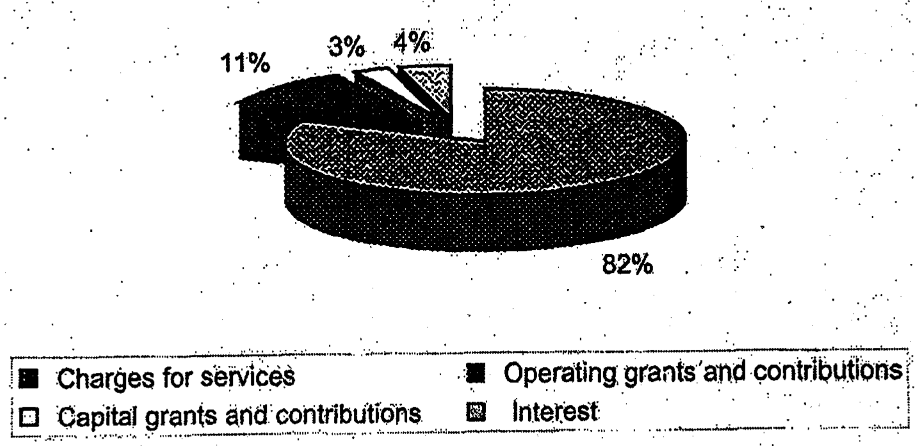
Other factors concerning the finances of the County's major governmental funds are discussed in the Governmental Funds section of the "Financial Analysis of the County's Funds."

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business Activities



Business-type Activities
The County has three business-type activities: Airport, Wastewater Management, and Sanitation. Business-type activities increased the County's net assets by $6,870. The total revenues and expenses were significantly less than reported in the previous fiscal year due to the divestiture of the Transit Enterprise Fund, which was effective June 28, 2002.

<u>Revenue</u>
At June 30, 2003, the total revenues including capital contributions and transfers for the business-type activities were $33,381. In keeping with the intent of recovering all or a significant portion of their costs through user fees and charges, business-type activities reported charges for services as their largest source of revenue (82%). Operating grants and contributions as well as capital grants and contributions were the other program revenue sources for the business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

Expenses
At the end of fiscal year 2002-2003, the business-type activities reported total expenses of $26,698. The program revenues (charges for services, operating grants and contributions, and capital grants and contributions) financed all expenses recorded for the business-type activities.

As shown in the charts above, for all of the business-type activities, charges for services provide the largest share of revenues (82 percent) followed by operating grants and contributions (11 percent). For fiscal year 2002-2003, the largest of the County's business-type activities was the Sanitation Districts with total expenses over $15 million, comprising over fifty percent of the total business activities.

Other factors concerning the finances of the County's enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Major Governmental Funds reported by the County include the General Fund, Tobacco Securitization Special Revenue Fund and the Tobacco Securitization Joint Special Revenue Fund. Nonmajor Governmental Funds include Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of fiscal year 2002-2003, the County's governmental funds reported combined ending fund balances of $1.35 billion, a decrease of $23 million in comparison with the prior year restated fund balance. Approximately $846 million of the total June 30, 2003 amount constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders ($140 million), (2) for inactive landfill maintenance ($92 million), (3) to pay debt service ($72 million), and (4) for a variety of other purposes ($201 million).

Revenues for governmental functions overall totaled approximately $2.8 billion in the year ended June 30, 2003, which represents an 8% increase from the fiscal year ended June 30, 2002. Expenditures for governmental functions, totaling $3.4 billion, a twenty-five percent increase from the fiscal year ended June 30, 2002, attributed in large part to additional costs associated with the increased unfunded accrued actuarial liability in fiscal year ended June 30, 2003 due to the Board of Supervisors' adoption of enhanced retirement benefits for members of the SDCERA.

GENERAL FUND
The General Fund is the chief operating fund of the County. At the end of fiscal year 2002-2003, the unreserved fund balance of the General Fund was approximately $388 million, while total fund balance was approximately $599 million, an increase of $28 million from fiscal year 2001-2002. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents thirteen percent of total General Fund expenditures of $2.9 billion, while total fund balance represents twenty-one percent of that same amount.

TOBACCO SECURITIZATION SPECIAL REVENUE FUND
This is a Special Revenue Fund established in fiscal year 2001-2002 to account for the $411 million (net of closing costs and reserve requirements) the County received from the Tobacco Asset Securitization Corporation related to the sale of approximately 25 years of tobacco settlement revenue in fiscal year 2001-2002. The County will continue to invest these funds in investment products to maximize the sustained long-term use of these dollars. Revenue from use of money and property increased by approximately $5 million, or

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

187 percent in fiscal year 2002-2003, and is attributable in part to the investment of these monies for an entire fiscal year in fiscal year 2002-2003, as opposed to a partial year in fiscal year 2001-2002.

TOBACCO SECURITIZATION JOINT SPECIAL REVENUE FUND
This is a Special Revenue Fund established in fiscal year 2001-2002 to account for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units, that are blended into the County's financial statements.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary funds financial statements provide separate information for the Airport, Wastewater Management, and Sanitation Districts Funds, all of which are considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements with the individual fund data provided in combining statements, which can be found in the Combining Financial Statements and Supplemental Information section of this report.

Airport
There was a slight change in the revenues and expenses of the Airport Enterprise Fund from the previous year.
- Grant revenue decreased by $1,994 while charges for services increased by $1,917.
- Operating expenses decreased in fiscal year 2002-2003 due to a reduction in depreciation expense.

Wastewater Management
There was a slight change in the revenue and expenses of the Wastewater Management Enterprise Fund from the previous year.
- Total revenue decreased by $159. Charges for services increased by $390 while interest revenue and capital contributions decreased by $544.
- Operating expenses increased by $334 while operating transfers out increased by $140.

Sanitation Districts
There was very little change in the revenues and expenses of the Sanitation Districts from the previous fiscal year.
- Charges for services remained fairly constant, however interest revenue decreased from $2,286 reported in fiscal year 2001-2002 to $1,294 as reported in fiscal year 2002-2003.
- Operating expenses for fiscal year 2002-2003 was reported at $15,200, down from the $15,288 as reported in fiscal year 2001-2002.

Fiduciary Funds

The County maintains fiduciary funds for the assets of the Pension Trust Fund, an Investment Trust, and various Agency Funds. As of the end of fiscal year 2002-2003, the net assets of the Pension Trust Fund totaled $4.1 billion, representing an increase of $569,768 in total net assets since June 30, 2002. The change is primarily related to contributions by the County from the proceeds of pension obligation bonds. The Investment Trust Fund's net assets totaled $2.5 billion, with an increase in net assets of $554,244, primarily resulting from an increase in contributions into the pooled investments relating to the proceeds from new school bond issues, offset by an increase in distributions from pooled investments relating to the use of school bond proceeds.

General Fund budgetary highlights

The County's final budget differs from the original budget in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as budget corrections and account reclassifications. At June 30, 2003, the variances between the original and final budgets for net current revenues over (under) expenditures and for other financing sources were ($603,619) and $513,150, respectively, for a total variance of ($90,469) in budgeted fund balance. Significant variances were caused by:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

- $737.3 million from the issuance of Taxable Pension Obligation Bonds. Bond proceeds were expended to reduce the County's unfunded actuarial accrued liability to SDCERA.
- $36.1 million in capital projects, including $12.2 million in parks projects and land acquisition, $8.2 million in projects related to public safety, $5.3 million in library projects, $4 million in projects for San Pasqual Academy and the Polinsky Children's Center, and $2.9 million to plan for the Waterfront Park. These projects were funded substantially by prior year's fund balance, management reserves, transfers of appropriations, grants, and donations from private parties.
- $11.2 million in increased payments for salaries and benefits. Significant changes include an increase of $14 million in incentives earned through the County's Quality First program. The Department of Child Support Services had a decrease of $2.5 million due to reduced State and Federal revenues.
- $22.9 million in payments for services and supplies. The County appropriated an additional $10.1 million for information technology and telecommunications, funded substantially by prior year's fund balance and management reserves. In addition the Health and Human Services Agency had net supplemental appropriations of $11.7 million across a number of programs, due to increased fees and State and Federal revenues. The Department of Child Support Services had a net decrease of $6 million due to reduced State and Federal revenues.
- $30.9 million in net budget reclassifications between Federal revenues and State revenues for the Health and Human Services Agency resulted from increased budgeted Federal revenues and decreased budgeted State revenues.

Actual revenues fell short of the final budgeted amounts by $64 million, while expenditures fell short of the budget by $281.1 million. The combination of revenue and expenditure shortfalls resulted in a net positive operating variance of $217.1 million. Other financing sources and uses of funds resulted in a negative variance from budget of $11.3 million. The variance of net change in fund balance from the final budget was a positive variance of $205.8 million. Some highlights of the actual results compared to budgeted results are:

Salaries and Benefits. In the current environment of uncertainty over State and Federal funding, many County functions deferred hiring staff for ongoing programs in anticipation of future budget constraints and planned increased retirement costs beginning in fiscal year 2003-2004. The total positive variance in this category is $44.9 million Countywide.

Health and Sanitation and Public Assistance. A decrease in expenditures for these functions within the Health and Human Services Agency of $91.1 million is related to reductions in service level requirements, decreased need for contracted services, and reduced aid payments. These lowered expenditures are offset by corresponding reductions in Federal and State revenue.

Strong real estate markets. The real estate markets in San Diego County have been robust for several years due to low interest rates and high demand for residential real estate. Originally projected to begin to show weakness in fiscal year 2002-2003, this segment of the economy contributed to positive variances in several revenue categories, including $12.7 million in property and other taxes and $8 million in charges for document and recording services, as part of the overall positive variance in changes for current services of $11.8 million.

Delayed expenditures. The budget included $12 million in appropriations related to debt management, including $7 million to commence a program of long-term debt prepayment. With the uncertainty surrounding funding sources from the State and in order to maintain flexibility for one-time resources, no prepayment was made. In addition, Information Technology and other multi-year projects experienced delays, including $7.7 million in unspent appropriations for County-wide Enterprise Resource Planning projects and $5.9 million for the Sheriff's Department.

Reserves. The County reserves from prior years' fund balance decreased by $4.9 million. Primarily this was attributed to changes in reserve for encumbrances, which decreased from $98.7 million in fiscal year 2001-2002 to $94.6 million in fiscal year 2002-2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2003, the County's capital assets for both the governmental and business-type activities amounted to approximately $2.7 billion net of accumulated depreciation. The investment in capital assets includes land, construction in progress, structures and improvements, equipment, and infrastructure (including roads, bridges, flood channels, and traffic signals). The significant expenditures for capital assets in fiscal year 2002-2003 are as follows:

<u>Governmental Activities</u>

- $37,868 towards the construction of and improvements to County maintained roads. These expenditures are ongoing.
- $29,984 towards the construction of the East Mesa Juvenile Detention Facility. Total project costs are estimated at $52,952.
- $4,446 for the reconstruction of Edgemoor Hospital. Total project costs are estimated at $5,690.
- $3,460 for acquisition of Derbas real property (Escondido) for the purposes of wildlife habitat preservation and restoration.
- $2,666 for acquisition of real property for the replacement of the Downtown Courthouse.
- $2,605 for the North County Regional Center Courthouse Annex Remodel. Total project costs are estimated at $5,507.
- $2,589 towards acquisitions for the Multiple Species Conservation Program.
- $2,325 towards the Kearny Mesa Assessor Recorder County Clerk building. Total project costs are estimated at $6,868.
- $2,130 towards the construction of the Spring Valley Library. Total project costs are estimated at $3,459.
- $1,938 towards the construction of bridges.

<u>Business-Type Activities</u>

- $2,867 for the improvements at the Ramona Airport. The costs include $1,096 for the runway extension, $1,560 for the sewer construction which is estimated to cost a total of $2,437, and $214 towards the construction of the control tower which is estimated to cost a total of $2,242.
- $2,106 for the realignment of the taxiway at Palomar Airport. Total project costs are estimated at $4,728.
- $754 towards improvements in the Spring Valley Sanitation district including outfall manhole replacement, Jamacha Boulevard 8" Sewer construction, and the Whitestone Canyon sewer line upgrade. Total of all projects' costs are estimated at $6,600.
- $298 towards the replacement of the Galloway Pump Station Force Main in Alpine Sanitation District. Total project costs are estimated at $2,100.
- $260 towards the replacement of the Julian Sanitation District septic tank and aerobic digester. Total project costs are estimated at $629.

For government-wide financial statement presentation, governmental fund depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures.

Additional information about the County's capital assets can be found in the notes to the basic financial statements.

Long-Term Obligations

At June 30, 2003, the County had outstanding governmental activity long-term obligations of $1.999 billion and no outstanding general obligation bonds. Of this amount, $395 million pertains to outstanding certificates of participation, $41 million pertains to capital leases, and $1.563 billion pertains to other long-term obligations that include $824 million of taxable pension obligation bonds, $449 million of San Diego County Tobacco Asset Securitization Corporation Bonds, $101 million for claims and judgments, $101 million for landfill closures, $75.4 million for compensated absences, $7.1 million for other loans, $4.5 million for Redevelopment Agency revenue bonds, and approximately $1 million for arbitrage rebate.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

Long-term obligations for business-type activities totaled $494 thousand and consisted of $299 thousand for compensated absences and $195 thousand for a long-term contract payable in the Spring Valley Sanitation District.

During fiscal year 2002-2003, the County's total principal amount of long-term obligations for governmental activities increased by approximately $496 million. The increase is due primarily to the County of San Diego's issuance of $737.3 million of Taxable Pension Obligation Bonds. The general long-term obligations for the business-type activities increased by approximately $17 thousand.

The County's credit ratings on its bonded program are as follows:

	Moody's	Standard & Poor's	Fitch Ratings
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds			
1994 Series A	Aa3	AA-	Not rated
2002 Series A, B & C	Aa3	AA-	AA-

In addition, the County has an Underlying General Obligation rating of Aa2 from Moody's and an Issuer Creditor Rating of AA from Standard & Poor's. These ratings reflect the County's favorable general credit characteristics, which include a strong local economy, a sound financial position and a moderate debt profile. However, on October 2002, Moody's placed a negative outlook on all California county debt (except San Francisco). This is a result of the State of California's pending decision to divert revenue from local governments due to any budget shortfall.

Useful bond ratios to management, citizens, and investors are as follows:

	Fiscal Year 2003	Fiscal Year 2002
Net Bonded Debt	$1,191,754	$690,308
Net Bonded Debt per Capita	$402	$237
Ratio of Net Bonded Debt to Assessed Value	.51 percent	.32 percent

In March of 2002, the County implemented a new enhanced retirement package resulting in the increased unfunded accrued actuarial liability to the SDCERA. In October 2002, the County issued $737.3 million of taxable Pension Obligation Bonds to finance a portion of this liability.

Additional information about the County's long-term obligations can be found in the notes to the basic financial statements.

Economic factors and next year's budget and rates

- The fiscal year 2003-2004 General Fund budget utilized $149.2 million out of $388 million in unreserved fund balance. Fund balance is used as a source of funds for one-time items.
- The development of the fiscal year 2003-2004 budget was based on expectations for demand for services and availability of funding to support those services. Three related factors pose significant negative risks to our expectations: the State of California's budget crisis; the continuing weakness of the State's economy; and, the political and budgetary uncertainty brought on by the October 7, 2003 recall of Governor Davis.
    - The U.S. and California economies continue to give mixed signals regarding solid growth. The San Diego economy, however, continues to show positive but slow growth (i.e., gross regional product at 7.7% for 2000, at 2.6% for 2001, at 2.4% for 2002, and at 3.3% for 2003).

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
(Amounts Expressed in Thousands)

   - The State of California's budget crisis, which began in fiscal year 2001-2002, is fueled largely by a decline in taxable income. The decline in taxable income is directly related to the weakened economy and the huge stock market declines that occurred beginning in March, 2000. The State also faces legal challenges to debt financing a portion of its revenue shortfall. Counties, as agents of the State, rely heavily on State revenues to fund locally provided programs. Further, the State has taken action in the past which has intertwined State revenues with local discretionary revenues. (See discussion on Vehicle License Fees below.) The State's budget crisis is not likely to be resolved soon. The Legislative Analyst's Office has estimated a budget shortfall of approximately $7.8 billion for fiscal year 2004-2005 assuming the deficit financing plan for fiscal year 2003-2004 succeeds.

   - The Governor Elect took office in November 2003 and must balance campaign promises with the fiscal and legal realities facing State government.

- The County's general purpose revenues, with the exception of vehicle license fees (VLF), (i.e., property tax, sales tax, real property transfer tax, transient occupancy tax and other minor revenues) continue to perform well. Specifically:

   - The largest source of general purpose revenues is property taxes representing 55% of the total. Property taxes have not been directly impacted by weakness in the State economy. In contrast to the slowdown in the job market, demand for housing, boosted by low interest rates, has remained strong as attested to by significant increases in property values. Property taxes for fiscal year 2003-2004 are expected to exceed fiscal year 2002-2003 actuals by 7.8%.

   - VLF revenue is budgeted at a level 2.2% greater than the actual for fiscal year 2002-2003 and makes up 30% of general purpose revenues. However, the actual fiscal year 2003-2004 VLF revenues will be significantly below the fiscal year 2002-2003 level due to State policy actions. Specifically, in 1998, the State reduced the VLF paid by the vehicle owners and backfilled the revenue loss to counties and cities from State general funds. The fiscal year 2003-2004 State Budget eliminated the VLF backfill and reinstated the 2% license fee to vehicle owners. The VLF backfill was eliminated for the entire fiscal year, but the reinstatement of the 2% fee was made effective October 1, 2003, in order to give the Department of Motor Vehicles sufficient time to reprogram its computer system. The County anticipates a shortfall of approximately $31 million as a result of this three-month funding gap. In addition, the State has chosen to keep the Realignment Program whole with respect to the portion funded by VLF. That decision means the loss of an additional $7.5 million to the County's general purpose VLF revenue for a total of $38.5 million less than the $195 million budgeted in fiscal year 2003-2004. This revenue loss will be made up through a combination of over-realized revenues in other general purpose revenue categories (as available), savings in departmental operations and unappropriated fund balance from fiscal year 2002-2003.

   - Sales tax, approximately 3.1% of general purpose revenues, has been more sensitive to the slowdown. It was budgeted conservatively at 2% below fiscal year 2002-2003 actuals but 6.8% above the fiscal year 2002-2003 budgeted level.

   - The real property transfer tax makes up about 2.6% of the general purpose revenues. It is based on the dollar value of property sales and has been favorably impacted by the active real estate markets in the current environment of low interest rates. This revenue, too, was budgeted conservatively at 20% below fiscal year 2002-2003 actuals, but 6.5% above the fiscal year 2002-2003 budgeted level.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, San Diego, California 92101.

STATEMENT OF NET ASSETS
June 30, 2003
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	First 5 Commission
ASSETS				
Current assets:				
Equity in pooled cash and investments	$ 792,586	70,910	863,496	152,091
Cash with fiscal agent	609,772		609,772	
Collections in transit	7,538	3	7,541	
Imprest cash	533	2	535	
Investments	2		2	
Accounts and notes receivable	325,359	1,696	327,055	7,989
Taxes receivable, net	15,983		15,983	
Internal balances	(106)	106		
Advances to other funds		9,494	9,494	
Inventory of materials and supplies	9,725		9,725	
Deposits with others	487		487	
Prepaid items	8		8	
Total current assets	1,761,887	[illegible]	[illegible]	[illegible]
Noncurrent assets:				
Restricted assets:				
Investments	45,413		45,413	
Deferred charges	54,346		54,346	
Capital assets:				
Land, construction and contracts in progress	443,649	21,307	464,956	
Other capital assets, net of depreciation	2,222,135	50,449	2,272,584	
Total noncurrent assets	[illegible]	[illegible]	[illegible]	
Total assets	4,527,450	153,967	[illegible]	[illegible]
LIABILITIES				
Current liabilities:				
Accounts payable	75,000	1,616	76,616	1,852
Accrued payroll	38,475	178	38,653	
Amount due for tax & revenue anticipation notes	139,039		139,039	
Accrued interest	25,492		25,492	
Advances from other funds	9,494		9,494	
Deferred revenue	52,672	12	52,684	
Current portion of long-term obligations	93,932	30	93,962	
Total current liabilities	[illegible]	[illegible]	[illegible]	[illegible]
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	1,905,171	464	1,905,635	
Total noncurrent liabilities	[illegible]	464	[illegible]	
Total liabilities	[illegible]	[illegible]	[illegible]	[illegible]
NET ASSETS				
Invested in capital assets, net of related debt	2,261,697	71,293	2,332,990	
Restricted for:				
Capital projects	132	15	147	
Debt service	88,530		88,530	
Inactive landfill maintenance	92,218		92,218	
Other purposes	62,935		62,935	
Unrestricted	(317,357)	80,359	(236,998)	158,228
Total net assets	$ 2,188,155	[illegible]	[illegible]	[illegible]

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003
(In Thousands)

Functions/Programs		Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:					
Governmental activities:					
General government	$	234,062	121,070	1,190	5,347
Public protection		1,140,484	170,221	163,817	24,711
Public ways and facilities		142,356	19,017	51,577	
Public assistance		1,035,065	7,338	819,795	
Health and sanitation		598,189	83,629	250,030	
Recreational and cultural		23,520	5,426	459	10,032
Education		30,850	2,159	1,298	497
Interest expense		87,627			
Total governmental activities		3,292,153	408,860	1,288,166	40,587
Business-type activities:					
Airport		7,125	7,396	3,769	
Wastewater Management		4,357	4,496		6
Sanitation Districts		15,216	15,444		833
Total business-type activities		26,698	27,336	3,769	839
Total primary government		3,318,851	436,196	1,291,935	41,426
Component unit:					
First 5 Commission		24,016		39,116	
Total component unit	$	24,016		39,116	

General revenues:
Taxes:
Property taxes
Franchise taxes
State sales tax and motor vehicle fees
Interest
Special item - gain on sale of properties
Transfers
Total general revenues, special item, and transfers
Change in net assets
Net assets - beginning (restated)
Net assets - ending

(Cont)

The notes to the basic financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003
(In Thousands)

(Cont)

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	First 5 Commission	Functions/Programs
				Primary government:
				Governmental activities:
(106,455)		(106,455)		General government
(781,735)		(781,735)		Public protection
(71,762)		(71,762)		Public ways and facilities
(207,932)		(207,932)		Public assistance
(264,530)		(264,530)		Health and sanitation
(7,603)		(7,603)		Recreational and cultural
(26,896)		(26,896)		Education
(87,627)		(87,627)		Interest expense
(1,554,540)		(1,554,540)		Total governmental activities
				Business-type activities:
	4,040	4,040		Airport
	145	145		Wastewater Management
	1,061	1,061		Sanitation Districts
	5,246	5,246		Total business-type activities
(1,554,540)	5,246	(1,549,294)		Total primary government
				Component Unit:
			15,100	First 5 Commission
			15,100	Total component unit
				General revenues:
				Taxes:
$ 459,340		459,340		Property taxes
3,964		3,964		Franchise taxes
636,225		636,225		State sales tax and motor vehicle fees
30,213	1,437	31,650	3,873	Interest
474	27	501		Special item - gain on sale of properties
(160)	160			Transfers
1,130,056	1,624	1,131,680	3,873	Total general revenues, special item, and transfers
(424,484)	6,870	(417,614)	18,973	Change in net assets
2,612,639	144,797	2,757,436	139,255	Net assets - beginning (restated)
$ 2,188,155	151,667	$ 2,339,822	$ 158,228	Net assets - ending

The notes to the basic financial statements are an integral part of this statement

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Equity in pooled cash and investments	$ 355,746	332		265,081	621,159
Cash with fiscal agent	150,719	374,982	54,998	29,073	609,772
Collections in transit	6,996			258	7,254
Imprest cash	314			17	331
Investments	2				2
Taxes receivable	15,983				15,983
Accounts and notes receivable	164,901	889	382	114,018	280,190
Due from other funds	203,886	5		31,347	235,238
Advances to other funds	689			417	1,106
Inventory of materials and supplies	6,748			2,098	8,846
Deposits with others				487	487
Prepaid items				8	8
Restricted assets:					
Investments				45,413	45,413
Total assets	905,984	376,208	55,380	488,217	1,825,789
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	42,361			13,213	55,574
Accrued payroll	35,347			2,101	37,448
Amount due for tax and revenue anticipation notes	139,039				139,039
Due to other funds	23,476	7,934		126,213	157,623
Advances from other funds				11,232	11,232
Deferred revenue	67,100			6,986	74,086
Total liabilities	$ 307,323	7,934		159,745	475,002
Fund balances:					
Reserved for encumbrances	94,617			45,061	139,678
Reserved for notes receivable and advances	7,551			30,331	37,882
Reserved for deposits with others				1,055	1,055
Reserved for inactive landfill maintenance				92,218	92,218
Reserved for inventory of materials and supplies	6,748			319	7,067
Reserved for debt service			41,813	30,020	71,833
Reserved for other purposes	101,361		13,567	40,359	155,287
Unreserved:					
Designated for subsequent years' expenditures	119,421				119,421
Undesignated	268,963	368,274			637,237
Unreserved, reported in nonmajor:					
Special revenue funds				79,338	79,338
Capital projects funds				9,771	9,771
Total fund balances	598,661	368,274	55,380	328,472	1,350,787
Total liabilities and fund balances	$ 905,984	376,208	55,380	488,217	1,825,789

The notes to the basic financial statements are an integral part of this statement

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2003
(In Thousands)

Total fund balances-governmental funds	$1,350,787
Pension obligation bonds originally issued in 1994 were partially refunded through the issuance of new pension obligation bonds in 2002. These costs represent the deferred costs on the refunded debt. These costs are to be capitalized and amortized over the remaining life of the 1994 pension obligation bonds.	17,590
Bond discounts are expended in governmental funds in the year of sale and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.	10,275
Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements however, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.	26,481
When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.	2,566,515
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(25,478)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.	30,020
Liabilities for long-term debt are not accrued in governmental funds, but rather are recognized as an expenditures when due.	(7,686)
Bond premiums are recognized as revenue in governmental funds in the year of sale and are recorded as a liability and amortized over the life of the corresponding bonds.	(633)
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net assets.	(1,895,579)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individuals funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	115,863
Net assets of governmental activities	[illegible]

