NEW ISSUE – BOOK-ENTRY-ONLY

UNDERLYING RATINGS:
Moody's: "A1"
S&P: "AA+"
Fitch: "AA"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2009 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2009 Certificates is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest evidenced by, the Series 2009 Certificates. See "Tax Matters" herein.

$80,940,000
COUNTY OF SAN DIEGO
Certificates of Participation
(Justice Facilities Refunding)
Evidencing and Representing Proportionate Undivided Interest of the Owners Thereof in Base Rental Payments to be Made by the County of San Diego to the San Diego County Capital Asset Leasing Corporation

Dated: Date of Delivery   **Due:** October 1, as shown on the inside cover

The County of San Diego Certificates of Participation (Justice Facilities Refunding) (the "Series 2009 Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2009, by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"). The Series 2009 Certificates evidence proportionate undivided interests in the base rental payments (the "IRC Base Rental Payments") to be made by the County pursuant to that certain Facility Lease (Inmate Reception Center) (Including Termination Agreement), dated as of October 1, 2009, to be entered into by the County and the Corporation, pursuant to which the County will sublease from the Corporation certain real property and all the improvements thereon, as more particularly described herein, and the base rental payments (the "HOJ Base Rental Payments" and, together with the IRC Base Rental Payments, the "Base Rental Payments") to be made by the County pursuant to that certain Facility Lease (Hall of Justice) (Including Termination Agreement), dated as of October 1, 2009, pursuant to which the County will sublease from the Corporation certain real property and all the improvements thereon, as more particularly described herein. See "Security and Sources of Payment for the Series 2009 Certificates – Base Rental Payments" herein. The proceeds of the Series 2009 Certificates, together with other moneys available therefor, will be applied to (i) refund certain outstanding prior certificates of participation, as described herein, (ii) fund a reserve fund for the Series 2009 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2009 Certificates. See "Plan of Refinancing" and "Estimated Sources and Uses of Funds" herein.

Interest represented by the Series 2009 Certificates is payable on April 1 and October 1 of each year, commencing on April 1, 2010. The Series 2009 Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2009 Certificates. Individual purchases of the Series 2009 Certificates will be made in book-entry form only. Purchasers of the Series 2009 Certificates will not receive certificates representing their ownership interests in the Series 2009 Certificates purchased. Principal and interest payments represented by the Series 2009 Certificates are payable directly to DTC by the Trustee from Base Rental Payments. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2009 Certificates. See Appendix D – "Book-Entry System" attached hereto.

The Series 2009 Certificates are subject to optional and extraordinary prepayment, as described herein. See "The Series 2009 Certificates – Prepayment" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL DOES 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. NEITHER THE SERIES 2009 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF 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 2009 Certificates 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, Special Counsel to the County, and certain other conditions. Certain legal matters will be pazxssed upon for the County and the Corporation by the County Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is anticipated that the Series 2009 Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about October 14, 2009.

RBC CAPITAL MARKETS

MERRILL LYNCH & CO.   **LOOP CAPITAL MARKETS, LLC**

Dated: September 30, 2009

$80,940,000
COUNTY OF SAN DIEGO
CERTIFICATES OF PARTICIPATION
(JUSTICE FACILITIES REFUNDING)

MATURITY SCHEDULE

BASE CUSIP No.†: 797391

Maturity (October 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2010	$6,260,000	2.000%	0.500%	L23
2011	620,000	2.000	0.920	L31
2011	5,810,000	4.000	0.920	N21
2012	600,000	2.000	1.310	L49
2012	6,050,000	4.000	1.310	N39
2013	820,000	2.500	1.640	L56
2013	3,830,000	4.000	1.640	N47
2014	1,725,000	3.000	2.000	L64
2014	3,065,000	4.000	2.000	N54
2015	900,000	3.000	2.300	L72
2015	4,070,000	4.000	2.300	N62
2016	1,485,000	3.500	2.580	L80
2016	3,690,000	5.000	2.580	N70
2017	2,000,000	4.000	2.850	L98
2017	3,415,000	5.000	2.850	N88
2018	2,000,000	4.000	3.050	M22
2018	2,795,000	5.000	3.050	N96
2019	2,000,000	4.000	3.190	M30
2019	3,020,000	5.000	3.190	P29
2020(1)	50,000	4.000	3.330	M48
2020(1)	5,215,000	5.000	3.330	P37
2021(1)	5,530,000	5.000	3.460	M55
2022(1)	5,485,000	5.000	3.560	M63
2023(1)	25,000	4.000	3.660	M71
2023(1)	3,715,000	5.000	3.660	P45
2024(1)	3,920,000	5.000	3.740	M89
2025(1)	2,845,000	5.000	3.830	M97

(1) Priced to the par call date of October 1, 2019.

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

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

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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*

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SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION

BOARD OF DIRECTORS

Michel Anderson, *Chair*
Barry I. Newman, *Vice Chair*
David E. DeVol, *Secretary*
Jeff Kane, *Treasurer*
Timothy Considine

SPECIAL SERVICES

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

Trustee
Zions First National Bank
Los Angeles, California

Financial Advisor
Gardner, Underwood & Bacon LLC
Los Angeles, California

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 2009 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2009 Certificates. Statements contained in this Official Statement which involve estimates, projections, 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 Corporation, the County or the Underwriters. The information and expression of opinions herein are subject to change without notice and neither delivery of this 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 Corporation, 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 respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Corporation and 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 2009 Certificates, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2009 Certificates 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 2009 Certificates to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

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County of San Diego to the San Diego County Capital Asset Leasing Corporation

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Series 2009 Certificates 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. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Facility Leases (herein defined). See Appendix C – "Summary of Principal Legal Documents – Definitions" attached hereto.

General

This Official Statement, including the cover page, the inside cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (Justice Facilities Refunding) in an aggregate principal amount of $80,940,000 (the "Series 2009 Certificates"). The Series 2009 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2009, by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation") to, together with other moneys available therefor, (i) refund certain outstanding prior certificates of participation, as described herein, (ii) fund a reserve for the Series 2009 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2009 Certificates. See "Plan of Refinancing" and "Estimated Sources and Uses of Funds" herein.

In connection with the prepayment of the 1997 Certificates (as defined herein), the County will lease certain real property and all improvements thereon, as more particularly described herein (the "IRC Leased Property"), to the Corporation pursuant to a Site Lease (Inmate Reception Center)(Including Termination Agreement), dated as of October 1, 2009 (the "IRC Site Lease"), by and between the County and the Corporation. The County will sublease the IRC Leased Property from the Corporation pursuant to a Facility Lease (Inmate Reception Center)(Including Termination Agreement), dated as of October 1, 2009 (the "IRC Facility Lease"), by and between the County and the Corporation. In connection with the prepayment of the 1998 Certificates (as defined herein), the County will lease certain real property and all improvements thereon, as more particularly described herein (the "HOJ Leased Property", together with the IRC Leased Property, the "Leased Properties", and each a "Leased Property") to the Corporation pursuant to a Site Lease (Hall of Justice)(Including Termination Agreement), dated as of October 1, 2009 (the "HOJ Site Lease", together with the IRC Site Lease, the "Site Leases", and each a "Site Lease"), by and between the County and the Corporation. The County will sublease the HOJ Leased Property from the Corporation pursuant to a Facility Lease (Hall of Justice)(Including Termination Agreement), dated as of October 1, 2009 (the "HOJ Facility Lease", together with the IRC Facility Lease, the "Facility Leases", and each a "Facility Lease"), by and between the County and the Corporation. The Series 2009 Certificates evidence proportionate undivided interests in the base rental payments to be made by the

County as the rental for the IRC Leased Property under and pursuant to the IRC Facility Lease (the "IRC Base Rental Payments") and the base rental payments to be made by the County as the rental for the HOJ Leased Property under and pursuant to the HOJ Facility Lease (the "HOJ Base Rental Payments" and, together with the IRC Base Rental Payments, the "Base Rental Payments"). The County is not obligated under the HOJ Facility Lease to pay IRC Base Rental Payments or under the IRC Facility Lease to pay HOJ Base Rental Payments. The rights and obligations under each Facility Lease are independent and an Event of Default or abatement under one Facility Lease will not in and of itself result in an Event of Default or abatement under the other Facility Lease. See "Security and Sources of Payment for the Series 2009 Certificates" herein.

Security and Source of Payment for the Series 2009 Certificates

Under the Facility Leases, in consideration for the use and occupancy of the Leased Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental with respect to each of the Leased Properties (the "Additional Rental"), in the amounts, at the times and in the manner set forth in the Facility Leases. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2009 Certificates. The County has covenanted in the Facility Leases to take such action as may be necessary to include all Base Rental Payments and Additional Rental due under each Facility Lease in its operating budget for each fiscal year commencing after the date of the Facility Leases, and to make all necessary appropriations for such Base Rental Payments and Additional Rental.

Pursuant to an Assignment Agreement, dated as of October 1, 2009 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Series 2009 Certificates (i) certain of its right, title and interest in and to Site Leases, and (ii) certain of its right, title and interest in and to the Facility Leases including the right to receive Base Rental Payments under the Facility Leases. See Appendix C – "Summary of Principal Legal Documents" attached hereto.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL DOES 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. NEITHER THE SERIES 2009 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund or in the Reserve Fund and amounts, if any, received from rental interruption insurance are available to pay Base Rental Payments. See "Security and Sources of Payment for the Series 2009 Certificates – Base Rental Payments" and "– Abatement" herein.

The Series 2009 Certificates

The Series 2009 Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of $5,000 each or any integral multiple thereof. The Series 2009 Certificates will be dated their date of delivery and mature on the dates set forth on the inside cover page hereof. The interest represented by the Series 2009 Certificates will represent the sum of the portions of the Base Rental Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Series 2009 Certificates will represent the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Date in each year. Interest represented by the Series 2009 Certificates is payable on April 1 and October 1 of each year, commencing on April 1, 2010.

The Series 2009 Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2009 Certificates. Individual purchases of the Series 2009 Certificates will be made in book-entry form only. Purchasers of the Series 2009 Certificates will not receive certificates representing their ownership interests in the Series 2009 Certificates purchased. Principal and interest payments represented by the Series 2009 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2009 Certificates. See "The Series 2009 Certificates – General" herein and Appendix D – "Book-Entry System" attached hereto.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2009 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2009 Certificates is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest evidenced by, the Series 2009 Certificates. See "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System (the "Repository") for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission 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 in complying with the Rule. See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

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. Neither the County nor the Corporation is 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 Series 2009 Certificates will be offered when, as and if issued, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions.

The description herein of the Trust Agreement, the Site Leases, the Facility Leases and the Assignment Agreement and any other agreements relating to the Series 2009 Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2009 Certificates 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 Principal Legal Documents" attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at Zions First National Bank, 550 South Hope Street, Suite 2650, Los Angeles, California 90071.

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 or the Corporation 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.

THE LEASED PROPERTIES

HOJ Leased Property

The HOJ Leased Property consists of the County's Hall of Justice, which was completed in March 1996 and consists of a 13-story office and courthouse facility located at 330 West Broadway in the downtown area of the City of San Diego. The HOJ Leased Property is situated on a 54,000 square foot parcel of land bounded by Broadway, Union Street, State Street, and "C" Street, immediately adjacent to the Downtown San Diego Courthouse. The building is approximately 362,000 gross square feet and contains retail space on the ground level and three levels of underground parking for an aggregate 507 parking spaces for use by the County and the general public. The HOJ Leased Property is connected to the Downtown San Diego Courthouse by a pedestrian bridge and provides space for sixteen courtrooms for the Superior Court. The HOJ Leased Property is currently occupied by the Superior Court's Civil Independent Calendar courts, the Sheriff's Court Services Bureau, Probation, and the District Attorney's Office. The HOJ Leased Property also houses the Downtown Jury Lounge and Jury Services.

IRC Leased Property

The IRC Leased Property consists of the County's Central Jail (also referred to herein as the Inmate Reception Center), which opened in May 1998 and consists of 11 floors with a total of 17 levels, including the mezzanines and the basement. The IRC Leased Property has a 944-bed capacity and was designed to accommodate inmate processing and detention through the year 2020. It serves as the primary intake point for male inmates in San Diego County. The IRC Leased Property is located at 1173

Front Street in the downtown area of the City of San Diego, situated on County-owned property bounded by Front Street, "B" Street, 1st Avenue and "C" Street, immediately east of the County Courthouse. The Central Jail is part of the Central Detention Center; the IRC Leased Property consists only of the Central Jail portion of the Central Detention Center.

PLAN OF REFINANCING

The Series 2009 Certificates are being issued to prepay all of the outstanding maturities of the County of San Diego Certificates of Participation (1997 Central Jail Refunding) (the "1997 Certificates") and County of San Diego Certificates of Participation (1998 Downtown Courthouse Refunding) (the "1998 Certificates" and, together with the 1997 Certificates, the "Prior Certificates").

The net proceeds of the Series 2009 Certificates will be deposited into the Escrow Account established under the Escrow Agreement, dated as of October 1, 2009 (the "Escrow Agreement"), by and between the County and U.S. Bank National Association (the "Escrow Agent"), as escrow agent. Such amounts, together with amounts transferred from certain funds held under the trust agreements pursuant to which the Prior Certificates were executed and delivered (the "Prior Trust Agreements"), will be invested in cash and defeasance securities authorized under the Prior Trust Agreements (collectively, the "Investment Securities"). The Investment Securities will be scheduled to mature in such amounts and at such times and pay interest at such rates, together with amounts held under the Prior Trust Agreements, as to provide amounts sufficient to pay when due the interest component of the Prior Certificates due on November 13, 2009 (the "Prepayment Date"), to prepay the outstanding 1997 Certificates on the Prepayment Date at the prepayment price of 100% and prepay the outstanding 1998 Certificates on the Prepayment Date at the prepayment price of 101%.

Upon deposit of the Investment Securities pursuant to the Escrow Agreement and instructions to the Escrow Agent in accordance with the defeasance provisions of the Prior Trust Agreements, the owners of the Prior Certificates will cease to be entitled to the pledge of and lien on the base rental payments with respect to the Prior Certificates and each Prior Trust Agreement will thereupon cease, terminate and become void and be discharged and satisfied in accordance with the terms of such Prior Trust Agreement. Grant Thornton LLP, a firm of independent certified public accountants, will verify the mathematical computations used to determine the sufficiency of the deposits into the Escrow Fund. See "Verification of Mathematical Computations" herein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2009 Certificates, together with other moneys available therefor, are expected to be applied approximately as follows:

Sources:	
Principal Amount of Certificates	$ 80,940,000.00
Original Issue Premium	7,802,999.65
Transfers From Amounts Held Under Prior Trust Agreements	16,387,727.50
Total Sources	$ 105,130,727.15
Uses:	
Escrow Account	$ 99,560,796.17
Reserve Fund	4,817,862.50
Costs of Issuance(1)	752,068.48
Total Uses	$ 105,130,727.15

(1) Includes underwriters' discount, rating agencies fees, financial advisor fees, title insurance fees, legal fees, trustee fees, printing costs and other costs of issuance.

THE SERIES 2009 CERTIFICATES

The following is a summary of certain provisions of the Series 2009 Certificates. Reference is made to the Series 2009 Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C – "Summary of Principal Legal Documents" attached hereto.

General

The Series 2009 Certificates will be dated their date of delivery and principal with respect to the Series 2009 Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Series 2009 Certificates will represent the sum of the portions of the Base Rental Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Series 2009 Certificates will represent the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Date in each year. Interest with respect to the Series 2009 Certificates will be payable semiannually on each April 1 and October 1 of each year, commencing on April 1, 2010 (each, an "Interest Payment Date") and will be computed on the basis of a 360-day year of twelve 30-day months.

Book-Entry System

The Series 2009 Certificates will be initially issued in denominations of $5,000 and any integral multiple thereof. The Series 2009 Certificates will be delivered in fully registered form only, and, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series 2009 Certificates. Individual purchases of the Series 2009 Certificates will be made in book-entry form only. Purchasers of the Series 2009 Certificates will not receive certificates representing their ownership interests in the Series 2009 Certificates purchased. Principal and interest payments represented by the Series 2009 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2009 Certificates. See Appendix D – "Book-Entry System" attached hereto.

Prepayment

Optional Prepayment. The Series 2009 Certificates maturing on and after October 1, 2020 are subject to optional prepayment prior to their stated Principal Payment Dates, on any date on or after October 1, 2019, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Facility Leases, any such prepayment to be at a price equal to the principal evidenced by the Series 2009 Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Extraordinary Prepayment. The Series 2009 Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the written direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Leased Property or portions thereof, at a prepayment price equal to the principal amount plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Notice of Prepayment. When prepayment is authorized pursuant to the Trust Agreement the Trustee shall give notice, at the expense of the County, of the prepayment of the Series 2009 Certificates. The notice of prepayment shall specify: (a) the Series 2009 Certificates or designated portions thereof (in the case of prepayment of the Series 2009 Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Series 2009 Certificates to be prepaid, (f) the numbers of the Series 2009 Certificates to be prepaid in whole or in part (if less than all of the Series 2009 Certificates of a maturity are to be prepaid) and, in the case of any Certificates to be prepaid in part only, the amount of such Certificates to be prepaid, and (g) the stated Principal Payment Date of each Series 2009 Certificate to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Series 2009 Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to the prepayment date evidenced thereby, and that from and after such date interest represented thereby shall cease to accrue and be payable. A notice of prepayment may provide (a) that the prepayment is conditioned upon the occurrence of one or more events specified in the notice and (b) that such notice may be revoked, without any cause, at any time prior to the prepayment date. The Trustee shall give the foregoing notice at least 30 but not more than 60 days before to the prepayment date to the respective Owners of Certificates designated for prepayment by first class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee as of the close of business on the day before such notice of prepayment is given.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 CERTIFICATES

Base Rental Payments

General. The Series 2009 Certificates represent the aggregate principal components of the Base Rental Payments under the IRC Facility Lease and the Base Rental Payments under the HOJ Facility Lease and each Series 2009 Certificate evidences and represents a proportionate, undivided interest in such Base Rental Payments to be made by the County. The County is required under the Facility Leases to make Base Rental Payments subject to the provisions of the Facility Leases related to abatement. The County has covenanted in the Facility Leases to take such action as may be necessary to include all Base Rental Payments and Additional Rental with respect to the Leased Properties in its operating budget for each fiscal year commencing after the date of the Facility Leases and to make the necessary appropriations for such Base Rental Payments and Additional Rental. Base Rental Payments are scheduled to be paid as set forth herein. See "– Base Rental Payments Schedule" herein. The County is not obligated under the IRC Facility Lease to pay HOJ Base Rental Payments or under the HOJ Facility

Lease to pay IRC Base Rental Payments. The rights and obligations under each Facility Lease are independent and an Event of Default or abatement under one Facility Lease will not in and of itself result in an Event of Default or abatement under the other Facility Lease.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL DOES 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. NEITHER THE SERIES 2009 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Site Leases or the Facility Leases or in the Trust Agreement. Additional Rental payable by the County under the Facility Leases include, among others, amounts sufficient to pay certain taxes and assessments, insurance premiums, and certain administrative costs.

The lease payments under the Facility Leases are absolutely net to the Corporation so that the Facility Leases shall yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Properties, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Facility Leases. The Facility Leases provide that the agreements and covenants on the part of the County contained therein shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements of the County contained in the Facility Leases.

Upon the occurrence of an Event of Default under the IRC Facility Lease or the HOJ Facility Lease, the Corporation or its assignee must thereafter maintain the IRC Facility Lease or the HOJ Facility Lease, as applicable, in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the IRC Leased Property or the HOJ Leased Property, as applicable, regardless of whether or not the County has abandoned the IRC Leased Property or the HOJ Leased Property, as applicable; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASES OR OTHERWISE. The Trustee may not exercise any right of entry upon or repossession of the Leased Properties and there is no remedy of acceleration of Base Rental Payments over the term of the Facility Leases.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL DOES 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. NEITHER THE SERIES 2009 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF

WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE FACILITY LEASES – RENTAL PAYMENTS – OBLIGATION TO MAKE RENTAL PAYMENTS" ATTACHED HERETO.

Base Rental Payments Schedule. The Facility Leases require that all Base Rental Payments due in any Fiscal Year after June 30, 2010 shall be due and payable in one sum on July 5 of each year, commencing on July 5, 2010. The Base Rental Payment due on April 1, 2010 shall be prepaid with a deposit into the Base Rental Payment Fund on the Closing Date. Any payment scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

A table of annual Base Rental Payments under the IRC Facility Lease and the HOJ Facility Lease is set forth below.

BASE RENTAL PAYMENTS

	IRC Base Rental Payments		HOJ Base Rental Payments		
Fiscal Year Ending	**Principal Component**	**Interest Component**	**Principal Component of**	**Interest Component**	**Total Base Rental Payments(1)**
June 30, 2010	$ -	$ 979,779.72	$ -	$ 615,221.04	$1,595,000.76
June 30, 2011	2,750,000.00	2,084,600.00	3,510,000.00	1,291,125.00	9,635,725.00
June 30, 2012	2,820,000.00	2,004,400.00	3,610,000.00	1,186,325.00	9,620,725.00
June 30, 2013	2,895,000.00	1,897,400.00	3,755,000.00	1,043,925.00	9,591,325.00
June 30, 2014	2,450,000.00	1,797,775.00	2,200,000.00	929,700.00	7,377,475.00
June 30, 2015	2,510,000.00	1,707,425.00	2,280,000.00	846,025.00	7,343,450.00
June 30, 2016	2,605,000.00	1,613,000.00	2,365,000.00	758,375.00	7,341,375.00
June 30, 2017	2,710,000.00	1,502,525.00	2,465,000.00	655,712.50	7,333,237.50
June 30, 2018	2,830,000.00	1,376,700.00	2,585,000.00	537,925.00	7,329,625.00
June 30, 2019	2,950,000.00	1,244,200.00	1,845,000.00	435,175.00	6,474,375.00
June 30, 2020	3,085,000.00	1,105,325.00	1,935,000.00	348,675.00	6,474,000.00
June 30, 2021	3,235,000.00	953,475.00	2,030,000.00	253,650.00	6,472,125.00
June 30, 2022	3,390,000.00	788,000.00	2,140,000.00	149,500.00	6,467,500.00
June 30, 2023	3,565,000.00	614,125.00	1,920,000.00	48,000.00	6,147,125.00
June 30, 2024	3,740,000.00	431,625.00			4,171,625.00
June 30, 2025	3,920,000.00	240,250.00			4,160,250.00
June 30, 2026	2,845,000.00	71,125.00			2,916,125.00

(1) Amounts reflect the aggregate amount of scheduled Base Rental Payments under the IRC Facility Lease and the HOJ Facility Lease on July 5 of each calendar year, except the Base Rental Payment due on April 1, 2010 shall be prepaid with a deposit into the Base Rental Payment Fund on the Closing Date.

Reserve Fund

The Reserve Fund shall be held by the Trustee as a separate fund. The Reserve Fund must be funded in the amount of the Reserve Fund Requirement and must be used and withdrawn by the Trustee solely for the purposes and at the times specified in the Trust Agreement. The "Reserve Fund Requirement" is (i) $4,817,862.50 until July 1, 2022, and thereafter $2,875,003.20, so long as the Series 2009 Certificates are Outstanding plus (ii) in connection with the execution and delivery of additional certificates of participation pursuant to the Trust Agreement (the "Additional Certificates"), an additional amount equal, as of any date of calculation, to the lesser of (a) 50% of an amount equal to the largest Annual Debt Service for all future Lease Years beginning the Lease Year in which the calculation is made, calculated with respect to such Additional Certificates, (b) 10% of the proceeds of the Additional Certificates, or (c) 125% of the average of the Annual Debt Service for all Lease Years, including the Lease Year in which the calculation is made, calculated with respect to such Additional Certificates. "Lease Year" means the period from each July 1 to and including the following June 30. "Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year.

For purposes of determining the amount on deposit in the Reserve Fund, all investments therein shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. If investments in the Reserve Fund are sold or otherwise disposed prior to their maturity, the amount realized from such disposition may be less than the principal amount of such investments at maturity. The County has no obligation to deposit additional amounts in the Reserve Fund in the event of a deficiency resulting from such a disposition. However, the Trust Agreement provides that if at any time the balance in the Reserve Fund shall be reduced below the Reserve Fund Requirement, the first of the Base Rental Payments thereafter payable by the County under the IRC Facility Lease or the HOJ Facility Lease, as applicable, and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the IRC Facility Lease or the HOJ Facility Lease, as applicable to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Reserve Fund to the Reserve Fund Requirement.

At the option of the County, one or more letter of credit, line of credit, surety bond, insurance policy or similar facility (each a "Reserve Fund Credit Facility") may be substituted for the funds held by the Trustee in the Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Reserve Fund satisfies the Reserve Fund Requirement.

The County will initially fund the Reserve Fund with proceeds of the Series 2009 Certificates. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Proceeds of the Certificates – Reserve Fund" attached hereto.

Insurance

The Facility Leases provide that the County shall secure and maintain, or cause to be secured and maintained, at all times with insurers of recognized responsibility, insurance against the risks and in the amounts set forth in the Facility Leases. Such insurance includes "all risk" insurance against loss or damage to the IRC Leased Property or the HOJ Leased Property, as applicable, including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the IRC Leased Property or the HOJ Leased Property, as applicable, and, in the case of a policy covering more than the IRC Leased Property or the HOJ Leased Property, as applicable, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the aggregate amount of the principal component of the then-remaining Base Rental Payments payable under the IRC Facility Lease or the HOJ Facility Lease, as applicable. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). Pursuant to the Facility Leases, the County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego, which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than $500,000,000 (collectively, "Pooled Public Agencies Insurance"). The County anticipates that it will secure and maintain "all risk" insurance covering the IRC Leased Property and the HOJ Leased Property through an insurance policy described in the immediately preceding sentence. As a consequence, the IRC Leased Property and the HOJ Leased Property will not be covered through stand-alone insurance policies and will rather be covered through an insurance policy that covers multiple properties owned by varying public agencies throughout the State. If there occurs one or more losses or damages to the properties covered by that insurance policy in a fiscal year that exceeds the annual cumulative limit provided therein and there were also to occur a loss or damage to the IRC Leased Property or the HOJ Leased Property in the same fiscal year, then the County and the Trustee may be unable to make a claim under such insurance policy for such loss or damage and there may not otherwise be any other insurance covering such loss or damage to the IRC Leased Property or the HOJ Leased Property, as applicable.

The IRC Facility Lease and the HOJ Facility Lease provide that the County will also obtain rental interruption insurance with respect to the IRC Leased Property and the HOJ Leased Property, respectively, in an amount sufficient at all times to pay the total rent payable under applicable Facility Lease for a period of not less than two years' Base Rental Payments for the related Leased Property; provided that such rental interruption insurance may be included in the Pooled Public Agencies Insurance. See Appendix C – "Summary of Principal Legal Documents – The Facility Lease (Inmate Reception Center)(Including Termination Agreement) – Maintenance; Taxes; Insurance and Other Charges – Insurance" and "Summary of Principal Legal Documents – The Facility Lease (Hall of Justice)(Including Termination Agreement) – Maintenance; Taxes; Insurance and Other Charges – Insurance" attached hereto.

The Facility Leases provide that the amount of coverage required may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County is under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake. For additional information regarding the County's risk management programs, see Appendix A – "County of San Diego Financial, Economic and Demographic Information – County Financial Information – Risk Management" and Appendix C – "Summary of Principal Legal Documents – The Facility Lease (Inmate Reception Center)(Including Termination Agreement) – Maintenance; Taxes; Insurance and Other Charges – Insurance" and "Summary of Principal Legal Documents – The Facility Lease (Hall of Justice)(Including Termination Agreement) – Maintenance; Taxes, Insurance and Other Charges – Insurance" attached hereto.

Abatement

Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2009 Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the IRC Leased Property or the HOJ Leased Property, as applicable, rental payments due under the related Facility Lease with respect to such Leased Property shall be abated to the extent that the annual fair rental value of the portion of such Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the related Leased Property or other rights under the applicable Facility Lease, as permitted by the IRC Facility Lease and the HOJ Facility Lease, for purposes of determining the fair rental value available to pay Base Rental Payments, annual fair rental value of the related Leased Property shall first be allocated to the applicable Facility Lease, as provided therein. Any abatement of rental payments pursuant to one Facility Lease shall not permit an abatement of rent or be considered an Event of Default under the other Facility Lease. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the IRC Leased Property or the HOJ Leased Property, as applicable, so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, due to damage, destruction, title defect or condemnation of any part of the IRC Leased Property or the HOJ Leased Property, as applicable, and the County is unable to repair, replace or rebuild such Lease Property from the proceeds of insurance, if any, pursuant to the related Facility Lease, the County will apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the IRC Leased Property or the HOJ Leased Property, as applicable.

Substitution

The County may amend the Facility Leases and the Site Leases to substitute other real property and/or improvements (the "Substituted Property") for then-existing Leased Properties and/or to remove real property (including undivided interests therein) and/or improvements from the real property description of the IRC Leased Property and/or the HOJ Leased Property set forth in the related Facility Lease and related Site Lease upon compliance with all of the conditions set forth in the applicable Facility Lease. After a substitution or removal, the part of the IRC Leased Property or the HOJ Leased Property, as applicable, for which the substitution or removal has been effected shall be released from the leasehold under the related Facility Lease and related Site Lease. See Appendix C – "Summary of Principal Legal Documents – The Facility Leases – The Leased Property – Substitution or Removal of Leased Property" attached hereto.

Additional Certificates

In addition to the Series 2009 Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions set forth in the Trust Agreement and subject to the specific conditions set forth in the Trust Agreement, which are made conditions precedent to the execution and delivery of any such Additional Certificates, including, but not limited to, prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation must enter into an amendment to the applicable Facility Lease(s) and the applicable Site Lease(s), providing for an increase in the Base Rental Payments to be made thereunder subject to the limitations set forth therein. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Additional Certificates" attached hereto.

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of Leased Properties, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed. The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Series 2009 Certificates and has pledged none of its moneys, funds or assets toward the Base Rental Payments or Additional Rental under the Facility Leases, or toward the payment of any amount due in connection with the Series 2009 Certificates.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Michel Anderson, Timothy Considine, Jeff Kane, Barry I. Newman and David DeVol.

The County's Chief Financial Officer, Treasurer-Tax Collector, the County Counsel, and other County employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements with respect to the Series 2009 Certificates other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 166, San Diego, California 92101.

RISK FACTORS

The following factors, along with all other information in this Official Statement, including, without limitation, Appendix A, should be considered by potential investors in evaluating the Series 2009 Certificates.

Not a Pledge of Taxes

The obligation of the County to pay the Base Rental Payments or Additional Rental does 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. The obligation of the County to pay Base Rental Payments or Additional Rental does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Facility Leases does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Facility Leases to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Facility Leases that, for as long as the Leased Properties is available for its use and possession, it will make the necessary annual appropriations within its budget for all Base Rental Payments. The County is currently liable on other obligations payable from general revenues.

Additional Obligations of the County

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Facility Leases (including payment of costs of repair and maintenance of the Leased Properties, taxes and other governmental charges levied against the Leased Properties) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

Default; Remedies Upon Default; No Right of Relet

Upon the occurrence of an Event of Default under the IRC Facility Lease or the HOJ Facility Lease, the Trustee must thereafter maintain such Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the related Leased Property regardless of whether or not the County has abandoned such Leased Property; THIS IS THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE APPLICABLE FACILITY LEASE OR OTHERWISE IN THE EVENT OF A DEFAULT UNDER THE SUCH FACILITY LEASE. There is no remedy of acceleration of the total Base Rental Payments due over the term of the applicable Facility Lease, nor is the Trustee empowered to sell the related Leased Property and use the proceeds of such sale to prepay the Series 2009 Certificates or pay debt service thereon. The County shall remain liable and agrees to keep or perform all covenants and conditions contained in the applicable Facility Lease to be kept or performed by the County and, to pay the rent to the end of the term of such Facility Lease and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in such Facility Lease for the payment of rent thereunder (without acceleration). The Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Limitations on Remedies

The rights of the Owners of the Series 2009 Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Series 2009 Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2009 Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the County, there are no involuntary petitions in bankruptcy. If the County were to file a petition under Chapter 9 of the Bankruptcy Code, the owners of the Series 2009 Certificates could be prohibited from taking certain steps to enforce their rights under the Trust Agreement. In a decision dated March 8, 1995, the United States Bankruptcy Court for the Central District of California ruled that a pledge granted by Orange County pursuant to a resolution adopted by that county in connection with the issuance of tax and revenue anticipation notes ("TRANs") was not effective with respect to general revenues accruing to the County after the filing of a petition in bankruptcy. The resolution obligated Orange County to set aside a specified amount of revenues in certain months in order to secure the payment of its TRANs. On July 12, 1995, the United States District Court for the Central District of California reversed the order of the Bankruptcy Court and held that the obligation created under the resolution adopted by Orange County is a statutory lien which survived the filing of Orange County's bankruptcy petition.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county, but was not required to directly address the state statute that provides for the lien in favor of holders of tax and revenue anticipation notes. The County may invest, and direct the Trustee to invest, amounts held in the Reserve Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the Treasury Pool, which amounts are pledged to repay the Series 2009 Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the Bankruptcy Code, a court might hold that the Owners of the Series 2009 Certificates do not have a valid and/or prior lien on the Base Rental Payments where such amounts are deposited in the Treasury Pool and may not provide the Owners of the Series 2009 Certificates with a priority interest in such amounts. In that circumstance, unless the Owners could "trace" the funds that have been deposited in the Treasury Pool, the owners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Owners could successfully so "trace" the pledged taxes and other revenues.

Abatement

Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2009 Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the IRC Leased Property or the HOJ Leased Property, as applicable, rental payments due under the related Facility Lease with respect to such Leased Property shall be abated to the extent that the annual fair rental value of the portion of such Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the one Facility Lease shall not permit an abatement of rent or be considered an Event of Default under the other Facility Lease. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the related Leased Property so damaged, destroyed, defective or condemned.

Seismic Events

The Leased Properties are located within a seismically active area, and damage from an earthquake could be substantial. The County is not obligated under the Facility Leases to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Properties and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance. There can be no assurance that earthquake insurance on the Leased Properties, if any, can be renewed or will be maintained by the County in the future, or will be available for payments in respect of the Series 2009 Certificates or debt service on the Series 2009 Certificates. If there is no earthquake insurance on the Leased Properties and if the Leased Properties are damaged in an earthquake, the Base Rental Payments would be subject to abatement. See “Risk Factors – Abatement” herein.

The Leased Properties may also be at risk from other events of force majeure, such as damaging storms, floods, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. The County cannot predict what force majeure events may occur in the future. For additional information regarding the County’s risk management programs, see Appendix A – “County of San Diego Financial, Economic and Demographic Information – County Financial Information – Risk Management” and Appendix C – “Summary of Principal Legal Documents —The Facility Leases – Maintenance; Taxes, Insurance and Other Charges – Insurance” attached hereto.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Special Counsel”), Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2009 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2009 Certificates is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2009 Certificates is less than the amount to be paid at maturity of such Series 2009 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Series 2009 Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the Series 2009 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2009 Certificates is the first price at which a substantial amount of such maturity of the Series 2009 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2009 Certificates accrues daily over the term to maturity of such Series 2009 Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2009 Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Series 2009 Certificates. Beneficial Owners of the Series 2009 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Series 2009 Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series

2009 Certificates in the original offering to the public at the first price at which a substantial amount of such Series 2009 Certificates is sold to the public.

Series 2009 Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal evidenced thereby payable at maturity (or, in some cases, at their earlier prepayment date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the Series 2009 Certificates. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest evidenced by the Series 2009 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Series 2009 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Series 2009 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the Series 2009 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Series 2009 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest evidenced by the Series 2009 Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Series 2009 Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Series 2009 Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the marker price for, or marketability of, the Series 2009 Certificates. Prospective purchasers of the Series 2009 Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Series 2009 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the

Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Series 2009 Certificates ends with the execution and delivery of the Series 2009 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the County or the Beneficial Owners regarding the tax-exempt status of the Series 2009 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the County and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009 Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2009 Certificates, and may cause the County or the Beneficial Owner to incur significant expense.

CERTAIN LEGAL MATTERS

The validity of the Series 2009 Certificates and certain other legal matters are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Special Counsel, and certain other conditions. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix E hereto. Certain legal matters will be passed upon for the Corporation and the County by the County Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California.

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 Macias Gini & O'Connell LLP ("Macias"), certified public accountants and management consultants, as stated in their report appearing in Appendix B. Macias 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 Macias with respect to any event subsequent to its report dated December 10, 2008.

LITIGATION

No litigation is pending or, to the best knowledge of the County, threatened against the County or the Corporation concerning the validity of the Series 2009 Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Corporation or contesting the County's ability to issue the Series 2009 Certificates or pay the Base Rental Payments pursuant to the Facility Leases. 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

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "A1," "AA+" and "AA," respectively, to the Series 2009 Certificates. 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., 7 World Trade Center, 250 Greenwich 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; and Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone number (212) 908-0500. 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 2009 Certificates.

UNDERWRITING

The Series 2009 Certificates are being purchased by the underwriters set forth on the cover page of this Official Statement (the "Underwriters"). Pursuant to the Purchase Contract for the Series 2009 Certificates the Underwriters have agreed, subject to certain conditions, to purchase the Series 2009 Certificates at a price of $88,329,788.92 (representing the principal amount of the Series 2009 Certificates of $80,940,000.00, plus an original issue premium of $7,802,999.65, less underwriters' discount of $413,210.73). The Purchase Contract for the Series 2009 Certificates provides that the Underwriters will purchase all of the Series 2009 Certificates, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2009 Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

Loop Capital Markets, LLC, one of the underwriters of the Series 2009 Certificates, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement, Loop Capital Markets, LLC will share a portion of its underwriting compensation with respect to the Series 2009 Certificates with UBS Financial Services, Inc.

FINANCIAL ADVISOR

Gardner, Underwood & Bacon LLC, Los Angeles, California served as Financial Advisor to the County in connection with the issuance of the Series 2009 Certificates. Gardner, Underwood & Bacon LLC is an independent financial advisory firm and is not engaged in the business of underwriting municipal bonds or other securities. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2009 Certificates, Grant Thornton LLP, a firm of independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the amounts held under the Escrow Agreement, including cash, the Investment Securities and the interest evidenced thereby, to pay principal and interest with respect to the Prior Certificates due and payable on the Prepayment Date at the prepayment price of 100%, with respect to the outstanding 1997 Certificates, and the prepayment price of 101%, with respect to the outstanding 1998 Certificates.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") with Digital Assurance Certification, L.L.C. ("DAC"), the County has agreed to provide, or cause to be provided, with respect to each fiscal year of the County, commencing with Fiscal Year 2008-09, by no later than nine months after the end of the respective fiscal year, to the 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 in Appendix A – "County of San Diego Financial, Economic and Demographic Information" attached hereto. In addition, the County has agreed to provide, or cause to be provided, to the 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 Underwriters in complying with the Rule.

The County has complied in all material respects in the last five years with each of its previous undertakings with regard to the Rule to provide annual reports and notices of material events.

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 2009 Certificates. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions 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

COUNTY OF SAN DIEGO FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

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APPENDIX A
COUNTY OF SAN DIEGO FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

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THE COUNTY

General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California (the "State"). 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 2009-10 Adopted Operational Plan (the "2009-10 Adopted Budget") is approximately $5.01 billion, approximately $3.79 billion of which relates to the County's General Fund budget.

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 (the "Board of Supervisors") elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer (the "CAO") and the County Counsel. The CAO appoints the Chief Financial Officer and the Auditor and Controller. Other elected officials include the Assessor/Recorder/County Clerk, the District Attorney, the Sheriff and the 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 provides a wide range of services to its residents including: (i) regional services such as district attorney, public defender, probation, medical examiner, jails, elections, public health, welfare, mental health, aging and child welfare; (ii) 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 (iii) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

County of San Diego Employees

General. Table 1 below sets forth the number of County employees for the years 2000 through 2009:

TABLE 1

TOTAL COUNTY EMPLOYEES[(1)]

Year	Total Employees
2000	16,617
2001	17,057
2002	18,208
2003	17,835
2004	16,949
2005	16,418
2006	16,195
2007	16,471
2008	16,484
2009[(2)]	16,115

Source: The County.
(1) Excludes temporary employees of the County. Data as of June 30 of the indicated year unless otherwise noted.
(2) As of July 31, 2009.

County employees are represented by eight unions representing 25 bargaining units. The unions represent approximately 88% of the County's approximately 16,115 employees and include the Deputy Sheriffs' Association of San Diego County; Deputy District Attorneys Association; Service Employees International Union ("SEIU"), Local 221, San Diego Probation Officers' Association; District Attorney Investigators Association; San Diego Deputy County Counsels Association; Public Defender Association of San Diego County, and the San Diego County Supervising Probation Officers' Association. The County has labor agreements with all unions effective through June 16, 2011. The remaining employees are unrepresented.

Negotiated Retirement Amendments. The County's existing retirement system, as described under the caption "San Diego County Employees Retirement Association" herein, has been modified in connection with certain collective bargaining agreements entered into by the County. The SEIU Local 221, CLC, Deputy District Attorneys Association, Public Defenders Association of San Diego County, San Diego County Deputy County Counsels Association and the County negotiated amendments to the County's retirement system. A new "Tier B" retirement benefit was created for newly hired general employees in all bargaining units. The new tier has a benefit formula described as: 2.62% at 62, highest 3 years final average compensation, minimum retirement age of 55 and a 2% maximum cost of living adjustment ("COLA"). The retirement benefit formula for general employees active prior to the implementation of the new tier is described as: 3% at 60, highest 1-year final average compensation, minimum retirement age of 50 and a 3% maximum COLA. For new employees represented by the Deputy Sheriffs' Association of San Diego County, San Diego County Supervising Probation Officers' Association, San Diego Probation Officers' Association and the District Attorney Investigators Association, who are classified as safety, a new tier with the following benefit formula was created: 3% at 55, highest 3 years final average compensation, minimum retirement age of 50 and a 2% maximum COLA. The benefit formula for safety employees active prior to the implementation of the new tier is described as: 3% at age 50, highest 1-year final average compensation, minimum retirement age of 50 and a 3% maximum COLA. Pursuant to State law, exceptions to the aforementioned minimum retirement ages exist for general employees with at least 30 years of service and safety employees with at least 20 years of service. The new "Tier B" general retirement and 3% at 55 safety retirement benefits became effective on August 28, 2009.

COUNTY FINANCIAL INFORMATION

The following is a summary of certain financial information with respect to the County, including the County's property tax collections, General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance, adopted and amended General Fund budgets for Fiscal Years 2007-08 and 2008-09, adopted General Fund budget for Fiscal Year 2009-10, pension plan, risk management program, pending litigation and outstanding indebtedness.

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 only be reappraised to market value upon a change in ownership or completion of new construction. Pursuant to Article XIIIA of the State Constitution, the assessed value of property that has not incurred a change of ownership or new construction shall be adjusted annually to reflect inflation at a rate not to exceed 2% per year as shown in the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, Article XIIIA of the State Constitution allows the assessed value to be reduced temporarily to reflect the lower market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Constitutional and Statutory Limitations on Taxes, Revenues and Appropriations – Article XIIIA" herein.

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 the reinstatement of the indexed base value after a temporary reduction or it 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. For Fiscal Year 2008-09, the County Assessor received 42,515 appeals, including appeals relating to real property, business personal property, boats and airplanes. For the beginning of Fiscal Year 2009-10, from July 2, 2009 through August 17, 2009, the Clerk of the Board of Supervisors Assessment Appeal Services logged 3,505 appeals. Table 2 below sets forth the number of appeals received by the County Assessor and the corresponding number of affected parcels since Fiscal Year 1993-94. See "Economic and Demographic Information – Foreclosures; Notices of Loan Default" herein.

TABLE 2

ASSESSMENT APPEALS
Fiscal Years 1993-94 through 2009-10

Fiscal Year	Applications	Parcels
1994	20,776	29,624
1995	26,871	37,015
1996	25,941	34,046
1997	18,773	22,724
1998	22,577	25,170
1999	4,594	6,070
2000	5,374	6,994
2001	2,900	3,885
2002	2,954	4,029
2003	3,074	3,666
2004	2,700	3,035
2005	2,573	3,932
2006	2,486	2,752
2007	3,334	3,601
2008	13,150	15,872
2009	42,515	47,865
2010(1)	3,505	NA

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) As of August 17, 2009. The deadline for appeals of Fiscal Year 2009-10 assessments is November 30, 2009.

Ad Valorem Property Taxation

Table 3 below sets forth the assessed valuation of property within the County subject to taxation for Fiscal Years 2000-01 through 2009-10:

TABLE 3

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION Fiscal Years 2000-01 through 2009-10 (In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[1]	Net Assessed Valuation for Tax Purposes[2]
2000-01	$ 76,745,341	$112,696,091	$11,598,968	$201,040,400	$ 5,322,920	$195,717,480
2001-02	84,852,228	122,629,979	12,675,787	220,157,994	5,674,325	214,483,669
2002-03	93,104,455	133,459,423	11,773,210	238,337,088	5,474,711	232,862,377
2003-04	103,818,122	145,973,945	11,949,627	261,741,694	6,742,042	254,999,652
2004-05	117,332,258	159,013,240	11,804,416	288,149,914	7,332,153	280,817,761
2005-06	137,276,347	175,791,219	12,807,092	325,874,658	7,916,172	317,958,485
2006-07	158,460,301	192,889,631	13,201,802	364,551,734	8,553,542	355,998,192
2007-08	176,074,513	208,732,483	13,916,210	398,723,206	9,427,705	389,295,500
2008-09	184,573,765	217,641,565	14,496,587	416,711,917	10,336,971	406,374,945
2009-10	177,035,056	215,309,621	15,194,665	407,539,342	11,244,820	396,294,522

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 decline in Fiscal Year 2009-10 of the assessed valuation of property within the County is attributable to the declining real estate market and the record number of defaults and foreclosures, which led to an unprecedented number of assessment appeals and applications for valuation reviews since Fiscal Year 2007-08. The large number of defaults and foreclosures have been attributed to the prevalence of subprime and zero equity home mortgage loans, and recent and continuing economic and employment conditions. While the County as a whole experienced declines in assessed value, certain cities, mainly along the Coast, including Coronado, Del Mar, Encinitas, Poway, and Solana Beach, experienced assessed value growth for Fiscal Year 2009-10 ranging from 0.80% to 5.75%. The aggregate decline for the entire County from Fiscal Year 2008-09 to Fiscal Year 2009-10 is 2.3%.

Table 4 below sets forth the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2009-10. These tax payments represent approximately 4.08% of the total secured property tax levied by the County for Fiscal Year 2009-10, which amount is $4,509,795,774.