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2003
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 396,415			50,420	446,835
Licenses, permits and franchises	28,840			10,495	39,335
Fines, forfeitures and penalties	36,246			4,990	41,236
Revenue from use of money and property	16,691	7,841	3,071	13,130	40,733
Aid from other governmental agencies:					
State	709,693			522,211	1,231,904
Federal	533,562			98,679	632,241
Other	49,853			16,263	66,116
Charges for current services	243,125			23,449	266,574
Other revenue	25,389		35,444	9,232	70,065
Total revenues	[illegible]	7,841	38,515	[illegible]	[illegible]
Expenditures:					
Current:					
General	192,720		113	17,041	209,874
Public protection	1,123,518			21,653	1,145,171
Public ways and facilities	21,855			101,347	123,202
Health and sanitation	569,914			30,611	600,525
Public assistance	945,562			91,905	1,037,467
Education	6,649			24,364	31,013
Recreational and cultural	19,884			921	20,805
Capital outlay				83,748	83,748
Debt service:					
Principal			9,560	79,286	88,846
Interest	12,735		25,351	35,661	73,747
Total expenditures	2,892,837		35,024	[illegible]	[illegible]
Excess of revenues over (under) expenditures	(853,023)	7,841	3,491	262,332	(579,359)
Other financing sources (uses):					
Sale of capital assets	11			463	474
Long term debt proceeds	560,450			436	560,886
Refunding bonds issued	176,890				176,890
Payment to refunded bond escrow agent	(176,890)				(176,890)
Transfers in	478,806			290,191	768,997
Transfers (out)	(156,879)	(26,949)		(589,317)	(773,145)
Total other financing sources (uses)	882,388	(26,949)		[illegible]	[illegible]
Excess of revenues over (under) expenditures and other financing sources (uses)	29,365	(19,108)	3,491	(35,895)	(22,147)
Fund balances - beginning of year (restated)	570,352	387,382	51,889	364,305	1,373,928
Increase (decrease) in:					
Reserve for inventory of materials and supplies	(1,056)			62	(994)
Fund balances - end of year	$ [illegible]	368,274	55,380	328,472	[illegible]

The notes to the basic financial statements are an integral part of this statement

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2003
(In Thousands)

Net change in fund balances-total governmental funds	($22,147)
Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.	12,658
Adjustment for reserve for inventory of materials and supplies.	(994)
Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.	(1,138)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	36,710
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.	23,098
Under the modified accrual basis of accounting used in the governmental funds, expenditures for the County's long term obligations for capital leases, claims and judgments, accumulated unpaid employee leave balances, loans and arbitrage rebate, are not recognized until they mature. In the statement of activities however, they are reported as expenses and liabilities as they accrue.	(3,411)
Bond issuance costs are expended in governmental funds in the year of sale and are capitalized and amortized over the life of the corresponding bonds for purpose of the statement of net assets.	16,539
Repayment of bond principal as well as refunding of bonds which are considered a repayment of principal are reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the County as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term debt was reduced by the amount of principal payments made to bond holders.	88,846
Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond discounts and premiums which are expended in governmental funds in the year paid.	(13,759)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.	(560,886)
Change in net assets of governmental activities	($424,484)

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003
(In Thousands)

	Business-Type Activities Enterprise Funds	
	Airport	Wastewater Management
ASSETS		
Current assets:		
Equity in pooled cash and investments	$ 4,717	1,705
Collections in transit	3	
Imprest cash	1	1
Accounts and notes receivable	1,177	1
Due from other funds	820	642
Advances to other funds	9,637	
Inventory of materials and supplies		
Total current assets	16,355	2,349
Capital assets:		
Land	6,401	20
Construction and contracts in progress	11,895	
Buildings and equipment	28,715	905
Infrastructure		
Less accumulated depreciation	(18,194)	(457)
Total noncurrent assets	28,817	468
Total assets	45,172	2,817
LIABILITIES		
Current liabilities:		
Accounts payable	1,453	8
Accrued payroll	71	107
Accrued interest		
Due to other funds	318	127
Claims and judgments		
Advances from other funds		
Compensated absences	12	18
Deferred revenue	12	
Bonds, notes and loans payable		
Total current liabilities	1,866	268
Noncurrent liabilities:		
Compensated absences	108	161
Claims and judgments		
Bonds, notes and loans payable		
Total long-term liabilities	108	161
Total liabilities	1,974	429
NET ASSETS		
Invested in capital assets, net of related debt	28,817	468
Restricted for:		
Capital projects		
Other purposes		
Unrestricted	14,381	1,928
Total net assets	43,198	2,396

(Cont)

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003
(In Thousands)

(Cont)

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Sanitation Districts	Total	
ASSETS			
Current assets:			
Equity in pooled cash and investments	$ 64,488	70,910	171,427
Collections in transit		3	284
Imprest cash		2	202
Accounts and notes receivable		1,178	3,178
Due from other funds	285	1,747	19,127
Advances to other funds	135	9,772	632
Inventory of materials and supplies			879
Total current assets	64,908	[illegible]	[illegible]
Capital assets:			
Land	1,069	7,490	
Construction and contracts in progress	1,922	13,817	44,768
Buildings and equipment	2,181	31,801	101,377
Infrastructure	63,063	63,063	
Less accumulated depreciation	(25,764)	(44,415)	(46,876)
Total noncurrent assets	42,471	71,756	[illegible]
Total assets	107,379	[illegible]	[illegible]
LIABILITIES			
Current liabilities:			
Accounts payable	155	1,616	19,426
Accrued payroll		178	1,027
Accrued interest			14
Due to other funds	597	1,042	54,938
Claims and judgments			32,578
Advances from other funds	278	278	
Compensated absences		30	207
Deferred revenue		12	287
Bonds, notes and loans payable			860
Total current liabilities	1,030	[illegible]	[illegible]
Noncurrent liabilities:			
Compensated absences		269	1,869
Claims and judgments			68,010
Bonds, notes and loans payable	195	195	
Total long-term liabilities	195	[illegible]	[illegible]
Total liabilities	1,225	[illegible]	[illegible]
NET ASSETS			
Invested in capital assets, net of related debt	42,008	71,293	98,270
Restricted for:			
Capital projects	15	15	
Other purposes			
Unrestricted	64,131	80,440	17,512
Total net assets	106,154	[illegible]	[illegible]
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities		(81)	
Net assets of business-type activities		[illegible]	

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2003
(In Thousands)

		Business-Type Activities Enterprise Funds	
		Airport	Wastewater Management
OPERATING REVENUES			
Charges for services	$	7,396	4,496
Miscellaneous			
Total operating revenue		7,396	4,496
OPERATING EXPENSES			
Salaries		2,020	2,659
Repairs and maintenance		455	110
Equipment rental		521	357
Sewage processing			
Contracted services		2,732	917
Depreciation		769	26
Utilities		166	8
Cost of material			
Claims and judgments			
Fuel			
Other operating expenses		469	192
Total operating expenses		7,132	4,269
Operating income		264	227
NONOPERATING REVENUES (EXPENSES)			
Interest and dividends		108	30
Grants		3,769	
Interest expense			
Other nonoperating revenue			
Gain (loss) on disposal of equipment		33	
Total nonoperating revenues (expenses)		3,910	30
Income before contributions and transfers		4,174	257
Capital contributions			6
Transfers in		740	
Transfers (out)		(440)	(140)
Change in net assets		4,474	123
Total net assets - beginning		38,724	2,273
Total net assets - ending	$	43,198	2,396

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS Year Ended June 30, 2003 (In Thousands)

(Cont)

		Business-Type Activities Enterprise Funds		Governmental Activities
		Sanitation Districts	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	$	15,444	27,336	294,247
Miscellaneous				2,782
Total operating revenues		15,444	27,336	297,02[illegible]
OPERATING EXPENSES				
Salaries			4,679	26,976
Repairs and maintenance		2,351	2,916	20,662
Equipment rental			878	1,433
Sewage processing		10,161	10,161	
Contracted services			3,649	125,679
Depreciation		1,293	2,088	9,542
Utilities			174	19,087
Cost of material				36,696
Claims and judgments				32,578
Fuel				4,934
Other operating expenses		1,395	2,056	8,613
Total operating expenses		15,200	26,601	286,20[illegible]
Operating income		244	735	10,829
NONOPERATING REVENUES (EXPENSES)				
Interest and dividends		1,294	1,432	759
Grants			3,769	
Interest expense		(16)	(16)	(121)
Other nonoperating revenue		5	5	
Gain (loss) on disposal of equipment		(6)	27	(185)
Total nonoperating revenues (expenses)		1,277	5,217	45[illegible]
Income before contributions and transfers		1,521	5,952	11,28[illegible]
Capital contributions		833	839	7,872
Transfers in			740	7,438
Transfers (out)			(580)	(3,450)
Change in net assets		2,354	6,95[illegible]	23,14[illegible]
Total net assets - beginning		103,800		92,640
Total net assets - ending	$	106,154		115,78[illegible]

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.		(81)
Change in net assets of business-type activities	$	6,870

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30,2003
(In Thousands)

		Business-Type Activities Enterprise Funds		
		Airport	Wastewater Management	[illegible]
Cash flows from operating activities:				
Cash received from customers	$	8,460	4,443	640
Other receipts				
Cash received from other funds		130		
Cash payments to suppliers		(2,562)	(353)	(3,625)
Cash payments to employees		(2,012)	(2,638)	
Cash payments to other funds		(1,986)	(1,147)	(167)
Net cash provided (used) by operating activities		[illegible]	305	[illegible]
Cash flows from non-capital financing activities:				
Property taxes				
Transfers from (to) other funds		(445)	(140)	
Advances from (to) other funds				
Net cash provided (used) by non-capital financing activities		(445)	(140)	
Cash flows from capital and related financing activities:				
Loans from other funds		414		
Loan to other funds		91		
Grant revenue		7,434		
Acquisition of capital assets		(5,382)		
Capital contributions				
Proceeds from sale of equipment				
Principal paid on long-term debt				
Interest paid on long-term debt				
Net cash provided (used) by capital and related financing activities		2,557		
Cash flows from investing activities:				
Interest		111	50	20
Net increase (decrease) in cash and cash equivalents		4,253	215	[illegible]
Cash and cash equivalents - beginning of year		468	1,490	3,132
Cash and cash equivalents - end of year		4,721	1,705	[illegible]
Reconciliation of operating income:				
Operating income		264	227	
Adjustments to reconcile:				
Inc (dec) in compensated absences		18	4	
Inc (dec) in accrued payroll		(1)	18	
Inc (dec) in due to other funds		(124)	41	(167)
Inc (dec) in accounts payable		(159)	4	(3,625)
Inc (dec) in claims and judgments				
Dec (inc) in accounts receivable		1,064		615
Dec (inc) in inventory		69	38	
Dec (inc) in deferred credits				
Dec (inc) in due from other funds		130	(53)	25
Dec (inc) in other current assets				
Depreciation		769	26	
Net cash provided (used) by operating activities	$	2,030	305	[illegible]
Non-cash investing and capital financing activities:				
Accrued interest	$	3	20	

(Cont)

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30,2003
(In Thousands)

(Cont)

		Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
		Sanitation Districts	Total	
Cash flows from operating activities:				
Cash received from customers	$	15,063	28,606	311,059
Other receipts				287
Cash received from other funds			130	
Cash payments to suppliers		(10,746)	(17,286)	(279,939)
Cash Payments to employees			(4,650)	(26,837)
Cash payments to other funds		(2,652)	(5,952)	(16,388)
Net cash provided (used) by operating activities		1,665	848	(11,818)
Cash flows from non-capital financing activities:				
Property taxes		5	5	
Transfers from (to) other funds			(585)	3,923
Advances from (to) other funds		(18)	(18)	(373)
Net cash provided (used) by non-capital financing activities		(13)	(598)	3,550
Cash flows from capital and related financing activities:				
Loans from other funds			414	
Loan to other funds			91	
Grant revenue			7,434	
Acquisition of capital assets		(2,312)	(7,694)	(20,710)
Capital contributions		833	833	7,142
Proceeds from sale of equipment				686
Principal paid on long-term debt		(5)	(5)	(2,694)
Interest paid on long-term debt		(16)	(16)	(156)
Net cash provided (used) by capital and related financing activities		(1,500)	1,057	(15,732)
Cash flows from investing activities:				
Interest		1,456	1,637	851
Net increase (decrease) in cash and cash equivalents		1,608	2,944	(23,149)
Cash and cash equivalents - beginning of year		62,880	67,970	195,063
Cash and cash equivalents - end of year		64,488	70,914	171,914
Reconciliation of operating income:				
Operating income		244	735	10,829
Adjustments to reconcile:				
Inc (dec) in compensated absences			22	95
Inc (dec) in accrued payroll			17	56
Inc (dec) in due to other funds		534	284	(5,083)
Inc (dec) in accounts payable		(25)	(3,805)	(38,272)
Inc (dec) in claims and judgments				2,795
Dec (inc) in accounts receivable			1,679	546
Dec (inc) in inventory			107	1,040
Dec (inc) in deferred credits				287
Dec (inc) in due from other funds		(381)	(279)	6,334
Dec (inc) in other current assets				13
Depreciation		1,293	2,088	9,542
Net cash provided (used) by operating activities		1,665	848	(11,818)
Non-cash investing and capital financing activities:				
Accrued interest	$	162	185	92

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003
(In Thousands)

		Pension Trust Fund	Investment Trust Fund	Agency Funds
ASSETS				
Equity in pooled cash and investments	$	13,634	2,468,111	357,504
Cash with fiscal agent		237,767		8,164
Collections in transit			1,294	15,567
Imprest cash			31	5
Investments		4,240,950	103	1
Taxes receivable				194,995
Accounts receivable		45,308	29	15,322
Due from other funds		2,556	27,658	1,044
Capital assets, net		2,636		
Total assets		4,542,851	2,497,226	592,602
LIABILITIES				
Accounts payable		110,333		651
Due to other funds		44	8,898	64,825
Obligations under securities lending		329,126		
Due to other governments				465,390
Amount due for commercial paper notes				61,736
Total liabilities		439,503	8,898	592,602
NET ASSETS				
Held in trust for pension benefits and other purposes	$	4,103,348	2,488,328	

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2003
(In Thousands)

		Pension Trust Fund	Investment Trust Fund
ADDITIONS			
Contributions:			
Employer	$	616,113	
Plan members		34,666	
Contributions on pooled investments			14,687,119
Total contributions		650,779	14,687,119
Investment earnings:			
Net increase in fair value of investments		92,507	
Interest income		60,561	44,736
Securities lending income		5,446	
Other income		39,539	
Total investment earnings		198,053	44,736
Less investment expenses		43,919	
Less securities lending expenses		4,173	
Net investment earnings		149,961	
Total additions		800,740	14,731,855
DEDUCTIONS			
Benefits		222,514	
Refunds of contributions		1,451	
Distribution from pooled investments		7,007	14,177,611
Total deductions		230,972	14,177,611
Changes in net assets		569,768	554,244
Net assets - beginning of year		3,533,580	1,934,084
Net assets - end of year	$	4,103,348	2,488,328

The notes to the basic financial statements are an integral part of this statement

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(1) Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies:

(A) The Financial Reporting Entity

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). The County provides a full range of general government services. As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. They are reported as if they were part of the primary government, because they benefit the County exclusively. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. This unit is discretely presented because its Board is not substantively the same as the County's Board and it does not provide services entirely or almost entirely to the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," to determine whether the following component units should be reported as blended or discretely presented component units.

(B) Blended Component Units

County Service Districts – These special district funds were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the county. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. These funds are included as special revenue funds.

Flood Control District – This fund was established to account for revenues and expenditures related to providing flood control in the county. It is financed primarily by ad valorem property taxes and federal grants. This fund is included as a special revenue fund.

Lighting Maintenance District - This fund was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners. This fund is included as a special revenue fund.

Air Pollution Control District – This fund was established to provide for control of air pollution from motor vehicles and other sources in order to attain health-based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees. This fund is included as a special revenue fund.

San Diego County Housing Authority – This fund accounts for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. This fund is included as a special revenue fund.

Sanitation Districts – These funds are used to account for the activities of all individual sanitation districts governed by the County Board of Supervisors. They are included as enterprise funds.

San Diego County Redevelopment Agency – This agency was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. This agency is included in the debt service and capital projects funds.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

San Diego County Capital Asset Leasing Corporation (SANCAL) – This corporation was established to finance the acquisition of county buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the County Board of Supervisors. This corporation is included in the special revenue, debt service and capital projects funds.

San Diego County Employees' Retirement Association (SDCERA) – This fund is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. This fund is included in the fiduciary funds.

County of San Diego In-Home Supportive Services Public Authority (IHSS) – This fund was established to serve as the employer of record for the IHSS program which provides in-home assistance to low-income aged, blind, and disabled individuals enabling them to remain safely in their own homes and avoid institutionalization. The IHSS program is State-Mandated. This fund is included in the special revenue funds.

The San Diego County Tobacco Asset Securitization Corporation ("Corporation") – This is a separate legal nonprofit public benefit corporation created under the California Nonprofit Public Benefit Corporation Law. It was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories (see Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies). The Corporation is governed by the Board of Directors consisting of three members, two of which are employees of the County of San Diego and one independent director who is not an employee of the County.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) – This is a separate legal public entity created by a Joint Exercise of Powers Agreement by and between the County of San Diego and the County of Sacramento pursuant to the Government Code of the State of California. The authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by the Board of Directors consisting of three members, two members which are appointed by the County of San Diego Board of Supervisors and the third member is appointed by the Sacramento County Board of Supervisors. The County changed its accounting policy from reporting the TSJPA as a discretely presented component to a blended component unit in the fiscal year. The net effect of the change increased the beginning fund balance in the Tobacco Securitization Joint Special Revenue Fund by $51,889 and eliminated the discretely presented component unit fund balance of $11,236.

Separate financial statements for the individual blended component units described above may be obtained by contacting the County Chief Financial Officer/Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

(C) Discretely Presented Component Unit

First 5 Commission of San Diego (Commission) – This fund was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County. The Commission is a separate legal entity, and the County appoints a voting majority of the Commission's board. The County is able to impose its will on the Commission, due to its ability to change the appointees. The two boards (County and Commission) are not substantively the same and the Commission does not provide services entirely or almost entirely to the County, but to the citizens instead.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Separate financial statements for the discretely presented component unit listed above can be obtained by contacting the Chief Financial Officer/Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

(D) Government-Wide and Fund Financial Statements

The basic government-wide financial statements, consisting of the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities of the primary government and its component units. Whenever possible, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds and nonmajor proprietary funds aggregated into two single columns.

The County reports the following major governmental funds:

> The General Fund is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreational and cultural. They also include capital outlay, and debt service.
>
> The Tobacco Securitization Special Revenue Fund accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. (See Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies)
>
> The Tobacco Securitization Joint Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units, that are blended into the County's financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

The County reports the following major proprietary (enterprise) funds:

The Airport Fund is used to account for the maintenance, operations and development of County airports. A major objective of the airport program is to purchase and develop airport property in order to create tax revenues and create jobs in the private sector.

The Wastewater Management Fund accounts for operational services and support provided to sanitation districts governed by the County Board of Supervisors.

The Sanitation District Funds are used to account for the activities of all individual sanitation districts and sewer maintenance district governed by the County Board of Supervisors.

Additionally, the County reports the following fund types:

Internal Service Funds account for the financing of goods or services provided by one County department to other County departments on a cost reimbursement basis.

The Pension Trust Fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirements, disability and death benefits and refunds. This fund includes all assets of the retirement system.

The Investment Trust Fund accounts for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts and funds held for other governments.

The Agency Fund maintains assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of the Agency Fund's assets held at fiscal year end for other County funds, are reported in those funds rather than in the Agency Fund.

(E) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities have been eliminated from the government-wide statement of activities.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., total net assets) is segregated into restricted and unrestricted. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

For proprietary funds, operating activities generally relate to transactions and events reported as components of operating income in the statement of revenues, expenses, and changes in fund net assets. Operating revenues would include charges for providing goods and services; operating expenses would include salaries and benefits, utilities, and payments to vendors and suppliers. In addition, nonoperating activities are used for any revenues or expenses that cannot be properly

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

classified as components of operating income. Examples of nonoperating activities would include interest revenue, gain/loss on disposal of assets and capital expenses.

Governmental fund types are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year for all items except property taxes, for which the County considers the period of availability to be sixty days. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; and, (2) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund, the investment trust fund and agency funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

(F) Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property, which is situated in the County as of the preceding January 1 lien date. However, upon a change in ownership of property or completion of new construction, State law requires an accelerated recognition and taxation of changes in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien, which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, a ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one-half percent per month starting July 1 and continuing until the end of redemption collectively, the "Redemption Amount". If taxes remain unpaid after five years on the default roll, the property becomes subject to tax sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1.

As established by the Teeter Plan, the Controller allocates to the County and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund tax loss reserves are higher than required, transfers may be made to benefit the County's General Fund. The balance of the tax loss reserve as of June 30, 2003 was $7 million, which is included in the General Fund for reporting purposes.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(G) Assets, liabilities, and net assets or equity

Cash and Investments

Investments in County funds are stated at fair value. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in pooled cash and investments," "Collections in transit," and "Imprest cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse repurchase agreements are not considered cash equivalents for purposes of cash flow reporting. For "Cash with fiscal agent" information see Note 4A.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Capital Assets

Capital assets are recorded as expenditures in the fund financial statements for the governmental fund types at time of purchase. These assets are capitalized at cost in the statement of net assets. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. Capitalization thresholds are as follows:

Structures and improvements	$50
Infrastructure (permanent road divisions, county service areas, sanitation and special districts)	$25
Infrastructure (all others)	$50
Equipment (governmental activities)	$ 5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Where applicable, the hours/miles-of-service method is used for proprietary fund type equipment. Governmental fund type depreciation is only shown in the statement of activities. Proprietary fund type depreciation is shown both in the fund statements and the statement of activities. The estimated useful lives are as follows:

Structures and improvements	50 years
Infrastructure	10-50 years
Equipment (governmental fund type)	5-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental and proprietary fund types are accounted for in the statement of net assets. Long-term liabilities of all proprietary fund types are also accounted for in the respective funds.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of Social Security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $75.4 million for the governmental fund types as of June 30, 2003, is recorded in the statement of net assets. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation of Fund Balances

In the fund statements, reserves represent those portions of fund balance not available for appropriation or legally segregated for a specific future use.

(2) Stewardship, Compliance and Accountability

(A) Fund Deficits

The following funds have an accumulated deficit at June 30, 2003:

Capital Projects Funds:		
San Diego County Redevelopment Agency (SDCRA)	$	6,236
Internal Service Funds:		
Risk Financing	$	23,943

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. The County intends to reduce the deficit by focusing resources on injury prevention via a Countywide education and safety training program. The County anticipates this program will reduce the growth in the liability for new injury claims, and therefore the deficit, by 5% to 10% per year.

(3) Reconciliation of Government-Wide and Fund Financial Statements

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

Total fund balance of the County's governmental funds, $1,350,787, differs from net assets of governmental activities, $2,188,155, reported in the statement of net assets. The difference primarily results from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of net assets versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental fund balance sheets.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Balance Sheet/Statement of Net Assets

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	$ 628,744		171,913		800,657
Cash with fiscal agent	609,772				609,772
Investments	45,415				45,415
Taxes receivable, net	15,983				15,983
Internal balances				(106)	(106)
Accounts and notes receivable	280,190		3,178	41,991	325,359
Due from other funds	235,238		19,208	(254,446)	
Advances to other funds	1,106		632	(1,738)	
Inventory of materials and supplies	8,846		879		9,725
Deferred charges and other assets	495	54,346			54,841
Capital assets		2,566,515	99,269		2,665,784
Total Assets	1,825,789	2,620,861	295,079	(214,299)	4,527,430
LIABILITIES					
Accounts payable	55,574		19,426		75,000
Accrued payroll	37,448		1,027		38,475
Amount due for tax & revenue anticipation notes	139,039				139,039
Accrued interest		25,478	14		25,492
Due to other funds	157,623		54,938	(212,561)	
Advances from other funds	11,232			(1,738)	9,494
Deferred credits and other liabilities	74,086	(21,701)	287		52,672
Long-term liabilities		1,895,579	103,524		1,999,103
Total liabilities	475,002	1,899,356	179,216	(214,299)	2,339,275
FUND BALANCE/NET ASSETS					
Total fund balances/net assets	1,350,787	721,505	115,863		2,188,155
Total liabilities and fund net assets	$ 1,825,789	2,620,861	295,079	(214,299)	4,527,430

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(1) Pension obligation bonds originally issued in 1994 were partially refunded through the issuance of new pension obligation bonds in 2002. These costs represent the deferred costs on the refunded debt. These costs are to be capitalized and amortized over the remaining life of the 1994 pension obligation bonds.

Net deferred costs of refunded bonds $	17,590

Bond discounts are expended in governmental funds in the year of sale and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

Net bond discount $	10,275

Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.

Net cost of issuance $	26,481
Total deferred charges and other assets $	54,346

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.

Cost of capital assets $	3,443,675
Accumulated depreciation	(877,160)
Net capital assets $	2,566,515

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Total accrued interest $	(25,478)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Adjustment of deferred revenue $	30,020

Liabilities for long-term debt are not accrued in governmental funds, but rather are recognized as expenditures when due.

Pension obligation liability $	(7,686)

Bond premiums are recognized as revenue in governmental funds in the year of sale and are recorded as a liability and amortized over the life of the corresponding bonds.

Total bond premiums $	(633)
Total deferred credits and other liabilities $	21,701

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are reported in the statement of net assets. Balances at June 30, 2003 were:

Bonds and notes payable	$(1,231,298)
Capital lease	(40,000)
Arbitrage	(752)
Compensated absences	(73,294)
Landfill closure	(101,000)
Tobacco securitization corporation debt service	(449,235)
Total long term liabilities	$(1,895,579)

(2) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Costs	$ 115,863

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

The net change in fund balances for governmental funds $(22,147) differs from the change in net assets for governmental activities $(424,484) reported in the statement of activities. The differences arise primarily from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of activities versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental funds. The effect of the differences is illustrated in the following table.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

	Total Governmental Funds	Long-Term Revenues/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues:						
Taxes	$ 446,835	12,658				459,493
Licenses, permits and franchises	39,335					39,335
Fines, forfeitures and penalties	41,236					41,236
Revenue from use of money and property	40,733			760		41,493
Aid from other governmental agencies:						
State	1,231,904					1,231,904
Federal	632,241					632,241
Other	66,116					66,116
Charges for current services	266,574	(994)		21,030		286,610
Other revenue	70,065	(1,138)				68,927
Total revenues	2,835,039	10,526		21,790		2,867,355
Expenditures:						
Current:						
General	209,874		22,031	17,695	(15,538)	234,062
Public protection	1,145,171		2,255	(7,973)	1,031	1,140,484
Public ways and facilities	123,202		19,952	(798)		142,356
Health and sanitation	600,525		286	(2,622)		598,189
Public assistance	1,037,467		(308)	(3,473)	1,379	1,035,065
Education	31,013		27	(190)		30,850
Recreational and cultural	20,805		2,795	(80)		23,520
Debt service:	83,748		(83,748)			
Capital outlay						
Principal	88,846				(88,846)	
Interest	73,747			121	13,759	87,627
Total expenditures	3,414,398		(36,710)	2,680	(88,215)	3,292,153
Other financing sources (uses):						
Sale of capital assets	474					474
Proceeds of long term debt	560,886				(560,886)	
Operating transfers (net)	(4,148)			3,988		(160)
Refunding bonds issued	176,890				(176,890)	
Payment to refunded bond escrow agent	(176,890)				176,890	
Total other financing sources (uses)	557,212			3,988	(560,886)	314
Net change for the year	$ (22,147)	10,526	36,710	23,098	(472,671)	(424,484)

Explanation of differences between governmental fund operating statements and the statement of activities:

(3) Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.