TABLE 4

TEN LARGEST TAXPAYERS
Fiscal Year 2009-10

Property Owners	Business Area	Approximate Tax
San Diego Gas & Electric Company	Gas and Electric Utility	$56,842,349
Irvine Co.	Real Estate	19,181,454
Southern California Edison Co.	Electric Utility	18,895,022
San Diego Family Housing LLC	Real Estate	17,976,307
Kilroy Realty L P	Real Estate	15,833,477
Qualcomm, Inc.	Telecommunication	14,214,400
Camp Pendleton/Quantico Housing	Real Estate	14,041,303
Pacific Bell Telephone Company	Telecommunication	10,868,904
Arden Realty LTD Partnership	Real Estate	8,948,348
San Diego Expressway LTD Partnership	Real Estate	6,990,534

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 on the lien date being assessed (January 1). A due date, or date to pay by, is set based on the enrollment date of the bill. If not paid in full, a ten percent penalty is added to the bill on September 1, or on the first business day of the second month following the enrollment date and an additional penalty of one and one-half percent per month begins to accrue on November 1, or on the first business day of the third month after the date of enrollment. Penalties are posted based on the type of unsecured bill and the time of year it is enrolled. The taxing authority has a number of ways of collecting delinquent unsecured property taxes, which include: filing a Certificate of Tax Lien for recordation in the County Recorder's office, and/or other jurisdictions; a civil action against the taxpayer; and seizure and/or sale of assets belonging or assessed to the taxpayer.

Pursuant to State Law, the County collects property tax administrative fees from cities, special districts and redevelopment agencies. State law exempts school districts from paying such fees.

Secured Tax Rolls Statistics

Table 5 below sets forth information relating to the County's secured tax roll and assessed value of property since Fiscal Years 2000-01 through 2009-10.

TABLE 5

SECURED TAX ROLL STATISTICS
Fiscal Years 2000-01 through 2009-10

Fiscal Year	Total Bills	Total Gross Assessed Value[(1)]	Total Tax Amount[(2)]	Delinquent Tax Bills	Delinquent Tax Amount[(3)]	Delinquent Tax Amount as Percent of Total Tax Amount
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	898,222	250,071,362,845	2,831,188,116	30,244	41,183,548	1.45
2004-05	912,850	276,651,738,142	3,141,818,961	38,065	49,379,983	1.57
2005-06	934,416	313,592,785,425	3,565,874,923	46,386	70,146,925	1.97
2006-07	954,808	350,431,485,633	3,964,281,859	54,013	111,504,199	2.81
2007-08	968,699	385,014,085,589	4,364,915,835	58,579	163,865,524	3.75
2008-09	976,296	402,408,931,673	4,558,064,753	49,845	165,660,374	3.63
2009-10[(4)]	978,170	392,680,850,836	4,509,795,774	48,000	157,842,852	3.50

Source: County of San Diego Auditor and Controller.
(1) Total Assessed Value figures include local secured and state unitary valuation.
(2) Total Tax Amount includes local secured and state unitary 1% tax, debt service tax and special assessments.
(3) Delinquent Tax Amount represents 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 Gross 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. The property becomes subject to sale by the County Treasurer-Tax Collector if taxes are unpaid after June 30 of the fifth year of default or if an installment plan is in place but there is subsequent non-payment of an installment payment or current taxes due.

Financial Statements

Table 6 below sets forth the audited General Fund Balance Sheet for Fiscal Years ended June 30, 2007 and 2008, and the unaudited General Fund Balance Sheet for Fiscal Year ended June 30, 2009. Table 7 below sets forth the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2004-05 through 2007-08, and the unaudited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Year 2008-09.

TABLE 6

COUNTY OF SAN DIEGO
GENERAL FUND BALANCE SHEET
June 30, 2007 through June 30, 2009
(In Thousands)

ASSETS	Audited 2007[3]	Audited 2008[3]	Unaudited 2009[3]
Pooled Cash and Investments	$ 936,658	$ 977,544	$ 959,102
Cash with Fiscal Agents	33	19	14
Investments With Fiscal Agents	2	2	2
Property Taxes Receivables, net	157,936	218,048	221,671
Receivables, net	265,425	270,900	373,985
Due from Other Funds[1]	97,033	79,915	72,894
Prepaid Items	5,509	17	14
Advances to Other Funds	884	7,203	689
Inventories	7,048	7,326	8,774
Restricted Assets – Cash with Fiscal Agents	185	171	179
Restricted Assets – Investments with Fiscal Agents[2]	221,026	0	0
TOTAL ASSETS	$ 1,691,739	$1,561,145	$1,637,324
LIABILITIES			
Accounts Payable	$ 88,038	$ 85,308	$ 71,762
Accrued Payroll	23,885	29,425	32,692
Amount Due for Tax and Revenue Anticipation Notes[2]	220,000	0	0
Due to Other Funds[1]	27,889	42,169	40,480
Deferred Revenues	107,702	123,470	132,876
Unearned Revenue	69,143	60,307	170,499
TOTAL LIABILITIES	$ 536,657	$ 340,679	$ 448,309
FUND BALANCES			
Reserved for Encumbrances	$ 212,090	$ 0	$ 0
Reserved for Loans, Advances and Prepaids	12,523	13,294	6,378
Reserved for Landfill Closure Costs	1,446	1,259	1,069
Reserved for Inventories	7,048	7,326	8,774
Reserved for Other Purposes	177,137	251,352	274,878
Unreserved:			
Designated for Encumbrances	--	236,272	215,793
Designated for Subsequent Years' Expenditures	182,499	138,729	130,968
Designated for landfill postclosure and landfill closure costs	910	854	852
Undesignated	561,429	571,380	550,303
TOTAL FUND BALANCES	$ 1,155,082	$1,220,466	$1,189,015
TOTAL LIABILITIES AND FUND BALANCES	$ 1,691,739	$1,561,145	$1,637,324

Source: County of San Diego Auditor and Controller.

(1) Amounts are receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

(2) Includes the tax and revenue anticipation notes outstanding at June 30, 2007. The amount of tax and revenue anticipation notes outstanding as of June 30, 2007, together with investment earnings received in connection therewith, is reflected above. 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 Restricted Assets-Investments with Fiscal Agents representing the pledged amounts. The tax and revenue anticipation note for the Fiscal Years 2007-08 and 2008-09 were paid in full on June 30, 2008 and June 30, 2009, respectively, thus reflecting a zero balance.

(3) To conform with Governmental Accounting Standards Board (GASB) Statements 33 and 34, activities from various Internal Agency Funds are included in the General Fund.

TABLE 7

COUNTY OF SAN DIEGO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For Fiscal Years 2004-05 through 2008-09
(In Thousands)

	Audited 2004-05	Audited 2005-06	Audited 2006-07	Audited 2007-08	Unaudited 2008-09
Revenues:					
Taxes[1]	$ 671,850	$ 791,241	$ 842,396	$ 928,066	$ 931,952
Licenses, Permits and Franchise Fees	32,015	31,847	33,752	34,735	35,838
Fines, Forfeitures and Penalties	51,000	56,177	55,248	59,782	56,252
Revenue From Use of Money and Property	29,308	43,757	51,894	48,381	27,568
Aid From Other Governmental Agencies:					
State[1]	511,830	578,736	851,309	849,783	870,461
Federal	620,477	660,976	704,440	792,430	727,748
Other	60,415	88,210	92,769	71,663	134,026
Charges for Current Services	254,585	271,448	269,282	267,624	282,151
Other Revenue	38,057	25,668	33,227	30,705	70,369
Total Revenues	$2,269,537	$2,548,060	$2,934,317	$3,083,169	$3,136,365
Expenditures:					
Current:					
General Government	$ 204,566	$ 188,223	$ 224,261	$ 270,236	$ 278,207
Public Protection	928,375	1,001,110	1,059,826	1,135,288	1,126,903
Public Ways and Facilities	,4,348	1,974	1,369	5,907	690
Health and Sanitation	499,471	517,837	539,954	593,104	630,633
Public Assistance	858,487	901,122	928,234	987,730	1,039,496
Education	597	820	1,157	1,101	808
Recreation and Cultural	18,300	21,375	24,509	29,606	29,274
Capital Outlay	17,928	18,590	17,190	11,453	8,059
Debt service:					
Interest and Fiscal Charges	12,310	12,368	10,843	5,169	2,764
Total Expenditures	$2,544,382	$ 2,663,419	$2,807,343	$3,039,594	$3,116,834
Excess (Deficiency) of Revenues over (under) Expenditures	($ 274,845)	($ 115,359)	$ 126,974	$ 43,575	$ 19,531
Other Financing Sources (Uses):					
Sale of Capital Assets	$ 0	$ 12,241	$ 130	$ 41	$ 29
Refunding Bonds Issued	0	0	0	0	443,515
Payment to Escrow Agent/Refunded Bond	0	0	0	0	(441,038)
Transfers In[2]	568,677	486,203	283,535	257,890	230,296
Transfers Out[3]	(179,228)	(151,503)	(152,854)	(236,400)	(285,232)
Total Other Financing Sources (Uses)	$ 389,449	$ 346,941	$ 130,811	$ 21,531	$ ($52,430)
Net Change in Fund Balance	$ 114,604	$ 231,582	$ 257,785	$ 65,106	$ ($32,899)
Fund Balances at Beginning of Year	551,000	667,458	898,885	1,155,082	1,220,466
Increase (Decrease) in Reserve for Inventories	1,854	(155)	(1,588)	278	1,448
Fund Balances at End of Year	$ 667,458	$ 898,885	$1,155,082	$1,220,466	$1,189,015

(Table continued from prior page.)

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Source: Comprehensive Annual Financial Report of the County.

(1) The conversion of vehicle license fee revenues to property taxes in lieu of vehicle license fees (in Fiscal Year 2004-05) resulted in a reclassification of such revenues from State aid to taxes. See line item entitled "Other financing sources (uses) – Transfers In" and corresponding footnote below.

(2) In Fiscal Year 2004-05, revenues from the Public Safety Augmentation Sales Tax (Proposition 172), Health and Social Services' Realignment monies and the tobacco securitization proceeds were recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred. These three sources accounted for substantially all of the transfers in for Fiscal Year 2004-05. Beginning in Year 2005-06, Health and Social Services' Realignment monies were received directly into the General Fund and reflected as aid from the State rather than transfers in from other financing sources. In Fiscal Years 2005-06 through 2008-09, revenues from the Public Safety Augmentation Sales Tax (Proposition 172) and the tobacco securitization proceeds were recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred.

(3) Essentially represents contributions to the Pension Obligation Bond fund, annual base rental payments to SANCAL (defined herein), contributions to capital funds for General Fund projects, County contributions to the Library fund, and the In-Home Supportive Services ("IHSS") Public Authority fund. Additionally, in Fiscal Year 2004-05 contributions were made to the Pension Obligation Bond fund related to the economic defeasance of the 1994 Pension Obligation Bonds.

General Fund Budget

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year. 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, permits and franchises, 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. Increases in the aggregate appropriations based on actual or anticipated increases in available financing can be made after the annual budget has been adopted upon approval by a four-fifths vote of the Board of Supervisors.

To ensure that the expenditures do not exceed authorized levels or available financing sources, quarterly reviews are conducted covering actual and projected receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to freeze or reduce appropriations. Similarly, if expenditures are projected to exceed appropriations, steps are taken to freeze expenditures in other areas or to transfer available resources to offset the added expenditure requirement. 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.

Table 8 below sets forth the County's Adopted and final Amended Budgets for Fiscal Years 2007-08 and 2008-09. The table also sets forth the Adopted Budget for Fiscal Year 2009-10.

TABLE 8

GENERAL FUND
ADOPTED AND AMENDED BUDGET FOR FISCAL YEARS 2007-08 AND 2008-09 AND ADOPTED BUDGET FOR FISCAL YEAR 2009-10
(In Thousands)

	2007-08 Adopted Budget	2007-08 Amended Budget[(1)]	2008-09 Adopted Budget	2008-09 Amended Budget[(2)]	2009-10 Adopted Budget[(3)]
EXPENDITURES					
Public Safety	$ 1,096,476	$ 1,165,353	$ 1,139,919	$ 1,196,261	$ 1,105,589
Health and Human Services	1,677,329	1,700,962	1,762,290	1,789,081	1,825,155
Land Use and Environment	143,750	219,936	156,512	195,050	184,783
Community Services	70,399	87,424	59,372	80,360	58,203
Finance and General Government and Other	512,944	723,147	541,093	1,201,623	596,283
Contingency Reserve and Designations	20,000	17,000	20,294	24,313	20,000
Total Expenditures[(5)]	$ 3,520,898	$ 3,913,822	$ 3,679,480	$ 4,486,688	$ 3,790,013
REVENUES					
Current Property Taxes	$ 511,393	$ 511,393	$ 543,062	$ 543,062	$ 496,283
Taxes Other Than Current Property Taxes	390,776	390,776	413,464	413,464	404,514
Licenses, Permits and Franchises	35,993	35,875	37,216	35,967	38,863
Fines, Forfeitures and Penalties	52,535	54,796	52,083	53,204	55,954
Use of Money and Property	34,265	34,265	31,298	31,298	17,399
Aid from Other Government Agencies	1,731,653	1,804,134	1,803,782	1,845,784	1,893,796
Charges for Current Services	277,643	271,299	280,100	281,386	266,686
Miscellaneous Revenues and Other Financing Sources	306,281	295,042	303,566	740,247	272,792
Total Revenues[(5)]	$ 3,340,539	$ 3,397,580	$ 3,464,571	$ 3,944,412	$ 3,446,287
Estimated Use of Unreserved and Designated Fund Balance	$ 57,020	$ 60,587	$ 201	$ 201	$ 7,176
Estimated Use of Unreserved and Undesignated Fund Balance	123,339	216,383	214,708	282,276	336,550
Estimated Use of Fund Balance Reserved for Encumbrances	0	239,272	0	259,799	0
Total Resources Utilized[(4)]	$ 3,520,898	$ 3,913,822	$ 3,679,480	$ 4,486,688	$ 3,790,013

Source: County of San Diego Auditor and Controller.

(1) This amount reflects expenditures and revenues included in the 2007-08 Adopted Budget, as amended and adjusted to include all budgeted appropriations and revenues as of June 30, 2008.

(2) This amount reflects expenditures and revenues included in the 2008-09 Adopted Budget, as amended and adjusted to include all budgeted appropriations and revenues as of June 30, 2009.

(3) Reflects expenditures and revenues included in the 2009-10 Adopted Budget.

(4) Total may not equal the sum of the line items due to rounding.

County's 2009-10 Adopted Budget and the Operational Plan

Adopted Operational Plan

The County annually prepares a two-year operational plan, the most recent of which was adopted by the County's Board on August 4, 2009 (the "Adopted Operational Plan"). The first year of the Adopted Operational Plan is the 2009-10 Adopted Budget and the second year represents an estimate of the revenues and expenditures of the County for Fiscal Year 2010-11. The Adopted Operational Plan reflects the budgets for all funds within which the County accounts for the services it provides to its residents. The largest single fund is the General Fund, which accounts for the majority of the County's activities.

The County's Adopted Budget for the County General Fund for Fiscal Year 2009-10 is approximately $3.79 billion, with Total Appropriations of approximately $3.79 billion, Total Revenues of approximately $3.446 billion, and total estimated use of the Unreserved and Designated Fund Balance and the Unreserved and Undesignated Fund Balance of approximately $7.2 million and $337.0 million, respectively. See Table 8 entitled "GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2007-08 AND ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2008-09 AND ADOPTED BUDGET FOR FISCAL YEAR 2009-10" herein for a summary of the County's 2009-10 Adopted Budget.

Summary of General Fund Financing Sources

In the Adopted Operational Plan, General Fund Financing Sources total $3.79 billion for Fiscal Year 2009-10, a $110.5 million or 3.0% increase from Fiscal Year 2008-09. They are expected to decrease by $280.6 million or 7.4% in Fiscal Year 2010-11. In comparison, the Fiscal Year 2008-09 budget was 4.5% above the prior year, while the previous seven fiscal years saw an average annual growth rate of 5.6%. The 3.0% increase for Fiscal Year 2009-10 includes the one-time use of $100 million of the fund balance to establish a designation for economic uncertainty. Excluding this action, General Fund Financing Sources increase by $10.5 million or 0.3% from Fiscal Year 2008-09. The Adopted Operational Plan reflects the continued constriction in the economy and estimates of available general purpose and program revenues. General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).

Program Revenues. Program Revenues are expected to total approximately $2.50 billion in Fiscal Year 2009-10 and $2.48 billion in Fiscal Year 2010-11. These revenues make up 65.8% of General Fund Financing Sources in Fiscal Year 2009-10, and are derived primarily from State and federal subventions and grants, and charges and fees earned from specific programs. Program Revenues are expected to increase by 1.9% over the Fiscal Year 2008-09 Adopted Budget compared to an average annual growth for the last six years of 3.6%. HHSA manages 69.07% of the program revenues; Public Safety Group manages 23.14%; and the balance is managed across the other service delivery groups.

General Purpose Revenues. General Purpose Revenues, budgeted at approximately $950.7 million in Fiscal Year 2009-10 and $952.9 million in Fiscal Year 2010-11, comprise approximately 25.1% of General Fund Financing Sources. These revenues come from property taxes, property tax in lieu of Vehicle License Fees ("VLF"), sales tax (and property tax in lieu of sales tax), real property transfer tax, and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board of Supervisors, therefore, has the greatest flexibility in allocating these revenues to fund programs and services.

The growth in these revenues is principally affected by the local and State economies, with over 85% of General Purpose Revenues tied to activity in the real estate market. From Fiscal Year 1999-2000 through Fiscal Year 2008-09, General Purpose Revenues grew by an annual average of $55.7 million.

For Fiscal Year 2009-10, the $950.7 million budgeted for General Purpose Revenues is a reduction of $64.0 million from the Fiscal Year 2008-09 budgeted amount of $1,014.7 million. Significant factors influencing this reduction include a decline of 2.83% in the secured local assessed value for Fiscal Year 2009-10, which affects both Property Taxes and Property Taxes In Lieu of Vehicle License Fees, a significant reduction in interest on deposits based on an anticipated lower interest earnings rate and projected lower County pool balances, and continued volatility in several other revenue sources.

Use of Fund Balance. Use of Fund Balance, including reserve/designation decreases, totals approximately $343.7 million in Fiscal Year 2009-10 and $72.6 million in Fiscal Year 2010-11. It represents 9.1% of General Fund Financing Sources in Fiscal Year 2009-10. This resource is used for one-time expenses, not for the support of ongoing operations. The $343.7 million of fund balance used in Fiscal Year 2009-10 includes amounts to establish a $100.0 million fund balance designation for economic uncertainty, resulting in a net use of $243.7 million of fund balance. This compares with $214.9 million in uses of fund balance in the Fiscal Year 2008-09 Adopted Budget, which equaled 5.8% of total General Fund Financing Sources.

In the Adopted Operational Plan, a portion of the unreserved General Fund fund balance is budgeted as the funding source for various one-time or project specific purposes such as: Designation for Economic Uncertainty; one-time capital needs for the volunteer fire protection districts via the Fire Protection and Emergency Medical Services Grant Program and one-time funding to implement the Unified Disaster Council plan for a supplemental Aerial Fire Protection Program; moving and one-time occupancy costs upon completion of the new Medical Examiner Facility; moving and one-time occupancy costs for the relocation of Probation Work Projects from the County Operations Center; Regional Communication System enhancement project – Point Loma site; equipment replacement in the Medical Examiner’s Office; Business Process Reengineering; imaging and information technology initiatives in the HHSA; disaster claims consultant; vegetation and debris cleanup of parklands; major maintenance projects and one-time increases in appropriations for the Guajome Park Photovoltaic System and Sweetwater Lane Artificial Turf Improvement projects; Service First “land use” reengineering activities; Winery Environmental Impact Report rebudget; General Plan Update/Zoning Ordinance project costs; one-time public nuisance abatement costs; Move Up and Cover/Volunteer program; Fire Fuels Reduction Program matching funding; Fire Prevention Program consultant costs and acquisitions; future disaster damage assessment preparedness – camera, Global Positioning System equipment and miscellaneous other gear; Firestorm 2007 permit fee waiver offset; Planning and Land Use code enforcement temporary staffing and abatement support; fire prevention equipment for volunteers; Planning and Land Use Building Division temporary core services support; Inland Rail Trail project management; Valley Center Interpretive Trail signs; Sweetwater utility conversion; assorted stormwater, residential pest management, and flood control costs; wastewater small system upgrades rebudget to rehabilitate aged equipment; Woodside Drainage improvement rebudget due to delayed federal grants; one-time funding for the Environmental Trust Fund to sustain operations in future years at County owned inactive or closed landfills; Media and Public Relations one-time projects; Workforce Academy for Youth program; leave balance payoffs for employees leaving County service; various information technology projects, such as: document imaging, infrastructure and upgrade needs in the District Attorney’s Office, the Land Use and Environment Group’s BCMS, Geographic Information System enhancements, graphic computer upgrades, Animal Services ultra-sound equipment, Registrar of Voters information technology enhancements and equipment, Integrated Recording/Vitals System development, Planning and Land Use back file conversion, reconfiguration of the Documentum enterprise content management application and environment, one-time County Technology Office initiatives, and Oracle Financials and PeopleSoft system upgrades, and implementation of the IPTS; augmentation of the Edgemoor Development Fund; early principal pay-down on the Series 2008B Pension Obligation Bonds (the "2008B POBs"), Multiple Species Conservation Program ("MSCP") land acquisition, grants provided to community organizations, and management reserves.

Summary of Total Appropriations in the Adopted Operational Plan

Appropriations total approximately $5.01 billion for Fiscal Year 2009-10 in the Adopted Operational Plan and $4.55 billion for Fiscal Year 2010-11. This is a decrease of $179.9 million or 3.5% from the Fiscal Year 2008-09 Adopted Operational Plan. Appropriations for the General Fund are approximately $3.79 billion, which constitutes 75.7% of the total appropriations of the County.

The Adopted Operational Plan includes increased appropriations in Health and Human Services, Land Use and Environment, Community Services, Finance and General Government, and Finance Other and decreased appropriations in Public Safety and the Capital Program. The HHSA, at $1.86 billion, continues to constitute the largest share of the budget at 37.2%, followed by the Public Safety Group at $1.33 billion, or 26.6%.

Public Safety Group. The Adopted Operational Plan reflects a net decrease of 4.2% or $58.4 million from the Fiscal Year 2008-09 Adopted Budget. Resource reductions in local revenues and in State funding require changes to the method of service delivery to increase efficiency, reductions in administrative and support functions and a decrease in discretionary services available. All mandated services will be maintained.

Health and Human Services Agency. The Adopted Operational Plan reflects a net increase of 3.5% or $63.2 million over the Fiscal Year 2008-09 Adopted Budget associated with increases in appropriations for In-Home Supportive Services provider payments, California Work Opportunity and Responsibility to Kids ("CalWORKs") Assistance payments, Child Care payments, the continued expansion associated with the Mental Health Services Act ("MHSA") and an increase in the Central Region's Community Action Partnership for services to assist persons in becoming self-sufficient based on American Recovery and Reinvestment Act of 2009 ("ARRA") funds. These increases are offset by a decrease in appropriations in other areas that will result in fewer programs and longer wait times for client services. HHSA has worked with advisory boards and other key stakeholders in the development of the Adopted Operational Plan to ensure the continuation of core, mandated programs and services.