Property Taxes	$	12,658

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Adjustment for reserve for inventory of materials and supplies.

Adjustment	$	(994)

Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.

Adjustment of deferred revenue	$	(1,138)

(4) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Loss on Disposal of assets	$	(137,345)
Capital outlay		257,539
Depreciation expense		(83,484)
Difference	$	36,710

(5) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.

Adjustments	$	23,098

(6) Under the modified accrual basis of accounting used in the governmental funds, expenditures for the County's long term obligations for capital leases, claims and judgments, accumulated unpaid employee leave balances, loans and arbitrage rebate, are not recognized until they mature. In the statement of activities however, they are reported as expenses and liabilities as they accrue.

Other miscellaneous debt – public protection function	$	(1,031)
Other miscellaneous debt – public assistance function	$	(1,379)
Other miscellaneous debt – general function	$	(1,001)

Bond issuance costs are expended in governmental funds in the year of sale and are capitalized and amortized over the life of the corresponding bonds for purpose of the statement of net assets.

Cost of issuance – general function	$	16,539
Total adjustments - general function	$	15,538

Repayment of bond principal as well as refunding of bonds which are considered a repayment of principal are reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the County as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term debt was reduced by the amount of principal payments made to bond holders.

Principal payments made	$	88,846
Pension obligation bond proceeds - refunding	$	176,890

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond discounts and premiums that are expended in the governmental funds in the year paid.

Accrued interest	$	(10,734)
Amortization of bond premium		11
Amortization of bond discounts		(3,036)
Total additional interest	$	(13,759)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Bond proceeds were received from:

Pension obligation bond proceeds – new borrowing	$	(560,450)
Alpine capital lease proceeds		(436)
Total new borrowing	$	(560,886)
Pension obligation bond proceeds - refunding	$	(176,890)

(4) Detailed Notes on all Funds

(A) Equity in Pooled Cash and Investments, Cash, Investments, and Obligations under Reverse Repurchase Agreements

The County maintains a cash and investment pool that is available for use by the County as well as other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743. Copies are also available on the internet at www.sdtreastax.com.

Each fund type's portion of this pool is displayed on the balance sheet as "Equity in pooled cash and investments." Interest earned on the pooled deposits is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the General Fund of the County. Such interest has been recorded as revenue in the General Fund.

"Cash with fiscal agent" represents amounts on deposit with trustees for the Air Pollution District, SANCAL, Pension Trust Fund, Housing Authority, Pension Obligation Bonds, Redevelopment Agency, Teeter Commercial Paper Notes, and for repayment of the General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Wastesite Fund investments, the Pension Trust Fund investments and stocks and bonds held for other agencies.

Deposit and investment reconciliation as reported in the basic financial statements are summarized as follows:

Deposits: At year-end the carrying amount of the County's deposits was $27,644 consisting of $27,252 in demand deposits and $392 in collateralized deposits. Of the balance $692 was covered by federal deposit insurance and $26,952 was uncollateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Bank balance and carrying amount with various financial institutions (Cash with fiscal agents)

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

was $855,703 and entirely classified as Category 1 investments. Of this amount, $292,765 was deposited with the trustee and held in investments that are insured or registered or for which the securities are held in SDCERA and TSJPA's name. The balance of $562,938 was held by the trustee in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by counter party's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2003. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the County's name.

	Category 1	Category 3	Fair Value
Investments categorized			
Bankers acceptances	$	89,966	89,966
Repurchase agreements	325,000	65,426	390,426
Commercial paper	1,209,825		1,209,825
US government securities	1,819,163	158,734	1,977,897
Negotiable certificates of deposit	325,275		325,275
Corporate notes	61,300		61,300
Corporate bonds	872,577		872,577
Common and preferred stock	2,077,433		2,077,433
Mutual funds		319,100	319,100
Investments held by the County for other agencies:			
US government securities	103		103
Corporate bonds	1		1
Common stock	2		2
Subtotal	$ 6,690,679	633,226	7,323,905
Investments not categorized			
Investments held by broker dealers under security loans:			
US government securities			16,990
Corporate bonds			81,928
Common and preferred stock			204,490
Mutual funds			15,000
Real estate equity			471,348
Total investments			$ 8,113,661

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Reconciliation of the Statements of Net Assets to Total Investments at June 30, 2003:

	Primary Government	Fiduciary Funds	Sub-Total	Component Unit	Total
Equity in pooled cash and investments	$ 863,496	2,839,249	3,702,745	152,091	3,854,836
Cash with fiscal agent	609,772	245,931	855,703		855,703
Collections in transit	7,541		7,541		7,541
Imprest cash	535		535		535
Investments	2	4,241,054	4,241,056		4,241,056
Restricted investments	45,413		45,413		45,413
Total	1,526,759	7,326,234	8,852,993	152,091	9,005,084
Less:					
Cash with fiscal agents					(855,703)
Collections in transit					(7,541)
Imprest cash					(535)
Deposits					(27,644)
Total investments					$ 8,113,661

A total of $3,827,193 of investments is reported in the Equity in pooled cash and investments fund financial statements. Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are mandated by state statues to participate in the County Treasurer's investment pool and represent 96 percent of the total pooled cash and investments on hand at June 30, 2003.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements; that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2003.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities cannot be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

(B) Restricted Assets-Investments

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Wastesite Special Revenue Fund.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(C) Capital Assets

Primary Government
Capital asset activity for the year ended June 30, 2003 was as follows:

Governmental Activities:

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 250,622	16,249	(915)	265,956
Construction and contracts in progress	243,145	70,559	(136,011)	177,693
Total capital assets, not being depreciated	493,767	86,808	(136,926)	443,649
Capital assets, being depreciated:				
Buildings and improvements	802,072	132,919	(3,569)	931,422
Equipment	156,015	19,711	(11,834)	163,892
Road network	1,974,564	37,868		2,012,432
Bridge network	36,487	1,938		38,425
Total capital assets, being depreciated	2,969,138	192,436	(15,403)	3,146,171
Less accumulated depreciation for:				
Buildings and improvements	(243,663)	(22,680)	3,561	(262,782)
Equipment	(76,832)	(14,508)	10,055	(81,285)
Road network	(513,933)	(55,124)		(569,057)
Bridge network	(10,198)	(714)		(10,912)
Total accumulated depreciation	(844,626)	(93,026)	13,616	(924,036)
Total capital assets, being depreciated, net	2,124,512	99,410	(1,787)	2,222,135
Governmental activities capital assets, net	$ 2,618,279	186,218	138,713	2,665,784

Building and infrastructure projects are recorded as construction in progress until completion. Intangible projects such as software acquisition and implementation are recorded as contracts in progress until implementation is completed.

Depreciation expense was charged to functions of the primary government as follows:

General government	$ 15,949
Public protection	6,021
Public ways and facilities	59,915
Health and sanitation	563
Public assistance	328
Education	56
Recreational and cultural	652
Internal Service Funds	9,542
Total depreciation expense – governmental activities	$ 93,026

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Business Type Activities:

Airport Enterprise Fund

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	$ 6,401			6,401
Construction in progress	6,734	5,161		11,895
Total capital assets, not being depreciated	13,135	5,161		18,296
Capital assets, being depreciated:				
Buildings and equipment	28,715			28,715
Total capital assets, being depreciated	28,715			28,715
Less accumulated depreciation for:				
Buildings and equipment	(17,425)	(769)		(18,194)
Total accumulated depreciation	(17,425)	(769)		(18,194)
Total capital assets, being depreciated, net	11,290	(769)		10,521
Airport Enterprise Fund capital assets, net	$ 24,425	4,392		28,817

Wastewater Management Enterprise Fund

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	$ 20			20
Total capital assets, not being depreciated	20			20
Capital assets, being depreciated:				
Buildings and equipment	898	7		905
Total capital assets, being depreciated	898	7		905
Less accumulated depreciation for:				
Buildings and equipment	(430)	(27)		(457)
Total accumulated depreciation	(430)	(27)		(457)
Total capital assets, being depreciated, net	468	(20)		448
Wastewater Management Enterprise Fund capital assets, net	$ 488	(20)		468

Sanitation Districts Enterprise Fund

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	$ 1,069			1,069
Construction in progress	443	1,479		1,922
Total capital assets, not being depreciated	1,512	1,479		2,991
Capital assets, being depreciated:				
Buildings and equipment	2,181			2,181
Infrastructure	62,238	832	(7)	63,063
Total capital assets, being depreciated	64,419	832	(7)	65,244
Less accumulated depreciation for:				
Buildings and equipment	(1,814)	(48)	901	(961)
Infrastructure	(22,659)	(2,144)		(24,803)
Total accumulated depreciation	(24,473)	(2,192)	901	(25,764)
Total capital assets, being depreciated, net	39,946	(1,360)	894	39,480
Sanitation Districts Enterprise Fund capital assets, net	$ 41,458	119	894	42,471

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

In the fiscal year 2001-2002 Sanitation Districts schedule, the accumulated depreciation for Buildings and equipment was overstated by $901 and the accumulated depreciation for the Infrastructure was understated by $901. The correction has been made for the fiscal year 2002-2003 schedule.

(D) Leases

(1) Lease Revenue
The County leases real property to the public sector and other governmental agencies. The lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2003 were approximately $12 million. The future minimum lease revenue from the non-cancelable leases is as follows:

Fiscal Year	Minimum Lease Revenue
2003-2004	$ 10,368,063
2004-2005	10,094,281
2005-2006	9,995,049
2006-2007	9,756,177
2007-2008	8,782,073
2008-2077	155,577,567
Total	$ 204,573,210

(2) Lease Commitments
The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows:

Fiscal Year	Minimum Payments
2003-2004	$ 10,125
2004-2005	8,314
2005-2006	7,792
2006-2007	5,942
2007-2008	2,596
2008-2014	7,933
Total	$ 42,702

Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2003, was approximately $26.7 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2003, was approximately $12.3 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is reflected as a liability in that statement. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

The capital lease property classes at June 30, 2003 consisted of the following:

Capital Lease Property Class	June 30, 2003
Structures and Improvements	$ 35,475
Equipment	5,385
Total	$ 40,860

Future minimum lease payments under capital leases consisted of the following at June 30, 2003:

Fiscal Year	Minimum Lease Payments
2004	$ 5,367
2005	4,463
2006	4,348
2007	3,785
2008	3,455
2009-2013	15,351
2014-2018	15,263
2019-2023	6,125
Total minimum lease payments	58,157
Less: amount representing interest	(17,297)
Net lease payments	$ 40,860

(E) Short Term Obligations

The County's short term borrowing program consists of its annual Tax and Revenue Anticipation Notes (Notes), which fund the County's annual operating cash flow fluctuations, and the issuance of Teeter Commercial Paper, which fund payments to public agencies of their full share of property taxes levied. The County of San Diego bears the risk of loss on delinquent property taxes that go unpaid; however, it also benefits from the penalties associated with these delinquent property taxes when they are paid. Short-term borrowing activity during the year ended June 30, 2003 was as follows:

	Beginning Balance at July 1, 2002	Issued	Redeemed	Ending Balance at June 30, 2003
Tax and Revenue Anticipation Notes	$	135,000		135,000
Teeter B-1 Tax - Exempt Principal	$50,200	39,600	50,600	39,200
Teeter B-2 Taxable Principal	9,900	22,536	9,900	22,536
Total Teeter	$60,100	62,136	60,500	61,736

On July 3, 2002, the County of San Diego issued $135 million of Notes with an interest maturity date of June 30, 2003 and principal maturity date of July 31, 2003. The Notes carry an interest rate of 3% and a yield of 1.75%. As of June 30, 2003, accrued interest of $4,039 has been recorded in the General Fund with the Tax and Revenue Anticipation Notes obligation for a total obligation of $139,039.

In 1995 the County of San Diego Board of Supervisors approved the Master Teeter Resolution providing the terms and conditions of its teeter plan obligations. Pursuant to this resolution the

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

County is able to issue additional Series B Teeter Commercial Paper for each fiscal year. On May 13, 2003, the Board of Supervisors adopted a resolution for the additional Series B borrowings to finance the uncollected property taxes and assessments attributable to the fiscal year ending June 30, 2003. The Teeter commercial paper shall mature not more than 270 days after date of issuance and is not subject to redemption prior to maturity. The payment of principal and interest on each series is supported by an irrevocable direct pay letter of credit that will expire on June 22, 2007.

(F) General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2003 consist of certificates of participation, capital lease obligations, third party financing leases, and other long-term obligations. Outstanding long-term obligations at June 30, 2003 were as follows:

(1) Governmental Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of participation issued March, 1993	3.00 - 5.75%	2013	$ 7,640	5,080
1993 Certificates of participation issued March, 1993	3.25 - 5.10%	2007	26,085	10,065
1993 Certificates of participation issued May, 1993	2.50 - 5.625%	2012	203,400	100,175
1996 Certificates of participation issued May, 1996	4.30 - 5.50%	2018	52,230	37,780
1996 Certificates of participation issued December, 1996	4.00 - 6.00%	2019	37,690	33,170
1997 Certificates of participation issued June, 1997	4.00 - 4.80%	2004	28,035	3,430
1997 Certificates of participation issued July, 1997	4.00 - 5.00%	2025	80,675	71,790
1998 Certificates of participation issued January, 1999	4.00 - 4.94%	2022	73,115	60,475
1999 Certificates of participation issued September, 1999	3.60 - 4.75%	2009	15,010	11,140
2000 Certificates of participation issued May, 2000	4.50 - 5.125%	2010	51,620	38,775
2002 Certificates of participation issued May, 2000	2.00 - 3.30%	2011	26,060	23,405
Total certificates of participation			$ 601,560	395,285

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(1) Governmental Activities (continued)

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning September 2001	2.15 - 5.25%	2019	36,960	35,475
Third party financing leases with various beginning dates from August, 1997 to the present	4.24 - 8.00%	2002 - 2008	10,720	5,385
Total capitalized leases			47,680	40,860
Other long-term obligations:				
Capital loans:				
Department of Transportation loans Beginning March 2001	5.63%	2017	3,584	3,154
United States Department of Agriculture	1.00%	2028	4,486	3,611
California Bank & Trust	7.75%	2007	436	323
Taxable pension obligation bonds:				
1994 Series A	4.7 - 6.6%	2007	430,430	87,055
2002 Series A, B & C	3.88 - 6.125%	2032	737,340	737,340
Redevelopment Agency revenue bonds	4.75 - 6.75%	2020	5,100	4,530
San Diego County Tobacco Asset Securitization Corporation	4.00 - 6.00%	2043	466,840	449,235
Arbitrage rebate				752
Compensated absences				75,370
Claims and judgments				100,588
Landfill closure				101,000
Total other long-term obligations			1,648,216	1,562,958
Total governmental activities			$ 2,297,456	1,999,103

The certificates of participation (COP) of the SANCAL non-profit corporation are secured by annual base rental lease payments payable primarily by the County General Fund for use of the facilities constructed or equipment purchased from the proceeds. There are also encumbrances on the facilities constructed with the proceeds of the SANCAL. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and long-term obligation they (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of $752 has been included in the statement of net assets.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(2) Business-Type Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Other long-term obligations:				
Airport				
Compensated absences			$	120
Wastewater Management				
Compensated absences				179
Sanitation Districts				
Long-term contract payable - Spring Valley			5,639	195
Total business-type activities			$ 5,639	494

(3) Long-term obligation activity for the year ended June 30, 2003 was as follows:

Governmental Activities

Obligation	Beginning Balance at July 1, 2002	Additions	Reductions	Ending Balance at June 30, 2003	Amounts Due Within One Year
Bonds and notes payable:					
Certificates of participation	$ 433,790		(38,505)	$ 395,285	38,400
Redevelopment Agency	4,655		(125)	4,530	130
San Diego County Tobacco Securitization Corporation	458,795		(9,560)	449,235	1,830
Taxable pension obligation bonds	282,900	737,340	(195,845)	824,395	9,630
Capital loans	4,277	4,922	(2,111)	7,088	396
Total bonds and notes payable	1,184,417	742,262	(246,146)	1,680,533	50,386
Other liabilities:					
Capitalized leases	46,604		(5,744)	40,860	3,431
Arbitrage rebate	836		(84)	752	
Claims and judgments	97,794	35,372	(32,578)	100,588	32,578
Compensated absences	72,342	3,045	(17)	75,370	7,537
Landfill closures	101,000			101,000	
Total other liabilities	318,576	38,417	(38,423)	318,570	43,546
Total governmental activities	$ 1,502,993	780,679	(284,569)	$ 1,999,103	93,932

The following liabilities have been liquidated in prior years in the following governmental funds:

Liability	Fund(s) Used to Liquidate in Prior Years
Arbitrage rebate	Debt Service Fund – Nonprofit Corporation
Claims and judgments	Internal Service Fund - Risk Financing
Compensated absences	General Fund; Special Revenue Funds – County Library, Road, Cable TV, Air Pollution; Internal Service Funds – Facilities Management, Fleet Services, Purchasing, Mail Print & Records
Landfill closures	General Fund

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Business-Type Activities

Obligation		Beginning Balance at July 1, 2002	Additions	Reductions	Ending Balance at June 30, 2003	Amounts Due within One Year
Airport						
Compensated absences	$	102	18		120	12
Wastewater Management						
Compensated absences		175	4		179	18
Sanitation Districts						
Julian sanitation loan		5		(5)		
Contract payable		195			195	
Total Sanitation Districts long-term liabilities		200		(5)	195	
Total business-type activities	$	477	22	(5)	494	30

The following is a schedule of debt service requirements to maturity, for long-term bond and note obligations outstanding at June 30, 2003.

Fiscal Year Ending June 30	Principal	Interest	Total
2004	$ 50,421	89,915	140,336
2005	55,990	84,951	140,941
2006	61,999	81,821	143,820
2007	65,771	78,365	144,136
2008	48,979	75,179	124,158
2009 - 2013	206,146	423,207	629,353
2014 - 2018	169,813	400,437	570,250
2019 - 2023	200,565	386,564	587,129
2024 - 2028	234,264	375,713	609,977
2029 - 2033	304,105	366,921	671,026
2034 - 2038	90,865	71,048	161,913
2039 - 2043	191,615	42,348	233,963
Total	$ 1,680,533	2,476,469	4,157,002

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds or certificates of participation (COP's) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2003, $147.9 million of bonds or COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

On February 12, 2002, The Board of Supervisors of the County adopted enhanced retirement benefits for members of the SDCERA. As a result of these benefits, the County incurred an increased obligation pursuant to the Retirement Law as an unfunded accrued actuarial liability to the SDCERA.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

On October 3, 2002, the County of San Diego issued $737,340 of Taxable Pension Obligation Bonds. These bonds were issued with four series: Series A in the amount of $132,215 which are fixed rate Current Interest Bonds; Series B1 in the amount of $100 million which carry a variable rate are Auction Rate Securities; Series B2-4 in the amount of $405,125 are also Auction Rate Securities which have been swapped to fixed; and Series C in the amount of $100 million, which are fixed rate Public Income Notes (PINES). The County has entered into a swap agreement with two providers for the Series B2-4 bonds. These bonds carry a fixed rate of 5.31%. A portion of the proceeds, $176,890, was placed in an escrow account to be used to retire interest and principal on $156,425 of the County's outstanding 1994 Taxable Pension Obligation Bonds.

In order for the County to remain within its revenue constraints, a portion of the 1994 Taxable Pension Obligation Bonds was defeased by placing in escrow, certain proceeds of the October 2002 bond issuance. This resulted in an economic loss of $184. The 1994 bonds had a remaining life of approximately 5 years and have been replaced with $100 million, 30 year variable rate debt and a $56 million of 30 year fixed rate debt resulting in the economic loss. The variable rate debt is subject to market fluctuations.

Inactive Landfill Closure Costs

The County maintains seventeen waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post-closure costs for these landfills, including facilities maintenance and groundwater monitoring over a 30-year period, are estimated at $101 million in current year costs. This amount has been recorded in the statement of net assets. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

(G) Special Assessment Debt

The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is $17.6 million at June 30, 2003.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(H) Receivables and Payables

(1) Receivables at June 30, 2003, were as follows:

Receivables	Accounts	Interest	Due From Other Gov't Agencies	Notes	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$ 5,863	1,719	150,497	842	6,021	25,201	190,143	(41)	190,102
Tobacco Securitization Special Revenue Fund	889						889		889
Tobacco Securitization Joint Special Revenue Fund	382					5	387		387
Other governmental funds	36,493	340	77,185			15,164	129,182		129,182
Internal service funds	313		2,865			1,621	4,799		4,799
Total governmental activities	43,940	2,059	230,547	842	6,021	41,991	325,400	(41)	325,359
Business-type activities:									
Airport	168		1,009			233	1,410		1,410
Wastewater Management	1					2	3		3
Sanitation Districts						283	283		283
Total business-type activities	169		1,009			518	1,696		1,696
Component Unit:									
First 5 Commission		654	7,335				7,989		7,989
Total Component Unit	$	654	7,335				7,989		7,989

(2) Payables at June 30, 2003, were as follows:

Payables	Vendors	Due to Other Gov't Agency	Aid to Individual	Other	Total Payables
Governmental activities:					
Major funds					
General fund	$ 32,058	9,912	117	274	42,361
Nonmajor funds	12,426	641	144	2	13,213
Internal service funds	17,428	198		1,800	19,426
Total governmental activities	61,912	10,751	261	2,076	75,000
Business-type activities:					
Airport enterprise fund	1,427			26	1,453
Wastewater management fund	8				8
Sanitation districts fund	142	13			155
Total business-type activities	1,577	13		26	1,616
Component unit					
First 5 commission	1,852				1,852
Total component unit	$ 1,852				1,852

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(I) Interfund Receivables, Payables and Transfers

(1) Transfers in/transfers out at June 30, 2003 were as follows:

From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 149,562
	Internal Service Funds	7,317
Total General Fund		156,879
Tobacco Securitization Special Revenue Fund	General Fund	26,949
Nonmajor Governmental Funds	General Fund	451,048
	Nonmajor Governmental Funds	137,439
	Enterprise Funds	
	Airport	740
	Internal Service Funds	90
Total Nonmajor Governmental Funds		589,317
Enterprise Funds		
Airport	Nonmajor Governmental Funds	424
	Internal Service Funds	16
Total Airport		440
Entreprise Funds		
Wastewater Management	Internal Service Funds	15
	Nonmajor Governmental Funds	125
Total Wasterwater Management		140
Internal Service Funds	General Fund	809
	Nonmajor Governmental Funds	2,641
Total Internal Service Funds		3,450
Total		$ 777,175

The purpose of these transfers was primarily for reimbursement of project costs, lease payments, initiation fees, bank activity posting and replacement costs.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(2) Due to/due from other funds at June 30, 2003 were as follows:

Receivable Fund	Payable Fund	Amount
General fund	Tobacco Securitization Special Revenue Fund	$ 7,934
	Nonmajor Governmental Funds	122,547
	Enterprise Funds	
	Airport	93
	Wastewater Management	23
	Sanitation Districts	1
	Internal Service Funds	53,201
	Trust and Agency Funds	20,087
Total General Fund		203,886
Tobacco Securitization Special Revenue Fund	Trust and Agency Funds	5
Nonmajor Governmental Funds	General Fund	4,990
	Nonmajor Governmental Funds	1,438
	Enterprise Funds	
	Airport	196
	Wastewater Management	63
	Sanitation Districts	52
	Internal Service Funds	799
	Trust and Agency Funds	23,809
Total Nonmajor Governmental Funds		31,347
Enterprise Funds		
Airport	Nonmajor Governmental Funds	481
	Internal Service Funds	102
	Trust and Agency Funds	237
Total Airport		820
Enterprise Funds		
Wastewater Management	General Fund	58
	Nonmajor Governmental Funds	26
	Enterprise Funds	
	Sanitation Districts	541
	Internal Service Funds	9
	Trust and Agency Funds	8
Total Wastewater Management		642
Entreprise Funds		
Sanitation Districts	Internal Service Funds	1
	Trust and Agency Funds	284
Total Sanitation Districts		285
Internal Service Funds	General Fund	15,053
	Nonmajor Governmental Funds	1,560
	Enterprise Funds	
	Airport	25
	Wastewater Management	34
	Sanitation Districts	3
	Internal Service Funds	750
	Trust and Agency Funds	1,702
Total Internal Service Funds		19,127
Trust and Agency Funds	General Fund	3,375
	Nonmajor Governmental Funds	161
	Enterprise Funds	
	Airport	3
	Wastewater Management	7
	Sanitation Districts	1
	Internal Service Funds	77
	Trust and Agency Funds	27,634
Total Trust and Agency Funds		31,258
Total		$ 287,370

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(3) Advances to/from at June 30, 2003 were as follows:

	Advances To Other Funds	Advances From Other Funds
General Fund	$ 689	
Nonmajor Governmental Funds		
Flood Control District	3	
County Service Districts		768
Nonprofit Corporation – Debt Service	414	
Redevelopment Agency – Debt Service		287
Redevelopment Agency – Capital Projects		10,177
Enterprise Funds		
Airport	9,637	
Sanitation Districts	135	278
Internal Service Funds		
Special District Loans	632	
Total	$ 11,510	11,510

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(J) Divestiture of the County Transit System

On February 13, 2002, the Board of Supervisors approved divestiture of the County Transit System to the Metropolitan Transit Development Board (MTDB) to be effective on June 28, 2002. The County accounted for the transit system in the Transit Enterprise Fund. At June 30, 2002, a liability of $3.8 million was established to reflect cash and equivalents held in the Transit Fund pending disposition instructions from San Diego Association of Governments. A cash flow statement for the current year is included to reflect the disposition of the cash and equivalents which were held at June 30, 2002.