Land Use and Environment Group. The Adopted Operational Plan reflects a net expenditure increase of 6.9% or $27.4 million over the Fiscal Year 2008-09 Adopted Budget. Increases include one-time appropriations for enhancements to the County's Fire Services Program, federal funding for hazardous fuels reduction activities, the rebudget of the Woodside Drainage project, the rebudget for the Lower-Emission School Bus Program portion of Proposition IB, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006, energy efficiency and water conservation projects at various County parks, and building of reserves for the maintenance of closed and inactive County landfills. Significant decreases include a reduction in salaries and benefits due to a reduction in staffing levels, and a reduction in capital projects due to completion of projects in the Sanitation Districts and the Airport Enterprise Fund that will not be repeated in Fiscal Year 2009-10.

Community Services Group. The Adopted Operational Plan reflects a net increase of 3.2% or $9.6 million over the Fiscal Year 2008-09 Adopted Budget. Significant increases in costs are related to one-time funding for the Documentum End Users License Agreement and system upgrade, the Housing and Community Development programs which are funded by the Federal economic stimulus package, a rebudget of project loan funding for the Silversage Apartments in Lakeside, and a payment due to the Lakeside Fire District under a cooperative agreement with the County Redevelopment Agency. Significant decreases are due to elections-related activities and designations of fund balance for the Registrar of Voters that were budgeted in Fiscal Year 2008-09, but will not repeated in Fiscal Year 2009-10, and cutbacks in the purchase of library books and materials and other services and supplies due to funding reductions from the overall economic downturn.

Finance and General Government Group. The Adopted Operational Plan reflects a net increase of 16.1% or $56.6 million from the Fiscal Year 2008-09 Adopted Budget. Material changes include a reduction in salaries and benefits due to a decrease in overall staffing levels attributable to current economic conditions, and an increase in services and supplies to fund the development and implementation of an integrated property tax system (IPTS) and the upgrade of core financial and human resource software applications.

Capital Program. The Adopted Operational Plan reflects a decrease of 75.5% or $306.5 million from Fiscal Year 2008-09. The amount budgeted in the Capital Program can vary significantly from year to year. The decrease is mainly related to the budgeting in Fiscal Year 2008-09 for the redevelopment of the County Operations Center ("COC") that will not be repeated in Fiscal Year 2009-10. The Fiscal Year 2009-10 Capital Program includes $75.0 million in seed money for a new Women's Detention Facility, funds for land acquisition for the MSCP and the San Luis Rey River Park, as well as funds for the Jess Martin Exercise Path and Park Improvements project, the Guajome Park Photovoltaic System project, and for the Sweetwater Lane Artificial Turf Improvements project. Appropriations are also included in the Edgemoor Development Fund to pay debt service on the 2005 and 2006 Edgemoor bonds.

Finance-Other. The Adopted Operational Plan reflects a net increase of 5.2% or $28.2 million from Fiscal Year 2008-09. Many of the appropriations in this group vary little from year to year, but some appropriations reported here are one-time and can fluctuate significantly from year to year. Significant areas of expenditure for Fiscal Year 2009-10 include an $86.8 million General Fund contribution to the Capital Program for four projects, $75.0 million for the new Women's Detention Facility, $10.0 million for the MSCP, $1.1 million for the Guajome Park Photovoltaic System project, and $0.7 million for the Sweetwater Lane Artificial Turf Improvements, and $100.0 million to pay-off the variable rate Series 2008B POB portion of the County's 2008 Pension Obligation Bond refunding. Also included in this group is the creation of a $100.0 million fund balance designation for economic uncertainty. See "County Financial Information – Anticipated Capital Financings" herein.

Impact of the State's 2009-10 Budget on the County's 2009-10 Adopted Budget

Various proposals have been presented by the Governor, the State Legislature and the Legislative Analyst's Office in response to the State's financial position subsequent to adoption of its 2008-09 Budget to mitigate the growing State budget deficit. See "State of California Budget Information" herein. The Governor signed the State's 2009-10 Budget on February 20, 2009. On July 28, 2009, he signed amendments thereto that further reduced the State's budget in a manner that will impact the County's budget. The County reflected the reductions included in the State's original 2009-10 Budget in its Fiscal Year 2009-10 Adopted Budget. The primary negative impacts were to grant funded public safety activities, juvenile dependency representation under contract with the State Administrative Office of the Courts, the Adult Protective Services and Ombudsman program, and the substance abuse treatment program.

The primary impacts to the County from the State's amended 2009-10 Budget include cuts to funding for several County provided health and human services programs, the borrowing of property tax revenues by the State under the provisions of Proposition 1A – Protection of Local Government Revenues that was approved by voters in 2004 ("Proposition 1A (2004)"), a diversion of redevelopment agency funds, deferral of pass-through payments for road maintenance, and cuts to funding for court security services. The County estimates that its General Fund share of the Proposition 1A (2004) loan will be $70.2 million. The County has not yet determined whether it will address the resulting shortfall by participating in the California Communities Proposition 1A securitization program authorized by the legislature or using its reserves to offset the loan. The reduction of redevelopment agency funds in Fiscal Year 2009-10 may result in a $4.9 million loss to the County's general fund due to reduced payments from various cities' redevelopment agencies pursuant to tax sharing agreements, an $800,000 loss to the County redevelopment agency, and a $308,000 loss to the County library fund. The redevelopment funds loss will be offset by reserves, resulting in no immediate effect on service delivery.

In addition, changes are proposed to sentencing options for low-level offenders that could result in incarceration in local jails instead of state prison. This shift could have potentially significant fiscal and operational impacts on the County. The County will continue to review the various proposals subject to negotiation to determine the potential fiscal impact of these cost shifting reductions.

Moreover, the State's amended 2009-10 Budget did not address the reimbursement to counties for conducting the May 19, 2009 statewide special election. The County's share of the reimbursement is estimated to be $5.0 million. However, the County did not budget for these revenues in Fiscal Year 2009-10. Further, the State deferral of local government Highway Users Tax Account funding for July through December 2009 will result in a $20 million deferral of payment to the County, and deferral of the first two quarters of Proposition 42 payments will result in a $10 million deferral to the County. The County expects to manage these deferrals with amounts in the County's Road Fund.

The State's amended 2009-10 Budget may also result in potential cost savings to the County. In the area of IHSS, the proposals to tighten eligibility criteria and reduce the wages of IHSS workers would likely result in $2.5 million in savings to the County. The State's reduction in Public Authority administration funding is expected to result in $500,000 in realignment savings to the County and additional savings may be realized as a result of the centralization of eligibility determinations. State assumption of all responsibility for eligibility and enrollment for these assistance programs would result in the elimination of County responsibility for these programs, including a significant number of related staff positions. See "State of California Budget Information" herein.

The County made downward adjustments to its Fiscal Year 2009-10 budget on September 22, 2009 to address the budget cuts by the State. These reductions totaled approximately $11.7 million and affect services provided by the Probation Department under the Substance Abuse Treatment and Crime Prevention Act – Proposition 36, court security services provided by the Sheriff's Department, and five program areas in the Health and Human Services Agency: Child Welfare Services, Public Health Services, Regional Operations, Alcohol and Drug Services, and Aging and Independence Services, and the Solid Waste Planning and Recycling program in the Department of Public Works. The State Budget also reflects significant reductions in funding for social services programs, but the County does not expect to have sufficient information from the State until the end of October 2009 to determine whether it needs to make budget reductions to those programs.

Fund Balance and Reserves Policy

The County's Fund Balance and Reserves Policy (the "Fund Balance and Reserves Policy") establishes guidelines regarding the use of fund balance and the maintenance of reserves in the General Fund. Pursuant to the Fund Balance and Reserves Policy, subject to a waiver of all or a portion of such policy by the Board of Supervisors, the County will maintain a General Reserve (the "General Reserve") with a targeted amount equivalent to 5% of budgeted General Purpose Revenues to fund legally declared emergencies, a Contingency Reserve (the "Contingency Reserve") with a targeted amount equivalent to 2% of budgeted General Purpose Revenues to fund unanticipated needs of the County or offset revenue shortfalls during the Fiscal Year and a General Fund unappropriated, unreserved, undesignated fund balance at the targeted level of 10% of the budgeted General Purpose Revenues. The Fiscal Year 2009-10 Adopted Operational Plan established the creation of a fund balance designation to represent this target. In the event that the General Reserve, the Contingency Reserve or the General Fund fund balance designation falls below their targeted levels, the CAO will present a plan to the Board of Supervisors for restoration of those levels.

The General Purpose Revenues in the Fiscal Year 2009-10 Adopted Budget total $950.7 million. The general reserve is currently $55.5 million, which exceeds the reserve requirements of $47.5 million for Fiscal Year 2009-10. The General Fund Appropriated Contingency Reserve is $20.0 million, which exceeds the target level of $19.0 million for Fiscal Year 2009-10. For Fiscal Year 2009-10, the General Fund unappropriated, unreserved, undesignated fund balance target would be $95.1 million. However, the Board of Supervisors created a fund balance designation to represent this target. The designation was set at $100.0 million, slightly above the 10% level. See also "– Budget and Financial Position of the County" and "– County's 2009-10 Adopted Budget and the Operational Plan," herein.

Teeter Plan

In 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 to advance funds to these entities to cover expected delinquencies. The County's general fund benefits from future collections of penalties and interest on delinquent taxes collected on behalf of participants in this alternative method of apportionment.

From June 1996 through June 2005, the County issued on an annual basis its Teeter Obligation Commercial Paper Notes ("Teeter Notes") to finance delinquent property tax receivables. The County has not issued Teeter Notes to fund delinquencies since June 15, 2006. All of the County's Teeter Notes have been paid in full. The County intends to fund its obligations under the Teeter Plan through available monies in the General Fund. There are currently no plans to issue Teeter Notes in the future.

Temporary Transfers

Section 6 of Article XVI of the California Constitution provides for temporary transfers of funds by the Treasurer-Tax Collector of the County (the "Temporary Transfers"; such transfers are referred to as Treasurer's Loans from time to time) to cover short-term operational deficits occurring as a result of imbalances between receipts and expenditures. The California Constitution prohibits Temporary Transfers by participants of the Treasury Pool (herein defined) (including the County) 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. Treasury Pool participants may utilize Temporary Transfers from time to time for various purposes. A Temporary Transfer must be repaid from the Treasury Pool participant's first revenues received thereafter before any other obligation and thus, in the case of the County, would have a priority over the County's general fund debt obligations. The County has not received any Temporary Transfer in the past ten years.

San Diego County Employees Retirement Association

The following information concerning the San Diego County Employees Retirement Association (the "Association") has been excerpted from publicly available sources, which the County believes to be accurate, or otherwise obtained from the Association. The Association is not obligated in any manner for payment of debt service on the County of San Diego Certificates of Participation (Justice Facilities Refunding) (the "Certificates"), and the assets of the County's pension plan are not available for such payment.

General

The Association, which was established July 1, 1939 under provisions of the County Employees Retirement Law of 1937 (the "Retirement Law"), administers the County's cost-sharing multiple-employer defined benefit pension plan covering substantially all compensated employees of the County. Benefits under the County's pension plan are paid in finite amounts, derived from a formula based on age, service credit and levels of compensation, as calculated by the Association in accordance with applicable law and agreements. As of June 30, 2008, there were 18,041 active members, 12,991 retired members and beneficiaries and 5,147 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 pension system has four tiers. Tier B is the current open plan, which became effective on August 28, 2009. Tier A (with 17,975 active members as of June 30, 2008) and Tier I (with 66 active members as of June 30, 2008) are closed to new entrants, and Tier II was eliminated for active members. See "County of San Diego Employees – Negotiated Retirement Amendments" herein for a description of modifications to the benefit tiers effective August 28, 2009.

The County is one of the employers that participates in the Association. In addition to the County, participating employers include the San Diego Superior Court (the "Court"), 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" and contributions to the Association made by such Employers are referred to herein as "Employer Contributions". The County is obligated to make approximately 91.2% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 8.8% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating employers for Fiscal Year 2007-08.

General Funding Practices of the Association

Introduction. The Retirement Law requires the Association to commission an actuarial valuation and an experience study 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 the rate of contribution by the Employers and 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. The most recent actuarial valuation is as of June 30, 2008. The Segal Company has been retained as the Association's actuary (the "Actuary").

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. The UAAL may increase or decrease as a result of 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, 2008 would apply to contributions to be made by the County and the other Employers for the Fiscal Year beginning July 1, 2009.

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, deferred vested members and retired members. The funding sufficiency is typically expressed as the ratio of the valuation assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, 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.

When measuring assets for determining the UAAL, many pension plans, including the Association, "smooth" gains and losses to reduce volatility. If in any 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%, net of expenses), 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.

Further, various plans use different amortization periods for paying off (or "amortizing") a UAAL. Some 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 actuarial accrued liability amortized over the remaining years in the fixed period. On June 17, 2004, the Retirement Board changed the Association's amortization period from a 15-year rolling amortization period to a 20-year fixed layered amortization period.

The 20-year fixed layered method of amortizing the UAAL amortizes each year's change in UAAL over a new 20-year period. Accordingly, the increase or decrease in UAAL from the current year's actuarial valuation began a new 20-year amortization schedule and the prior year increase or decrease in UAAL has 19 years remaining on its 20-year amortization schedule. As with other assumptions, the Retirement Board may change the amortization period from time to time, which would result in the Employer's contributions to the Association in a particular year being higher or lower.

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 members and existing retired members. 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.

Demographic Assumptions. The Retirement Board and the Association's actuary review the various demographic assumptions that are employed in calculating the UAAL against actual experience at least every three years. The Association's actuary last conducted an experience study in January 2007 with respect to results as of June 30, 2006. Pursuant to the experience study, the Retirement Board elected in April 2007 to modify certain of the assumptions used to calculate the UAAL. The changed assumptions included the assumed future pay increases for current employees, the assumed rates of disability, the assumed retirement ages of active employees, the assumed ordinary withdrawal and vested termination rates, and the post-employment life expectancies of retirees and beneficiaries. The changed assumptions are included in the actuarial valuation report as of the year ended June 30, 2008. The next experience study is expected to be conducted in 2010 with respect to results as of June 30, 2009.

Economic Assumptions. Currently, the Association assumes a rate of return on investments of 8.25%, projected salary increases of 5.25% (inclusive of an assumed inflation rate of 3.75%, an across the board increase of 0.50% and merit and longevity increases) and cost of living adjustments of 3.00% of a member's retirement income. The Association uses an asset smoothing methodology pursuant to which the expected investment return on the market value of assets (instead of the expected return on the valuation value of assets) will be compared to the actual investment return on the market value of assets, and the difference will be "smoothed" over a five-year period.

Historically, the Retirement Board received on an annual basis, the Actuary's recommendations on the economic assumptions to be used by the Actuary to project the assets and liabilities of the pension fund, including the actuarial assumed rate of earnings. On June 19, 2008, the Retirement Board, after a presentation from the Actuary, elected to perform the review of the economic assumptions every three years instead of annually. The next economic assumptions review will be conducted in conjunction with the next experience study, which, as noted above, is expected to be conducted in 2010 with respect to results as of June 30, 2009. The results of both will be used to prepare the June 30, 2010 valuation report. The County cannot predict at this time the further recommendations to be made by the Actuary, the Retirement Board's determinations with respect thereto and their potential effects on the Association's assets and liabilities or the contributions to be made by the County, other employers and their respective employees.

Funding Status of the Association

Current Status. As of June 30, 2008, the date of the most recent actuarial valuation report, the valuation value of assets of the Association was approximately $8.237 billion and the actuarial accrued liability was approximately $8.722 billion, resulting in a funded ratio of approximately 94.4% and an UAAL of approximately $485.5 million. The actuarial value of assets and the UAAL may increase or decrease as a result of investment results of the Association increasing or decreasing below the actuarially assumed rate of 8.25% per annum as a consequence of increases or decreases in the securities market. No assurance can be given that the actuarial value of assets of the Association will not materially decrease. The Association reported a total market value of net assets of $6.192 billion as of June 30, 2009, compared to $8.408 billion as of June 30, 2008, a $2.216 billion decline in net assets resulting from market events. The investment results through Fiscal Year 2008-09 will be factored into the June 30, 2009 actuarial valuation. These losses may result in a material adverse effect on the actuarial value of the assets, the funded ratio and the employer contributions beginning in Fiscal Year 2010-11. See "County Financial Information – San Diego County Employees Retirement Association – UAAL and its Calculation" herein. The Association reported a total market value of net assets of $6.509 billion as of July 31, 2009.

Historical Funding Status. Table 9 below sets forth for each of the ten years ended June 30, 2008 the amount of the total Employer Contributions made by the County and the other Employers, the UAAL as of the end of each such fiscal year and the funded ratio of the Association as of the end of each such fiscal year.

TABLE 9

HISTORICAL FUNDING STATUS
Fiscal Years Ended June 30, 1999 through 2008
($ In Millions)

Fiscal Year	Employer Contribution[1]	Employer Offsets[1]	UAAL[2]	Funded Ratio
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)[3]	106.8
2002	5.3	45.2	905.1[3][4]	82.5[3][4]
2003	12.2[5]	53.9	1,435.4[3][5]	75.5[3][5]
2004	195.0[5]	55.2	1,202.7[5]	81.1[5]
2005	260.0[6]	56.1	1,378.4	80.3
2006	243.7[7]	58.8	1,232.3	83.6
2007	258.2[8]	62.3	832.1	89.7
2008	236.8	68.7	485.4[9]	94.4

Source: The County.

(1) These contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. In each year the amounts indicated under the columns Employer Contribution and the Employer Offsets were based on the valuations as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30. The County share of Employer Contributions and Employer Offsets are estimated to be approximately 91.2% based on the estimated relative percentage of payroll of the County for Fiscal Years 2007-08. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) Negative numbers represent an actuarially accrued surplus.

(3) From June 30, 2001 to June 30, 2003, a number of events 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) 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; (3) 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; (4) the Association ceased including amounts in the Undistributed Reserve (as defined herein) as valuation assets when calculating the Association's UAAL; and (5) deviations occurred between actual experience and those assumptions used in calculating the UAAL.

(4) The UAAL and Funded Ratio indicated for the Fiscal Year ended June 30, 2002 are those calculated in an October 2002 actuarial valuation. 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.

(5) Employer Contributions do not include any of the amounts contributed by the County from the proceeds of the issuance of the POBs in the indicated Fiscal Years. However, such amounts are reflected in the UAAL and Funded Ratios of the Association as of the end of such Fiscal Years.

(6) Includes $235.1 million of required contributions plus an additional discretionary contribution of $24.9 million.

(7) Includes $203.7 million of required contributions plus an additional discretionary contribution of $40.0 million.

(8) Includes $231.3 million of required contributions plus an additional discretionary contribution of $26.9 million.

(9) Excludes a total unsmoothed loss of $99.0 million as of June 30, 2008, which amount will be spread over the five years ending June 30, 2013. See "County Financial Information – San Diego County Employees Retirement Association – UAAL and its Calculation" herein.

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 dating back to 1982 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 9.5% of their salary, and for safety employees range from 2.75% to 16.8% of their salary. In most instances, the amount of Employer Offsets will be less than the total required employee annual contribution. See "County Financial Information – San Diego County Employees Retirement Association – Historical Funding Status" herein for information regarding payments by the Employer of Employer Offsets for each of the ten years ending June 30, 2008.

Prospective Funding Status of the Association

Table 10 below sets forth projections by the Association's actuary relating to future Employer Contribution amounts, Employer Offsets, UAAL, and funded ratio. 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 Association, taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts. Although the estimated decline in the total market value of net assets of the Association between July 1, 2008 and June 30, 2009 was 26.4%, Table 10 sets forth the prospective funding status of the Association assuming a 27% loss is experienced for the July 1, 2008 through June 30, 2009 period, followed by earnings of 8.25% in all subsequent years reflected in the table. The County cannot predict whether the Association will achieve this assumed rate of return in the current or future years.

TABLE 10

PROSPECTIVE FUNDING STATUS OF THE ASSOCIATION
Fiscal Years Ended June 30, 2009 through 2015
($ In Millions)

Fiscal Year	Employer Contributions(1)(2)(3)	Employer Offsets(1)(2)(3)	UAAL(1)(2)(3)	Funded Ratio(1)(3)
2009	$234	$72	$ 902	90.3%
2010	216	75	1,681	83.2
2011	258	78	2,516	76.5
2012	329	81	3,391	70.3
2013	407	84	4,154	66.0
2014	492	88	4,188	67.9
2015	572	92	4,150	70.2

Source: The Segal Company.

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

(a) The annual investment return on the market value of assets will be negative 27% from July 1, 2008 through June 30, 2009 and 8.25% per year thereafter. Under the Retirement Board's asset smoothing method, if actual return on market value of assets is above/below the expected return on market value of assets, the difference between the actual and the expected return will be recognized over a five-year period. There was a total of $99.0 million in unrecognized investment loss as of June 30, 2008, prior to accounting for the negative 27% return for Fiscal Year 2008-09.

(b) With the exception of the investment return, all of the other actuarial assumptions used in developing the contribution rates in the June 30, 2008 valuation will be met in the future.

(c) In projecting the payroll, the Actuary assumed that the estimated Fiscal Year 2008-09 payroll of $1,135.4 million used in the June 30, 2008 actuarial valuation will increase by 4.25% per annum.

(d) The Retirement Board's current valuation methodologies, such as the 20-year fixed layered amortization period for the UAAL and the five-year smoothing asset valuation method (described in (a)), will remain unchanged.

(e) The Employer Offsets (the County's pickup of member contributions) of about $69 million (reported by the Association for the 2007-08 Fiscal Year) will increase by 4.25% per year (3.75% inflation plus 0.50% across-the-board salary increase) as assumed in the June 30, 2008 valuation. The Employer Offsets for Fiscal Year 2008-09 and thereafter have been approximated by increasing the prior year's offsets by 4.25%. See "County Financial Information – San Diego County Employees Retirement Association – General" herein. This is a simplifying assumption as the actual Employer Offsets amount is governed by bargaining agreements with employee groups and actual membership demographics.

(f) Assumes the Retirement Board will transfer earnings sufficient to maintain a 1% Contingency Reserve.

(g) The above projections do not reflect the impact of any assumption changes that may be adopted by the Board after the June 30, 2008 valuation.

(2) The County is obligated to make approximately 91.2% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 8.8% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating employers for Fiscal Year 2007-08.

(3) 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. Indicated projected amounts under the columns entitled "UAAL" and "Funded Ratio" are as of June 30 of the years indicated.

The amounts shown in the foregoing table reflect a transfer of Excess Earnings (herein defined) sufficient to maintain the amount on deposit in the contingency reserve (the "Contingency Reserve") equal to 1% of the market value of all of the Association's assets. The amounts in the foregoing table do not account for any other transfers of Excess Earnings to non-valuation assets. See "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association" 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. Such transfers will most likely occur in one or more of the years shown, but the amounts to be transferred and the timing of such transfers, if any, remains unknown. If such transfers occur in one or more of the years shown, the effect of such transfers will be to increase Employer Contributions and UAAL. The Association has adopted an Excess Earnings Policy that governs the allocation of Excess Earnings to non-valuation assets. See “County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association – Excess Earnings Policy,” herein.

Investment Policy.