(5) Other Note Disclosures

(A) Commitments and Contingencies

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 5B, the County has a potential liability of $21 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2003.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $122.5 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the statement of net assets as described in Note 1G.

(3) Tax and Revenue Anticipation Notes

On July 1, 2003, the County issued $255 million of Tax and Revenue Anticipation Notes (Notes); the principal and interest will be due on the maturity date of June 30, 2004. The fiscal year 2003-2004 Notes carry an interest rate of 1.75% and a yield of .92% and are subject to scheduled set aside.

(4) Third Party Debt

The tax code allows for certain types of nongovernmental borrowers to take advantage of tax-exempt financing through a governmental agency. The County of San Diego as a governmental agency, has issued tax-exempt debt to qualified borrowers. The County of San Diego is not responsible for the repayment of the debt. Accordingly, no liability for these bonds have been recorded in the statement of net assets.

Mortgage Revenue Bonds

Mortgage Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between 1995 and 1999, the County issued $24 million of Mortgage Revenue Bonds of which $22 million were still outstanding as of June 30, 2003.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans the proceeds to a qualifying for profit or nonprofit organization. These organizations make payments to the County equal to the debt service on the bonds. Beginning in April 1998, $112 million in Certificates of Participation (COPs) have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue $15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue $51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered into a lease agreement with the San Diego Museum of Art to issue $6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue $15 million of COPs to finance the acquisition, construction and equipping of certain research facilities. In May 2001, the County entered into a lease agreement with the University of San Diego to issue $36.9 million of COPs to finance certain capital improvements for the University. In September 2002, the County entered into a lease with the San Diego-Imperial Counties Developmental Services to issue $10.8 million in COPs to finance the acquisition of their headquarter facility. In January 2003, the County entered into a lease agreement with Chabad Jewish Academy to issue $11.7 million in COPs to finance the construction of certain educational buildings. As of June 30, 2003, $251 million of such COPs are still outstanding.

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide for refunding an earlier issuance of Improvement Bonds for an assessment district. The district issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the district issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $16.5 million were still outstanding as of June 30, 2003.

(5) Federal and State Programs

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

(6) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk). Not reflected in the pension trust fund financial statements are commitments to acquire real estate for investment totaling $81 million and alternative equity for $102.3 million.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

(7) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond covenants. The proceeds from these issues are deposited in the County pool or as specified in the bond resolution. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County. The County has no liability with respect to these issues, the repayment of these bonds are from advalorem taxes levied on the properties in the school district.

(B) Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, and general liability. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation (for losses greater than $1 million), airport comprehensive, and loss of money and securities based upon site locations. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994-1995, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability and workers compensation total risk liability at June 30, 2003. At June 30, 2003, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $100.6 million, including $17.2 million in public liability and $83.4 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996-1997. Changes in the balances of claim liabilities for fiscal year 2001-2002 and 2002-2003 were as follows:

Fiscal Year	Beginning Balance at July 1, 2002	Current-Year Claims and Changes in Estimates	Claim Payments	Ending Balance at June 30, 2003
2001-2002	$ 84,210	46,344	(32,760)	97,794
2002-2003	97,794	35,372	(32,578)	100,588

(C) Joint Venture

The County is a participant with seventeen incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for fiscal year 2002-2003 were $860. The organization had a cumulative surplus of $32 at June 30, 2003. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

(D) Jointly Governed Organizations

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies (S.A.F.E.). These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (Partnership). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

(E) San Diego County Employees' Retirement System

(1) Plan Description

The SDCERA administers a multi-employer plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1E and 1G, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 8.39%-8.85% for general members and 9.27% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the fiscal year 2002-2003 rates, expressed as a percentage of covered payroll, are 0% for general members and 6.87% for safety members.

In March 2002, the County implemented a new enhanced retirement package. In October 2002, the County issued taxable Pension Obligation Bonds to fund a portion of its statutory obligations arising from enhanced benefits. Member and County contribution rates will be adjusted to cover enhanced benefits.

(4) Annual Pension Cost

An actuarial valuation is not yet available to provide current annual pension costs and comparative figures with the prior year. For the fiscal year ended June 30, 2002, the County's annual pension cost was zero. The County's actual contribution during the fiscal year ended June 30, 2002, totaled \$5.3 million, resulting in a net pension obligation of \$7.7 million as of June 30, 2002. The required

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 2001 actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3%.

(5) Three-Year Trend Information:

Fiscal Year Ending June 30	Annual Pension Cost (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2000	$14,341		$14,341
2001	4,927	41.3%	15,548
2002		100%	7,686

The Board of Retirement elected to offset the County's annual required contributions (ARC) for the fiscal year ended June 30, 2000 from the considerable surplus within the Pension Trust Fund. Therefore, no County monies were expended for the ARC.

(6) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service Code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with $19.9 million that can only be used to pay retirement health benefits.

Approximately 9.65 thousand retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $20 million for fiscal year 2002-2003. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $269.1 million at June 30, 2003, a $16.5 million decrease from the previous fiscal year.

(7) Equity and Bond Swaps and Futures Contracts

SDCERA utilizes various financial instruments, such as, equity and bond interest rate swap agreements and stock and bond futures contracts, in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate, and SDCERA management believes such investments offer significant advantages over the direct investment in securities, including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counter parties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair market value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

(F) Prior Year Advance

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. The Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects consisting of $3.7 million for initial expenditures and $5.9 million for 2001.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. As of June 30, 2003, interest of approximately $3.7 million has accrued on these advances.

(G) New Governmental Accounting Standards

In June 2001, GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures". This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) action taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. GASB Statement No. 38 was partially implemented in the previous year. For the year ended June 30, 2003, the County adopted the disclosure provisions for receivables, payables, interfund transfers and short-term debt per GASB 38 requirements. Accordingly, certain note disclosures have been revised or added to comply with the provisions of this statement.

(H) Securitization of Tobacco Settlement Revenues

The Tobacco Securitization Authority of Southern California (the "Authority") issued $466.8 million in aggregate principal amount of Tobacco Settlement Asset-Backed Bonds in January of 2002 (the "Bonds"), in order to fund the Authority's loan to San Diego Tobacco Asset Securitization Corporation, a California non-profit public benefit corporation (the "Borrower") pursuant to a loan agreement between the Authority and the Borrower. The Borrower in turn used the net proceeds of the financing, in the amount of $411 million, to pay to the County, in return for the County's transfer to the Corporation of all of the County's right, title and interest in and to and under a Master Settlement Agreement (the "MSA"), as agreed to by the State and participating jurisdiction, and a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") among the State of California, all California counties and four California cities, including the right of the County to receive Tobacco Settlement Payments. The MSA was entered into in November 1998, among the Attorney Generals of 46 states, the District of Columbia, The Commonwealth of Puerto Rico, Guam, U.S. Virgin Islands, American Samoa and the Commonwealth of Northern Mariana Islands and collectively, the "Settling States" and the four largest tobacco manufacturers. Under the terms of the MSA, the settling tobacco companies agreed, among other things, to make periodic payments in perpetuity ("Tobacco Settlement Payments") in exchange for being released from claims related to the use of tobacco products. Under the MOU and the ARIMOU, the State of California agreed to distribute 50% of the Tobacco Settlement Payments it received to California counties (including the County) and four cities; the relative amounts to be received by the counties is based upon population, with adjustments being made in response to each decennial U.S. census. When the Tobacco Settlement Payments became available to the County, the County Board of Supervisors adopted Board Policy E-14, which establishes guidelines for the allocation of these revenues to new and expanded programs that would serve these targeted populations and also promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

Prior to its sale of the Tobacco Settlement Payments, the County of San Diego had received approximately three years of annual payments. The County expects to use approximately $29.4 million annually from the proceeds from the sale (which were deposited in an endowment fund and invested in municipal securities) for Board Policy E-14 purposes.

The bonds are limited obligations of the Authority payable solely from payments made by the Corporation, from Tobacco Settlement Payments purchased from the County, between the Corporation and the Authority. For the year ended June 30, 2003, $35,444 of Tobacco Settlement Payments was recorded as Other revenue in the Tobacco Securitization Joint Special Revenue Fund. The bonds do not constitute a charge against the general credit of the Authority or the County and neither will the Authority (except from loan payments by the Corporation) or the County be obligated to pay the

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Amounts Expressed In Thousands)

interest on or principal of these bonds. These bonds do not constitute a debt, liability or obligation (legal, moral or otherwise) of the County.

Future debt service requirements of the Authority as of June 30, 2003 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2004	$ 1,830	24,892	26,722
2005	2,155	24,818	26,973
2006	2,015	24,732	26,747
2007	1,890	24,652	26,542
2008	2,065	24,557	26,622
2009-2013	12,750	121,050	133,800
2014-2018	15,245	117,631	132,876
2019-2023	24,620	112,800	137,420
2024-2028	39,880	104,919	144,799
2029-2033	64,305	91,679	155,984
2034-2038	90,865	71,048	161,913
2039-2043	191,615	42,348	233,963
Total	$449,235	785,126	1,234,361

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2003
(In Thousands)

		Budgeted Amounts		Actual Amounts Budgetary Basis		Variance with Final Budget Pos (Neg)
		Original	Final			
Revenues:						
Taxes	$	383,730	383,730	396,415		12,685
Licenses, permits and franchises		28,296	28,296	28,840		544
Fines, forfeitures and penalties		33,624	38,098	36,246		(1,852)
Revenue from use of money and property		20,622	20,627	17,236		(3,391)
Aid from other governmental agencies:						
State		920,812	868,901	709,693		(159,208)
Federal		427,182	457,513	533,562		76,049
Other		49,162	51,944	49,853		(2,091)
Charges for current services		204,635	231,323	243,125		11,802
Other revenue		19,520	24,010	25,389		1,379
Total revenues		2,087,583	2,104,442	2,040,359	$	(64,083)
Expenditures:						
Current:						
General:						
Board of supervisors district # 1		810	1,325	1,122		203
Board of supervisors district # 2		840	1,314	1,314		
Board of supervisors district # 3		790	1,279	1,177		102
Board of supervisors district # 4		790	1,179	1,171		8
Board of supervisors district # 5		931	1,429	1,253		176
Board of supervisors general office		1,153	1,162	1,082		80
Clerk of the board of supervisors		5,376	6,588	5,514		1,074
CAC major maintenance		2,238	2,238	2,238		
Chief administrative office		3,736	4,779	4,482		297
Community enhancement		5,479	3,470	3,468		2
Community projects		10,000	9,553	9,496		57
Community services		8,403	17,301	3,572		13,729
Land use and environment		493	1,772	1,666		106
Financing and general government group		42,374	44,094	11,295		32,799
Auditor and controller		26,929	34,164	31,938		2,226
Assessor/recorder/county clerk		27,609	38,946	38,847		99
Treasurer/tax collector		13,205	16,005	15,685		320
County counsel		14,915	22,720	21,119		1,601
Human resources		17,484	22,019	20,306		1,713
Civil service commission		398	485	394		91
Register of voters		8,244	10,216	8,249		1,967
County technology office		8,015	9,227	7,989		1,238
Countywide general expense		6,149	34,107	5,683		28,424
Contribution to capital outlay		6,900	6,900			6,900
Contingency reserve		11,000	11,000			11,000
Department of public works		617	670	584		86
Health and human services agency		2,428	2,528	2,331		197
Total general		**227,306**	**306,470**	**201,975**		**104,495**

(Cont)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2003
(In Thousands)

(Cont)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Pos (Neg)
Public protection:				
Grand jury	$ 478	509	465	44
District attorney	87,410	127,411	122,636	4,775
Child support	57,937	68,088	68,008	80
Public defender	38,150	56,488	54,165	2,323
Alternate public defender	12,179	16,379	15,186	1,193
Defense attorney / contract administration	6,664	8,664	8,299	365
Contributions for trial courts	69,766	120,547	117,812	2,735
Sheriff	375,723	512,333	493,449	18,884
Probation	132,985	172,865	162,352	10,513
Agriculture, weight & measures	11,136	15,591	14,563	1,028
Dept. of animal services	10,658	14,433	13,611	822
LAFCO administration	200	200	200	
Health & human services agency	2,939	2,994	2,798	196
Medical examiner	5,300	7,407	7,185	222
Planning and land use	23,137	30,325	26,784	3,541
Public safety	4,762	20,317	5,643	14,674
Citizen's law enforcement review board	466	627	565	62
Land use and environment group	3,267	9,758	3,508	6,250
Assessor / recorder / county clerk	12,129	14,070	14,070	
Department of public works	181	302	295	7
Office of emergency services	1,778	2,611	1,468	1,143
Total public protection	**857,245**	**1,201,919**	**1,133,062**	**68,857**
Public ways and facilities:				
Public works	4,601	24,219	23,955	264
Total public ways and facilities	**4,601**	**24,219**	**23,955**	**264**
Health and sanitation:				
Health and human services agency	530,691	592,196	547,319	44,877
Environmental health	29,660	39,984	36,867	3,117
Department of public works	453	869	869	
Total health and sanitation	**560,804**	**633,049**	**585,055**	**47,994**
Public assistance:				
Health and human services agency	883,532	988,880	942,695	46,185
Housing and community development	9,895	13,298	10,371	2,927
Total public assistance:	**893,427**	**1,002,178**	**953,066**	**49,112**
Education:				
Farm and home advisor	577	6,753	6,680	73
Total education	**577**	**6,753**	**6,680**	**73**
Recreational and cultural:				
Parks and recreation	17,867	25,328	22,361	2,967
Total recreational and cultural	**17,867**	**25,328**	**22,361**	**2,967**
Debt service:				
Countywide general expense	37,718	20,107	12,735	7,372
Total debt service	**37,718**	**20,107**	**12,735**	**7,372**
Total expenditures	2,599,545	3,220,023	2,938,889	281,134
Excess of revenues over (under) expenditures	(511,962)	(1,115,581)	(898,530)	(217,05[illegible])

(Cont)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2003
(In Thousands)

(Cont)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Sale of capital assets	$		11	11
Transfers in	497,357	497,133	478,806	(18,327)
Transfers (out)	(167,576)	(214,652)	(207,586)	7,066
Long term debt proceeds	25	560,475	560,450	(25)
Refunding bonds issued		176,890	176,890	
Payment to refunded bond escrow agent		(176,890)	(176,890)	
Encumbrances, beginning of year	98,676	98,676	98,676	
Total other financing sources (uses)	428,482	941,632	930,357	(11,275)
Net change in fund balance	(83,480)	(173,959)	31,827	205,786
Fund balances - beginning of year	83,480	327,094	327,094	
Increase (decrease) in:				
Reserve for inventory of materials and supplies			(1,056)	(1,056)
Fund balances - end of year	$	153,135	357,865	204,730

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2003
(In Thousands)

Explanation of differences between budget to actual comparison schedule using the operating statement format and GAAP revenues and expenditures:

REVENUES:

Actual amounts (budgetary basis) "available for appropriation" from budgetary comparison schedule	$	2,040,359
Differences-budget to GAAP		
Adjustment to cash for fair market value		(545)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance-governmental funds	$	2,039,81[illegible]

EXPENDITURES:

Actual amounts (budgetary basis) "total charges to appropriation" from budgetary comparison schedule	$	2,938,889
Differences-budget to GAAP		
Year end encumbrances are added to actual expenditures for budgetary basis but not included in GAAP		(46,052)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	$	2,892,8[illegible]

OTHER FINANCING SOURCES (USES):

Actual amounts (budgetary basis) from budgetary comparison schedule	$	930,357
Differences - budget to GAAP		
Transfer Out - year end encumbrances are added to actuals transfers out for budgetary basis but not included for GAAP		50,707
Beginning of Year encumbrances are included in budget in the budgetary basis but not included for GAAP		(98,676)
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$	882,38[illegible]

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL TOBACCO SECURITIZATION SPECIAL REVENUE FUND

Year Ended June 30, 2003
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Pos (Neg)
Revenues:				
Revenue from use of money and property	$		5,696	5,696
Other revenue	29,400	29,400		(29,400)
Total revenues	29,400	29,400	5,696	(23,704)
Expenditures:				
Total expenditures				
Excess of revenues over (under) expenditures	29,400	29,400	5,696	(23,704)
Other financing sources (uses):				
Transfers (out)	(29,400)	(29,400)	(26,949)	2,451
Total other financing sources (uses)	(29,400)	(29,400)	(26,949)	2,451
Net change in fund balance			(21,253)	(21,253)
Fund balances - beginning of year			387,372	387,372
Fund balances - end of year	$		366,119	366,119

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL TOBACCO SECURITIZATION SPECIAL REVENUE FUND
Year Ended June 30, 2003
(In Thousands)

Explanation of differences between budget to actual comparison schedule using the operating statement format and GAAP revenues and expenditures:

REVENUES:

Actual amounts (budgetary basis) "available for appropriation" from budgetary comparison schedule	$5,696
Differences-budget to GAAP	
Adjustment to cash for fair market value	2,145
[redacted]	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2003

Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for: the Tobacco Securitization Joint Special Revenue Fund (a major fund); SANCAL, a non-profit corporation, and Debt Service and Capital Projects Funds (other governmental funds). Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting that is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes in the fund financial statements, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, in the fund financial statements such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis in the fund financial statements, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Appropriations may be adjusted during the year with the approval of the Board of Supervisors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a department. Such adjustments are reflected in the final budgetary data. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Supplemental appropriations during the year ended June 30, 2003, amounted to $826.5 million in the General Fund.

San Diego County Employees' Retirement System

Schedule of Funding Progress (in millions) (unaudited):

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll (b-a)/(c)
2000	$3,568.7	3,248.8		109.8%	$672.5	
2001	3,745.6	3,506.8		106.8%	731.1	
2002	3,831.3	5,078.0	1,246.7	75.4%	810.3	153.8%

The actuarial valuation for June 30, 2003 is not yet available to provide information to update the Schedule of Funding Progress table.

APPENDIX C

SUMMARY OF THE SECOND SUPPLEMENTAL TRUST AGREEMENT AND THE TRUST AGREEMENT

The following is a summary of certain provisions contained in Second Supplemental Trust Agreement and the Trust Agreement and is not to be considered a full description thereof. Reference is made to the Trust Agreement for a full description of its terms.

DEFINITIONS

"1994 Series A Bonds" means the County of San Diego Taxable Pension Obligation Bonds, Series A issued under the Original Trust Agreement and delivered on February 15, 1994.

"2002 Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York.

"2004 Debenture" means the Pension Obligation Debenture dated as of the 29th day of June, 2004, issued in favor of the Association in the principal amount of $450,000,000.

"2004 Insurers" means, collectively, the 2004A Insurer and the 2004B Insurer.

"2004A Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto..

"2004A Insurance Policy" means the municipal bond new issue insurance policy issued by the 2004A Insurer that guarantees payment of principal of and interest on the Series 2004 A Bonds and payment of principal of and Accreted Value on the Series 2004 C Bonds.

"2004B Insurer" means XL Capital Assurance Inc. is a monoline financial guaranty insurance company incorporated under the laws of the State of New York.

"2004B Insurance Policy" means the municipal bond new issue insurance policy issued by the 2004B Insurer that guarantees payment of principal of and interest on the Series 2004 B Bonds.

"Accreted Value Table" means, with respect to the smallest Authorized Denomination of any Series 2004 C Bond, the table appended to the Second Supplemental Trust Agreement as Exhibit D indicating the Accreted Value of such Series 2004 C Bond on the date of issuance thereof, on each date on which interest on such Series 2004 C Bond is compounded and on the maturity date thereof.

"Accreted Value" means, with respect to any Series 2004 C Bond, as of the date of calculation, the sum of the initial principal amount thereof plus the interest accreted and compounded thereon to such date of calculation as determined in accordance with the Accreted Value Table for the dates indicated thereon and as provided in the Second Supplemental Trust Agreement for any other date.

"Act" means Articles 10 and 11 (commencing with Section 53570) of Chapter 3, Division 2, Title 5 of the Government Code of the State of California.

"Additional Bonds" means all bonds other than the Prior Bonds of the County authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the Trust Agreement.

"All-Hold Rate" means, on any date of determination, the interest rate per annum equal to 85% (as such percentage may be adjusted pursuant to the Second Supplemental Trust Agreement) of One-Month LIBOR on such date; provided that in no event shall the All-Hold Rate be more than the Maximum Auction Rate.

"Applicable Auction Rate" means the rate per annum at which interest accrues with respect to the Auction Rate Securities of each Subseries for any Auction Interest Period.

"Association" means the San Diego County Employees Retirement Association.

"Auction Agent Agreement" means the Initial Auction Agent Agreement for Auction Rate Securities unless and until a Substitute Auction Agent Agreement for any is entered into, after which "Auction Agent Agreement" shall mean such Substitute Auction Agent Agreement in each case as from time to time amended or supplemented.

"Auction Agent Fee" has the meaning set forth in the Auction Agent Agreement.

"Auction Agent" means the Initial Auction Agent for the Auction Rate Securities unless and until a Substitute Auction Agent Agreement, acceptable to the Broker-Dealer and the 2004B Insurer, becomes effective, after which "Auction Agent" shall mean the related Substitute Auction Agent.

"Auction" means the implementation of the Auction Procedures on an Auction Date.

"Auction Date" means the Business Day immediately preceding the first day of each Auction Interest Period for each Subseries of Auction Rate Securities, other than:

(a) each Auction Interest Period for each Subseries commencing after the ownership of the Auction Rate Securities is no longer maintained in book-entry form by the Depository;

(b) each Auction Interest Period commencing after the occurrence and during the continuance of a Payment Default; or

(c) any Auction Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default.

"Auction Documents" means, collectively, the Auction Agent Agreement, the Broker-Dealer Agreement, and the Market Agent Agreement.

"Auction Interest Period" or "Interest Period" means, as to the applicable Auction Rate Securities of a Subseries, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Subseries of Auction Rate Securities, which Auction Interest Period may be a 28 day period or such other period as may be designated from time to time by the County and the Market Agent pursuant to an Auction Period Adjustment for a Subseries of Auction Rate Securities, each Auction Interest Period running from, and including, the Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date; provided that the Initial Auction Interest Period shall be as defined herein under "Initial Auction Interest Period".

"Auction Period Adjustment" means an adjustment to the length of an Auction Interest Period implemented by the County and the Market Agent pursuant to this Second Supplemental Trust Agreement and the Market Agent Agreement as described below under paragraph (n) under the heading "Maturity, Interest Rates and Payment Terms herein."

"Auction Procedures" means the Auction and Settlement Procedures set forth in the Auction Agent Agreement.

"Auction Rate Securities" means, individually and collectively, each of the four Subseries of the Series 2004 B Bonds prior to any Fixed Rate Conversion Date or any one or more Subseries.

"Auction Rate" means, as to the interest rate with respect to the applicable Subseries of Auction Rate Securities, the rate of interest per annum that results from implementation of the Auction Procedures with respect to such Subseries of Auction Rate Securities, and determined as described in the Auction Procedures; provided however, that the Auction Rate shall not exceed the Maximum Auction Rate.

"Authorized Denomination" means, (a) with respect to Series 2002 A Bonds, Series 2004 A Bonds and Series 2004 C Bonds, $5,000 principal amount or any integral multiple thereof, (b) with respect to Series 2002 B Bonds and the Series 2004 B Bonds that are Auction Rate Securities, $25,000 principal amount or any integral multiple thereof and with respect to Series 2002 B Bonds and Series 2004 B Bonds that are not Auction Rate Securities, $5,000 or any integral multiple thereof; and (c) with respect to Series 2002 C Bonds, $25 principal amount or any integral multiple thereof.

"Bond Year" means the twelve-month period ending on August 15 of each year to which reference is made; provided that the first Bond Year is deemed to have commenced on February 15, 1994 (the date the 1994 Series A Bonds were originally delivered) and ended on August 15, 1994.

"Bonds" means, collectively, the 1994 Series A Bonds, the Series 2002 Bonds, the Series 2004 Bonds, and all Additional Bonds.

"Broker-Dealer" means, collectively, Citigroup Global Markets Inc., E. J. De La Rosa & Co., and UBS Financial Services Inc., with respect to the Series 2004 B Bonds or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which is an "Authorized Broker-Dealer" under the Broker-Dealer Agreement and which:

(a) is a Depository System Participant (or an affiliate of a Depository System Participant);

(b) has been appointed as such by the County and approved by the 2004B Insurer pursuant to the Second Supplemental Trust Agreement; and

(c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

When used herein at a time when more than one Broker-Dealer is acting under the Trust Agreement, the term "the Broker-Dealer" shall mean, as the context dictates, either all such Broker-Dealers collectively, or only each Broker-Dealer acting with respect to the applicable Auction Rate Securities.

"Broker-Dealer Agreement" means the agreement between the Auction Agent and the applicable Broker-Dealer relating to the Auction Rate Securities pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. The Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement, dated as of June 1, 2004, between the Initial Auction Agent and the initial Broker-Dealer.

"Broker-Dealer Fee" has the meaning set forth in each Broker-Dealer Agreement.

"Business Day" means any day other than a Saturday or Sunday or day upon which the Corporate Trust Office is authorized by law to remain closed.

"Certificate of the County" means an instrument in writing signed by the Chairperson or Vice-Chairperson of the Board of Supervisors of the County or the Chief Administrative Officer or Treasurer-Tax Collector of the County, or by any other officer of the County duly authorized by the Board of Supervisors for that purpose.

"Closing Date" means the date on which the Series 2004 Bonds are delivered to Citigroup Global Markets Inc., E. J. De La Rosa & Co., and UBS Financial Services Inc., as original purchasers.

"Corporate Trust Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the County, initially being 700 South Flower Street, Suite 500, Los Angeles, California 90017; provided, however, that the Trustee may designate in writing to the County and the Holders such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of Bonds.

"County Auditor" means the Auditor-Controller of the County.

"County Treasurer" means the Treasurer-Tax Collector of the County.

"County" means the County of San Diego, a legal subdivision and body corporate and politic of the State.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2004 A Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series 2004 A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2004 A Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2004 A Bond, (1) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Dated Date" means June 29, 2004, being the initial issuance date of the Series 2004 Bonds.

"Defaulted Interest" means interest with respect to any Series 2004 B Bond which is payable but is not punctually paid or duly provided for on any Interest Payment Date.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the County.

"Event of Default" means an event of default under and as defined in the Trust Agreement.

"Existing Holder Registry" means, with respect to each Subseries of Auction Rate Securities, the registry of Persons who are Beneficial Owners of the related Subseries of Auction Rate Securities, maintained by the Auction Agent as provided in the applicable Auction Agent Agreement.

"Existing Holder" means, with respect to any Auction, a Person who was listed as the Beneficial Owner of the applicable Subseries of Auction Rate Securities in the related Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction.

"Federal Securities" means, collectively, the following investments:

1. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGs)).

2. Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself.

3. Resolution Funding Corp. ("REFCORP"). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

4. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

5. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

a. *U.S. Export-Import Bank* (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership

b. *Farmers Home Administration* (FmHA)

c. *Federal Financing Bank*

d. *General Services Administration*
Participation Certificates

e. *U.S. Maritime Administration*
Guaranteed Title XI financing

f. *U.S. Department of Housing and Urban Development* (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures — U.S. government guaranteed

debentures

U.S. Public Housing Notes and Bonds — U.S. government guaranteed public housing notes and bonds

"Financial Newspaper" means *The Wall Street Journal* or *The Bond Buyer*, or any other newspaper or journal printed in the English language, publishing financial news and selected by the Trustee, who shall be under no liability by reason of such selection.

"First Supplemental Trust Agreement" means the First Supplemental Trust Agreement, dated as of September 1, 2002, between the County and the Trustee.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the County as its Fiscal Year in accordance with applicable law.

"Fixed Rate Conversion Date" means the date on which interest with respect to any Subseries of Auction Rate Securities is converted to a fixed interest rate in accordance with the provisions of the Second Supplemental Trust Agreement.

"Holder" and "Holders" means any person who shall be a registered owner of any Outstanding Bond; provided that the 2004 Insurers are deemed to be the Holders of the Series 2004 Bonds that they insure. See "2004 INSURER PROVISIONS—2004 Insurers Deemed Holders."

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the County, and who, or each of whom —

(1) is in fact independent according to Statement of Auditing Standards No. 1 and not under the domination of the County;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the County; and

(3) is not connected with the County as a member, officer or employee of the County, but who may be regularly retained to audit the accounting records of and make reports thereon to the County.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 17302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's Investors Service's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor's Corporation's "Called Bond Service," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or such services as the County may designate in a Certificate of the County delivered to the Trustee.

"Initial Auction Agent Agreement" means each Auction Agent Agreement, dated as of the date of the Second Supplemental Trust Agreement, relating to the Auction Rate Securities, between the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

"Initial Auction Agent Agreement" means each Auction Agent Agreement, dated as of the date of the Second Supplemental Trust Agreement, relating to the Auction Rate Securities, between the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

"Initial Auction Agent" means Deustche Bank Trust Company Americas, a New York banking corporation, its successors and assigns.

"Initial Auction Interest Period" means, with respect to each Subseries of the Auction Rate Securities, the period from and including the Dated Date of the Series 2004 B Bonds to and including the following dates in the case of each Subseries of Auction Rate Securities: (1) July 27, 2004 in the case of Series 2004 B-1 Bonds; and (2) August 10, 2004 in the case of the Series 2004 B-2 Bonds.

"Initial Broker-Dealers" means, severally, Citigroup Global Markets Inc., E. J. De La Rosa & Co., and UBS Financial Service Inc., and their respective successors and assigns.

"Initial Interest Payment Date" means August 15, 2004, with respect to the Series 2004 B Bonds, and August 15, 2005, with respect to the Series 2004 A Bonds.

"Initial Market Agent Agreement" means the Market Agent Agreement, dated as of June 1, 2004, relating to the Auction Rate Securities, between the Trustee and the Market Agent, including any amendment thereof or supplement thereto.

"Initial Market Agent" means Citigroup Global Markets Inc. under the Market Agent Agreement, and its successors and assigns.

"Initial Rate Adjustment Date" means the first Business Day following (a) July 27, 2004 in the case of Series 2004 B-1 Bonds and (b) August 10, 2004 in the case of the Series 2004 B-2 Bonds.

"Interest Payment Date" means a date on which interest is due on the Bonds (or, in the case of the Series 2004 C Bonds, a date one which interest is compounded), being February 15 and August 15 of each year to which reference is made, (a) commencing August 15, 1994 with respect to the 1994 Series A Bonds, (b) commencing with respect to the Series 2002 B Bonds and the Series 2002 C Bonds, February 15, 2003; and with respect to the Series 2002 A Bonds, August 15, 2003, and (c) commencing with respect to the Series 2004 B Bonds and Series 2004 C Bonds, August 15, 2004, and with respect to the Series 2004 A Bonds, August 15, 2005.

"Market Agent Agreement" means the Initial Market Agent Agreement until and unless a Substitute Market Agent Agreement is effective after which "Market Agent Agreement" shall mean the Substitute Market Agent Agreement, as from time to time amended or supplemented.

"Market Agent" means the Initial Market Agent for the Auction Rate Securities unless and until a Substitute Market Agent Agreement, acceptable to the Broker-Dealer and the 2004B Insurer, is entered into after which "Market Agent" shall mean the related Substitute Market Agent.

"Maximum Auction Rate" means 17% per annum; provided, that in no event shall the Maximum Auction Rate be more than the maximum rate permitted by the laws of the State.

"Moody's" means Moody's Investors Service, Inc., and its successors and assigns, or, if it shall no longer perform the functions of a securities rating organization, any other nationally recognized securities Rating Agency designated by the County, by notice to the Trustee.

"Nominee" means Cede & Co. or such other entity as is designated by an authorized representative of the Depository.

"Non-Payment Rate" means 17% per annum; provided, that in no event shall the Non-Payment Rate be more than the maximum rate permitted by the laws of the State.

"Notice of Cure of Payment Default" means a notice substantially in such form provided in the Second Supplemental Trust Agreement.

"Notice of Payment Default" means a written notice substantially in the form attached to the Second Supplemental Trust Agreement.

"Notice of Percentage Change" means a written notice to the Trustee, the Broker-Dealer and the Auction Agent substantially in the form provided in the Market Agent Agreement.

"Notice of Proposed Percentage Change" means a written notice to the Trustee, the Broker-Dealer and the Auction Agent substantially in the form provided in the Market Agent Agreement.

"One-Month LIBOR" means the rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of one month are offered to prime banks in the London interbank market which appear on Telerate Page 3750 as of approximately 11:00 am, London time, on such day. If at least two such quotations appear, "One-Month LIBOR" shall be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If such rate does not appear on Telerate page 3750, the rate for that day will be determined on the basis of the Reuters Screen LIBOR Page. If at least two such quotations appear, "One-Month LIBOR" shall be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two such quotes appear, "One-Month LIBOR" with respect to such Auction Interest Period shall be determined at approximately 11:00 am, London time, on such day on the basis of the rate at which deposits in United States dollars having a maturity of one month are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Auction Agent and in a principal amount of not less than U.S. $1,000,000 and that is representative for a single transaction in such market at such time. The Auction Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two quotations are provided, "One-Month LIBOR" shall be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two quotations are provided, "One-Month LIBOR" shall be the arithmetic mean (rounded upward, if necessary to the nearest one-hundredth of one percent) of the rates quoted at approximately 11:00 am, New York City time, on such day by three major banks in New York, New York selected by the Auction Agent for loans in United States dollars to leading European banks having a maturity of one month, three months, six months or one year, respectively, and in a principal amount equal to an amount of not less than U.S. $1,000,000 and that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid are not quoting as mentioned in this sentence, "One-Month LIBOR" shall be One-Month LIBOR as was in effect under the foregoing provisions for the immediately preceding Auction Interest Period.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

"Original Trust Agreement" means the Trust Agreement, dated as of February 1, 1993, between the County and the Trustee, as originally executed and delivered.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement) all Bonds except:

(1) Bonds theretofore cancelled by or surrendered to the Trustee for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the Trust Agreement; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the County pursuant to the Trust Agreement.

"Payment Default" means:

(a) a default in the due and punctual payment of any installment of interest with respect to a Subseries of Series 2004 B Bonds, or

(b) a default in the due and punctual payment of any interest, principal or premium, if any, with respect to Auction Rate Securities on their stated maturity date or pursuant to a mandatory sinking fund redemption;

provided, however, that any payment of scheduled interest on any Subseries of Auction Rate Securities in the manner contemplated by the Second Supplemental Trust Agreement shall not constitute a Payment Default.

"Permitted Investments" means any of the following to the extent permitted by the laws of the State:

(1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or obligations for which the faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and securities which represent an undivided interest in such direct obligations), and also any securities now or hereafter authorized, the timely payment of both the principal of and interest on which is guaranteed fully and directly by the full faith and credit of the United States of America;

(2) Bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, bonds, debentures, participation certificates or other obligations of the Government National Mortgage Association or the Federal National Mortgage Association established under the National Housing Act, as amended;

(3) Demand deposits, time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, including the Trustee, or a state or national savings and loan association, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or (ii) issued by any bank or trust company organized under the laws of any state of the United States, or any national banking association (including the Trustee), having a combined capital and surplus of at least $500,000,000, whose non-guaranteed senior debt is rated "A" or equivalent or better by the Rating Agencies and such certificates shall have maturities of six months or less;

(4) Any repurchase agreement approved by the 2004B Insurer with any bank or trust company organized under the laws of any state of the United States (including the Trustee) or any national banking association or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured at all times by collateral security described in clause (1) or (2) of this definition and in which the Trustee has a perfected security interest, and which collateral (a) is held by the Trustee or a third party agent, (b) is not subject to liens or claims of third parties, (c) has a market value determined as frequently and in an amount sufficient to satisfy the collateralization levels required by the Rating Agencies, and (d) failure to maintain the requisite collateral level will require the liquidation of the collateral;

(5) Bankers' acceptances which are issued by a bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) rated "A" or equivalent or better by the Rating Agencies; provided, that such banker's acceptances may not exceed 270 days' maturity;

(6) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by the Rating Agencies, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of $500,000,000 and that have an "A" or equivalent or higher rating for the issuer's debentures, other than commercial paper, as provided by the Rating Agencies; provided that purchases of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10% of the outstanding commercial paper of an issuer corporation;

(7) Bonds, notes, warrants or other evidence of indebtedness of any of the states of the United States or of any political subdivision or public agency thereof which are rated in the highest short-term or one of the two highest long-term rating categories by the Rating Agencies;

(8) Government money market portfolios or money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, which portfolios shall have an "AAA" or equivalent by the Rating Agencies;

(9) Tax exempt securities issued by any state or municipality rated "AAA" or equivalent by the Rating Agencies, for which the interest and principal has been provided by an escrow deposit which, in the opinion of an Independent Certified Public Accountant, is fully sufficient to pay the principal of and interest and redemption premium, if any, on such tax exempt securities at their stated maturity or redemption date;

(10) Guaranteed investment contracts in a form approved by the Rating Agencies and the 2004B Insurer with entities the unsecured debt securities of which are rated in one of the two highest long-term rating categories by the Rating Agencies or the equivalent of such ratings by virtue of guarantees or insurance arrangements;

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

(12) The Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or recodified from time to time).

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

"Principal Office" means the address stated as such for the Trustee and any other fiduciary, agent or service provider as provided in the Trust Agreement.

"Principal Payment Date" means, with respect to each Series and Subseries of Bonds, each date on which principal is scheduled to be due and payable by reason of mandatory sinking fund redemption or maturity dates.

"Rate Adjustment Date" shall mean with respect to each Subseries of the Auction Rate Securities, the date on which a new Auction Rate becomes effective with respect to such Subseries of Auction Rate Securities, and shall mean the initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment, generally is each fourth Wednesday, or the next Business Day if such Wednesday is not a Business Day).

"Rate Determination Date" shall mean (a) July 27, 2004 in the case of Series 2004 B-1 Bonds; and (b) August 10, 2004 in the case of the Series 2004 B-2 Bonds, and thereafter, the Business Day immediately preceding the first day of each related Auction Interest Period, other than: (1) an Auction Interest Period which commences on a Fixed Rate Conversion Date: (2) each Auction Interest Period commencing after the ownership of Auction Rate Securities is no longer maintained in Book-Entry Form; (3) each Auction Interest Period commencing after and during the continuance of a Payment Default; or (4) an Auction Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Interest Periods may be changed as described in the Second Supplemental Trust Agreement.

"Rating Agencies" means, collectively, Moody's and S&P.

"Record Date" means, with respect to an Interest Payment Date, fifteen calendar days immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Date" means any date on which any Bond is redeemed and fully paid pursuant to the Second Supplemental Trust Agreement.

"Redemption Price" means the principal, premium (if any) and accrued interest to the applicable redemption date on which all or any portion of the Series 2004 B Bonds are subject to optional or mandatory sinking fund redemption pursuant to the provisions of the Second Supplemental Trust Agreement.

"Regular Record Date" means, with respect to Auction Rate Securities, the second Business Day immediately preceding each Interest Payment Date.

"Related Documents" means the Auction Agent Agreement, each Broker-Dealer Agreement and each Market Agent Agreement, in each case as from time to time amended or supplemented.

"Representation Letter" means the letter of representation dated the date of issuance of the 1994 Series A Bonds, to The Depository Trust Company, New York, New York, from the County and the Trustee relating to the 1994 Series A Bonds.

"Retirement Law" means the County Employees Retirement Law of 1937, consisting of Division 4 of Title 3 of the Government Code of the State.

"S&P" means Standard & Poor's, a Division of the McGraw Hills Companies, Inc., and its successors and assigns, or, if it shall no longer perform the functions of a securities rating organization, any other nationally recognized securities Rating Agency designated by the County.

"Second Supplemental Trust Agreement" means the Second Supplemental Trust Agreement, dated as of June 1, 2004, between the County and the Trustee.

"Securities Act" means the Securities Act of 1933, as amended.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, New York, New York 10041, facsimile transmission: (212) 855-1000, (212) 855-7320, or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as may be designated by the County and delivered to the Trustee.

"Sell Order" shall have the meaning given to such term in the Auction Procedures.

"Serial Bonds" means Bonds for which no sinking fund payments are provided.

"Series 2002 Bonds" means the County of San Diego Taxable Pension Obligation Bonds, Series 2002 A, Series 2002 B and Series 2002 C.

"Series 2004 Bonds" means the County of San Diego Taxable Pension Obligation Bonds, Series 2004 A, Series 2004 B and Series 2004 C.

"Series 2004 B Fixed Rate Bonds" means any Subseries of Series 2004 B Bonds which are no longer Auction Rate Securities following the Fixed Rate Conversion Date.

"Series 2004 B Serial Bonds" means, upon the Fixed Rate Conversion Date, Series 2004 B Fixed Rate Bonds of any single maturity or maturities (*i.e.* "term bonds" prior to the Fixed Rate Conversion Date), with respect to which the County elects to establish a schedule of one or more principal maturity dates, and/or principal amounts and redemption dates and prices for optional redemption or mandatory redemption of Series 2004 B Fixed Rate Bonds if an Opinion of Counsel is provided to the Trustee to the effect that such schedule, dates, principal amounts and/or redemption prices will not adversely affect the validity of the Series 2004 B Bonds under State law.

"Special Record Date" means a special date fixed to determine the names and addresses of Holders of the Bonds for purposes of paying interest on a special interest payment date for the payment of defaulted interest, all as further provided in the Second Supplemental Trust Agreement.

"State" means the State of California.

"Subseries" means, severally, the Series 2004 B Bonds, Subseries B-1 and Subseries B-2.

"Substitute Auction Agent Agreement" means an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Person having the qualifications required by the Second Supplemental Trust Agreement agrees with the Trustee to perform the duties of the Auction Agent under the Second Supplemental Trust Agreement.

"Substitute Auction Agent" means the Person with whom the Trustee enters into a Substitute Auction Agent Agreement.

"Substitute Market Agent" means the Person or Persons acceptable to the 2004B Insurer with whom the Trustee enters into a Substitute Market Agent Agreement.

"Substitute Market Agent Agreement" means a market agent agreement containing terms substantially similar to the terms of the Initial Market Agent Agreement, whereby a Person or Persons having the qualifications required by the Second Supplemental Trust Agreement agrees with the Trustee to perform the duties of the Market Agent under the Trust Agreement.

"Supplemental Trust Agreement" means any trust agreement then in full force and effect which has been duly executed and delivered by the County and the Trustee amendatory or supplemental to the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

"Tender Date" means the date on which the Auction Rate Securities of any Series are required to be tendered purchased pursuant to the Second Supplemental Trust Agreement.

"Tender Price" means the purchase price to be paid to the Holders of any Auction Rate Securities purchased pursuant to the provisions of this Second Supplemental Trust Agreement, which shall be the principal amount thereof tendered for purchase, without premium, plus accrued and unpaid interest, if any, to the Tender Date.

"Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2004 A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Trust Agreement" means the Trust Agreement, dated as of February 1, 1993, between the County and the Trustee, as originally executed and as amended and supplemented by the First Supplemental Trust Agreement and the Second Supplemental Trust Agreement, and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

"Trustee" means BNY Western Trust Company, any other association or corporation which may at any time be substituted in its place as provided in the Trust Agreement.

"Undelivered Bond" means any Auction Rate Security which constitutes an Undelivered Bond under the provisions of the Second Supplemental Trust Agreement.

"Written Request of the County" means an instrument in writing signed by the Chief Administrative Officer or Treasurer-Tax Collector of the County, or by any other officer of the County duly authorized by the County for that purpose.

SERIES 2004 B BONDS

Auction Interest Periods

After the Initial Auction Interest Period for Series 2004 B Bonds, the Auction Interest Period shall be a 28-day period unless and until changed in accordance with the definition of Auction Interest Period.

Date; Initial Accrual of Interest of Series 2004 B Bonds

Each Series 2004 B Bond shall be dated the Dated Date. Interest with respect thereto shall be payable from the Interest Payment Date next preceding the date of execution thereof, unless:

(a) it is executed on an Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or

(b) it is executed after a Regular Record Date and on or before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or

(c) it is executed on or before the first Regular Record Date, in which event interest with respect thereto shall be payable from the Dated Date;

provided, however, that if, as of the date of execution of any Series 2004 B Bond, interest is in default with respect to any Outstanding Series 2004 B Bond, interest on such Series 2004 B Bond shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Series 2004 B Bonds.

Maturity, Interest Rates and Payment Terms of Series 2004 B Bonds

Interest on the Series 2004 B Bonds shall be computed and payable, and principal shall be payable, in each case in lawful money of the United States of America, as follows:

(a) Interest Rates; Distributions on Auction Rate Securities. Interest with respect to the Auction Rate Securities of each Subseries shall be at the rates specified under this heading, as determined under the Trust Agreement from time to time. The Trustee shall determine the aggregate interest payable by the County in accordance with the Trust Agreement on or before each Interest Payment Date but not later than two Business Days prior to each Interest Payment Date, and the Trustee may, as necessary, retain a consultant in connection with its obligation to compute such interest payable. Interest due on any Interest Payment Date with respect to Auction Rate Securities in the aggregate shall equal the sum of all interest accrued with respect to such Auction Rate Securities during and to the extent of each Auction Interest Period occurring on and after the immediately preceding Interest Payment Date or the Dated Date (whichever came last). The interest accrued with respect to Auction Rate Securities at the conclusion of any Auction Interest Period in the aggregate for such Subseries shall equal:

(i) the applicable Auction Rate for such Subseries, multiplied by

(ii) the aggregate principal amount of the Outstanding Auction Rate Securities of such Subseries, multiplied by

(iii) the number of days in the applicable Auction Interest Period for such Subseries or part thereof, divided by

(iv) 360,

and rounding the resulting figure to the nearest cent (a half-cent being rounded upward). The amount of such interest distributable to the Depository (which in turn is obligated to remit such interest to its DTC Participants for subsequent disbursement to the Beneficial Owners of Auction Rate Securities), in respect of each $25,000 in principal amount for any Auction Interest Period or part thereof, shall be calculated by the Trustee by applying the applicable Auction Rate for such Auction Interest Period or part thereof to such $25,000 principal amount, multiplying the result by the actual number of days in such Auction Interest Period or part thereof, divided by 360, and rounding the resultant figure to the nearest cent (a half-cent being rounded upward).

The Trustee shall deliver to the Auction Agent, to the Depository or other Holders of the Applicable Auction Rate Securities, a notice of any Payment Default in accordance with the Second Supplemental Trust Agreement.

(b) Payment of Principal Upon Surrender. Principal with respect to a Series 2004 B Bond, whether or not designated as Auction Rate Securities, shall be payable only upon presentation and surrender of such Series 2004 B Bond at the Principal Office of the Trustee; provided, however, that payments of principal with respect to Auction Rate Securities, at maturity or upon redemption, shall be made by wire transfer of immediately available funds to the Depository while the Auction Rate Securities are in book-entry form unless such method of payment shall have been modified by written agreement among the Trustee, the Depository and the Auction Agent.

(c) Mailed Interest Payments. Except as provided in paragraph (d) immediately below, interest with respect to the Series 2004 B Bonds, whether or not designated as Auction Rate Securities, shall be payable on each Interest Payment Date by the Trustee by check mailed on the date on which such interest is due, to the Holders as of the close of business on the Regular Record Date for such Interest Payment Date to the registered address of Holders appearing on the registration books maintained by the Trustee.

(d) Wired Interest Payments. In the case of Series 2004 B Bonds, whether or not designated as Auction Rate Securities, held by any Holder in an aggregate principal amount of $1,000,000 or more as shown on the registration books maintained by the Trustee, who, prior to the Regular Record Date next preceding any Interest Payment Date, has provided the Trustee with wire transfer instructions, interest shall be paid on each Interest Payment Date in immediately available funds in accordance with such wire transfer instructions provided by that Holder. Unless otherwise requested by the Depository, payments of interest with respect to Auction Rate Securities shall be made to the Depository in the foregoing manner while the Auction Rate Securities are in book-entry form; provided, however, that such manner may be modified by written agreement among the Trustee, the Depository and the Auction Agent.

(e) Payment of Defaulted Interest. The Trustee shall determine not later than 2:00 p.m., New York City time, on the Business Day next succeeding each Interest Payment Date, whether a Payment Default relating to the applicable Subseries of Series 2004 B Bonds has occurred. If a

Payment Default relating to any Subseries has occurred, the Trustee, not later than 3:00 p.m., New York City time, on such Business Day or as soon thereafter as is practicable, shall send a Notice of Payment Default to the Auction Agent and the Broker-Dealer by facsimile or similar means and, if such Payment Default is cured, the Trustee shall as quickly as is commercially reasonable send a Notice of Cure of Payment Default to the Auction Agent relating to by facsimile or similar means. Whether or not Series 2004 B Bonds are then designated as Auction Rate Securities, Defaulted Interest with respect thereto shall forthwith cease to be payable to DTC and DTC's Participants for the benefit of their respective Beneficial Owners as of the relevant Regular Record Date by virtue of having been such Beneficial Owners, but such Defaulted Interest shall continue to accrue, and if and when money becomes available for the payment of such interest, the Trustee shall establish a Special Record Date for the payment of such interest, which date shall be not more than 15 nor fewer than 10 days before the proposed payment date, and shall give notice by first-class mail of the pending payment and the Special Record Date and, on the proposed payment date, such interest shall be payable to the Holders of the Series 2004 B Bonds as of the close of business on such Special Record Date.

(f) Payment of Unpresented Series 2004 B Bonds. If any Series 2004 B Bonds are not presented for payment when the principal with respect thereto becomes due or if any check or draft mailed to an Holder in connection with a payment of interest with respect to any Series 2004 B Bond is not cashed by such Holder, if an amount sufficient to pay principal and interest with respect to such Series 2004 B Bonds is held by the Trustee for the benefit of the Holders thereof, the Trustee shall segregate and hold such money in trust for the benefit of such Holders, who shall, except as provided in paragraph (g) below, thereafter be restricted exclusively to such amounts for the satisfaction of any claim of whatever nature on their part under the Trust Agreement or relating to the Series 2004 B Bonds. Any money which the Trustee segregates and holds in trust for the payment of the Tender Price of any Series 2004 B Bond which remains unclaimed for two years after the applicable maturity or redemption date shall be paid to the County. After the payment of such unclaimed money to the County, the former Holder of such Series 2004 B Bond shall look only to the County for the payment of the principal amount due on the applicable maturity or redemption date, plus accrued interest thereon to such applicable maturity or redemption date. The County shall not be liable for any interest on unclaimed money from and after the applicable maturity or redemption date and the County shall not be regarded as a trustee of such unclaimed money. This subsection (f) shall supersede the Existing Trust Agreement and shall apply only to Auction Rate Securities.

(g) General Limits on Interest Rate Adjustments. The interest rate with respect to the Auction Rate Securities of any one or more Subseries may be adjusted as provided in the remaining paragraphs under this heading "Maturity, Interest Rates and Payment Terms," and interest with respect to all Series 2004 B Bonds of each Subseries shall be calculated at the same rate established for the Series 2004 B Bonds at any given time; provided, however, that such interest shall not exceed the Maximum Auction Rate. As for Auction Rate Securities of each Subseries, the related Auction Agent shall calculate the All-Hold Rate on each Auction Date. The Auction Agent shall determine One-Month LIBOR for each Auction Interest Period for each Subseries of Auction Rate Securities on each respective Rate Determination Date in accordance with the Auction Agent Agreement; provided that if the ownership of the Auction Rate Securities is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Trustee shall determine One-Month LIBOR for each such Auction Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of One-Month LIBOR and the All-Hold Rate shall (in the absence of manifest error) be final and binding upon the Holders, all Beneficial Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Trustee and each Broker-Dealer of One-Month LIBOR and the All-Hold Rate. The County hereby approves the Auction Procedures and Settlement Procedures set forth in the forms of Auction Agent Agreement, Broker-Dealer Agreement and Market Agent Agreement, with such changes thereto and completion thereof as are not materially adverse to the County. Except for the determination by the Trustee of One Month LIBOR as provided in this subsection (g), nothing in this subsection (g) shall otherwise be construed to require the Trustee to establish the Auction Rate for any Auction Rate Securities; the establishment of each Auction Rate shall be determined in the manner set forth in the Auction Documents.

(h) Basis for Interest Accrual. Except for Auction Rate Securities, as to which interest shall be calculated in accordance with the provisions described under "Maturity, Interest Rates and Payment Terms – Interest Rates; Distributions on Auction Rate Securities," interest with respect to the Series 2004 B Bonds shall accrue on the basis of a 360-day year of twelve 30-day months.

(i) Dates for Interest Payments. Interest with respect to the Series 2004 B Bonds of each Subseries shall be payable on each Interest Payment Date, each Redemption Date, each Tender Date and on each maturity date of such Subseries.