General. 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’s investments are managed prudently and in compliance with the Retirement Law. These policies set investment return and risk objectives and provide for extensive guidelines with respect to the diversification of assets, the appropriate securities, lending of securities, commission recapture, value-added strategies, proxy voting, and corporate governance issues. The Association’s assets are diversified across asset classes, including equity, fixed income and real estate assets, and within asset classes. Table 11 below sets forth the Association’s current asset allocation policy (the “Asset Allocation Policy”). The asset allocation policy is managed and monitored by the Association’s staff with the assistance of external investment consultants. That total portfolio market value was $8.408 billion as of June 30, 2008 and $6.192 billion as of June 30, 2009. As of July 31, 2009, that total portfolio market value was $6.533 billion.

TABLE 11

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
ASSET ALLOCATION POLICY[1]

Asset Class	Long-Term Strategic Allocation %	Asset Class	Implementation Targets %
U.S. Equity[2]	23%	U.S. Equity[2]	17%
Non-U.S. Equity	24	Non-U.S. Equity	18
Emerging Market Debt	4	Emerging Market Debt	4
High Yield Fixed Income	3	High Yield Fixed Income	3
Real Estate	10	Real Estate	10
Commodities	4	Commodities	4
Infrastructure	5	Infrastructure	5
Private Equity	5	Private Equity	5
Return Driven Assets	**78%**		**66%**
		Opportunistic[3]	12
		Bridgewater All-Weather	4
			16%
U.S. Bonds	17	U.S. Bonds	13
U.S. TIPS	5	U.S. TIPS	5
Low-Risk Assets	**22%**		**18%**
Total	**100%**	**Total**	**100%**

Source: San Diego County Employees Retirement Association.

(1) The current Asset Allocation Policy was approved on October 18, 2007 and became effective January 1, 2008.

(2) As of July 31, 2009, this target portfolio allocation was split between small capitalization stocks which represented 1.7% of the target portfolio allocation, and large capitalization stocks, which represented 15.3% of the target portfolio allocation.

(3) The Board has adopted a policy allocation of up to 8% of total assets to "Opportunistic" investments that have acceptable risk/return characteristics, and which can further the diversification of the investment program. Such investments may include, but are not limited to, bank loan funds, distressed mortgage debt, niche private investments, certain types of hedge funds, and convertible bonds.

The assumed rate of return adopted by the Retirement Board and applicable to the projection of the Association's assets and liabilities is higher than the expected compound annual passive return of the Association's Asset Allocation Policy, 7.1%, as calculated by the Association's Investment Consultant. The Investment return assumption of 8.0% recommended by the Actuary is based on a number of assumptions, including the average assumed passive rate of earnings by asset class from a sample of investment consultants to several public pension funds including the Association's investment consultant and then applied to the Association's asset allocation policy portfolio. From 2005 through 2008, the Retirement Board elected to maintain the assumed rate of earnings at 8.25% for the applicable fiscal year, a rate acceptable to the actuary, in part because the active management portfolio strategy of the Association, including the application of the Alpha Engine (herein defined) strategy, as described below, historically yielded rates of earnings substantially higher than the rates recommended by the Actuary. See "County Financial Information – San Diego County Employees Retirement Association – Historical Investment Return". The Association no longer uses the Alpha Engine investment strategy.

Historical Investment Return. The historical annual net investment return on the market value of the Association's assets was 0.72% for the year ended June 30, 2008, 10.07% for the three years then ended, 13.00% for the five years then ended and 8.10% 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 normal Employer and employee contribution rates and 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). For the fiscal year ended June 30, 2009, the investment return was negative 24.38%. For the first month of Fiscal Year 2009-10, the investment return was approximately 4.53%.

Alpha Engine and Hedge Funds. As of July 31, 2009, the 19% target portfolio allocation for U.S. Equity was split between small and large capitalization stocks. Approximately 1.9% of the target portfolio allocation was for small capitalization stocks and 17.1% was allocated to large capitalization stocks. For the large capitalization stock allocation, the Association historically used a strategy composed of Standard & Poor's ("S&P") 500 index swap contracts with investments in hedge funds that, in the aggregate, sought to achieve returns higher than the benchmark. This program was collectively called the Alpha Engine. On December 18, 2008, the Board approved a reduction in the Alpha Engine to address increased market volatility. On April 16, 2009, the Board of Retirement approved a complete wind down of the program. Following that decision, eight of the hedge fund managers from the Alpha Engine were decreased and moved to the Opportunistic allocation of the Fund; one manager was moved to the High Yield component; six were terminated; and a shift was made to temporarily fully collateralize the S&P swaps with cash as redemption proceeds were received. That transition was completed in July 2009. Beginning August 2009, the S&P 500 swaps were terminated and the collateral cash was used to fund a direct investment in an S&P 500 Passive Index fund. One of the terminated managers was WG TC (herein defined), from which the Association requested full redemption of its investment in December 2008. These nine hedge fund investments have an approximate market value of $423 million or 6.8% of the total market value of the portfolio.

On February 25, 2009, the United States Attorney's Office and the Federal Bureau of Investigation arrested the two principals of WG Trading Company ("WG TC"), a limited partnership fund in which the Association invested, on charges of securities fraud, wire fraud, and conspiracy to commit securities fraud and wire fraud. On the same day, all entities connected with the principals of WG TC were placed in receivership at the request of the Securities and Exchange Commission (the "SEC"). As of December 31, 2008, the Association had $78 million invested with WG TC. On December 31, 2008, based on WG TC's refusal to promptly and completely answer all questions presented during a due diligence investigation, the Association terminated the WG TC relationship and requested a full redemption of its investment. The decision to terminate the WG TC relationship was a result of issues and concerns that arose during the due diligence review. Fraud was not suspected at the time. The Association's agreement with WG TC allows for a six-month redemption window. The assets have not yet been returned to the Association. To preserve its interests in the holdings of WG TC, on March 25, 2009 the Association filed a motion to intervene in the two lawsuits brought by the Commodity Futures Trading Commission and the SEC against WG TC, its principals and certain related entities. The motion to intervene was summarily denied and the Association has dismissed an appeal pursuant to an agreement with the government agencies. The receivership is pending in the United States District Court, Southern District of New York, which court has frozen distribution of assets pending the filing of a report by the receivers. In July 2009, the Chief Compliance Officer of WG TC pleaded guilty of certain charges.

On September 3, 2009, the Association announced it had reached an agreement with Integrity Capital LLC ("Integrity Capital"), a consulting firm led by Lee Partridge, most recently the Deputy Chief Investment Officer for the Teacher Retirement System of Texas, to serve as its portfolio strategist. The portfolio strategist will serve as the Association's outsourced chief investment officer, tasked with guiding the Association's funds through the current volatile and challenging market environment. Integrity Capital was retained pursuant to a 39-month contract with two two-year extensions.

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 the purpose of such crediting, 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 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 described herein, amounts in the Undistributed Reserve are not 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 an "Interest Crediting and Excess Earnings Policy", most recently amended in August 2007, which directs 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, a portion of such earnings is transferred to a Contingency Reserve to maintain the amount on deposit in the Contingency Reserve, which is not part of valuation assets, equal to one percent of the total market value of 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." The Association currently uses the change in actuarial value methodology to calculate Excess Earnings.

The Retirement Law permits the Association to use any Excess Earnings to fund the County Contribution Reserve to reduce any UAAL, to fund existing supplemental benefit reserves, and to fund new supplemental benefits, as may be adopted by the Retirement Board.

Excess Earnings Policy. The Retirement Board adopted an Excess Earnings Policy effective July 1, 2007 (the "Excess Earnings Policy") pursuant to which, after crediting the mandatory reserves with the assumed rate of interest, Excess Earnings would be available as follows:

- If the funded ratio of the Association as of any Fiscal Year end is below 90%, all Excess Earnings will be used to fund the pension liability.

- If the funded ratio of the Association as of any Fiscal Year end is between 90% and under 100%, 75% of Excess Earnings will be used to fund the pension liability and the remaining 25% will be available to the Retirement Board for use at its discretion.

- If the funded ratio of the Association as of any Fiscal Year end is between 100% and under 115%, 50% of Excess Earnings will be placed in the Contingency Reserve and 50% will be available to the Retirement Board for use at its discretion.

- If the funded ratio of the Association as of any Fiscal Year end is 115% or greater, the Retirement Board has total discretion as to the use of Excess Earnings.

Allocation of Excess Earnings to reserves that are not part of valuation assets may impact the UAAL and thus the amount of Employer Contributions required to fund pension benefits in the future. When earnings are held outside of valuation assets, those amounts are not available to decrease the UAAL because they are not available to pay benefits under the County's pension plan.

Historical Transfers of Investment Earnings. Table 12 below 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, 2009.

TABLE 12

TRANSFERS OF INVESTMENT EARNINGS TO NON-VALUATION RESERVES
Fiscal Years Ended June 30, 2000 through 2009
(In Millions)

Fiscal Year	Post-Retirement Healthcare[1]	STAR COLA[2]	Contingency Reserve[3]	Total
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	0.0	19.6	19.8	39.4
2005[4]	0.0	9.3	8.5	17.8
2006	31.4	10.0	9.7	51.1
2007[5]	0.0	26.4	11.1	37.5
2008	0.0	0.0	(0.4)	(0.4)
2009	0.0	0.0	(2.2)	(2.2)
Total[6]	$225.9	$107.5	$81.8	$415.2

Source: The Association.

(1) Reflects amounts that the Association transferred to the Health Reserve from Excess Earnings for Fiscal Years 1999-00 through 2008-09. The Health Reserve was originally established to hold amounts with which the Association reimbursed the County for amounts that the County contributed for the payment of post-retirement healthcare benefits. See footnote (5) below regarding the restructuring of the Health Reserve in Fiscal Year 2007-08.

(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. The STAR COLA reserve was originally established to hold amounts to fund a supplemental targeted cost of living adjustment. See footnote (5) below regarding the restructuring of the STAR COLA reserve effective June 30, 2007.

(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) The Retirement Board determined that no amounts would be transferred from Excess Earnings to the Health Reserve for the year ended June 30, 2005 based on a determination that the amounts on deposit in the Health Reserve at the time was sufficient to pay post-retirement healthcare benefits for at least 5 years from the date of determination.

(5) In Fiscal Year 2007-08, the Health Reserve was restructured as a "Supplemental Benefits Reserve". See "County Financial Information – Supplemental Pension Benefits" herein. Effective for the June 30, 2007 Valuation Report, the STAR COLA became a prefunded supplemental benefit for certain retirees. The $26.4 million shown in this table was the amount that in addition to the balance in the STAR COLA Reserve was needed to accomplish the prefunding. See "County Financial Information – STAR COLA Benefits" herein.

(6) Reflects the sum of the deposits for the years shown, not the current balance in the reserves.

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, 2009, $61.9 million was on deposit in the Contingency Reserve, $131.0 million was on deposit in the Supplemental Benefits Allowance Reserve (restructured from the Health Reserve during Fiscal Year 2007-08), $16.8 million was on deposit in the Disability Supplemental Benefits Allowance Reserve, and no funds were on deposit in the STAR COLA or Undistributed Earnings Reserve. For a discussion on actions of the Retirement Board with respect to the transfer of certain Excess Earnings to the Health Reserve and the STAR COLA reserve, see "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association" herein. See also "County Financial Information – STAR COLA Benefits" and "County Financial Information – Supplemental Pension Benefits" herein.

Post-Retirement Healthcare Benefits

General. The Association offers to eligible retirees a health insurance allowance to offset or reimburse the cost of medical insurance premiums. A variety of healthcare and dental plans with varying providers and levels of premiums are sponsored by the Association. Once a retiree elects a particular healthcare 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 currently 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 2008 is $93.50. Beginning on July 1 of Fiscal Year 2007-08, the Association limited the health insurance allowance to retirees who retired under the Tier I or Tier II plan.

Nature of the Post-Retirement Healthcare Payments. The Retirement Law does not require the Association to provide any post-retirement healthcare 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 healthcare 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 healthcare 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 healthcare benefits for many years.

Funding Source for Post-Retirement Healthcare Benefits. The Retirement Law authorizes a mechanism for the payment of post-retirement healthcare benefit costs pursuant to which a portion of the Employers' pension contributions are applied to the payment of these post-retirement healthcare benefits and the amounts of those contributions are credited to the Employers' valuation assets. In years past, the County designated up to 25% of its respective normal cost and employer offset annual contributions to the payment of the monthly medical allowance and Medicare Part B premium reimbursement to be recorded in a separate account (the 401(h) account) under the provisions of section 401(h) of the Internal Revenue Code. The designated amounts were determined by funding the post-retirement healthcare benefits on a pay-as-you-go basis. Upon receiving the County's 401(h) contribution, the Association would transfer an equal amount from the Health Reserve to the County Contribution Reserve (part of the

Association's valuation assets) as a credit for the County's current-year contribution. Beginning on July 1 of Fiscal Year 2007-08, the funding mechanism changed. See *"Payment of the Annual Required Contribution for Post-Retirement Healthcare Benefits"* herein. Benefits paid to retirees from the 401(h) account are non-taxable.

New Reporting Requirements Regarding Post-Retirement Benefits. In 2004, the Governmental Accounting Standards Board ("GASB") issued two statements that address other post-employment benefits ("OPEB"), which are defined to include post-retirement healthcare benefits. GASB Statement No. 43, Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans ("GASB 43") and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions ("GASB 45"), establish accounting and financial reporting standards for OPEB in a manner similar to those currently in effect for pension benefits. The provisions of GASB 43 focuses on the entity that administers such benefits (the Association) while GASB 45 focus on the employer's reporting requirements (the County). The Statements require an actuarial valuation to determine the funded status of benefits accrued, along with other required information to be disclosed by the Association and the County. The Retirement Board adopted and implemented the provisions of GASB 43 as part of the Association's comprehensive annual financial report for the Fiscal Year ended June 30, 2007. The County has included the required disclosures beginning with the County's comprehensive annual financial report for the Fiscal Year ended June 30, 2008.

GASB 45 requires substantially different financial accounting of OPEB, or any post-employment benefits that are provided separately from a pension plan, such as post-employment healthcare. For the County, the affected benefits include the post-employment healthcare benefits paid by the Association. GASB 45 seeks to associate the costs of the OPEB with the periods in which the employee services are rendered in exchange for the OPEB. Prior to the requirements of GASB 45, however, OPEB costs were accounted for 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 GASB 45 is that at least biennially an actuarial analysis must be prepared 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 GASB 45 imposes on the County only affect the County's financial statements and would not impose any requirements regarding the funding of any OPEB plans.

Valuation of the Association's Post-Retirement Healthcare Benefits. The Association's actuary conducted an OPEB valuation as of June 30, 2007 (the "2007 OPEB Valuation") with respect to the eligible retirees and the benefit levels set by the Association. According to the 2007 OPEB Valuation, the OPEB actuarial accrued liability as of June 30, 2007 was $235.6 million, none of which was funded. However, according to the Association's actuary, there were $18.8 million available for benefits in the 401(h) account as of June 30, 2007. The assumptions used in the 2007 OPEB Valuation included an individual entry-age normal cost method, 8.25% investment rate of return and a 20-year level dollar amortization period. The 2007 OPEB Valuation established the employers' annual required contribution ("ARC") to be $23.6 million. The next OPEB valuation will be as of June 30, 2009 and every two years thereafter. Investment losses incurred during the current fiscal year as described under the caption "Funding Status of the Association – Current Status" herein will also be reflected in the 2009 OPEB valuation.

Payment of the Annual Required Contribution for Post-Retirement Healthcare Benefits. The County and other employers have determined to pay the ARC as calculated by the Association's actuary. The payment of the ARC is in addition to the Employers' regular pension contributions and is contingent upon the Association continuing to limit the retiree healthcare benefits to the Tier I and Tier II retirees and at levels no greater than were in effect on December 5, 2006, which are those benefit levels described under the caption "Post-Retirement Healthcare Benefits – General" herein. For the Fiscal Year ended June 30, 2009, the employers collectively paid $23.2 million to the Association for deposit into the 401(h) account, which satisfied the ARC for that year.

Historical Payments. Table 13 below sets forth the amounts for each of the ten years ended June 30, 2009 that the Association has paid to its members for post-retirement healthcare benefits:

TABLE 13

PAYMENTS FOR POST-RETIREMENT HEALTHCARE BENEFITS
Years Ended June 30, 2000 through 2009

Fiscal Year Ending June 30	Payments for Retiree Healthcare Benefits (in millions)
2000	$ 9.0
2001	10.8
2002	14.3[(1)]
2003	20.0[(1)]
2004	26.4[(1)]
2005	32.6
2006	32.9
2007	35.3
2008	24.4[(2)]
2009	23.6

Source: The Association.
(1) A portion of the indicated amounts are allocated to the administrative expenses related to the provision of the post-retirement healthcare benefits.
(2) Beginning with Fiscal Year 2007-08, healthcare benefits were paid from the 401(h) account, which had an available balance of $18.8 million on June 30, 2007 and received contributions from the employers of $23.6 million during that fiscal year.

Supplemental Pension Benefits

Beginning July 1 of Fiscal Year 2007-08, the Association stopped paying a non-taxable healthcare benefit to its previously eligible General Tier A retirees and Safety retirees covered by the 3% at age 50 benefit formula, and instead started paying to them a taxable pension supplement based on years of service. The source of these payments is the former Healthcare Reserve, which was converted to a Supplemental Benefit reserve. The supplemental benefit allowance ("SBA") ranges from $200 per month (10 years of service) to $400 per month (20 or more years of service). During Fiscal Year 2008-09, a total of $17.6 million was paid from this reserve to Tier A retirees, leaving a balance in the reserve of $131.0 million on June 30, 2009 that is expected to provide for payments to eligible members through approximately 2014. In addition, the Association set aside $20.7 million in excess earnings from Fiscal

Year 2006-07 to provide a taxable pension supplement to General Tier A members and Safety members covered by the 3% at age 50 benefit formula, who retire because of a disability. Members who are granted a disability retirement and determined to be totally disabled are eligible for the maximum SBA ($400 per month) regardless of years of service. Members with less than 10 years of service credit who are granted a disability retirement and determined to be partially disabled are eligible for the minimum SBA ($200 per month). During Fiscal Year 2008-09, a total of $2.1 million was paid to these disability retirees, leaving a balance in the Disability Supplemental Benefit Allowance Reserve on June 30, 2009 of $16.8 million.

STAR COLA Benefits

General. The STAR COLA benefits provide retirees with additional cost-of-living adjustments. The Retirement Board's STAR COLA policy preserves 80% of a retiree's purchasing power calculated against when that retiree retired. 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.

Prefunding of STAR COLA Benefits. On August 2, 2007, the Retirement Board approved a permanent STAR COLA pre-funded supplemental cost-of-living increase benefit. This action resulted in the transfer of the assets from the STAR COLA Reserve to valuation assets and the liability for the STAR COLA benefits for eligible members to be incorporated into the overall liabilities of the retirement fund. Eligible members are those whose accumulations equaled or exceeded 20 percent as of January 1, 2007. By this definition, eligible members are Tier 1 members who retired on or before March 31, 1982 and Tier II members who retired on or before March 31, 1989. The permanent STAR COLA benefit will be equal to the STAR COLA amount payable as of April 1, 2007 under the applicable laws. Effective April 1, 2008, this benefit is subject to the same cost-of-living increase paid by the Association on every April 1 up to 3% per annum.

Historical Practice and Payments. Prior to the August 2, 2007 Retirement Board action, the Retirement Board's historical practice had been to maintain an amount in the STAR COLA reserve that the Association's actuary estimated would be necessary to cover the costs of the STAR COLA benefits for current eligible retirees for five years. Each year, the Association's actuary prepared an estimate of the amounts necessary to be contributed to the STAR COLA reserve to meet this targeted level. For a discussion on actions of the Retirement Board with respect to the transfer of certain Excess Earnings to the Health Reserve and the STAR COLA reserve, see "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association" herein.

Table 14 below sets forth the amounts paid by the Association to retirees out of the STAR COLA reserve since 2001. 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.

TABLE 14

PAYMENTS FROM STAR COLA RESERVE
Fiscal Years Ended June 30, 2001 through 2008

Fiscal Year Ending June 30	Payments from STAR COLA Reserve (in millions)
2001	$ 8.2
2002	8.1
2003	7.2
2004	11.3
2005	11.0
2006	10.7
2007	10.4
2008	0.0

Source: The Association.

Pension Obligation Bonds

Introduction. The County has issued taxable pension obligation bonds ("POBs") and transferred the proceeds to the Association 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.

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 the County issued an additional $737,340,000 in principal amount of POBs (the "2002 POBs"), in part to refund a portion of the 1994 POBs. In June 2004, the County issued $454,112,915.70 in principal amount of POBs (the "2004 POBs"). The County has contributed to the Association an aggregate amount of $1,428,500,000 from the issuance of the 1994 POBs, the 2002 POBs and the 2004 POBs to reduce the UAAL. On August 15, 2007, the County prepaid in full all of the $100 million Series 2002C PINES and on February 15, 2008, the County prepaid $20 million of the Series 2002B-1 POBs (herein defined) with available cash, these two prepayments resulted in over approximately $7.5 million of annual interest savings to the County. In August 2008, the County prepaid $44 million of its Series 2002B-1 POBs with available cash, which prepayment resulted in approximately $3.06 million of annual interest savings to the County. On August 7, 2008, the County issued $443,515,000 aggregate principal amount of Taxable Pension Obligation Bonds, Series 2008A (the "2008A POBs") and Series 2008B (Variable Rate Demand Obligations) (the "2008B POBs" and, together with the 2008A POBs, the "2008 POBs"). The proceeds of the 2008 POBs were used to refund all of the then-outstanding 2002 B1-B4 POBs that were originally issued as auction rate securities (the "2002B POBs"). On July 1, 2009, the County prepaid in full all of the $100 million Series 2008B POBs. As of September 1, 2009, the County had POBs outstanding in the aggregate principal amount of $879.4 million. The County may, from time to time, finance all or a portion of the UAAL employer contributions through the additional issuances of POBs.

Swaps. The County previously entered into interest rate swap agreements with Citibank, N.A. New York ("Citibank") and Morgan Stanley Capital Services Inc. ("Morgan") (collectively, the "Swap Providers") in connection with a portion of its 2002B POBs. The County terminated its interest rate swap agreements with the Swap Providers on August 7, 2008 upon the issuance of the 2008 POBs.

Pension Related Payments and Obligations

Payments. Table 15 below sets forth the historical and estimated Employer Contributions, Employer Offsets and POB debt service for Fiscal Years 2003 through 2015. The estimates 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 estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 15

PENSION RELATED PAYMENTS
Fiscal Years Ended June 30, 2003 through 2015
(In Millions)

Fiscal Year	Employer Contributions[1]	Employer Offsets	County Pension Obligation Bonds Debt Service[2]	Total
2003[3]	$ 12.2[4]	$53.9	$60.8	$126.9
2004[3]	195.0[4]	55.2	51.9	302.1[5]
2005[3]	260.0	56.1	56.3	372.4
2006[3]	243.7	58.8	63.6	366.1
2007[3]	258.2	62.3	68.8	389.3
2008[2][6]	236.8	68.7	66.1	371.6
2009[2][6]	234.1	72.0	82.0	388.1
2010[2][6]	216.0	75.0	81.4	372.4
2011[2][6]	258.0	78.0	81.3	417.3
2012[2][6]	329.0	81.0	81.4	491.4
2013[2][6]	407.0	84.0	81.4	572.4
2014[2][6]	492.0	88.0	81.4	661.4
2015[2][6]	572.0	92.0	81.4	745.4

Source: The Segal Company; County of San Diego.

(1) These contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. The County share of Employer Contributions and Employer Offsets are estimated to be approximately 91.2% based on the estimated relative percentage of payroll of the County for Fiscal Year 2007-08. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) Comprised of regular principal and interest payments, and does not include prepayment amounts. Debt service beginning in Fiscal Year 2010 and onward reflect the July 1, 2009 prepayment of the $100 million 2008B POBs.

(3) Actual.

(4) Employer Contributions do not include any of the amounts contributed by the County from the proceeds of the issuance of the POBs in the indicated Fiscal Years. However, such amounts are reflected in the UAAL and funded ratios of the Association as of the end of such Fiscal Years.

(5) Increased total pension payments in 2004 are primarily a result of the implementation of enhanced benefit levels and investment results that were below the actuarially assumed rate of 8.25%. See "County Financial Information – San Diego County Employees Retirement Association – Funding Status of the Association – Impacts to UAAL" herein. Increased total pension payments in 2005 are primarily a result of changes in actuarial assumptions for the valuation as of June 30, 2003 based on an experience study and recognition of smoothed losses.

(6) Estimated. The amounts indicated are subject to the same assumptions as set forth in footnotes (1) through (3) to the "Prospective Funding Status of the Association" table herein. Based on data, results and assumptions used in preparation of the actuarial valuation as of June 30, 2008.

Obligations. Table 16 below sets forth the historical and estimated UAAL and expected outstanding principal amounts of POBs for the years indicated, assuming no additional POBs are issued and the outstanding POBs mature on their respective amortization schedules. The estimates 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 estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 16

COUNTY PENSION RELATED OBLIGATIONS
Fiscal Years Ended June 30, 2003 through 2015
(In Millions)

Fiscal Year	UAAL	Outstanding Pension Obligation Bonds	Total Outstanding Obligations
2003	$1,435.4	$ 980.8	$2,416.2
2004	1,202.7	1,269.1	2,471.8
2005	1,378.4	1,194.9	2,573.3
2006	1,232.3	1,198.6(1)	2,430.9
2007	832.1(2)	1,192.8(1)	2,024.9
2008	485.4(2)	1,068.2(1)	1,553.6
2009	902.0(2)	1,006.0(1)	1,908.0
2010	1,681.0(2)	874.3(1)	2,555.3
2011	2,516.0(2)	841.3(1)	3,357.3
2012	3,391.0(2)	806.8(1)	4,197.8
2013	4,154.0(2)	770.5(1)	4,924.5
2014	4,188.0(2)	732.3	4,920.3
2015	4,150.0(2)	692.3	4,842.3

Source: The Segal Company; County of San Diego.

(1) Includes a portion of the 2004 POBs issued as capital appreciation bonds (the "CABs"), for which interest accretes semiannually on February 15 and August 15, but is not payable until the final maturity of each respective capital appreciation bond. The initial total issuance amount of the CABs was $64,927,915.70, which will accrete to a total maturity value of $100,170,000 over the respective maturity dates commencing August 15, 2009 and ending August 15, 2015.

(2) Estimated. The amounts indicated are subject to the same assumptions as set forth in footnote (1) to the "Prospective Funding Status of the Association" table herein and in preparation of the actuarial valuation as of June 30, 2008.

Risk Management

The County is required to obtain and maintain general liability insurance and workers' compensation insurance under various types of its financing lease obligations. These financing leases generally require general 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 for all persons provided coverage by the County for workers' compensation benefits in connection with the facilities covered by such leases and to cover full liability for compensation under the labor code 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 operates a Risk Management Program, whereby it is self-insured for general liability, medical malpractice, errors and omissions, and workers' compensation. The County purchases insurance for all risk property damage, boiler and machinery, earthquake on specified locations and certain casualty claims, such as airports, sheriff helicopters, and employee dishonesty and faithful performance of duties. The amount of coverage varies depending on the type of policy. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County allocated the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll. 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 Employee Benefits Internal Service Fund (collectively, the "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. Actuarial evaluations were obtained which determine estimates of known and projected general liability and workers compensation claim liabilities. At June 30, 2009, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $108.5 million, including $19.9 million in public liability and $88.6 million in workers' compensation. As of June 30, 2009, the ISFs had available cash in the approximate amount of $119.2 million. The estimate of claims liabilities were recorded in the ISF.

The County will maintain excess workers' compensation insurance for Fiscal Year 2009-10. Following the results of a feasibility analysis, the County will not carry excess liability insurance at this time.

Litigation

Ken Marsh filed a claim against the County seeking damages in excess of $50,000,000 and alleged that the County and certain of its employees conspired with employees of Children's Hospital to wrongfully convict him of the murder of a 2 ½ year old boy. The claim was rejected and on August 9, 2005, the plaintiff filed a complaint for damages in the United States District Court, Southern District of California, Case No. 05cv1568 JLS(AJB). On May 6, 2009, the trial court granted the County's motion for summary judgment. The plaintiff appealed the ruling. The appeals process is expected to take approximately one year. The County anticipates that any impact of this litigation will not adversely affect the ability of the County to pay its obligations as and when due.

Short-Term Borrowing

In July 2009, the County issued its Tax and Revenue Anticipation Note Program Note Participations, Series 2009 (the “2009 TRANs”) on behalf of itself and certain school districts within the County in an aggregate principal amount of $332,260,000, of which $220,000,000 represent notes issued by the County. The 2009 TRANs mature on June 30, 2010. The 2009 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures.

During the 1990s, the County has utilized Temporary Transfers 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 Temporary Transfer, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Certificates, is paid from such revenues.

General Obligation Debt, Pension Obligation Bonds, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. As of September 1, 2009, the County had POBs outstanding in the aggregate principal amount of $879.4 million. 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 (“LRBs”) or certificates of participation (“COPs”) and then leases the asset or assets to the County. As of September 1, 2009, the County had LRBs and COPs outstanding in the aggregate principal amount of $455.4 million. As of September 1, 2009, there were approximately $1.335 billion aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments and annual debt service payments on the LRBs, COPs and POBs of the County aggregate to approximately $131.5 million, not including the July 1, 2009 prepayment in full of the $100 million 2008B POBs, for Fiscal Year 2009-10 and will aggregate to approximately $122.0 million for Fiscal Year 2010-11. See “County Financial Information – Pension Obligation Bonds” herein.

Table 17 below sets forth a summary of long-term obligations payable from the General Fund:

TABLE 17

COUNTY OF SAN DIEGO
SUMMARY OF LONG-TERM BONDED OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of September 1, 2009
(In Thousands)

	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
Certificates of Participation and Lease Revenue Bonds:				
San Diego County Capital Asset Leasing Corporation ("SANCAL"):				
1993 Master Refunding, issued May 1993	2.50-5.63%	2012	$ 203,400	14,800
1997 Central Jail Refunding, issued July 1997	4.00-5.42%	2025	80,675	58,135
1998 Downtown Courthouse Refunding, issued December 1998	4.00-4.94%	2023	73,115	42,270
1999 East Mesa Refunding, issued September 1999	3.60-4.75%	2009	15,010	1,815
2000 Information Technology, issued May 2000	4.50-5.13%	2010	51,620	6,370
2002 Motorola, issued March 2002	2.00-5.00%	2010	26,060	6,495
2005 RCS Refunding, issued February 2005	3.00-5.00%	2019	28,885	17,950
2005 Edgemoor, issued February 2005	3.00-5.00%	2030	83,510	79,025
2005 North and East County Justice Facility Refunding, issued September 2005	3.25-5.00%	2019	28,210	23,405
2006 Edgemoor Completion Project, issued December 2006	4.00-5.00%	2030	42,390	42,390
Total SANCAL			$ 632,875	$ 292,655
San Diego Regional Building Authority (SDRBA):				
2001 MTS Tower Refunding, issued September 2001	2.15-5.25%	2019	$ 36,960	$ 25,865
2009 COC Phase 1A, issued February 2009	3.00-5.375%	2036	136,885	136,885
Total SDRBA			173,845	162,750
Total Certificates of Participation and Lease Revenue Bonds			$ 806,720	$ 455,405
Taxable Pension Obligation Bonds:				
Taxable Pension Obligation Bonds, issued September 2002				
Series A	3.88-4.95%	2015	132,215	102,215
Taxable Pension Obligation Bonds, issued June 2004				
Series A	3.28-5.87%	2022	241,360	212,870
Series B1, B2	5.91%	2024	147,825	147,825
Series C(1)	4.66-5.76%	2015	64,928	88,445
Less Unaccreted Value			-	*(15,463)*
Taxable Pension Obligation Bonds, issued August 2008				
Series A	3.33-6.03%	2027	343,515	343,515
Total Pension Obligation Bonds			$929,843	$879,407
Unamortized Issuance Premium(2)			$ 8,639	$ 6,879
Unamortized Issuance Discount(2)			(4,594)	(1,889)
Total General Fund Long-Term Bonded Obligations			$1,740,608	$1,339,802

Source: The County.

(1) Issued as capital appreciation bonds (the "CABs"), for which interest accretes semiannually on February 15 and August 15, but is not payable until the final maturity of each respective capital appreciation bond. The initial total issuance amount of the CABs was $64,927,915.70, which will accrete to a total maturity value of $100,170,000 over the respective maturity dates commencing August 15, 2009 and ending August 15, 2015.

(2) As of June 30, 2008; audited.

Table 18 below sets forth a summary of outstanding principal and interest payments attributable to long-term obligations payable from the General Fund. With the exception of the 2002 Motorola financing, funds for all principal and interest payments due throughout the fiscal year are deposited with the applicable trustee at the beginning of the fiscal year on July 5 or, if July 5 is not a business day, the first business day after July 5.

TABLE 18

COUNTY OF SAN DIEGO
SUMMARY OF OUTSTANDING PRINCIPAL AND INTEREST PAYMENTS ATTRIBUTABLE TO LONG-TERM OBLIGATIONS PAYABLE FROM THE GENERAL FUND

	Certificates of Participation and Lease Revenue Bonds												Pension Obligation Bonds				
Fiscal Year	1993 Master Refunding	1997 Central Jail	1998 Downtown Courthouse	1999 East Mesa	2000 Information Technology	2001 MTS Tower	2002 Motorola	2005 Edgemoor and RCS Refunding[1]	2005 North and East	2006 Edgemoor[2]	2009 COC Phase 1A[3]	Subtotal	2002 Pension Obligation Bonds	2004 Pension Obligation Bonds	2008 Pension Obligation Bonds[4]	Subtotal	Total
2010	$8,029,375	$5,498,920	$5,500,298	$1,858,106	$6,696,463	$3,053,496	$3,475,515	$8,805,261	$2,720,700	$2,980,901	$ -	$48,619,036	$20,434,753	$32,650,701	$129,820,344	$182,905,798	$231,524,834
2011	8,024,375	5,494,000	5,501,760			3,129,746	3,474,890	9,109,600	2,722,275	3,134,983	-	40,591,630	20,437,075	33,960,701	27,012,599	81,410,375	122,002,005
2012	3,915,000	5,486,125	5,495,398			3,017,121		9,098,900	2,717,825	3,131,983	7,626,996	40,489,349	20,435,532	35,320,701	25,578,765	81,334,998	121,824,347
2013	3,906,875	5,452,000	5,499,323			3,082,978		9,097,250	2,716,725	3,131,983	9,876,594	42,763,728	20,438,748	36,715,701	24,263,767	81,418,216	124,181,944
2014		4,910,000	3,827,485			3,040,103		9,098,500	2,724,563	3,134,783	9,874,844	36,610,278	20,438,346	38,210,701	22,763,875	81,412,922	118,023,200
2015		4,880,375	3,827,298			3,086,059		7,573,000	2,719,113	3,135,183	9,876,944	35,097,972	17,656,527	39,741,424	24,013,656	81,411,607	116,509,579
2016		4,879,625	3,822,638			3,021,109		7,568,500	2,722,300	3,132,683	9,874,744	35,021,599	17,656,443	41,337,148	22,420,907	81,414,498	116,436,097
2017		4,871,875	3,821,750			3,050,384		7,567,000	2,721,125	3,131,433	9,877,144	35,040,711		42,965,099	38,373,607	81,338,706	116,379,417
2018		4,866,875	3,823,550			3,065,476		7,565,250	2,719,000	3,136,183	9,878,744	35,055,078		44,717,296	36,694,015	81,411,311	116,466,389
2019		4,854,375	2,979,275			3,067,241		7,557,750	2,720,875	3,136,433	9,877,644	34,193,593		46,507,149	34,906,405	81,413,554	115,607,147
2020		4,853,875	2,981,725			3,058,225		6,139,250	2,721,375	3,132,183	9,875,044	32,761,677		48,369,669	33,038,654	81,408,323	114,170,000
2021		4,849,750	2,984,225					6,139,750		3,133,183	9,878,444	26,985,352		50,283,425	31,128,216	81,411,641	108,396,993
2022		4,841,750	2,986,550					6,136,250		3,135,983	9,876,569	26,977,102		52,322,691	29,085,382	81,408,073	108,385,175
2023		4,839,375	2,983,475					6,138,500		3,135,033	9,874,869	26,971,252		54,439,051	26,892,208	81,331,259	108,302,511
2024		4,832,125						6,135,750		3,135,258	9,876,394	23,979,527		56,663,519	24,750,780	81,414,299	105,393,826
2025		4,819,750						6,137,750		3,136,445	9,874,644	23,968,589		58,942,024	22,478,030	81,420,054	105,388,643
2026		5,299,250						6,138,750		3,133,383	9,874,813	24,446,196			81,415,400	81,415,400	105,861,596
2027								6,138,250		3,136,070	9,878,438	19,152,758			67,113,947	67,113,947	86,266,705
2028								6,135,750		3,133,813	9,877,625	19,147,188					19,147,188
2029								6,140,750		3,136,438	9,875,106	19,152,294					19,152,294
2030								6,137,250		3,133,500	9,878,706	19,149,456					19,149,456
2031											9,877,506	9,877,506					9,877,506
2032											9,874,700	9,874,700					9,874,700
2033											9,876,200	9,876,200					9,876,200
2034											9,875,663	9,875,663					9,875,663
2035											9,877,013	9,877,013					9,877,013
2036											9,878,906	9,878,906					9,878,906

(1) Excludes interest payments through March 1, 2009, which will be funded by capitalized interest.
(2) Excludes interest payments through March 1, 2009, which will be funded by capitalized interest.
(3) Excludes interest payments through June 1, 2011, which will be funded by capitalized interest.
(4) Reflects the prepayment of the $100,000,000 2008B POBs on July 1, 2009.

Anticipated Capital Financings

A Capital Improvements Needs Assessment ("CINA") is prepared and presented annually to the Board of Supervisors to guide the development of both immediate and long-term capital projects. The CINA includes a comprehensive list of all current and anticipated capital projects over a five-year period. Capital projects are considered during the annual budget process unless the Board of Supervisors or the CAO recommends mid-year adjustments to the budget as circumstances warrant to meet emergency requirements or to benefit from unusual developments or purchase opportunities. The Fiscal Year 2009-2014 CINA represents $638.7 million in currently funded and approved projects and $641.4 million in partially funded and unfunded priority major and minor capital projects over the five-year time-frame of the CINA. Of the projects included in the CINA, future phases of the COC project, the Women's Detention Facility project and the CAC Waterfront Park project may be debt financed. All other projects will be funded with alternative sources of revenue.

Long-Term Financial Obligation Management Policy

In 1998, the County adopted a long-term financial strategy and policy (as amended, the "Long-Term Debt Policy") to ensure sound financial management practices with respect to County or County-related obligations whose terms exceed one fiscal year (excluding leases in which payments are not securitized). Pursuant to the Long-Term Debt Policy, a Debt Advisory Committee ("DAC") consisting of the Chief Financial Officer, the Auditor-Controller and the Treasurer-Tax Collector was established to review proposed financings; DAC approval is required prior to consideration of a project by the Board of Supervisors. The Long-Term Debt Policy requires that each long-term financial obligation considered by DAC and the Board of Supervisors be accompanied by a cost benefit analysis, the identification of a funding source, and an assessment of the ability to repay the obligation, the impact on the current budget, commitments to future budgets, maintenance and operational impact of the facility or asset and the impact of the County's credit rating. The Long-Term Debt Policy also provides for the filing of notices of completion on all projects within five years of their financing, continuous review of outstanding obligations for economically feasible and advantageous refinancing opportunities and the periodic reporting of unspent capital project funds through quarterly or year-end budget reports. The Long-Term Debt Policy prohibits the use of long-term financial obligations to fund current operations or for recurring purposes, and the issuance of variable rate obligations in excess of 15% of the County's outstanding long-term obligations. Exceptions to the provisions of the Long-Term Debt Policy are permitted in extraordinary conditions.

Swap Policy

In 2004, DAC approved an Interest Rate Swap Policy (the "Swap Policy") establishing guidelines for the execution and management of the County's use of interest rate and other swaps, caps, options, basis swaps, rate locks, total return swaps and other similar products (the transactions involving such products being referred to herein as "Swap Transactions"). The Swap Policy is reviewed and updated as necessary annually by DAC. The County may integrate Swap Transactions into its overall debt and investment management programs in a prudent manner to, among other things, enhance the relationship between risk and return with respect to debt or investments, achieve significant savings as compared to products available in the cash market, provide a higher level of savings, lower level of risk, greater flexibility, or other direct benefits not available in the cash market and achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets, all in accordance with the parameters set forth in the Swap Policy and consistent with the County's overall long-term financial obligation management policy. Pursuant to the Swap Policy, the total notional amount of all Swap Transactions executed by the County shall not exceed 30% of the outstanding principal of the County's long-term debt obligations at the time of execution.

Overlapping Debt and Debt Ratios

Table 19 sets forth a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated as of September 1, 2009. 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 does not include the Certificates described in the forepart of this Official Statement.

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.

TABLE 19
COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(As of September 1, 2009)

2008-09 Assessed Valuation:	$406,374,945,786	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	41,382,809,962	
Adjusted Assessed Valuation:	$364,992,135,824	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/09
Metropolitan Water District	18.719%	$ 54,926,226
Grossmont-Cuyamaca Community College District	100.	197,775,562
San Diego Community College District	100.	625,679,185
Other Community College Districts	100.	233,708,656
Carlsbad Unified School District	100.	130,438,077
Oceanside Unified School District	100.	164,295,054
Poway Unified School District SFID Nos. 2002-1 and 2007-1	100.	251,833,254
San Diego Unified School District	100.	1,527,458,221
Vista Unified School District	100.	134,914,882
Other Unified School Districts	100.	32,938,857
Grossmont Union High School District	100.	309,143,431
Sweetwater Union High School District	100.	343,709,415
Other Union High School Districts	100.	49,505,117
Cajon Valley Union School District	100.	102,075,000
Chula Vista City School District	100.	78,430,000
San Ysidro School District	100.	87,392,104
Other School Districts	100.	324,850,906
Otay Municipal Water District	100.	7,960,000
Cities	100.	115,035,000
Grossmont Healthcare District	100.	85,627,076
Palomar Pomerado Hospital District	100.	417,623,319
Community Facilities Districts	100.	1,716,264,116
1915 Act Bonds (Estimated)	100.	193,459,891
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$7,185,043,349

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 9/1/09
San Diego County General Fund Obligations	**100. %**	**$ 455,405,000**(1)
San Diego County Pension Obligations	**100.**	**953,514,739**(2)
San Diego County Superintendent of School Obligations	100.	16,267,000
Community College District Certificates of Participation	100.	14,860,000
Poway Unified School District Certificates of Participation	100.	127,465,490
Other Unified School District Certificates of Participation	100.	100,338,360
High School District Certificates of Participation	100.	23,842,500
Chula Vista City School District Certificates of Participation	100.	126,395,000
Other School District Certificates of Participation	100.	123,349,849
Otay Municipal Water District Certificates of Participation	100.	61,890,000
City of Chula Vista General Fund and Pension Obligations	100.	132,260,000
City of Escondido General Fund Obligations	100.	67,787,090
City of San Diego General Fund Obligations	100.	431,520,000
City of Vista General Fund Obligations	100.	116,780,000
Other City General Fund Obligations	100.	271,200,000
Special District Certificates of Participation	100.	13,145,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,036,020,028
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		61,890,000
School District Qualified Zone Academy Bonds supported by investment fund payments		15,000,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,959,130,028
GROSS COMBINED TOTAL DEBT		$10,221,063,377(3)
NET COMBINED TOTAL DEBT		$10,144,173,377

(1) Excludes certificates of participation to be sold.
(2) Excludes accreted value of capital appreciation bonds.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 1.77%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($1,408,919,739) 0.39%
Gross Combined Total Debt 2.80%
Net Combined Total Debt 2.78%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $0

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 pursuant to State law. The Oversight Committee consists of members appointed from the County Treasurer-Tax Collector, the County Auditor and Controller, a representative appointed by the Board of Supervisors, the County superintendent of schools or his or her designee, a representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county, a representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the County Treasury and up to five other members of the public. The Oversight Committee directs the preparation of an annual audit, which audit may include issues relating to the structure of the investment portfolio and its related risk, to determine the County Treasury's compliance with law.

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 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 Treasury Pool halted all investments in asset-backed commercial paper in early July 2007 and has no plans to resume investment in this type of security until financial markets and credit conditions have stabilized. Further, the Treasury Pool is not invested in any structured investment vehicles and has never invested in collateralized debt obligations.

The Investment Policy

The Pool's Investment Policy (the "Investment Policy"), as approved by the County Board of Supervisors, currently states that the objectives of the Treasurer when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds are 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 an investment 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 one year or less. Furthermore, at least 25% of the Pool must mature within 90 days. The maximum effective duration shall be 1.50 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 invest the proceeds form the agreement into permissible securities that have the highest short-term credit rating, 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.

Certain Information Relating to Pool

Table 20 below sets forth information with respect to the Pool as of the close of business August 31, 2009. 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 herein. 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 herein. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by the Pool's Custodian, Bank of New York. Accordingly, there can be no assurance that if these securities had been sold on August 31, 2009, the Pool necessarily would have received the values specified. The County has no Pool investments in any corporation that has filed for bankruptcy.

Pool Benchmark

The Pool is managed as two portfolios; one positioned to meet liquidity needs and the other positioned to achieve incremental yield. All reporting with respect to the Pool is on combined portfolio basis to facilitate financial transparency from the perspective of Pool participants. The change was instituted after the development of the “Benchmark Portfolio”, which is comprised of 60% U.S. Treasury securities, 30% U.S. Government Agency securities and 10% corporate securities. It has a duration of approximately 1.6 years and reflects an appropriate risk/return profile for the portion of the Pool that is not anticipated to be needed for liquidity purposes. While the Benchmark Portfolio is available for liquidity needs, it is positioned to achieve long-term incremental yield. The combined portfolios comply with all California State Code and the Pool’s Investment Policy.

As a result of the financial markets volatility and credit conditions, the County Pool has limited purchases of corporate securities to maturities less than 60 days, in order to limit further exposure to credit risk. In a few instances, the Pool has purchased maturities beyond 60 days for the sole purpose of duration management in the Benchmark Portfolio. The Benchmark Portfolio consists of no more than 25% of the aggregated Pool assets at any given time. Within the Benchmark Portfolio, the allocation to corporate securities ranged from approximately 2.5% to 10% of the total Pool assets.