(j) Applicable Auction Rate. Interest with respect to the Auction Rate Securities of each Subseries shall be computed on the basis of a 360-day year for the actual number of days elapsed. The applicable Auction Rate for each Subseries of Auction Rate Securities for each Auction Interest Period shall be the Auction Rate established for the applicable Subseries of Auction Rate Securities, provided that:

(i) if a notice of an adjustment in the percentages used to determine the All-Hold Rate shall have been given by the Market Agent in accordance with paragraph (m) below and because of a failure to satisfy either of the conditions set forth in subparagraphs (i) or (ii) of paragraph (m) below, such adjustment shall not have taken effect, then an Auction shall not be held on the Auction Date immediately preceding the next succeeding Interest Payment Date and the applicable Auction Rate for such next succeeding Auction Interest Period shall equal the Maximum Auction Rate on such Auction Date; and

(ii) if, on any Auction Date, an Auction is not held for any reason then the Applicable Auction Rate for the next succeeding Auction Interest Period shall equal the Maximum Auction Rate on such Auction Date.

Notwithstanding the foregoing:

(A) if the ownership of the Auction Rate Securities of any Subseries is no longer maintained in book-entry form by the Depository, the applicable Auction Rate for each Subseries for any Auction Interest Period commencing after the delivery of Series 2004 B Bonds as Auction Rate Securities pursuant to the Second Supplemental Trust Agreement shall equal the Maximum Auction Rate on the Business Day immediately preceding the first day of such succeeding Auction Interest Period; or

(B) if a Payment Default shall have occurred, the Applicable Auction Rate for the Auction Interest Period commencing on or immediately after such Payment Default, and for each Auction Interest Period thereafter, to and including the Auction Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured in accordance with the Second Supplemental Trust Agreement, shall equal the Non-Payment Rate on the first day of each such Auction Interest Period, provided that if an Auction occurred on the Business Day immediately preceding any such Auction Interest Period, the applicable Auction Rate for such Auction Interest Period shall be the Non-Payment Rate.

(k) Notice of Auction Rate, Amounts and Payment Dates. For Series 2004 B Bonds designated as Auction Rate Securities:

(i) So long as the ownership of Auction Rate Securities is maintained in book-entry form by the Depository, the Trustee shall advise the Depository of each Regular Record Date for the Auction Rate Securities of each Subseries at least two Business Days prior thereto and request, by 4:00 p.m., New York City time, on the Business Day immediately preceding each Regular Record Date, that the Depository deliver to the Trustee a position listing showing, at the close of business on the applicable Regular Record Date, the aggregate principal amount of Auction Rate Securities of each Subseries; and

(ii) On the date of delivery of the Series 2004 B Bonds, or as soon as practicable thereafter, and on the Business Day preceding each Interest Payment Date for each Subseries, the Trustee shall inform:

(A) the Auction Agent (so long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by the Depository) and the 2004B Insurer, of:

(1) the next Interest Payment Date, and

(2) the amount payable to the Auction Agent on the Auction Date pursuant to paragraph (l) set forth immediately below; and

(B) the Depository (so long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Depository) and the 2004B Insurer of the amount of interest distributable in respect of each $25,000 in principal amount (taken to the nearest .000001 without rounding) of the Auction Rate Securities of each Subseries for any Auction Interest Period or part thereof, calculated in accordance with paragraph (a) under this heading.

So long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by the Depository, if any day scheduled to be an Interest Payment Date shall be changed after the Trustee shall have given the notice referred to in subparagraph (i) of this paragraph (k), the Trustee shall, not later than 12:15 p.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent and the 2004B Insurer.

(l) Auction Agent Fees and Broker-Dealer Fees with Respect to Auction Rate Securities. On each Interest Payment Date for each Subseries, the County shall pay (or shall cause the Trustee to pay pursuant to the Second Supplemental Trust Agreement) to each Auction Agent and to each Broker-Dealer (or to each Auction Agent for the benefit of each Broker-Dealer), on behalf of the Existing Holders of the Auction Rate Securities of the related Subseries, in immediately available funds, an amount equal to the Auction Agent Fee then due to the Auction Agent (as calculated by the Auction Agent and delivered to the Trustee in the form of an electronic transmission or facsimile transmission) with respect to each Subseries and the Broker-Dealer Fee then due to the applicable Broker-Dealer (as calculated by the Auction Agent and delivered to the Trustee in the form of an electronic transmission or facsimile transmission).

(m) Adjustments in Percentages for Auction Rate Securities. Pursuant to each Market Agent Agreement, the Market Agent, with the consent of the County and the 2004B Insurer, will adjust the percentages used in determining the All-Hold Rate, and the Market Agent thereunder will communicate its determination to make such adjustments by means of a Notice of Proposed Percentage Change, delivered in writing at least twenty days prior to any Auction Date on which the Market Agent desires to effect the change, to the County, the Broker-Dealer, the Trustee, the 2004B Insurer and the Auction Agent. Such notice shall be effective only if it is accompanied by the form of an Opinion of Counsel to the effect that such adjustment is authorized under the Second Supplemental Trust Agreement and satisfies the requirements of the Second Supplemental Trust Agreement. Any such adjustment shall take effect on the applicable Auction Date only if:

(i) the Trustee and the Auction Agent receive by 9:30 am, New York City time, on such Auction Date, an Opinion of Counsel to the effect that such adjustment is authorized by the Second Supplemental Trust Agreement; and

(ii) If the condition referred to in subparagraph (i) above is not satisfied, the existing percentage used in determining the All-Hold Rate shall remain in effect and the rate of interest for the next succeeding Auction Interest Period shall equal the Maximum Auction Rate on the applicable Auction Date.

(n) Changes in Auction Interest Period or Periods. The County may change, from time to time, the length of one or more Auction Interest Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Interest Period and the Interest Rate borne by the Auction Rate Securities (an "Auction Period Adjustment"); provided that the County shall have received a Rating Affirmation from each Rating Agency and a Opinion of Counsel to the effect that such action is duly authorized under the Trust Agreement and will not, in and of itself, have and adverse effect on the State of California personal income taxes exemption. The County will not initiate such change in the length of the Auction Interest Period unless it has received the written consent of the Market Agent, which consent shall not be unreasonably withheld (and in the case of any adjustment where the new Auction Interest Period will be in excess of thirty five (35) days, the written consent of the 2004B Insurer), not less than fifteen days nor more than 20 days prior to the effective date of an Auction Period Adjustment. The County will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent, the Securities Depository and each Rating Agency then rating the Auction Rate Securities subject to such Auction Period Adjustment, in substantially the form of, or containing substantially the information contained in the Trust Agreement at least 10 days prior to the Rate Determination Date for such Auction Interest Period.

No Auction Period Adjustment may result in an Auction Interest Period of less than 7 nor more than 91 days, with respect to Auction Rate Securities with a "Short Auction Period", or in an Auction Interest Period that is more than three months shorter or longer than the Auction Interest Period established upon the issuance of such Auction Rate Securities, with respect to Auction Rate Securities with a "Long Auction Period." An Auction Period Adjustment will not be allowed unless Sufficient Clearing Bids (as defined in APPENDIX F – "AUCTION AND SETTLEMENT PROCEDURES" herein) existed or all Auction Rate Securities were subject to Submitted Hold Orders (as defined in APPENDIX F – "AUCTION AND SETTLEMENT PROCEDURES" herein) at both the Auction preceding the date on which the notice of the proposed change was given as described above and the Auction preceding the proposed change.

An Auction Period Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., eastern time, on the Business Day before the Rate Determination Date for the first such Auction Interest Period, a Certificate from the County authorizing an Auction Period Adjustment specified in such certificate and the written consent of the Market Agent described above and the Rating Affirmation and the Opinion of Counsel specified above, and (B) Sufficient Clearing Bids exist or all Auction Rate Securities were subject to Submitted Hold Orders at the Auction on the Rate Determination Date for such first Auction Interest Period. If the conditions referred to above are not met, the Auction Rate applicable for the next Auction Interest Period will be determined pursuant to the Auction Procedures and the length of the Auction Interest Period will remain the same.

(o) Changes in the Rate Determination Date. The Market Agent may, while any of the Auction Rate Securities are Outstanding and with the written consent of an Authorized Officer of the County, specify an earlier Rate Determination Date for any one or more Series of the Auction Rate Securities (but in no event than five Business Days earlier than the Rate Determination Date for the Auction Rate Securities that would otherwise be determined in accordance with the definition of Rate Determination Date for such Series) with respect to one or more specified Auction Interest Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting a Rate Determination Date and the Interest Rate borne on the Auction Rate Securities. The Authorized Officer of the County will not consent to such change in the Rate Determination Date unless he or she shall have received from the Market Agent not less than 15 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Rate Determination Date for one or more Auction Interest Periods by means of a written notice delivered at least 10 days prior to the proposed changed Rate Determination Date to the Trustee, the Auction Agent, the County and the Securities Depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the Trust Agreement.

In connection with any change in Auction terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

(p) Conversion of Auction Rate Securities to Fixed Interest Rates. At the option of the County, with the prior written consent of the 2004B Insurer, all but not less than all of the Series 2004 B Bonds may be converted from Auction Rate Securities to Series 2004 B Bonds bearing interest at fixed interest rates as follows:

(i) The Fixed Rate Conversion Date shall be an Interest Payment Date.

(ii) The County shall give written notice of any such conversion to the Trustee, the applicable Auction Agent, the 2004B Insurer and the applicable Broker-Dealer not less than 15 days nor more than 30 days prior to the date on which the Trustee is required to notify the Series 2004 B Bond Holders of the conversion of the applicable Subseries pursuant to subparagraph (iii) immediately below. Such notice shall specify the proposed Fixed Rate Conversion Date of the applicable Subseries and the principal amount of Auction Rate Securities to be converted to Series 2004 B Bonds bearing interest at fixed interest rates. Together with such notice, the County shall file with the applicable Broker-Dealer and the Trustee a form of Opinion of Counsel addressed to the Broker-Dealer, the Trustee, the County and the 2004B Insurer to the effect that the conversion of the Auction Rate Securities of the applicable Subseries to fixed interest rates will not adversely affect the validity of the Series 2004 B Bonds under State law. No conversion shall become effective unless on or before the proposed Fixed Rate Conversion Date the County shall also file with the Trustee an Opinion of Counsel addressed to the Trustee, the County and the 2004B Insurer substantially in the form described in the immediately preceding sentence, dated the Fixed Rate Conversion Date.

(iii) Not fewer than 40 days prior to the Fixed Rate Conversion Date established for the applicable Series, the Trustee shall mail a written notice of the conversion to the Holders of all Auction Rate Securities (with a copy to the 2004B Insurer) of the applicable Subseries to be converted, which notice shall:

(A) specify the Fixed Rate Conversion Date established for the applicable Subseries;

(B) notify such Holders that the Auction Rate Securities of the applicable Subseries to be converted will be subject to mandatory tender for purchase on such Fixed Rate Conversion Date at a price equal to 100% of the principal amount of such Auction Rate Securities, plus interest accrued and unpaid with respect thereto, if any, to but not including the Fixed Rate Conversion Date;

(C) notify such Holders that in the event of a failed conversion, or in the event the County exercises its right of election to revoke the conversion pursuant to the Second Supplemental Trust Agreement, such Auction Rate Securities will not be subject to mandatory tender, will be returned to their Holders, will automatically convert to the Auction Interest Period in effect immediately prior to the Fixed Rate Conversion Date and will bear interest at the Maximum Auction Rate;

(D) set forth the time, the place and the manner for tendering such Auction Rate Securities for purchase; and

(E) set forth any other matters required to be stated pursuant to the Second Supplemental Trust Agreement.

(iv) Not later than 12:00 noon, New York City time, on the Business Day immediately preceding the Fixed Rate Conversion Date established for the applicable Subseries, at the direction of the County, the applicable Broker-Dealer shall determine, by offering for sale and using at least its best efforts to find purchasers for the Subseries of Auction Rate Securities which are to be converted to Series 2004 B Bonds bearing interest at fixed interest rates:

(A) the fixed interest rate(s) applicable to such Series 2004 B Bonds after such Fixed Rate Conversion Date;

(B) the allocation of such Series 2004 B Bonds between Series 2004 B Serial Bonds and other Series 2004 B Bonds, which allocation shall be made in such manner as shall:

(1) produce the lowest aggregate interest payable with respect to the converted Series 2004 B Bonds;

(2) establish mandatory Redemption Dates and related principal amounts for Series 2004 B Serial Bonds, if any, and establish mandatory Redemption Dates and related principal amounts for Series 2004 B Bonds other than Series 2004 B Serial Bonds, if any, which are consistent, on a *pro rata* basis, with the principal of such Series 2004 B Bonds prior to such Fixed Rate Conversion Date;

(3) permit Bond Counsel to render the opinion described in subparagraph (ii) above;

provided, however, that if Bond Counsel is unable to render such opinion because of the allocation procedures set forth in this subparagraph (iv), all such converted Series 2004 B Bonds shall be redesignated as Series 2004 B Serial Bonds with mandatory Redemption Dates and related principal amounts which are consistent, on a *pro rata* basis, with the applicable principal of such Series 2004 B Bonds prior to the Fixed Rate Conversion Date).

Such determination shall be conclusive and binding upon the County, the Trustee and the Holders of the Series 2004 B Bonds of the applicable Subseries to be converted to which such rate or rates will be applicable. Not later than 5:00 pm, New York City time, on the date of determination of the fixed interest rate(s), as provided in the first sentence of this subparagraph (iv), the applicable Broker-Dealer shall notify the County and the Trustee of the following by facsimile notice:

(C) the aggregate principal amount of the Series 2004 B Bonds bearing interest at fixed rates as a result of such conversion;

(D) a schedule of the mandatory Redemption Dates and related principal amounts of converted Series 2004 B Bonds which the County has redesignated as Series 2004 B Serial Bonds; and

(E) a schedule of the mandatory Redemption Dates and related principal amounts of converted Series 2004 B Bonds which are not Serial Bonds, if any.

If necessary or appropriate in the Opinion of Counsel, the County shall execute and deliver an additional supplement to the Trust Agreement setting forth, among other things, the terms of the Series 2004 B Fixed Rate Bonds and the form of Series 2004 B Fixed Rate Bond;

(v) The County may revoke its election to effect a conversion of the applicable Subseries of the Auction Rate Securities to Series 2004 B Bonds bearing interest at fixed interest rates by giving written notice of such revocation to the Trustee, the 2004B Insurer and the applicable Broker-Dealer and at any time prior to the Business Day immediately preceding the Fixed Rate Conversion Date.

(vi) Auction Rate Securities of the applicable Subseries which are to be converted to Series 2004 B Bonds bearing interest at fixed interest rates shall be subject to mandatory tender for purchase on a proposed Fixed Rate Conversion Date (subject to the availability of funds sufficient to pay the Tender Price of such Series 2004 B Bonds having been provided to the Trustee through the remarketing of such Series 2004 B Bonds) at a price equal to 100% of the principal amount of such Auction Rate Securities, plus interest accrued and unpaid with respect thereto to, if any, but not including, the Fixed Rate Conversion Date.

(vii) If on a proposed Fixed Rate Conversion Date, any condition precedent to such conversion required under the Second Supplemental Trust Agreement shall not be satisfied, the Trustee shall give written notice by first-class mail, postage prepaid, as soon as practicable and in any event not later than the next succeeding Business Day to the Holders of the applicable Subseries to be converted that such conversion has not occurred, that the Series 2004 B Bonds of the applicable Subseries to be converted shall not be purchased on the failed Fixed Rate Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the Series 2004 B Bonds which otherwise would have been converted, excluding, however, the Auction Date falling on the Business Day next preceding the failed Fixed Rate Conversion Date, and that the interest rate with respect to such Series 2004 B Bonds shall continue to be the applicable Auction Rate; provided, however, that the interest rate on the Series 2004 B Bonds during the Auction Interest Period commencing on such failed Fixed Rate Conversion Date shall be the Maximum Auction Rate until the next scheduled Auction Date.

(q) Purchase of Series 2004 B Bonds.

(A) *Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rates*. The Series 2004 B Bonds of any Subseries shall be subject to mandatory tender for purchase if at any time the Trustee gives notice, in accordance with the procedures set forth in subsection (B) immediately below, that, at the option of the County, the Series 2004 B Bonds of such Subseries are to be converted to a fixed interest rate pursuant to the provisions of the Second Supplemental Trust Agreement; subject to the availability of funds sufficient to pay the Tender Price of such Series 2004 B Bonds having been provided to the Trustee through the remarketing of such Series 2004 B Bonds. In the case of conversion of Series 2004 B Bonds to fixed interest rates, the Series 2004 B Bonds of such Subseries shall be subject to mandatory tender for purchase as provided in the Second Supplemental Trust Agreement. The Series 2004 B Bonds of such Subseries subject to mandatory tender shall be purchased or deemed purchased at the Tender Price.

(B) *Notice of Mandatory Tender for Purchase*. In connection with any mandatory tender for purchase of any Series 2004 B Bonds of any Subseries in accordance with paragraph (A) immediately above and paragraph (p) under this heading "Maturity, Interest Rates and Payment Terms", the Trustee shall give the notice required by the Second Supplemental Trust Agreement as part of the notices given pursuant to (if applicable) paragraph (p) under this heading "Maturity, Interest Rates and Payment Terms". Such notice shall state:

(1) that the Tender Price of any Series 2004 B Bond subject to mandatory tender for purchase shall be payable only upon surrender of that Series 2004 B Bond to the Trustee at its Principal Office for delivery of Series 2004 B Bonds, accompanied by an instrument of transfer, in form satisfactory to the Trustee, executed in blank by the Holder or such Holders duly authorized attorney, with such signature guaranteed in the manner set forth in the form attached to the Series 2004 B Bonds;

(2) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series 2004 B Bonds by the applicable Broker-Dealer, and provided that the County has not exercised its right of election to revoke the conversion pursuant to the Second Supplemental Trust Agreement, Series 2004 B Bonds subject to mandatory tender for purchase shall be purchased on the Tender Date;

(3) that if any Holder of a Series 2004 B Bond subject to mandatory tender for purchase does not surrender such Series 2004 B Bond to the Trustee for purchase on the Tender Date, then such Series 2004 B Bond, on

and after such Tender Date, shall be deemed to be an Undelivered Series 2004 B Bond, that no interest shall accrue with respect to such Series 2004 B Bond on and after such Tender Date and that the Series 2004 B Bond shall have no rights under the Trust Agreement other than to receive payment of the Tender Price; and

(4) that, in the event moneys sufficient to pay the Tender Price of such Series 2004 B Bonds have not been provided to the Trustee through the remarketing of such Series 2004 B Bonds, such Series 2004 B Bonds shall not be purchased or deemed purchased and shall continue to have interest accrue with respect thereto as if such failed purchase had not occurred.

If the circumstances described in subparagraph (4) above should occur, then the affected Series 2004 B Bonds shall not be purchased or deemed purchased and shall continue to have interest accrue with respect thereto as described in subparagraph (4) above. The Insurance Policy may not be drawn upon to purchase any Series 2004 B Bonds under the Trust Agreement.

(C) *Undelivered Series 2004 B Bonds*. The following provisions shall apply to Undelivered Series 2004 B Bonds:

(1) The Trustee may refuse to accept delivery of any Series 2004 B Bond for which a proper instrument of transfer has not been provided; provided, however, that such refusal shall not affect the validity of the purchase of such Series 2004 B Bond as provided in the Second Supplemental Trust Agreement. If any Holder of a Series 2004 B Bond subject to mandatory tender for purchase pursuant to the Second Supplemental Trust Agreement fails to deliver such Series 2004 B Bond properly endorsed, such Series 2004 B Bond shall constitute an Undelivered Series 2004 B Bond.

(2) If funds in the amount of the purchase price of the Undelivered Series 2004 B Bond are available for payment to the Holder thereof on the Tender Date and at the time specified, then, from and after the Tender Date and time of such required delivery:

(A) such Undelivered Series 2004 B Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Trust Agreement;

(B) interest shall no longer accrue with respect to such Undelivered Series 2004 B Bond; and

(C) funds in the amount of the purchase price of the Undelivered Series 2004 B Bond shall be held uninvested by the Trustee for the benefit of the Holder thereof (provided that such Series 2004 B Bond shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Series 2004 B Bond to the Trustee at its Principal Office for delivery of the Series 2004 B Bonds. Any money which the Trustee segregates and holds in trust for the payment of the Tender Price of any Series 2004 B

Bond which remains unclaimed for two years after the date of purchase shall be paid to the County. After the payment of such unclaimed money to the County, the former Holder of such Series 2004 B Bond shall look only to the County for the payment of the Tender Price. The County shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

(r) Determination by Trustee; Notice of Tender. For purposes of paragraph (p) under this heading, the Trustee shall determine timely and proper delivery of Series 2004 B Bonds and the proper endorsement of Series 2004 B Bonds delivered. Such determination shall be binding on the Holders of such Series 2004 B Bonds, the County, and the Broker-Dealer, absent manifest error.

Transfer and Exchange

(a) Transfer of Series 2004 B Bonds. The registration of any Series 2004 B Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in Person or by his attorney duly authorized in writing upon surrender of such Series 2004 B Bond for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Series 2004 B Bond shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Series 2004 B Bond or Series 2004 B Bonds for a like aggregate principal amount in authorized denominations. The Trustee shall require the payment by the Series 2004 B Bond Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing any Series 2004 B Bonds and any services rendered or any expenses incurred by the Trustee in connection with any transfer shall be paid by the County. The Trustee shall not be required to transfer:

(i) any Series 2004 B Bonds during the period between the date fifteen (15) days prior to the date of selection of Series 2004 B Bonds for redemption and such date of selection, or

(ii) any Series 2004 B Bonds selected for redemption.

(b) Exchange of Series 2004 B Bonds. Series 2004 B Bonds may be exchanged, upon surrender thereof, at the Office of the Trustee for a like aggregate principal amount of Series 2004 B Bonds of other authorized denominations of the same maturity. Whenever any Series 2004 B Bond or Series 2004 B Bonds shall be surrendered for exchange, the Trustee shall execute and deliver a new Series 2004 B Bond or Series 2004 B Bonds for like aggregate principal amount in Authorized Denominations. The Trustee shall require the payment by the Series 2004 B Bond Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing any Series 2004 B Bonds and any services rendered or any expenses incurred by the Trustee in connection with any exchange shall be paid by the County. The Trustee shall not be required to exchange:

(i) any Series 2004 B Bonds during the period between the date 15 days prior to the date of selection of Series 2004 B Bonds for redemption and such date of selection, or

(ii) any Series 2004 B Bonds selected for redemption.

CUSIP Numbers

The Trustee and the County shall not be liable for any defect or inaccuracy in any CUSIP number that appears on any Series 2004 B Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Series 2004 B Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Holders and that neither the Trustee nor the County shall be liable for any inaccuracies in such numbers.

Book-Entry Procedures

(a) Transfers Outside Book-Entry System. The Depository may determine to discontinue providing its services with respect to the Series 2004 B Bonds at any time by giving notice to the County and the Trustee and discharging its responsibilities with respect thereto under applicable law. The Trustee shall notify the Depository in the event any such notice is received from the Depository. The County, at the request or with the consent of the Depository and without the consent of any other Person, may terminate the services of the Depository with respect to the Series 2004 B Bonds if the County or the Depository determines that:

(i) the Depository is unable to discharge its responsibilities with respect to the Series 2004 B Bonds, or

(ii) a continuation of the requirement that all of the Outstanding Series 2004 B Bonds be registered in the Registration Books kept by the Trustee in the name of the Nominee, or any other nominee of the Depository, is not in the best interest of the Beneficial Owners of the Series 2004 B Bonds.

Upon the termination of the services of the Depository with respect to the Series 2004 B Bonds pursuant to subparagraph (ii) immediately above, or upon any other discontinuance or termination of the services of the Depository with respect to the Series 2004 B Bonds after which no substitute securities depository willing to undertake the functions of the Depository hereunder can be found which, in the opinion of the County, is willing and able to undertake such functions upon reasonable and customary terms, the Trustee is obligated to deliver Series 2004 B Bonds at the expense of the Beneficial Owners of the Series 2004 B Bonds, as described in the Second Supplemental Trust Agreement, and the Series 2004 B Bonds shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee of the Depository, but may be registered in whatever name or names Series 2004 B Bond Holders transferring or exchanging Series 2004 B Bonds shall designate, in accordance with the provisions of the Second Supplemental Trust Agreement.

(b) Payments and Notices. Notwithstanding any other provision of the Second Supplemental Trust Agreement to the contrary, so long as any Series 2004 B Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest evidenced by such Series 2004 B Bond and all notices with respect to such Series 2004 B Bond shall be made and given, respectively, in the manner prescribed by the Depository from time to time. Series 2004 B Bond Holders shall have no lien or security interest in any rebate or refund paid by the Depository to the Trustee or the County which arises from the payment by the Trustee of principal or interest evidenced by the Series 2004 B Bonds in immediately available funds to the Depository.

(c) Tenders and Deliveries. So long as Cede & Co. is the sole registered Holder of the Series 2004 B Bonds, all deliveries of Series 2004 B Bonds under the provisions of the Second Supplemental Trust Agreement shall be made pursuant to DTC's procedures as in effect from time to time, and none of the County or the Trustee shall have any responsibility for or liability with respect to the implementation of such procedures.

Market Agent

The County hereby authorizes and expressly directs the Trustee, as agent for the Beneficial Owners of the Auction Rate Securities, to enter into a Market Agent Agreement relating to Auction Rate Securities with the Initial Market Agent. The Market Agent shall serve in such capacity under the terms and provisions hereof and of the Market Agent Agreement. The Market Agent shall be a member of the National Association of Securities Dealers, Inc., having capitalization of at least $25,000,000, and be authorized by law to perform all the duties imposed upon it by this Second Supplemental Trust Agreement and the Market Agent Agreement. The Market Agent will promptly resign following receipt of a request by the Trustee or the 2004B Insurer (with a copy to the County and the Trustee) or at any time, with the prior written consent of the 2004B Insurer, upon and pursuant to the written direction of the Beneficial Owners of at least two-thirds of the aggregate principal amount of the Auction Rate Securities then Outstanding filed with the Market Agent, the 2004B Insurer and the County, provided that such removal shall not take effect until the appointment by the County of a Substitute Market Agent and the successors acceptance of their duties and obligations pursuant to appropriate documentation. The Market Agent may also resign upon 30 days' prior written notice delivered to the Trustee, provided that such resignation shall not take effect until the appointment by the County of a Substitute Market Agent. If the County is unable to appoint a Substitute Market Agent within 30 days following receipt of such written notice of resignation, the Market Agent may petition the appropriate court having jurisdiction to appoint a Substitute Market Agent. Notwithstanding this provisions of the paragraph, the Market Agent may be removed at any time, at the request of the County with the consent of the 2004B Insurer, for any breach of its obligations under the Second Supplemental Trust Agreement or under the Market Agent Agreement.