TABLE 20

TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS
(As of August 31, 2009)

	Percent of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Net Unrealized Gain/(Loss)	Yield to Maturity	Weighted Average Days to Maturity
U S Treasury Bills	1.97%	$ 99,916,097	99.98%	$ 42,500	$ 99,975,000	$ 58,903	0.23%	66
U S Treasury Notes	7.05	346,679,030	103.85	2,180,149	358,281,989	11,602,959	2.71	785
FNMA Discount Notes	3.93	199,750,417	99.95	0	199,900,000	149,583	1.73	66
Federal Farm Credit Bank Notes	7.15	360,781,831	100.79	2,536,041	363,767,430	2,985,599	2.75	822
Federal Home Loan Bank Discount Notes	0.79	40,109,935	99.99	0	40,125,987	16,052	0.40	46
Federal Home Loan Bank Notes	21.41	1,081,248,421	101.12	7,279,571	1,088,496,565	7,248,144	1.53	409
Federal Home Loan Mortg. Corp. Disc Notes	4.12	209,637,322	99.98	0	209,682,029	44,707	0.27	51
Federal Home Loan Mortg. Corp. Notes	10.03	504,545,955	101.80	5,273,796	509,975,885	5,429,930	2.56	799
Fannie Mae	11.04	557,745,429	101.10	6,136,717	561,387,587	3,642,158	2.41	765
Corporate Medium Term Notes	1.56	78,454,722	102.65	814,063	79,553,750	1,099,028	4.07	479
Bond Fund	0.69	35,000,000	100.00	31,120	35,000,000	0	0.75	60
Money Market Funds	1.91	97,360,000	100.00	17,501	97,360,000	0	0.16	1
Repurchase Agreements	4.94	250,955,325	100.00	1,600	250,955,325	0	0.23	1
Negotiable Certificates of Deposit	6.88	350,000,444	100.00	74,611	350,000,000	(444)	0.25	23
Commercial Paper	9.44	479,957,368	99.99	0	479,942,500	(14,868)	0.18	14
Collateralized/FDIC Certificates of Deposit	7.09	360,605,500	100.00	310,613	360,605,500	0	0.56	122
Totals for August 2009	100.00%	$5,052,747,796	100.90%	$24,698,282	$5,085,009,547	$32,261,751	1.48	377
Totals for July 2009	100.00%	$5,484,025,454	100.72%	$26,324,151	$5,513,396,454	$29,371,000	1.49	344
Change From Prior Month		($431,277,658)	0.18%	($1,625,869)	($ 428,386,907)	($ 2,890,751)	(0.01%)	33
Portfolio Effective Duration		0.750 years						

	August Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.122%	1.432%	0.249%	1.466%	1.142%	1.715%
Market Value	0.109%	1.288%	0.225%	1.327%	1.012%	1.521%

Source: The County.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A

On June 6, 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A, 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 1% 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 State Legislature to implement Article XIII A 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 are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (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 County is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A 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 XIII B

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In May 1990, the voters through their approval of Proposition 111 amended Article XIII B. Article XIII B 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 a 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 XIII B 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, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B 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 outlay 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 XIII B 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 May 1990, the appropriations limit for the County 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 County's 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 XIII B 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 Board of Supervisors adopted the annual appropriation limit for the Fiscal Year 2009-10 of approximately $3.9 billion. 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 2009-10 Adopted Budget, the funds subject to limitation total approximately $1.3 billion (total General Operating Budget minus non-proceeds of taxes and debt service) and are approximately $2.6 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 XIII A. Under this amendment to Article XIII A, 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 XIII A 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.

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. The portion of the County's taxes subject to Proposition 62, including the County's transient occupancy tax, is in compliance with Proposition 62 requirements.

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 added Articles XIII C and XIII D to the California Constitution and contained 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. 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. However, the County does not presently believe that the potential financial impact on the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay its debt obligations and perform its other obligations payable from the General Fund as and when due.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the County's General Fund, require a two-thirds vote. Further, any general purpose tax that the County imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election held within two years of November 5, 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 impose, extend or increase such taxes in the future to meet increased expenditure requirements.

Article XIII C also expressly extends to voters the power to reduce or repeal local taxes, assessments, fees and charges through the initiative process, regardless of the date such taxes, assessments, fees or charges were imposed. 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.

SB 919 provides that the initiative powers extended to voters under Article XIII C likely excludes actions construed as 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 XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund monies not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges. The County is unable to predict whether the courts will ultimately interpret the initiative provision to be limited to property related local taxes, assessments, 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 Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIII D of Proposition 218 adds several new requirements to make it more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 as 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 Certificates 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 XIII D also adds several provisions, including notice requirements and restrictions on use, 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." 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 and charges under Article XIII D 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 on the Certificates 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 XIII D 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 XIII D of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C 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.

Proposition 1A

Proposition 1A (2004), proposed by the State Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A (2004) generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A (2004) provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A (2004) also provides that if the State reduces the VLF rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A (2004) requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62 and 1A 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 revenues of the County or the County's ability to expend revenues. The nature and impact of these measures cannot be predicted by the County.

STATE OF CALIFORNIA BUDGET INFORMATION AND FEDERAL STIMULUS INFORMATION

State of California Budget Information

The following information concerning the State'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 LAO at www.lao.ca.gov. In addition, various State 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 Underwriters, and the County and the Underwriters 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 2008-09

On September 23, 2008, the Governor signed into law the 2008-09 Budget Act (the "2008-09 State Budget"). Due to significant negotiation and revision prior to its ultimate adoption, the 2008-09 State Budget was adopted subsequent to the statutory deadline of June 30.

The Budget Act of 2007 (the "Budget Act of 2007") projected a State General Fund balance at the end of Fiscal Year 2007-08 of $3.3 billion and a total reserve of $4.1 billion. The 2008-09 State Budget projected ending Fiscal Year 2007–08 with a State General Fund balance of $4.0 billion, of which $885 million was reserved for the liquidation of encumbrances and $3.1 billion was deposited in a reserve for economic uncertainties.

The 2008-09 State Budget reported that the State General Fund began Fiscal Year 2008-09 with a balance of $4.0 billion. The 2008-09 State Budget projected State General Fund revenues and transfers for Fiscal Year 2008-09 of $102.0 billion, a decrease of approximately 1.0 percent from the anticipated revenues and transfers for Fiscal Year 2007-2008, and State General Fund expenditures of $103.4 billion, an increase of approximately 0.06 percent above the anticipated expenditures for Fiscal Year 2007-08. The 2008-09 State Budget projected ending Fiscal Year 2008-09 with a State General Fund balance of $2.6 billion, of which $885 million would be reserved for the liquidation of encumbrances and $1.7 billion would be deposited in a reserve for economic uncertainties.

The Governor's economic forecasts for Fiscal Year 2008-09 reflected weaker economic performance throughout the country and the State. The 2008-09 State Budget addressed a projected $24.3 billion budget shortfall which was identified in the Governor's May Revision to the Proposed 2008-09 Budget with a combination of cuts in expenditures and projections of increased revenues. The 2008-09

State Budget included vetoes on behalf of the Governor in the amount of $510 million of spending approved by the State Legislature. The 2008-09 State Budget included a proposal to increase the Budget Stabilization Account (the "BSA") from 5 percent of State General Fund expenditures to 12.5 percent. In addition, the 2008-09 State Budget proposed an annual transfer to the BSA of 3 percent of the General Fund and the elimination of the ability to suspend such annual transfers. The State would only be permitted to transfer funds from the BSA if (i) actual revenues during such fiscal year are below a specified level and (ii) funds transferred from the BSA to the State General Fund are appropriated in a stand-alone bill.

Features of the 2008-09 State Budget affecting counties, in general, included the following:

1. The 2008-09 State Budget proposed to fully fund the Proposition 1A (2004) loan repayment for Fiscal Year 2008-09 in the amount of $83 million and the Proposition 42 transfer in the amount of $1.4 billion, which allocation included $573 million to the State Transportation Improvement Program and $286 million to the Public Transportation Account.

2. The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 ("Proposition 1B") authorized $19.925 billion over the next nine years to fund existing and new statewide transportation-related infrastructure programs and projects. Such amount included appropriations in Fiscal Year 2008-09 of $350 million for local transit, $250 million for local streets and roads, $201 million for the State & Local Partnership Program and $21 million for local seismic funding. In addition, AB 1252, enacted in June 2008, provided $149 million from Proposition 1B to accelerate funding for local streets and roads projects.

3. Chapter 72 of the Statutes of 2005 requires the payment of mandated costs incurred prior to Fiscal Year 2004-05 to begin in Fiscal Year 2006-07 and be paid over a term of fifteen years. The 2008-09 State Budget (i) included the elimination of $75 million in estimated reimbursement claims, (ii) delayed the third payment of the reimbursement claims by one year, and (iii) projected that the mandated costs incurred prior to 2004-05 is $956 million.

4. The 2008-09 State Budget included a veto from the Governor, which reduced proposed Department of Social Services funding for the CalWORKs program by $70 million. Prior to this veto, such funding would have been available to counties as part of their single allocation and available for county administration, employment services, and child care.

5. The 2008-09 State Budget permanently suspended provision of the June 2008 and June 2009 State Supplementary Payment program COLA. The 2008-09 State Budget provided the State Director of Finance with mid-year authority to freeze the COLA, rate increases or increases in state participation in local costs for up to 120 days, and require the Governor to submit urgency legislation to permanently suspend the COLA and other rate increases; provided, however, if the Governor fails to act within 120 days, or the State Legislature fails to adopt the suspension, the COLA and other rate increases are reinstated.

6. The 2008-09 State Budget reflected savings to the State of $107.2 million, of which $53.4 million is attributed to the General Fund, in funding for counties to determine eligibility for Medi-Cal services.

7. The 2008-09 State Budget included $1.49 billion in MHSA funds for Proposition 63, of which $100 million is committed by counties to the MHSA Housing Program. This funding was in addition to $300 million identified by counties in Fiscal Year 2007-08. This program makes funding

available through the California Housing Finance Agency to develop permanent supportive housing serving persons with serious mental illness who are homeless or at risk of homelessness.

8. The 2008-09 State Budget included a veto from the Governor, which reduced proposed funding for the Department of Social Services for County Administration and Automation Projects to $1,192,736,000 from $1,194,774,000. By eliminating funding for the Work Incentive Nutritional Supplement program by $2,038,000, the Governor delayed implementation of this program for one year in order to allow the Department of Social Services to study this program and ensure it is consistent with federal rules.

9. The 2008-09 State Budget included a veto from the Governor, which reduced proposed Department of Corrections funding for Adult Corrections and Rehabilitation Operations by approximately $28 million to approximately $4.9 billion.

State Budget for Fiscal Year 2009-10

2009-10 State Budget. On February 20, 2009, the Governor signed the 2009 Budget Act (the "Original 2009-10 State Budget"). The Original 2009-10 State Budget estimated Fiscal Year 2008-09 revenues and transfers of $89.37 billion, total expenditures of $94.09 billion and a year-end deficit of $2.34 billion, which included a $2.37 billion prior-year State General Fund balance, a $3.42 billion withdrawal from the reserve for economic uncertainties and an allocation of $1.08 billion to the reserve for the liquidation of encumbrances. The Original 2009-10 State Budget projected Fiscal Year 2009-10 revenues and transfers of $97.73 billion, total expenditures of $92.21 billion and a year-end surplus of $3.18 billion (net of the $2.34 billion deficit from Fiscal Year 2008-09), of which $1.08 billion would be reserved for the liquidation of encumbrances and $2.10 billion would be deposited in a reserve for economic uncertainties.

Features of the Original 2009-10 State Budget affecting counties, in general, included the following:

1. The Original 2009-10 State Budget increased the VLF rate from 0.65% to 1.15% of a vehicle's value. A portion of such increase (0.15% of the vehicle's value) will be dedicated to local government public safety grant programs to reduce General Fund spending. Pursuant to the Original 2009-10 State Budget, the increased VLF rate is scheduled to terminate on July 1, 2013.

2. The Original 2009-10 State Budget continued the projected allocation of $66.2 million contained in the 2008-09 State Budget for the Youthful Offender Block Grant program, pursuant to which counties receive State funds to provide local supervision and services for juvenile offenders. The Original 2009-10 State Budget increased funding for the Youthful Offender Block Grant program to $92 million in Fiscal Year 2009-10.

3. The Original 2009-10 State Budget eliminated the 2009-10 County Medi-Cal Cost of Doing Business Adjustment for county eligibility operations, which will reduce appropriations to the counties in the amount of $49.4 million. The Original 2009-10 State Budget also included the elimination of certain optional Medi-Cal benefits in the amount of $183.6 million.

4. The Original 2009-10 State Budget (i) suspended the June 2010 State COLA with regard to the Supplemental Security Income – State Supplementary Payment ("SSI/SSP") Program in order to reduce expenditures from the State General Fund of approximately $27.0 million in Fiscal Year 2009-10; (ii) eliminated the pass-through, beginning May 1, 2009, of the federal Supplemental Security Income COLA, which would have been applied to the SSI/SSP Program, to reduce State General Fund

expenditures by $79.8 million in Fiscal Year 2008-09 and $487.3 million in Fiscal Year 2009-10; and (iii) reduced SSI/SSP monthly grants by an additional 2.3% to reduce State expenditures by approximately $267.8 million.

5. The Original 2009-10 State Budget suspended the 2.94% COLA scheduled for July 2009 in connection with CalWORKs and eliminated the CalWORKs pay-for-performance program, which provides counties with funding incentives to increase employment rates. The Original 2009-10 State Budget also eliminated an appropriation to the CalWORKs program in the amount of $146.9 million.

6. The Original 2009-10 State Budget deferred until October 2009 payments to counties originally scheduled for July 2009 and August 2009 for certain social services. Such deferment was expected to total approximately $714 million for social services and $92 million for mental health cash advances.

According to the Legislative Analyst's Office, the Original 2009-10 State Budget relied in particular upon the passage of three measures appearing on the ballot at a special election held on May 19, 2009 (the "Special Election"), which accounted for an aggregate $5.8 billion in additional revenues to the State. None of the measures received the requisite voter approval. See "THE NOTES – State of California Finances – May Revision to the 2009-10 State Budget" below.

Revised State Budget for Fiscal Year 2009-10. On July 28, 2009, the Governor signed certain amendments to the Original 2009-10 State Budget (as amended, the "Revised 2009-10 State Budget") to address a projected $24.16 billion shortfall in revenues. The Revised 2009-10 State Budget estimates Fiscal Year 2008-09 revenues and transfers of $84.1 billion, total expenditures of $91.5 billion and a year-end deficit of $3.38 billion, which includes a $4.07 billion prior-year State General Fund balance, a $4.46 billion withdrawal from the reserve for economic uncertainties and an allocation of $1.08 billion to the reserve for the liquidation of encumbrances. The Revised 2009-10 State Budget projects Fiscal Year 2009-10 revenues and transfers of $89.54 billion, actual expenditures of $84.58 billion and a year-end surplus of $1.58 billion (net of the $3.38 billion deficit from Fiscal Year 2008-09, of which $1.08 billion is expected to be reserved for the liquidation of encumbrances and $500 million is expected to be deposited in a reserve for economic uncertainties.

Features of the Revised 2009-10 State Budget affecting counties, in general, include the following:

1. The Revised 2009-10 State Budget borrows $1.9 billion of city, county and special district property taxes pursuant to Proposition 1A (2004) to offset General Fund spending for education and other programs. Pursuant to the enabling legislation, the State is required to repay the borrowed sums by June 30, 2013. The Revised 2009-10 State Budget Act also establishes a state-financed loan repayment securitization program, which will allow local agencies to issue bonds in order to offset local fiscal effects of the borrowing.

2. The Revised 2009-10 State Budget suspends various non-education local government mandates, with the exception of certain mandates relating to public safety, elections, and tax collection, for State spending reductions of approximately $66 million.

3. The Revised 2009-10 State Budget uses $562 million in additional spillover gasoline sales tax revenues projected to be available in Fiscal Year 2009-10 to reimburse the General Fund for transportation debt service.

4. The Revised 2009-10 State Budget eliminates requirements for statutory COLAs for CalWORKs and SSI/SSP beginning in Fiscal Year 2009-10.

5. The Revised 2009-10 State Budget shifts $25.6 million in Proposition 99 funds from County Health Services to the General Fund.

6. The Revised 2009-10 State Budget reduces funding by approximately $28 million for the Early and Periodic Screening, Diagnosis and Treatment program related to county programs developed in Fiscal Years 2007-08 and 2008-09. Such programs were funded by counties with funds made available through the MHSA.

7. The Revised 2009-10 State Budget (i) eliminates the statutory COLA for CalWORKs grants beginning in Fiscal Year 2010-11, (ii) reduces funding for county operation of the CalWORKs Program by $375 million in Fiscal Year 2009-10 and (iii) exempts parents and relative caregivers of certain young children from having to meet work participation requirements between July 1, 2009 and July 1, 2011 in order to reduce county expenditures relating to the program.

Current and Future State Budgets

The County receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the County and other counties in the State.

The County cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, 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 current and 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. See "County Financial Information – County's 2009-10 Adopted Budget and the Operational Plan" herein.

Federal Stimulus Information

The County has been awarded approximately $ 196 million pursuant to the ARRA, which amount includes approximately $148 million of confirmed awards and approximately $48 million in pending distributions based on formula-based funding, wherein local governments receive funding automatically through a federally developed formula using certain statistical data. In addition, the County anticipates applying for an additional $27 million through the discretionary process under ARRA, pursuant to which local governments receive moneys from federal agencies through a competitive application process. The amounts actually received by the County may be more or less than the amounts currently anticipated. See "County Financial Information – County's 2009-10 Proposed Budget and the Operational Plan" herein. The County has established an Economic Stimulus Team comprised of key stakeholders across the County. This team is charged with ensuring that the County is prepared to meet the stringent accountability, compliance, and reporting provisions of the ARRA. To best prepare for specific reporting or compliance requirements associated with the use of ARRA funds, the Economic Stimulus Team County has embarked on a comprehensive review of County policies and procedures to ensure that internal controls capture best practices in the areas of grant accountability, fraud prevention and contract management and that staff responsible for managing ARRA funds receive adequate training to reinforce these best practices.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

San Diego County is the southernmost major metropolitan area in the State of California. San Diego 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. San Diego County is approximately the size of the State of Connecticut.

Topography of San Diego 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 San Diego 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.

San Diego 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.

PETCO Park, located in the City of San Diego, provides a 42,000 fixed seat baseball stadium for the San Diego Padres. PETCO Park is located in a 26-block neighborhood that contains existing and proposed hotels, office space, retail and housing units within walking distance from the San Diego Convention Center and the Gaslamp Quarter. The baseball stadium is also within walking distance of a Trolley station and nearby parking facilities.

The San Diego Convention Center has been expanded to 2.6 million total gross square feet. The Convention Center generated approximately $1.8 billion in calendar year 2008 in total economic impact (direct and indirect spending).

San Diego County is also growing as a major center for culture and education. More than 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 San Diego County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

In addition to the City of San Diego, other principal cities in San Diego 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 San Diego 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: (1) regional services such as courts, probation, medical examiner, jails, elections and public health; (2) health, welfare and human services such as mental health, senior citizen and child welfare services; (3) 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 (4) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County. For information on County governance, see "THE COUNTY – GENERAL" herein.

Population

There are 18 incorporated cities in San Diego County, and several unincorporated communities. Table 21 below sets forth the population in San Diego County, the State and the United States for the years 2000 to 2009.

TABLE 21

POPULATION ESTIMATES[1]
(In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States[2]	Percent Change
2000	2,801	1.82%	33,722	1.75%	282,194	3.48%
2001	2,865	2.28	34,431	2.10	285,112	1.03
2002	2,921	1.95	35,064	1.84	287,888	0.97
2003	2,971	1.71	35,653	1.68	290,448	0.89
2004	3,007	1.21	36,199	1.53	293,192	0.94
2005	3,034	0.90	36,677	1.32	295,896	0.92
2006	3,058	0.79	37,086	1.12	299,398	1.18
2007	3,089	1.01	37,472	1.04	301,621	0.74
2008	3,132	1.39	37,884	1.10	304,060	0.81
2009	3,173[3]	1.31	38,293[3]	1.08	NA	NA

Sources: County and State Data - State of California Department of Finance, 2000 Benchmark; National Data - U.S. Bureau of the Census.

(1) As of January 1 of the year shown, except as noted. Reflects revised estimates as of May, 2009.

(2) As of July 1 of the year shown.

(3) Provisional estimate.

Employment

Table 22 below sets forth information regarding the size of the civilian labor force, employment and unemployment rates for San Diego County, the State and the United States 2005 through July 2009.

TABLE 22

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT AVERAGES 2005-2009[(1)]
By Place of Residence
(In Thousands)

	2005	2006	2007	2008	2009[(1)]
San Diego County					
Labor Force	1,497.9	1,511.2	1,531.2	1,566.2	1,575.1
Employment	1,433.0	1,451.2	1,461.5	1,472.4	1,411.2
Unemployment Rate	4.3%	4.0%	4.6%	6.0%	10.4%
State of California					
Labor Force	17,629.2	17,821.1	18,078.0	18,391.8	18,500.6
Employment	16,671.9	16,948.4	17,108.7	17,059.6	16,253.8
Unemployment Rate	5.4%	4.9%	5.4%	7.2%	12.1%
United States					
Labor Force	149,320.0	151,428.0	153,124.0	154,287.0	154,577.0
Employment	141,730.0	144,427.0	146,047.0	145,362.0	139,649.0
Unemployment Rate	5.1%	4.6%	4.6%	5.8%	9.7%

Sources: County and State Data – California Employment Development Department, March 2008 Benchmark; National Data – U.S. Department of Labor, Bureau of Labor Statistics.

(1) Annual averages for 2005 through 2008. County and State Data – monthly average for August 2009 (Preliminary; not seasonally adjusted). National Data – monthly average for August 2009 (Preliminary; seasonally adjusted).

Table 23 below sets forth the annual average employment within San Diego County by employment sector, other than farm industries, for 2004 through 2008 and monthly average employment for July 2009. In July 2009, the service sector (consisting of professional and business services, educational and health services, leisure and hospitality and other services) constituted the largest non-farm employment sector in San Diego County, representing approximately 43% of all non-farm employment.

TABLE 23

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT AVERAGES 2004-2009[1]
(In Thousands)

Employment Sector	2004	2005	2006	2007	2008	2009[1]
Natural Resources and Mining	0.4	0.4	0.5	0.4	.3	.3
Construction	87.7	90.8	92.7	87.0	76.2	66.2
Manufacturing	104.3	104.5	103.9	102.5	102.3	94.7
Trade, Transportation and Utilities	215.3	219.4	222.0	222.3	215.9	203.5
Information	36.6	37.4	37.3	37.6	38.7	37.2
Financial Activities	81.9	83.2	83.7	80.3	75.8	74.1
Professional and Business Services	204.5	210.4	213.6	216.8	217.0	204.7
Educational and Health Services	121.7	122.5	125.1	129.5	135.5	133.5
Leisure and Hospitality	145.7	149.6	156.5	161.8	163.6	163.3
Other Services	47.9	48.8	48.4	48.3	48.8	47.3
Government	214.3	215.1	217.9	222.4	225.2	216.8
Total[2]	1,271.5	1,292.8	1,312.5	1,319.7	1,310.0	1,241.6

Source: California Employment Development Department, March 2008 Benchmark.
(1) Annual averages for 2004 through 2008 and monthly average for August 2009 (Preliminary; not seasonally adjusted).
(2) Total may not equal the sum of the line items due to rounding.

Largest Employers

Table 24 below sets forth the ten largest employers in the County as of February 2, 2009.