The Trustee shall not be liable under any circumstances for any action taken, suffered or omitted by the Market Agent and shall be indemnified as set forth in the Trust Agreement.

Auction Agent

(a) The County authorizes and expressly directs the Trustee, as agent for the Beneficial Owners of the Auction Rate Securities, to enter into the Initial Auction Agent Agreement relating to Auction Rate Securities with Deutsche Bank Trust Company Americas, a New York Banking Corporation, as the Initial Auction Agent. Any Substitute Auction Agent shall be:

(i) subject to the written approval of the applicable Broker-Dealer; and either:

(ii) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Trustee and the Market Agent in writing and having a combined capital stock or surplus of at least $15,000,000; or

(iii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $15,000,000,

and, in either case, authorized by law to perform all the duties imposed upon it under the Second Supplemental Trust Agreement and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of its duties and obligations under the Auction Agent Agreement as Auction Agent by giving at least 90 days' prior notice to the Trustee, the County, the 2004B Insurer and the Market Agent. The Auction Agent may be removed at any time by a request of the Trustee or the 2004B Insurer (with a copy to the Trustee and the County) and upon thirty days notice to the Auction Agent or upon the written direction of the County or, with the prior written consent of the 2004B Insurer, the Beneficial Owners of at least two-thirds of the aggregate principal amount of the Auction Rate Securities then Outstanding, by an instrument signed by such Beneficial Owners or their attorneys and filed with the Auction Agent, the applicable Broker-Dealer, the Trustee, the 2004B Insurer and the Market Agent upon at least 30 days' prior notice. Neither resignation nor removal of the Auction Agent pursuant to the provisions of the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. If required by the Market Agent, a Substitute Auction Agent Agreement shall be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 45 days after notifying the Trustee, the applicable Broker-Dealer, the County, the 2004B Insurer and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment. The Trustee shall not be liable for any action taken, suffered or omitted by the Auction Agent.

(b) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the County, with the consent of the 2004B Insurer, shall use its best efforts to appoint a Substitute Auction Agent for such Series.

(c) The Auction Agent is acting as agent for the Beneficial Owners of the Auction Rate Securities in connection with Auctions. In the absence of bad faith, negligent failure to act or negligence on its part, the applicable Auction Agent shall not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(d) Notwithstanding the provisions of paragraph (a) under this heading, the Auction Agent may be removed at any time, at the request of the County, with the consent of the 2004B Insurer, for any breach of its obligations under the Second Supplemental Trust Agreement or under the related Auction Agent Agreement.

Broker-Dealers

(a) The Auction Agent will enter into a Broker-Dealer Agreement with Citigroup Global Markets Inc., E. J. De La Rosa & Co., and UBS Financial Services Inc. for the Auction Rate Securities. The County may, from time to time, approve one or more additional Persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the applicable Auction Agent.

(b) Any Broker-Dealer may be removed at any time, at the request of the County, for any breach of its obligations under the Second Supplemental Trust Agreement or under the Broker-Dealer Agreement, provided that at least one Broker-Dealer Agreement must be in effect immediately following such removal.

No County or Trustee Liability For Auction Failures

Neither the County nor the Trustee shall be responsible for any failure of a Broker-Dealer to submit an Order (as defined in the Auction Agent Agreement) to the Auction Agent on behalf of any Existing Holder or Potential Holder (as defined in the Auction Agent Agreement), nor shall the County nor the Trustee be responsible for failure by any Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. The County shall have no liability if there are not Sufficient Clearing Bids (as such term is defined in the Auction Agent Agreement) from time to time pursuant to the Auction Procedures.

FUNDS AND ACCOUNTS

Bond Fund; Deposits to Bond Fund.

The 2004 Debenture provides that the County is obligated to prepay each Fiscal Year's obligations within 30 days of the commencement of such Fiscal Year. To meet the County's obligations under Section 31453.5 of the Retirement Law for each Fiscal Year, the County shall deposit or cause to be deposited with the Trustee the amount of the County's obligations on the Series 2004 Bonds for such Fiscal Year within 30 days of the commencement of each Fiscal Year (the "Prepayment Obligation Date") and on each Prepayment Obligation Date thereafter, it will transfer to the Trustee an amount which, together with the amount then on deposit in the Debt Service Fund, will be not less than the amount of the obligations on the Series 2004 Bonds becoming due in such Fiscal Year. For purposes of determining the amount of the County's obligations on any Outstanding Auction Rate Securities for such Fiscal Year to be deposited in accordance with the previous sentence, the County's obligation (the "Auction Rate Securities Prepayment Obligation") with respect to such Auction Rate Securities shall be calculated on the basis of actual principal to be due and payable during such Fiscal Year plus interest payable on Outstanding Auction Rate Securities based upon the weighted average interest rates with respect to the Auction Rate Securities for the 12-month period ending March 31 of the preceding Fiscal Year plus 200 basis points, as set forth in a certificate to be provided to the County by the Trustee on or before July 1 of each year.

On or about December 15 of each year, the County will calculate, and set forth in a certificate to be provided to the Trustee and the 2004B Insurer on such date, the projected interest to be payable with respect to the Auction Rate Securities on February 15 of the succeeding year. Such calculation shall be made on the basis of (1) interest payable for any then current or past Auction Interest Period for which interest has not been paid for each Subseries of Auction Rate Securities for which a specific Auction Rate has been determined and (2) for any Auction Interest Period ending on or before the last Business Day preceding such February 15 for each Subseries of Auction Rate Securities for which a new interest rate has yet to be determined, on the basis of the weighted average interest rates with respect to the Auction Rate Securities for dates after the immediately preceding Interest Payment Date and for which rates have been determined plus 200 basis points. If the amount then on deposit in the Debt Service Fund is less than the amount of the interest projected to be payable on all Outstanding Series 2004 Bonds on February 15 of the succeeding year, the County will transfer to the Trustee an amount which, together with the amount then on deposit in the Debt Service Fund, will be not less than the amount of the principal and the interest projected to be payable on all Outstanding Series 2004 Bonds on February 15 of the succeeding year.

If on the second Business Day prior to any February 15 Interest Payment Date the amount then on deposit in the Interest Account is less than the amount of the interest to be payable on all Outstanding Series 2004 Bonds on such February 15, the County will transfer to the Trustee an amount which, together with the amount then on deposit in the Interest Account, will be not less than the than the amount of the interest to be payable on all Outstanding Series 2004 Bonds on such February 15.

Further, to the extent permitted by law, the County covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments of the County's obligations on the Bonds including, without limitation the Auction Rate Securities Prepayment Obligation at any time and from time to time during any Fiscal Year in the event that the County's obligations on the Bonds including, without limitation the Auction Rate Securities Prepayment Obligation and Swap Payments paid in any Fiscal Year exceeds the pro rata portion of the appropriations then contained in the County's budget.

All amounts payable by the County under the Trust Agreement shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which fund is created under the Trust Agreement and shall be held in trust by the Trustee.

Allocation of Moneys in Bond Fund.

At least two Business Days prior to each Interest Payment Date or date fixed for redemption of Bonds, the Trustee shall transfer from the Bond Fund, in immediately available funds or securities scheduled to timely mature for the purposes so designated, for deposit into the following respective accounts (each of which the Trustee shall maintain in trust separate and distinct from the other funds and accounts established under the Trust Agreement), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

(a) Interest Account,

(b) Principal Account, and

(c) Administrative Expense Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Trust Agreement.

Interest Account. On each February 15 and August 15, (commencing on August 15, 1994 with respect to the issuance of the 1994 Series A Bonds and February 15, 2003 with respect to the issuance of the Series 2002 Bonds, August 15, 2004 with respect to Series 2004 B Bonds, and August 15, 2005 with respect to Series 2004 A Bonds), the Trustee shall set aside from the Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such February 15 or August 15, as the case may be.

No deposit need be made in the Interest Account if the amount contained in the Trust Agreement is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On each August 15, the Trustee shall set aside from the Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such August 15 into the respective sinking fund accounts for all Outstanding Term Bonds and the principal amount and the Accreted Value of all Outstanding Bonds maturing on such August 15.

No deposit need be made in the Principal Account if the amount contained in the Trust Agreement is at least equal to the aggregate amount of the principal and the Accreted Value of all Outstanding Serial Bonds maturing by their terms on such August 15 plus the aggregate amount of all sinking fund payments required to be made on such August 15 for all Outstanding Term Bonds.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "__ Sinking Account" (the "Sinking Account"), inserting in the Trust Agreement the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Trustee may upon the Written Request of the County, apply moneys in such Sinking Account to the purchase for cancellation of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the County, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking account was created.

The Trustee shall establish and maintain within the Principal Account separate accounts for each of the four Subseries of the Series 2002 B Bonds, designated as the Series B-__ Term Bonds Sinking Account The Trustee shall establish and maintain within the Principal Account separate accounts for each of the four Subseries of the Series B Bonds, designated as the Series 2004 B-__ Term Bonds Sinking Account. Subject to the terms and conditions set forth in the Trust Agreement, each of the four Subseries of the Series 2002 B Bonds, and each of the four Subseries of the Series 2004 B Bonds, respectively, shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking account payments in the amounts and upon the dates established for the respective Term Bonds Sinking Account, as set forth in the Trust Agreement, the First Supplemental Trust Agreement and the Second Supplemental Trust Agreement.

Administrative Expense Account. Following the deposits set forth above having been made on each February 15 Interest Payment Date, any moneys remaining in the Bond Fund (other than those funds representing Swap Payments under any swap agreement paid to the County or the Trustee and deposited in the Bond Fund as of August of the preceding year, which amounts shall be retained in the Bond Fund until February 15 of such year) shall be deposited by the Trustee in the Administrative

Expense Account. Moneys deposited in the Administrative Expense Account shall be transferred by the Trustee to or upon the order of the County, as specified in a Written Request of the County to, among other things and without limitation, (i) make payments due under the ISDA Master Agreements entered into in connection with the Series 2002 Bonds, and (ii) pay rating agency, Broker-Dealer and Auction Agent fees incurred in connection with the Series 2002 Bonds, and rating agency, Broker-Dealer and Auction Agent fees incurred in connection with the Series 2004 Bonds, and other administrative and ongoing costs incident to the Bonds, in each case provided all of the County's obligations under the Trust Agreement are then otherwise satisfied.

Deposit and Investments of Money in Accounts and Funds.

All money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Permitted Investments at the Written Request of the County. If no Written Request of the County is received, the Trustee shall invest funds held by it in Permitted Investments described in clause (8) of the definition thereof. Such investments shall as nearly as practicable mature on, but in any event before, the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement. All interest or profits received on any money so invested shall be deposited in the Bond Fund.

REDEMPTION OF BONDS

Notice of Redemption.

Notice of any redemption under this section shall be given by the Trustee by first-class mail, not less than 30 nor more than 60 days prior to the redemption date to the respective Holders of the Series 2004 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. In addition, notice of redemption shall also be sent to the 2004B Insurer, to each Broker-Dealer (if applicable), to the Rating Agencies, to all municipal registered Securities Depositories and to at least two of the NRMSIRs, no later than simultaneously with the mailing of notices required by the first paragraph above; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Series 2004 Bonds. Each notice of redemption shall state the date of such notice, the redemption price, if any, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity, to be redeemed and, in the case of Series 2004 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Series 2004 Bonds the redemption price, if any, thereof and in the case of a Series 2004 Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2004 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

In the event of redemption of Series 2004 Bonds (other than sinking account redemptions), the Trustee shall mail a notice of redemption upon receipt of a Written Request of the County but only after the County shall file a Certificate of the County with the Trustee that on or before the date set for redemption, the County shall have deposited with or otherwise made available to the Trustee for deposit in the Principal Account the money required for payment of the redemption price, including accrued interest, of all Series 2004 Bonds then to be called for redemption (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Series 2004 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Series 2004 Bonds so called for redemption shall become due and payable, and from and after the redemption date so designated interest on such Series 2004 Bonds shall cease to accrue, and the Holders of such Series 2004 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) with respect to the Series 2004 Bonds so called for redemption shall have been duly provided, such Series 2004 Bonds so called shall cease to be entitled to any benefit under the Trust Agreement other than the right to receive payment of the principal, interest accrued to the Redemption Date, and premium, if any, and no interest shall accrue with respect thereto from and after the Redemption Date specified in the notice of such redemption. All Series 2004 Bonds redeemed in whole or in part pursuant to the provisions of the Trust Agreement shall be canceled by the Trustee and destroyed, and the Trustee shall certify in writing as to their destruction. If such funds shall not be so available on the Redemption Date, interest with respect to such Series 2004 Bonds or portions thereof shall continue accrue until paid at the same rate as it would have accrued had they not been called for redemption.

ISSUANCE OF ADDITIONAL BONDS

Conditions for the Issuance of Additional Bonds.

The County may at any time issue Additional Bonds on a parity with the Prior Bonds, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Additional Bonds:

(a) The County shall be in compliance with all agreements and covenants contained in the Trust Agreement.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Trust Agreement which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for (i) the purpose of satisfying any obligation to make payments to the Association pursuant to the Act relating to pension benefits accruing to the Association's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds for such purpose, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The denomination or denominations of and method of numbering such Additional Bonds;

(4) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(5) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account in the Trust Agreement after referred to;

(6) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent herewith.

Procedure for the Issuance of Additional Bonds.

At any time after the sale of any Additional Bonds in accordance with the Act, the County shall execute such Additional Bonds for issuance under the Trust Agreement and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be delivered by the Trustee to the purchaser thereof upon the Written Request of the County, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee:

(a) An executed copy of the Supplemental Trust Agreement authorizing the issuance of such Additional Bonds;

(b) A Written Request of the County as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the County has executed and delivered the Supplemental Trust Agreement, and the Supplemental Trust Agreement is valid and binding upon the County and (2) such Additional Bonds are valid and binding obligations of the County entitled to the benefits of the Act and of the Trust Agreement, and such Additional Bonds have been duly and validly issued in accordance with the Act and with the Trust Agreement;

(d) A Certificate of the County containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained in the Trust Agreement;

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.

Additional Bonds.

The County shall not issue Additional Bonds if immediately following issuance of such Additional Bonds the aggregate principal amount of Bonds insured by a financial guaranty insurance policy issued by the 2002 Insurer shall be less then 51% of the aggregate principal amount of all Outstanding Bonds.

COVENANTS OF THE COUNTY

Punctual Payment and Performance.

The County will punctually pay the interest on and the principal and Accreted Value of and redemption premiums, if any, to become due on every Bond issued hereunder in strict conformity with the terms hereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the County contained herein and in the Bonds.

Extension of Payment of Bonds.

The County shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Trust Agreement, except subject to the prior payment in full of the principal and Accreted Value of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the County to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Additional Debt.

The County expressly reserves the right to enter into one or more other agreements or indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds.

The County is duly authorized pursuant to law to issue the Bonds and to enter into this Trust Agreement. The Bonds and the provisions of this Trust Agreement are the legal, valid and binding obligations of the County in accordance with their terms. The Bonds constitute obligations imposed by law. In the event the County fails to deposit with the Trustee the amounts required to pay principal and Accreted Value of, premium, if any, and interest on the Bonds by an Interest Payment Date, in accordance with Section 31584 of the Retirement Law, the County Auditor shall forthwith transfer any lawfully available funds to the Trustee to the extent necessary to pay the principal and Accreted Value of, premium, if any, and interest coming due on the Bonds on such Interest Payment Date. The County may issue at any time, and from time to time, Additional Bonds in accordance with the Trust Agreement and any such Additional Bonds shall be subject to the benefits of the obligation imposed upon the County Auditor by the next preceding sentence.

Accounting Records and Reports.

The County will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established under the Trust Agreement, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the County shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established under the Trust Agreement for such Fiscal Year. The Trustee shall have no duty to review or examine such statement.

Prosecution and Defense of Suits.

The County will defend against every suit, action or, proceeding at any time brought against the Trustee upon any claim to the extent involving the failure of the County to fulfill its obligations under the Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The County will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the County, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Trust Agreement, except for any loss, cost, damage or expense resulting from the active or passive negligence, willful misconduct or breach of duty by the Trustee. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect even though all Bonds secured hereby may have been fully paid and satisfied.

Further Assurances.

Whenever and so often as reasonably requested to do so by the Trustee or any Holder, the County will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

Waiver of Laws.

The County shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Trust Agreement or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the County to the extent permitted by law.

Costs of Issuance.

The County shall punctually pay or cause to be paid all costs of issuance relating to the Bonds.

Allocation of UAAL.

If at any time a court of competent jurisdiction were to finally determine that the proceeds of the Series 2004 Bonds that are contributed to the Association by the County have been improperly allocated to that portion of the Association's unfunded actuarially accrued liability (the "UAAL") attributable to the employees of the San Diego Superior Courts, then the County shall use its best efforts to cause the Association to allocate all such proceeds to that portion of the UAAL attributable to employees of the County.

CERTAIN PROVISIONS RELATING TO THE TRUSTEE

Appointment of Trustee; Removal and Resignation.

BNY Western Trust Company shall serve as the Trustee for the Bonds for the purpose of receiving all money which the County is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Trust Agreement and for the purpose of paying the interest on and principal and Accreted Value of and redemption premiums, if any, on the Bonds presented for payment at the Corporate Trust Office of the Trustee with the rights and obligations provided in the Trust Agreement. The County agrees that it will at all times maintain a Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The County may at any time, unless there exists any event of default as defined in the Trust Agreement, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto, in each case acceptable to the 2004B Insurer, by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least one hundred million dollars ($100,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the, requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the County and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the County shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby.

The Trustee is authorized to pay or redeem the Bonds when duly presented for payment at maturity or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof or upon the surrender thereof by the County and shall destroy such Bonds and a certificate of destruction shall be delivered to the County. The Trustee shall keep accurate records of all Bonds paid and discharged and cancelled by it.

The Trustee shall, prior to an event of default, and after the curing of all events of default that may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement. The Trustee shall, during the existence of any event of default (that has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Liability of Trustee.

The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement except for its own active or passive negligence, willful misconduct or breach of duty.

The Trustee shall not be bound, subject to the rights of the 2004B Insurer in connection with its Insurance Policy, to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such Holder's title thereto satisfactorily established, if disputed.

The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount and Accreted Value of the Bonds at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Trust Agreement.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request, order or direction of any of the Bondholders pursuant to the provisions of the Trust Agreement unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby. The Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties under the Trust Agreement.

The Trustee shall not be deemed to have knowledge of any event of default unless and until an officer at the Trustee's Corporate Trust Office responsible for the administration of its duties under the Trust Agreement shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its Corporate Trust Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of a default or event of default under the Trust Agreement. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

The Trustee may execute any of the trusts or powers under the Trust Agreement or perform any duties under the Trust Agreement either directly or by or through attorneys-in-fact, agents or receivers, and shall be answerable for the negligence or misconduct or any such attorney-in-fact, agent or receiver. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Trust Agreement, but the Trustee shall not be answerable for the professional malpractice of any attorney-in-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms of the Trust Agreement, if such attorney-in-law or certified public accountant was selected by the Trustee with due care.

Compensation and Indemnification of Trustee.

The County covenants to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties under the Trust Agreement of the Trustee, and the County will pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of the Trust Agreement (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, default or willful misconduct, including the negligence or willful misconduct of any of its officers, directors, agents or employees. The County, to the extent permitted by law, shall indemnify, defend and hold harmless the

Trustee against any loss, damages, liability or expense incurred without negligence, willful misconduct or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of the trusts created hereby, including costs and expenses (including attorneys' fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Trust Agreement. The rights of the Trustee and the obligations of the County described in this paragraph shall survive the discharge of the Bonds and the Trust Agreement and the resignation or removal of the Trustee.

AMENDMENT OF THE TRUST AGREEMENT

Amendment of the Trust Agreement Upon Consent of the Holders.

The Trust Agreement and the rights and obligations of the County and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in aggregate principal amount and Accreted Value of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment may (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment.

Amendment of the Trust Agreement Without Consent of the Holders.

Subject to the rights of the 2002 Insurer, the Trust Agreement and the rights and obligations of the County and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required in the Trust Agreement to be performed by the County other agreements and covenants thereafter to be performed by the County, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement and in any supplemental trust agreement or in regard to questions arising under the Trust Agreement which the County may deem desirable or necessary and not inconsistent herewith;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Trust Agreement (which shall be deemed not to adversely affect Holders);

(d) to modify, amend or add to the provisions in the Trust Agreement or in any supplemental agreement to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute; or

(e) to modify, amend or supplement the Trust Agreement and any supplemental agreement in any manner that does not materially adversely affect the interest of Holders of Bonds.

Disqualified Bonds.

Bonds owned or held by or for the account of the County shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement; provided, however, that Series 2004 Bonds covered by the Insurance Policy shall not be so disqualified.

Endorsement or Replacement of Bonds After Amendment.

After the effective date of any action taken as in the Trust Agreement above provided, the County may determine that the Bonds may bear a notation by endorsement in form approved by the County as to such action, and in that case upon demand of the Holder of any Outstanding Bonds and presentation of his Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the County shall so determine, new Bonds so modified as, in the opinion of the County, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Holder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent.

The provisions of the Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds; provided that no Holder of a Series 2002 Bond insured by a financial guaranty insurance policy issued by the 2002 Insurer shall be permitted to accept such an amendment without the prior written consent of the 2002 Insurer.

EVENTS OF DEFAULT AND REMEDIES OF HOLDERS

Events of Default and Acceleration of Maturities.

If one or more of the following events (herein called "events of default") shall happen, that is to say:

(a) if default shall be made by the County in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the County in the due and punctual payment of the principal or Accreted Value of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the County in the performance of any of the agreements or covenants required herein to be performed by the County, and such default shall have continued for a period of sixty (60) days after the County shall have been given notice in writing of such default by the Trustee; specifying such default and requiring the same to be remedied, shall have been given to the County by the Trustee or the Holders of not less than 25% in aggregate principal amount and Accreted Value of the Bonds at the time Outstanding; provided, however, if the default stated in the notice can be corrected, but not within the applicable period, the Trustee and such Holders shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the County within the applicable period and diligently pursued until the default is corrected.

(d) if the County shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the County seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the County or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such event of default the Trustee may, and upon the written request of the Holders of not less than 51% in aggregate principal amount and Accreted Value of the Bonds then Outstanding shall, by notice in writing to the County, declare the principal and Accreted Value of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained herein or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing.

This provision, however, is subject to the condition that if at any time after the principal and Accreted Value of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the County shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal and Accreted Value of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest, principal and Accreted Value, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than 51% in aggregate principal amount and Accreted Value of Bonds then Outstanding, by written notice to the County and to the Trustee, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration.

All moneys in the accounts and funds provided in the Trust Agreement upon the date of the declaration of acceleration by the Trustee and all amounts in such funds and accounts thereafter received by the County under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order —

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the Trust Agreement with respect to Events of Default and remedies thereon, including reasonable compensation to their accountants and counsel, and to the payment of the costs and expenses of the Holders (including the 2002 Insurer) in providing for the declaration of such event of default, including reasonable compensation to its accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest, Accreted Value, and principal, with (to the extent permitted by law) interest on the overdue interest, Accreted Value and principal at the rate borne by such Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, Accreted Value, principal and (to the extent permitted by law) interest on overdue interest, Accreted Value, and principal without preference or priority among such interest, Accreted Value, principal and interest on overdue interest, Accreted Value, and principal ratably to the aggregate of such interest, Accreted Value, principal, and interest on overdue interest, Accreted Value and principal.

Institution of Legal Proceedings by Trustee.

If one or more of the events of default shall happen and be continuing, the Trustee may with the prior written consent of the 2002 Insurer, and upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power in the Trust Agreement granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

Non-Waiver.

Nothing in any provision of the Trust Agreement or in the Bonds shall affect or impair the obligation of the County, which is absolute and unconditional, to pay the interest on and principal and Accreted Value of and redemption premiums, if any, on the Bonds to the respective Holders of the Bonds at the respective dates of maturity or upon prior redemption as provided herein, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein and in the Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence in the Trust Agreement, and every right or remedy conferred upon the Holders by the Act or by the Trust Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the County, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Actions by Trustee as Attorney-in-Fact.

Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is hereby appointed (and the successive Holders, by taking and holding the Bonds issued under the Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

Remedies Not Exclusive.

No remedy in the Trust Agreement conferred upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Limitation on Bondholders' Right to Sue.

No Holder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined under the Trust Agreement; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Trust Agreement before granted or to institute such suit, action or proceeding in its own name; (c) said Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Trust Agreement; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided; and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner in the Trust Agreement provided and for the equal benefit of all Holders of the Outstanding Bonds.

Absolute Obligation of County.

Nothing in any provision of the Trust Agreement or in the Bonds contained shall affect or impair the obligation of the County, which is absolute and unconditional, to pay the principal and Accreted Value of, premium, if any and interest on the Bonds to the respective Holders of the Bonds at their respective due dates as herein provided.

Rights of 2002 Insurer.

The 2002 Insurer shall be deemed the Holder and shall be treated as such for purposes of any provisions requiring the consent or approval of the Holders of Series 2002 Bonds or with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Trust Agreement, but only for so long as the 2002 Insurer is in compliance with the Insurance Policy, and if the 2002 Insurer is in default under the Insurance Policy, the 2002 Insurer shall not have any rights granted to the 2002 Insurer under the Trust Agreement.

DEFEASANCE OF BONDS

Discharge of Bonds.

If the County shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest and the principal and Accreted Value thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated herein and therein, then all agreements, covenants and other obligations of the County to the Holders of such Bonds hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the County all such instruments as may be necessary or reasonably desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the County all money or securities held by it pursuant hereto which are not required for the payment of the interest on and principal and Accreted Value of and redemption premiums, if any, on such Bonds.

Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the preceding paragraph if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the County shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, (2) except as described below under "2004 INSURER PROVISIONS—Defeasance Provisions" with respect to the Series 2004 Bonds, there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book entry form on the books of the County or the Treasury of the United States of America) or tax exempt obligations of a state or political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal and Accreted Value of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and Accreted Value and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal and Accreted Value of and redemption premiums, if any, on such Bonds.

Unclaimed Money.

Anything contained in the Trust Agreement to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds or interest thereon which remains unclaimed for two years after the date when such Bonds or interest thereon have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds have become due and payable, shall at the Written Request of the County be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall not look to the Trustee for the payment of such Bonds; provided, however, that before being required to make any such payment to the County, the Trustee may, and at the request of the County shall, at the expense of the County, cause to be published once a week for two successive weeks in a Financial Newspaper of general circulation in Los Angeles and in San Francisco, California and in the same or a similar Financial Newspaper of general circulation in New York, New York a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the County.

2004 INSURERS PROVISIONS

2004 Insurers Deemed Holders.

The 2004A Insurer will be deemed the Holder of all of the Series 2004 A Bonds and all of the Series 2004 C Bonds and will be treated as such (1) for purposes of any provisions requiring the consent or approval of the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds, (2) for purposes of the provisions of the Trust Agreement governing events of default and remedies (except the giving of notice of default to the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds), and (3) with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Trust Agreement, but only for so long as the 2004A Insurer is in compliance with the 2004A Insurance Policy, and if the 2004A Insurer is in default under the 2004A Insurance Policy, the 2004A Insurer shall not have any rights granted to the 2004A Insurer under the Trust Agreement.

The 2004B Insurer will be deemed the Holder of all of the Series 2004 B Bonds and will be treated as such (1) for purposes of any provisions requiring the consent or approval of the Holders of the Series 2004 B Bonds, (2) for purposes of the provisions of the Trust Agreement governing events of default and remedies (except the giving of notice of default to the Holders of the Series 2004 B Bonds), and (3) with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Trust Agreement, but only for so long as the 2004B Insurer is in compliance with the 2004B Insurance Policy, and if the 2004B Insurer is in default under the 2004B Insurance Policy, the 2004B Insurer shall not have any rights granted to the 2004B Insurer under the Trust Agreement.

2004 Insurers Control Rights and Remedies.

For so long as the 2004A Insurer is in compliance with its obligations under the 2004A Insurance Policy, upon the occurrence and continuance of an event of default, the 2004A Insurer, acting alone, will be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds or the Trustee for the benefit of the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds under the Trust Agreement, including, without limitation, (1) the right to accelerate the principal of the Series 2004 A Bonds and Series 2004 C Bonds as described in the Trust Agreement; and (2) the right to annul any declaration of acceleration, and the 2004A Insurer shall also be entitled to approve all waivers of events of default. The Trustee shall be entitled to rely upon a certificate of an authorized officer of the 2004A Insurer to the effect that the 2004A Insurer is in compliance with its obligations under the 2004A Insurance Policy.

For so long as the 2004B Insurer is in compliance with its obligations under the 2004B Insurance Policy, upon the occurrence and continuance of an event of default, the 2004B Insurer, acting alone, will be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2004 B Bonds or the Trustee for the benefit of the Holders of the Series 2004 B Bonds under the Trust Agreement, including, without limitation, (1) the right to accelerate the principal of the Series 2004 B Bonds as described in the Trust Agreement; and (2) the right to annul any declaration of acceleration, and the 2004B Insurer shall also be entitled to approve all waivers of events of default. The Trustee shall be entitled to rely upon a certificate of an authorized officer of the 2004B Insurer to the effect that the 2004B Insurer is in compliance with its obligations under the 2004B Insurance Policy.

Parties In Interest.

The 2004 Insurers shall each be included as a party in interest and as a party entitled to (a) notify the County, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (b) request the Trustee or receiver to intervene in judicial proceedings that affect the Series 2004 A Bonds and the Series 2004 C Bonds, in the case of the 2004A Insurer, or the Series 2004 B Bonds, in the case of the 2004B Insurer. The Trustee or receiver shall be required to accept any notice of default from the 2004 Insurers.

Amendments.

The County will not enter into any amendment or modification of the Trust Agreement that, pursuant to the terms of the Trust Agreement, requires the written consents of the Holders of a majority in aggregate principal amount and Accreted Value of the Bonds then Outstanding, without the written consent of each of the 2004 Insurers.

The County hereby agrees that it will send to each Rating Agency then rating any of the Series 2004 Bonds a copy of any amendment to the Trust Agreement at least 15 days before its execution and delivery by the County. The County hereby agrees that it will send to each of the 2004 Insurers a copy of any executed amendments to the Trust Agreement or this Second Supplemental Trust Agreement and any executed Supplemental Trust Agreements reasonably promptly after execution thereof.

Notifications and Reports.

The County shall send to each of the 2004 Insurers written notice of the resignation or removal of the Trustee and the appointment of any successor thereto.

The Trustee and the County hereby severally agree that they will each send written notice to the 2004 Insurers of event of default known them within 30 days of the Trustee's or the County's respective knowledge thereof.

The County hereby agrees that it will send to the 2004 Insurers the following:

(1) Notice of the redemption, other than mandatory sinking fund redemption, or any defeasance pursuant to the Trust Agreement of any of the Series 2004 Bonds, including the principal

amount, Accreted Value, maturities, and CUSIP numbers thereof, provided, that notice need only be sent to the 2004A Insurer if the Series 2004 A Bonds or Series 2004 C Bonds are affected and to the 2004B Insurer if the Series 2004 B Bonds are affected;

(2) Notice of the downgrading by any Rating Agency then rating the County's underlying rating on the Series 2004 Bonds to "non-investment grade";

(3) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended; and

(4) Such additional information as either of the 2004 Insurers may reasonable request from time to time.

The County agrees in the Second Supplemental Trust Agreement that it will pay or reimburse the 2004 Insurers for any and all charges, fees, costs, and expenses that the 2004 Insurers may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security under the Trust Agreement; (ii) the pursuit of any remedies under the Trust Agreement; (iii) any amendment, waiver, or other action with respect to or related to the Trust Agreement whether or not executed or completed; (iv) the violation by the County of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the 2004 Insurers to cure defaults of the County under the Trust Agreement; or (vi) any litigation or other dispute in connection with the Trust Agreement or the issuance of the Series 2004 Bonds, other than amounts resulting from the failure of either of the 2004 Insurers to honor their respective payment obligations under the 2004A Insurance Policy or the 2004B Insurance Policy, as applicable; provided, that to the extent that Section 1717 of the California Civil Code governs the payment of litigation expenses, that section will apply. The 2004 Insurers reserve their respective rights to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Trust Agreement. The obligations of the County to the 2004 Insurers will survive discharge and termination of the Trust Agreement.

Defeasance Provisions.

If, in connection with any defeasance pursuant to the Trust Agreement with respect to any of the Series 2004 Bonds, a forward supply contract is employed in connection with such defeasance, (1) the opinion of the Independent Certified Public Accountant referenced in the defeasance provisions of the Trust Agreement (as described above under "DEFEASANCE OF BONDS—Discharge of Bonds" above) must expressly state that the adequacy of the escrow to accomplish the defeasance relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (2) the applicable escrow agreement must provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the Trust Agreement, if no separate escrow agreement is utilized), the terms of the escrow agreement or the Trust Agreement, if applicable, shall be controlling.

Notwithstanding the Trust Agreement, to defease any of the Series 2004 Bonds pursuant to the the defeasance provisions of the Trust Agreement (as described above under "DEFEASANCE OF BONDS—Discharge of Bonds" above), then, in addition to having met the requirements of clauses (1) and (3) therein, there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Federal Securities which are not subject to redemption prior to maturity, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified

Public Accountant, to pay when due the interest to become due on such Series 2004 Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of, Accreted Value, and redemption premiums, if any, on such Series 2004 Bonds.

Subrogation.

If principal, interest or both due on any Series 2004 A Bonds or the Series 2004 C Bonds shall be paid by the 2004A Insurer, such Series 2004 A Bonds or the Series 2004 C Bonds, as applicable, shall remain outstanding under the Trust Agreement for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the County, and all covenants, agreements and other obligations of the County to the Holders of such Series 2004 A Bonds or the Series 2004 C Bonds, as applicable, shall continue to exist and shall run to the benefit of the 2004A Insurer, and the 2004A Insurer shall be subrogated to the rights of such Holders.

If principal, interest or both due on any Series 2004 B Bonds shall be paid by the 2004B Insurer, such Series 2004 B Bonds shall remain outstanding under the Trust Agreement for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the County, and all covenants, agreements and other obligations of the County to the Holders of such Series 2004 B Bonds shall continue to exist and shall run to the benefit of the 2004B Insurer, and the 2004B Insurer shall be subrogated to the rights of such Holders.

Consent to Acceleration; Determination of Default.

Notwithstanding the Trust Agreement, the Trustee may not declare the principal and Accreted Value of any of the Series 2004 A Bonds or the Series 2004 C Bonds and the interest accrued thereon to be due and payable unless the 2004A Insurer so consents, and may not declare the principal of any of the Series 2004 B Bonds and the interest accrued thereon to be due and payable unless the 2004B Insurer so consents.

In determining whether an event of default described under the provisions of the Trust Agreement regarding default in the payment of interest, principal and Accreted Value, no effect shall be given to payments made under the 2004A Insurance Policy or the 2004B Insurance Policy, as the case may be.

APPENDIX D

FORM OF BOND COUNSEL APPROVING OPINION

June 29, 2004

County of San Diego
1600 Pacific Highway
San Diego, California 92101

Re: County of San Diego Taxable Pension Obligation Bonds, Series 2004 A, Series 2004 B and Series 2004 C (Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County of San Diego (the "County") of $454,112,915.70 aggregate principal amount of County of San Diego Taxable Pension Obligation Bonds, Series 2004 A, Series 2004 B and Series 2004 C (collectively, the "Bonds"), pursuant to Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the California Government Code (the "Act") and a Trust Agreement, dated as of February 1, 1994, between the County and U.S. Trust Company of California, N.A., as trustee, as amended and supplemented by a First Supplemental Trust Agreement, dated as of September 1, 2002 (collectively, the "Existing Trust Agreement"), and as further amended and supplemented by a Second Supplemental Trust Agreement, dated as of June 1, 2004 (the "Supplemental Trust Agreement" and together with the Existing Trust Agreement, the "Trust Agreement"), between the County and BNY Western Trust Company, as successor trustee (the "Trustee").

In such connection, we have reviewed the Trust Agreement, the opinions of counsel to the Trustee and the County, the report prepared by the County's Actuary (the "Actuary") regarding the valuation of the assets and liabilities of the County Employees' Retirement Association, certificates of the County, the Trustee, the Actuary and others and such other documents, matters and opinions to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, including the default judgment rendered on December 16, 1993, by the Superior Court of the County of San Diego in the action entitled *County of San Diego v. All Persons*, No. 670668, filed November 10, 1993, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. We call attention to the fact that the rights and obligations under the Bonds and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the County.

2. The Supplemental Trust Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, the County.

3. The Bonds do not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation, and neither the Bonds nor the obligation of the County to make payment of the interest on or the principal of the Bonds constitutes an indebtedness of the County or the State, or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

4. Interest on the Bonds is not excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

THE INFORMATION IN THIS APPENDIX E CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COUNTY AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE COUNTY AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2004 Bonds. The Series 2004 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2004 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "GSCC," "MBSCC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds: DTC records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The County will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Series 2004 Bonds. Beneficial Owners of Series 2004 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2004 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

A Beneficial Owner will give notice to elect to have its Series 2004 Bonds purchased or tendered, through its Participant, to the Tender Agent, and will effect delivery of such Series 2004 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2004 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2004 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2004 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2004 Bonds to the Tender Agent's DTC account.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the

Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2004 BONDS (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SERIES 2004 BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2004 BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2004 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2004 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2004 BONDS.

GLOBAL CLEARANCE PROCEDURES

The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.
Clearstream International and Clearstream

Clearstream International is the product of the merger of Deutsche Borse and Cedel International, the European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries: Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business and consists of Clearstream Banking Luxembourg, Clearstream Banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, São Paulo and Tokyo. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Euroclear System

The Euroclear System ("Euroclear") was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries. The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services.

Non-Participants of Euroclear may hold and transfer book-entry interests in the Securities through accounts with a direct Participant of Euroclear or any other securities intermediary that holds a book-entry interest in the Securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with Persons holding through Euroclear participants.

Distribution of the Series 2004 Bonds through Clearstream or Euroclear

Distributions with respect to the Series 2004 Bonds held through Clearstream or Euroclear are to be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its Depository (as defined below). Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an Owner of the Series 2004 Bonds under the Indenture on behalf of a Clearstream Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depositary's ability to effect such actions on its behalf through DTC. Owners of the Series 2004 Bonds may hold their Series 2004 Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The Series 2004 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries which in turn are to hold such positions in customers' securities accounts in the depositaries' names on the books of DTC. Citibank, N.A. acts as depositary for Clearstream and the Euroclear Operator acts as depositary for Euroclear (in such capacities, individually, the "Depositary" and, collectively, the "Depositaries").

Transfers of the Series 2004 Bonds between DTC Participants are to occur in accordance with DTC Rules. Transfers between Clearstream Participants and Euroclear Participants are to occur in accordance with their respective rules and operating procedures. Because of time-zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a Participant may be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such securities settled during such processing would be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a Participant are to be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlements in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, are to be effected in DTC in accordance with DTC Rules on behalf of the relevant European international clearing system by its Depositary; however, such cross-market transactions require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system if the transaction meets its settlement requirements, is to deliver instructions to its Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions to the Depositaries.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2004 BONDS (I) PAYMENTS OF PRINCIPAL OF (OR, IN THE CASE OF THE SERIES 2004 CAPITAL APPRECIATION BONDS, THE ACCRETED VALUE) OR INTEREST ON THE SERIES 2004 BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2004 BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2004 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL

OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2004 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2004 BONDS.

APPENDIX F

AUCTION AND SETTLEMENT PROCEDURES

Section 1. Definitions. Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Appendix C of this Official Statement.

"Authorized Broker-Dealer" shall mean the following Broker-Dealer(s): means, collectively, Citigroup Global Markets Inc., E.J. De La Rosa & Co., and UBS Financial Services Inc..

"Existing Owner" shall mean, with respect to any Auction, a Person who is listed as the Beneficial Owner of the Auction Rate Securities in the Existing Owner Registry at the close of business on the Business Day immediately preceding such Auction.

"Existing Owner Registry" shall mean the register maintained by the Auction Agent pursuant to the Auction Agent Agreement.

"Potential Owner" shall mean any Person, including an Existing Owner, who shall have executed (and not withdrawn or terminated) an Order and who may be interested in acquiring Auction Rate Securities (or, in the case of an Existing Owner, an additional principal amount of Auction Rate Securities).

Section 2. Auction Procedures. So long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Securities Depository, an Existing Owner may sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or Sell Order placed in an Auction or through the Authorized Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions of the Auction Rate Securities, such Existing Owner, its Authorized Broker-Dealer or its Participant advises the Auction Agent of such transfer. Subject to the provisions of the Second Supplemental Trust Agreement, Auctions of the Auction Rate Securities shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner:

(a) (i) Prior to 1:00 p.m., New York City time (the "Submission Deadline") on each Auction Date relating to Auction Rate Securities;

(A) each Existing Owner of Auction Rate Securities may submit to the Authorized Broker-Dealer by telephone or otherwise any information as to:

(I) the principal amount of outstanding Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Interest Period;

(II) the principal amount of outstanding Auction Rate Securities, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Auction Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or

(III) the principal amount of outstanding Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Auction Interest Period; and

(B) the Authorized Broker-Dealer may contact Potential Owners to determine the principal amount of Auction Rate Securities which each Potential Owner offers to purchase, if the Auction Rate for the next succeeding Auction Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The statement of an Existing Owner or a Potential Owner referred to in (A) or (B) of this paragraph (i) is hereinafter referred to as an "Order," and each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder"; an Order described in clause (A)(I) is hereinafter referred to as a "Hold Order"; an Order described in clause (A)(II) or (B) is hereinafter referred to as a "Bid"; and an Order described in clause (A)(III) is hereinafter referred to as a "Sell Order."

(ii) (A) Subject to the provisions of Section 2(b) hereof, a Bid by an Existing Owner shall constitute an irrevocable offer to sell (in each case for settlement in same day funds on the next Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided herein shall be less than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities to be determined as set forth in Section 2(d)(i)(D), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid; or

(III) such principal amount or a lesser principal amount of outstanding Auction Rate Securities to be determined as set forth in Section 2(d)(ii)(C) if the rate specified therein shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of Section 2(b) hereof, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell (in each case for settlement in same day funds on the next Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding Auction Rate Securities specified in such Sell Order if Sufficient Clearing Bids exist; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities set forth in Section 2(d)(i)(C), if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of Section 2(b) hereof, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase (in each case for settlement in same day funds on the next Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided herein shall be higher than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities set forth in Section 2(d)(i)(E), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid.

(b) (i) The Authorized Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date relating to the Auction Rate Securities, all Orders obtained by such Authorized Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate principal amount of Auction Rate Securities that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Owner:

(I) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Owner;

(II) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(III) the principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all outstanding Auction Rate Securities held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of outstanding Auction Rate Securities held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) Neither the County, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner, nor shall any such party be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

(v) If any Existing Owner submits through the Authorized Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of outstanding Auction Rate Securities held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of outstanding Auction Rate Securities held by such Existing Owner, and if the aggregate principal amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Owner, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order shall be reduced so that the aggregate principal amount of Auction Rate Securities subject to such Hold Orders equals the aggregate principal amount of outstanding Auction Rate Securities held by such Existing Owner.

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of outstanding Auction Rate Securities held by such Existing Owner over the aggregate principal amount of Auction Rate Securities subject to any Hold Order referred to in subsection (v)(A) above;

(II) subject to subsection (v)(B)(I) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess;

(III) subject to subsections (v)(B)(I) and (v)(B)(II) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(IV) in any such event, the amount of outstanding Auction Rate Securities, if any, subject to Bids not valid under this subsection (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) All Sell Orders shall be considered valid up to and including the excess of the principal amount of outstanding Auction Rate Securities held by such Existing Owner over the aggregate principal amount of Auction Rate Securities subject to Hold Orders referred to in subsection (v)(A) and valid Bids referred to in subsection (v)(B).

(vi) If more than one Bid for Auction Rate Securities is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination shall be rejected.

(viii) Any Bid specifying a rate higher than the Maximum Auction Rate will be treated as a Sell Order if submitted by an Existing Owner and will not be accepted if submitted by a Potential Owner. Any Bid submitted by an Existing Owner or on behalf of a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate, and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates contained in the Submitted Bids.

(ix) Any Order submitted in an Auction by the Authorized Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

(c) (i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Authorized Broker-Dealer (each such Order as submitted or deemed submitted by the Authorized Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of outstanding Auction Rate Securities over the sum of the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Securities"), and

(B) from the Submitted Orders whether:

(I) the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or is equal to the sum of:

(II) the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Auction Rate, and

(III) the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Sell Orders

(in the event such excess or such equality exists, other than because all of the outstanding Auction Rate Securities are subject to Submitted Hold Orders, such Submitted Bid described in subclause (I) above shall be referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (the "Winning Bid Rate") such that if:

(I) (aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids, and

(II) (aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted,

the result would be that such Existing Owners described in subsection (C)(I) above would continue to hold an aggregate principal amount of outstanding Auction Rate Securities which, when added to the aggregate principal amount of outstanding Auction Rate Securities to be purchased by such Potential Owners described in subsection (C)(II) above, would equal not less than the Available Auction Rate Securities.

(ii) Promptly after the Auction Agent has made the determinations pursuant to Section 2(c)(i) hereof, the Auction Agent shall advise the County and the Trustee of the Maximum Auction Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Interest Period as follows:

(A) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Auction Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Auction Interest Period shall be equal to the Maximum Auction Rate; or

(C) if all outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Interest Period shall be equal to the All-Hold Rate.

(d) Existing Owners shall continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to Section 2(c)(i) hereof, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of Sections 2(d)(iv) and 2(d)(v), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;

(D) each Existing Owners' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of outstanding Auction Rate Securities subject to all such Submitted Bids shall be greater than the principal amount of Auction Rate Securities (the "remaining principal amount") equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsections (B) and (C) of this Section 2(d)(i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsections (B), (C) and (D) of this Section 2(d)(i) by a fraction the numerator of which shall be the aggregate principal amount of outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the outstanding Auction Rate Securities are subject to submitted Hold Orders), subject to the provisions of Section 2(d)(iv), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, and specifying any rate that is higher than the Maximum Auction Rate shall be rejected; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsection (B) of this Section 2(d)(ii) by a fraction the numerator of which shall be the aggregate principal amount of outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in Section 2(d)(i) or 2(d)(ii), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of Auction Rate Securities purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination.

(v) If, as a result of the procedures described in Section 2(d)(ii), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of Auction Rate Securities, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Auction Rate Securities for purchase among Potential Owners so that only Auction Rate Securities in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any Auction Rate Securities.

(vi) the County, Trustee and Auction Agent shall have no liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

(e) Based on the result of each Auction, the Auction Agent shall determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Owners and Existing Owners on whose behalf the Authorized Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Broker-Dealer or Broker Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealer acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Auction Rate Securities.

(f) Any calculation by the Auction Agent (or the Trustee, if applicable) of the Applicable Auction Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all Beneficial Owners and all other parties.

Section 3. Settlement Procedures.

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction relating to the Auction Rate Securities held on such Auction Date and submitted an Order on behalf of an Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the next Auction Interest Period;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if the Authorized Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be sold by such Existing Owner;

(iv) if the Authorized Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Owner;

(v) if the aggregate amount of Auction Rate Securities to be sold by all Existing Owners on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealer (and the name of the Participant, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Owners on whose behalf such Seller's Broker-Dealer acted by one or more Potential Owners on whose behalf each of such Buyer's Broker-Dealer acted;

(vi) if the principal amount of Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Owners on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealer (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be sold to one or more Potential Owners on whose behalf such Buyer's Broker-Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker-Dealer acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, the Authorized Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Authorized Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of an Authorized Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Owner on whose behalf such Authorized Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Participant to pay to such Authorized Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

(iii) in the case of an Authorized Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Authorized Broker-Dealer (or its Participant) through the Securities Depository the principal amount of Auction Rate Securities to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Seller's Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Buyer's Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Interest Period;

(v) advise each Existing Owner on whose behalf such Seller's Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to Section 3(a), an Authorized Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to Section 3(b)(ii), and any Auction Rate Securities received by it in connection with such Auction pursuant to Section 3(b)(iii) among the Potential Owners, if any, on whose behalf such Authorized Broker-Dealer submitted Bids, the Existing Owners, if any on whose behalf such Authorized Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Authorized Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to Section 3(a)(v) or 3(a)(vi).

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in Section 3(b)(ii) or 3(b)(iii), as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant of the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering Auction Rate Securities to such Seller's Broker-Dealer following such Auction pursuant to Section 3(b)(iii) the amount necessary to purchase such Auction Rate Securities against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to Section 3(a)(v) against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to Section 3(a)(vi) the amount necessary to purchase the Auction Rate Securities to be purchased pursuant to Section 3(b)(ii) against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in Section 3(d)(i) shall instruct the Securities Depository to execute the transactions described under Section 3(b)(ii) or 3(b)(iii) for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 3(d)(ii) for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 3(d)(iii) for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Owner selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book-entry), an Authorized Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Owner. In such event, the principal amount of Auction Rate Securities to be so delivered shall be determined solely by such Authorized Broker-Dealer. Delivery of such lesser principal amount of Auction Rate Securities shall constitute good delivery. Notwithstanding the foregoing terms of this subsection, any delivery or nondelivery of Auction Rate Securities which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreement.

APPENDIX G

FORM OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

Frank Bivona

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Frank Burr

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Form E-0002 (10/93)

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Frank Burr

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Frank Bivona

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX H

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ]

BONDS: [ ]

Policy No: [ ]

Effective Date: [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. Pacific time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of California, the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN
Name:
Title:

SPECIMEN
Name:
Title:

APPENDIX I

ACCRETED VALUE TABLE

Date	8/15/09 4.660%	8/15/10 4.930%	8/15/11 5.140%	8/15/12 5.320%	8/15/13 5.480%	8/15/14 5.630%	8/15/15 5.760%
6/29/04	$9,258,177	$9,671,579	$10,025,542	$10,304,870	$10,552,493	$3,915,076	$ 11,200,180
8/15/04	9,312,816	9,731,931	10,090,751	10,374,346	10,625,608	3,942,968	11,281,932
2/15/05	9,529,846	9,971,905	10,350,149	10,650,197	10,916,687	4,053,987	11,606,831
8/15/05	9,751,800	10,217,745	10,616,025	10,933,628	11,215,891	4,168,098	11,941,001
2/15/06	9,979,030	10,469,582	10,888,954	11,224,322	11,523,218	4,285,437	12,284,864
8/15/06	10,211,537	10,727,675	11,168,793	11,522,910	11,838,842	4,406,075	12,638,840
2/15/07	10,449,555	10,992,024	11,455,829	11,829,394	12,163,282	4,530,078	13,002,718
8/15/07	10,692,966	11,263,022	11,750,207	12,144,089	12,496,536	4,657,585	13,377,132
2/15/08	10,942,122	11,540,668	12,052,214	12,467,152	12,838,952	4,788,734	13,762,503
8/15/08	11,197,023	11,825,091	12,361,994	12,798,742	13,190,875	4,923,523	14,158,829
2/15/09	11,458,022	12,116,684	12,679,692	13,139,333	13,552,304	5,062,091	14,566,534
8/15/09	11,725,000	12,415,316	13,005,595	13,488,765	13,923,586	5,204,643	14,986,248
2/15/10	-	12,721,378	13,339,703	13,847,514	14,305,066	5,351,112	15,417,762
8/15/10	-	13,035,000	13,682,591	14,215,895	14,697,090	5,501,771	15,861,707
2/15/11	-	-	14,034,261	14,594,065	15,099,657	5,656,621	16,318,504
8/15/11	-	-	14,395,000	14,982,184	15,513,460	5,815,867	16,788,576
2/15/12	-	-	-	15,380,723	15,938,499	5,979,579	17,272,133
8/15/12	-	-	-	15,790,000	16,375,290	6,147,894	17,769,595
2/15/13	-	-	-	-	16,824,009	6,321,018	18,281,386
8/15/13	-	-	-	-	17,285,000	6,498,951	18,807,714
2/15/14	-	-	-	-	-	6,681,899	19,349,424
8/15/14	-	-	-	-	-	6,870,000	19,906,725
2/15/15	-	-	-	-	-	-	20,480,040
8/15/15	-	-	-	-	-	-	21,070,000

(THIS PAGE INTENTIONALLY LEFT BLANK)