TABLE 24

SAN DIEGO COUNTY
Ten Largest Employers
(As of February 2, 2009)

Employer	Description	Employees
State of California	Administration of state functions, services and agencies	41,400
Federal Government	Administration of federal functions, services and agencies	40,800
University of California San Diego	Higher education, research and health care	30,078
County of San Diego	Municipal and regional government services	16,303
San Diego Unified School District	Public education	15,800[(1)]
Sharp HealthCare	Health care, hospitals, medical groups, health services, health plan	14,390
Scripps Health	Hospitals, medical offices and clinics, home health services	11,690
City of San Diego	Municipal government-public agency	11,054
Qualcomm Inc.	Develops, delivers digital wireless communications products and services	9,444
Kaiser Permanente	Health care, hospital, outpatient surgical centers, urgent care clinics	7,608

Source: San Diego Business Journal.
(1) Employment figures provided by San Diego Unified School District website.

Regional Economy

Table 25 below sets forth San Diego County's Gross Metropolitan Product, which is an estimate of the value for all goods and services produced in the region, from 2001 through 2010.

TABLE 25

SAN DIEGO COUNTY
GROSS METROPOLITAN PRODUCT
2001-2010

Year	Gross Metropolitan Product (In Billions)	Annual Percent Change Current Dollars San Diego	Annual Percent Change Constant Dollars* San Diego
2001	$112.4	2.9%	1.4%
2002	120.2	6.9	4.3
2003	126.8	5.6	3.5
2004	138.6	9.3	6.5
2005	148.4	7.0	4.2
2006	157.5	6.1	3.3
2007	163.7	3.9	1.4
2008	168.7	3.1	1.0
2009(1)	168.3	(0.3)	(2.0)
2010(1)	174.0	3.4	2.1

Sources: 2001-2006 Data - Bureau of Economic Analysis, U.S. Department of Commerce; 2007-2010 Data - National University System Institute for Policy Research; reflects data as of August 2009.

* Adjusted using the GMP/GSP/GDP implicit price deflator.

(1) Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain San Diego 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.

Building Activity

Building permit valuation for both residential and non-residential construction in San Diego County in 2008 decreased relative to 2007 levels by approximately 27%. Measures limiting new housing remain in effect in areas throughout San Diego County, resulting in a 28% decrease in residential valuations and a 25% decrease in non-residential valuations in 2008 relative to 2007 levels.

Table 26 below sets forth the annual total building permit valuation and the annual unit total of new residential permits from 2005 through July 2009.

TABLE 26

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2005-2009[(1)]
(In Thousands)

	2005	2006	2007	2008	2009[(1)]
Valuation:					
Residential	$3,562,702	$2,470,685	$1,852,381	$1,339,245	$534,982
Non-Residential	1,381,794	1,621,608	1,416,823	1,061,802	381,985
Total	$4,944,496	$4,092,293	$3,269,204	$2,401,047	$916,967
New Housing Units:					
Single Family	7,904	4,753	3,503	2,352	1,081
Multiple Family	7,354	6,024	3,942	2,802	774
Total	15,258	10,777	7,445	5,154	1,855

(1) As of July 2009.
Source: Construction Industry Research Board.

Commercial Activity

Table 27 below sets forth information regarding taxable sales in San Diego County for the years 2003-2008[(1)].

TABLE 27

SAN DIEGO COUNTY
TAXABLE SALES
2003-2008[(1)]
(In Thousands)

Type of Business	2003 Annual	2004 Annual	2005 Annual	2006 Annual	2007[(2)] Annual	2008[(2)] Second Quarter
Apparel Stores	$ 1,466,233	$ 1,644,428	$ 1,798,104	$ 1,909,011	$ 2,034,512	$ 920,937
General Merchandise	4,832,286	5,204,962	5,406,091	5,594,621	5,673,538	2,578,110
Specialty Stores[(3)]	4,144,293	4,541,225	4,728,028	4,926,656	--	--
Food Stores	1,685,203	1,736,610	1,858,152	1,928,274	1,994,237	996,232
Eating and Drinking Establishments	3,757,136	4,047,726	4,267,302	4,521,392	4,784,500	2,426,860
Home Furnishings/Appliances	1,458,403	1,549,482	1,566,046	1,511,389	1,420,933	626,844
Building Materials	2,757,706	3,341,105	3,376,009	3,331,161	2,768,385	1,248,019
Automotive[(4)]	8,563,690	9,318,277	9,739,136	9,819,932	6,321,987	2,767,956
Service Stations[(4)]	--	--	--	--	3,755,121	2,192,867
Other Retail Stores[(3)]	855,601	961,645	1,045,927	1,076,631	5,285,332	2,448,734
Business and Personal Services	2,040,077	2,146,781	2,239,304	2,302,057	2,298,265	1,134,703
All Other Outlets	9,303,350	9,978,097	10,655,372	10,914,390	11,149,178	5,528,327
TOTAL ALL OUTLETS	$40,863,978	$44,470,338	$46,679,471	$47,835,514	$47,485,988	$22,869,589

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

(1) Numbers current through the second quarter of 2008.

(2) In early 2007 the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change process, industry data for 2007 and 2008 are not comparable with data from prior years.

(3) In 2007 and 2008, industry data for Specialty Stores were included in Other Retail Stores.

(4) Prior to 2007, industry data for Service Stations were included in Automotive.

Personal Income

Table 28 below sets forth the median household income for San Diego County, the State, and the United States between 2003 and 2007.

TABLE 28
MEDIAN HOUSEHOLD INCOME[1]
2003 through 2007

Year	San Diego County	California	United States
2003	$49,886	$50,220	$43,564
2004	51,012	51,185	44,684
2005	56,335	53,629	46,242
2006	59,591	56,645	48,451
2007	61,794	59,948	50,740

Source: U.S. Census Bureau – Economic Characteristics – American Community Survey.
(1) Estimated. In Inflation-adjusted dollars.

Foreclosures; Notices of Loan Default

There was an increase in the number of foreclosures and notices of loan default issued in San Diego County in calendar year 2008 relative to calendar year 2007. For the three calendar years from 2004 through 2006, an average 16.2% of notices of loan default resulted in foreclosures. This percentage was 37.92% in 2007, 57.52% in 2008 and 36.57% through August 31, 2009. In 2007 an average of 6.31% of total deeds recorded were foreclosures. This percentage increased to 16.94% in 2008 and is 12.98% through August 31, 2009. Through the first eight months of 2009, notices of default have increased 6% from their 2008 levels while foreclosures have decreased 25%.

The large number of defaults and foreclosures have been attributed mainly to the prevalence of subprime home mortgage loans, which generally include a higher rate of interest than prime loans to compensate for the perceived increased credit risk of the borrower. The defaults and foreclosures on home mortgages have been offset by a variety of economic factors, including the growth in and diversification of the regional economy (see “Economic and Demographic Information – Regional Economy” herein.

Table 29 below sets forth information relating to notices of defaults and foreclosures in San Diego County for failure to pay mortgages from Calendar Year 2000 through August 31, 2009.

TABLE 29

NOTICES OF DEFAULT AND FORECLOSURES
Calendar Years 2000 through 2009

Calendar Year	Notices of Default	Foreclosures
2000	5,472	1,380
2001	5,726	826
2002	5,986	909
2003	5,167	566
2004	4,260	553
2005	5,080	559
2006	10,294	2,065
2007	22,194	8,416
2008	33,945	19,526
2009(1)	28,149	10,294

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) As of August 31, 2009.

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 three miles northwest of the downtown area and sits on 614 acres. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 18 passenger carries and six cargo carriers. In addition to San Diego International Airport there are two naval air stations and eight general aviation airports located in San Diego 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

The climate, proximity to Mexico, multiple maritime facilities, and various attractions such as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory contribute to 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 $7.9 billion in 2008, according to an estimate by the San Diego Convention and Visitors Bureau (the "Visitors Bureau"), an increase of approximately $17 million from the prior year. San Diego County hosted 68 conventions and trade shows in 2008, attended by approximately 633,883 delegates. From January 2009 through June 2009, visitor revenues in San Diego County reached approximately $3.4 billion, according to an estimate by the Visitors Bureau, a decrease of approximately $616 million from the same six-month period in 2008. San Diego County hosted 39 conventions and trade shows from January 2009 through June 2009, attended by approximately 209,989 delegates.

Education

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in San Diego 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 of education. In San Diego 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 San Diego 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 San Diego 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, San Diego, National University, the University of San Diego, Point Loma Nazarene University, California State University – San Marcos, Alliant International University, the University of Phoenix, Thomas Jefferson School of Law and California Western School of Law.

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APPENDIX B

COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of San Diego, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Diego, California (County), as of and for the year ended June 30, 2008, 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 did not audit the financial statements of the First 5 Commission of San Diego (Commission), the discretely presented component unit, as of and for the year ended June 30, 2008. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission is based on the report of the other auditors.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note V.G to the basic financial statements, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future*

Revenues, and GASB Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*, effective July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information pages 19 through 34 and 92 through 97 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

San Diego, California
December 10, 2008

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, 2008.

The intent of the information presented here, in conjunction with the Letter of Transmittal is to provide the reader 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 2007-08 (2008) by $3.22 billion (net assets). Of this amount, $2.59 billion is invested in capital assets, net of related debt; $181 million is restricted for specific purposes (restricted net assets); and the remaining portion represents unrestricted net assets of $444 million.
- Total net assets increased by $273 million. For governmental activities, revenues exceeded expenses by $251 million. For business type activities, revenues exceeded expenses, before transfers, by $22 million.
- General revenues for governmental activities were $1.15 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $941 million or 81%; other taxes, sales and uses taxes, investment income and other general revenues accounted for $214 million or 19%.
- Program revenues for governmental activities were $2.66 billion. Of this amount, $2.15 billion or 81% was attributable to operating grants and contributions while charges for services accounted for $486 million or 18%.
- The total expenses for governmental activities were $3.57 billion. Public protection accounted for $1.18 billion or 33% of this amount, while public assistance accounted for $1.11 billion or 31%. Additionally, health and sanitation accounted for $639 million or 18%.

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 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.

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 the aforementioned 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 recreation and cultural. The business-type activities of the County include airport operations, wastewater management and sanitation districts.

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

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 compliance with finance-related legal requirements. 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 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, Public Safety Special Revenue Fund and the Tobacco Securitization 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 statements/schedules and supplemental 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 sanitation services, wastewater management and airport operations. These nonmajor enterprise funds are combined and aggregated. Individual fund data for each nonmajor enterprise fund is provided in the combining financial statements and supplemental information section in this report.

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 public liability and employee benefits activities; the financing of fleet 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 all of 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 *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 statements/schedules and supplemental 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 (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund and the Tobacco Securitization Special Revenue Fund (all major funds) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual.

Combining financial statements/schedules and supplemental information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise funds, internal service funds and fiduciary funds and are presented immediately following the required supplementary information section of this report.

Government-wide Financial Analysis

Table 1

Net Assets **June 30, 2008 and 2007** **(In Thousands)**	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	$ 2,680,527	2,888,810	98,107	87,186	2,778,634	2,975,996
Capital assets	2,821,553	2,755,506	128,492	115,100	2,950,045	2,870,606
Total assets	5,502,080	5,644,316	226,599	202,286	5,728,679	5,846,602
LIABILITIES						
Long-term liabilities	2,224,194	2,385,188	2,645	2,893	2,226,839	2,388,081
Other liabilities	277,220	509,529	5,031	2,065	282,251	511,594
Total liabilities	2,501,414	2,894,717	7,676	4,958	2,509,090	2,899,675
NET ASSETS						
Invested in capital assets, net of related debt	2,468,142	2,409,050	126,237	112,549	2,594,379	2,521,599
Restricted	181,198	162,318			181,198	162,318
Unrestricted	351,326	178,231	92,686	84,779	444,012	263,010
Total net assets	$ 3,000,666	2,749,599	218,923	197,328	3,219,589	2,946,927

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 $3.22 billion at the close of fiscal year 2008, an increase of $273 million or 9% over fiscal year 2007. This included an increase of $200 million in the County's restricted and unrestricted net assets (a 47% increase over fiscal year 2007) and an increase of $73 million in capital assets, net of related debt (a 3% increase over fiscal year 2007).

The aforementioned increase of $273 million in net assets was composed of the following changes in total assets and liabilities:

- Total assets decreased by $118 million. This included a decrease of $197 million in current and other assets and a $79 million increase in capital assets. The $197 million decrease in current and other assets was primarily attributable to an increase in property taxes receivable of $60 million and a decrease in restricted investments with fiscal agents of $279 million, offset by an increase in other current and other assets of $22 million. (The decrease in restricted investments with fiscal agents was chiefly due to the reduction of a $220 million guaranteed investment contract outstanding at June 30, 2007 which was used to pay down the tax and revenue anticipation notes discussed below.)
- Total liabilities decreased by $391 million. This included a decrease in long-term liabilities of $161 million and a decrease in other liabilities of $229 million. The decrease of $161 million in long-term liabilities was primarily attributed to reductions in long-term debt (see Long-Term Liabilities discussion). The decrease in other liabilities of $229 was primarily due to the liquidation of $220 million in the amount due for tax and revenue anticipation notes.

The largest portion of the County's net assets (81%) reflects its investment of $2.59 billion in capital assets, net of related debt (which includes: 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 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, i.e. restricted net assets equaled $181 million and represent resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws and/or regulations of other governments. The remaining portion of the County's net assets includes $444 million in unrestricted net assets.

Table 2

Changes in Net Assets For the Years Ended June 30, 2008 and 2007 (In Thousands)	Governmental Activities		Business-type Activities		Total	
	2008	2007 (1)	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 485,618	483,395	41,475	32,024	527,093	515,419
Operating grants and contributions	2,152,380	2,113,585	7,725	8,257	2,160,105	2,121,842
Capital grants and contributions	24,474	22,682		464	24,474	23,146
General revenues:						
Property taxes	637,491	559,726			637,491	559,726
Other taxes	20,374	26,760			20,374	26,760
Property taxes in lieu of vehicle license fees	303,348	277,930			303,348	277,930
Sales and use taxes	24,872	26,534			24,872	26,534
Investment Income	87,554	88,974	4,113	4,189	91,667	93,163
Other	80,804	95,343	105	2,909	80,909	98,252
Total revenues	3,816,915	3,694,929	53,418	47,843	3,870,333	3,742,772
Expenses:						
Governmental Activities:						
General government	298,607	295,097			298,607	295,097
Public protection	1,180,114	1,079,320			1,180,114	1,079,320
Public ways and facilities	144,452	133,148			144,452	133,148
Health and sanitation	638,869	580,384			638,869	580,384
Public assistance	1,114,453	1,043,454			1,114,453	1,043,454
Education	36,355	33,223			36,355	33,223
Recreation and cultural	33,941	28,469			33,941	28,469
Interest expense	119,138	146,997			119,138	146,997
Business-type Activities:						
Airport			8,848	8,209	8,848	8,209
Wastewater Management			5,320	4,422	5,320	4,422
Sanitation Districts			17,574	15,620	17,574	15,620
Total expenses	3,565,929	3,340,092	31,742	28,251	3,597,671	3,368,343
Changes in net assets before transfers	250,986	354,837	21,676	19,592	272,662	374,429
Transfers	81	601	(81)	(601)		
Change in net assets	251,067	355,438	21,595	18,991	272,662	374,429
Net assets at beginning of year	2,749,599	2,394,161	197,328	178,337	2,946,927	2,572,498
Net assets at end of year	$ 3,000,666	2,749,599	218,923	197,328	3,219,589	2,946,927

(1) Note: 2007 Reclassifications for Comparative Purposes

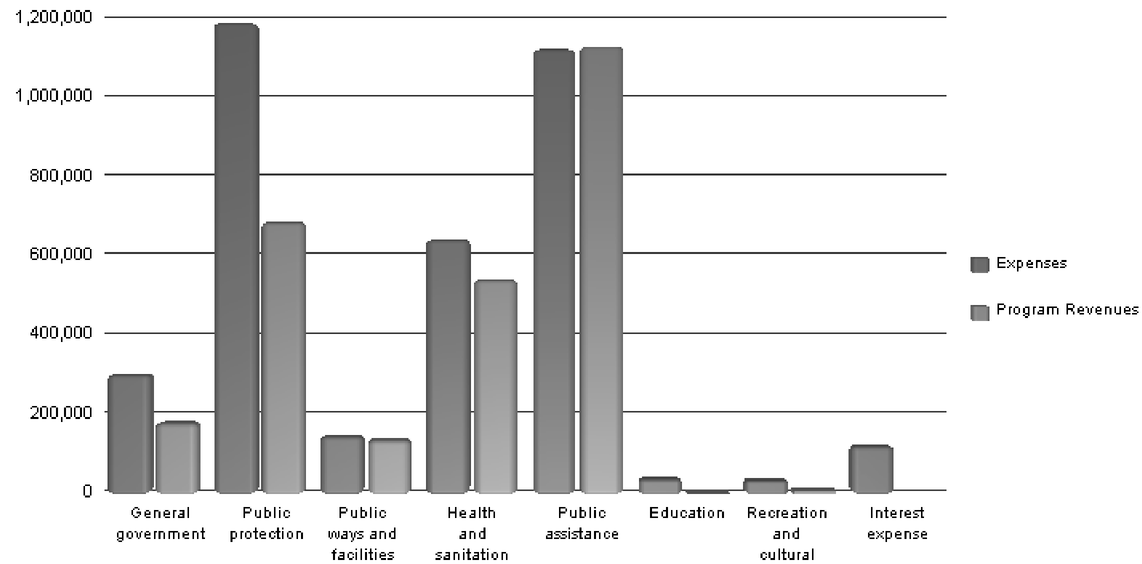
Certain fiscal year 2007 balances were reclassified to conform to the proper current year presentation. As a result, adjustments were made in Table 2, 2007 line items for comparative purposes as indicated below:

- Transfers of $45 million were reclassified to General Government expense to reflect lease payments from the General Fund to the SANCAL Debt Service Funds and lease revenue (charges for services) in the SANCAL Debt Service Fund. In 2007, these transactions were treated as Transfers.
- Charges for services of $15 million were reclassified to Capital grants and contributions to reflect assets donated to the County.
- Intergovernmental restricted: Sales and use taxes of $292 million were reclassified to Operating grants and contributions to reflect shared revenues from the State.

Analysis of Changes in Net Assets

At June 30, 2008, changes in net assets before transfers (revenues minus expenses) equaled $273 million, a $102 million or 27% decrease from the previous year. Principal revenue sources contributing to the change in net assets were operating grants and contributions of $2.15 billion and taxes of $941 million (including: property taxes and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 81% of total revenues. Principal expenses were in the following areas: public protection, $1.18 billion; public assistance, $1.11 billion; and health and sanitation, $639 million. These expense categories accounted for 82% of total expenses.

Chart 1
Expenses and Program Revenues - Governmental Activities
(In Thousands)



Governmental activities

Governmental activities increased the County's net assets by $251 million, accounting for 92% of the total increase in net assets (Business-type activities accounted for the remaining 8%, $22 million).

Expenses:

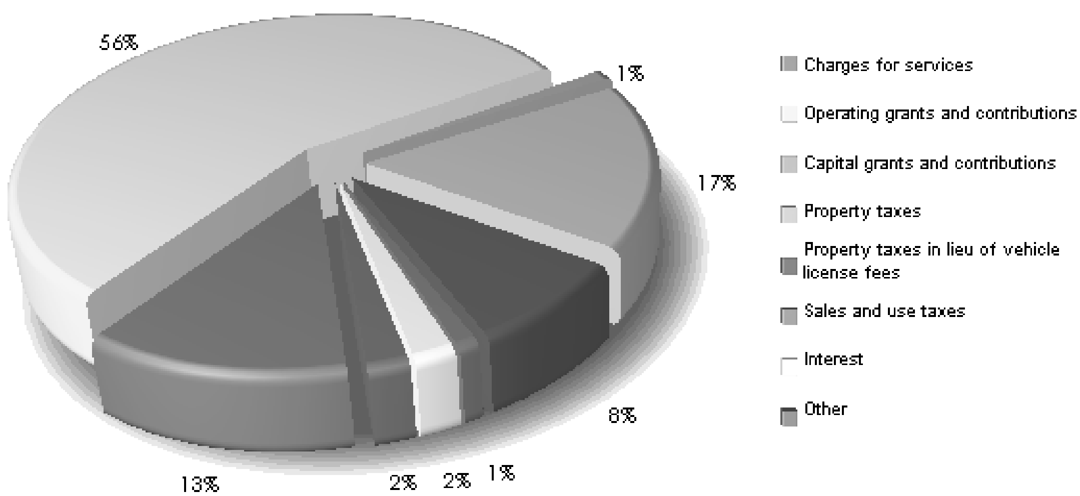
- Total expenses for governmental activities were $3.57 billion, an increase of $226 million or 7% ($254 million increase in functional expenses and $28 million decrease in interest expense) over the prior year. Public protection was the largest functional expense (33%), followed by public assistance (31%) and health and sanitation (18%)).

Increases in program expenses were attributed to the following:

- $133 million was due to an increase in contracted services including the following items: 1) $30 million in public works activities attributable to the costs of the 2007 County Firestorm debris removal in fiscal year 2007-08; 2) $26 million in mental heath activities including: a) $16 million for the expansion of mental health services associated with the Mental Health Services Act funding; b) $5 million was for Medi-Cal/EPSDT services (Children Medi-Cal mental health services); c) $1 million was for firestorm related services, and d) $4 million for various other mental health program services provided; 3) $23 million in increased individual provider costs in the In-Home Supportive Services program; 4) $22 million in information technology related activities; 5) $14 million in aid to families with dependent children activities due in part to the growth in the Health and Human Services Agency's (HHSA) CalWorks program related expenditures including assistance payments and unemployed parent assistance payments; 6) $6 million due to increased costs for the County's Medical Services program; 7) $5 million attributable to the growth in the aid to adoptive children case levels growth and costs per case; 8) $3 million in HHSA participation benefits; 9) $2 million in HHSA Aid for severely emotionally disturbed persons; and 10) $2 million in support and care of persons: a) $1million HHSA and b) $1 million Sheriff's department.

- $96 million was attributable to an increase in salaries and benefit costs of approximately 7% over the previous year. As a service delivery entity, the County's major cost component is salaries and benefits, which accounts for approximately 42% of the total expenses. The County's overall strategy of deleting, freezing and temporarily funding positions has minimized the impact of negotiated salary increases and increased benefit costs.
- $10 million in depreciation due to an overall increase in depreciable capital assets.
- $9 million increase in various other County program activities.
- $4 million in equipment rentals related to various activities.
- $2 million in fuel costs due to the rising costs of gasoline.
- $28 million in interest expense decreases primarily occurred as a result of decreased amortization of debt issuance related costs such as issuance discounts and deferred amounts on refundings, and decreased interest accrued on outstanding debt.

Chart 2
Revenues by Sources - Governmental Activities
(As a Percent)



Revenues:

Total revenues for governmental activities were $3.82 billion, an increase of 3% or $122 million from the previous year.

Program revenues increased by $43 million. This increase was primarily due to increases in operating grants and contributions in public assistance (Health and Human Services Agency social administration and other assistance).

General revenues increased overall by $79 million. This increase was primarily due to the following:

- $15 million decrease in other revenues primarily due to a decrease in Tobacco Settlement Revenues (TSR) as a result of the County's implementation of Governmental Accounting Standards Board Technical Bulletin 2004-01, "Tobacco Settlement Recognition and Financial Reporting Entity Issues" paragraph 15, in fiscal year 2007, which changed the way in which the County estimated its accrued TSR, thus resulting in additional revenues recognized in fiscal year 2007.
- $7 million decrease in real property transfer tax attributable to the decline in real estate sales.
- $2 million decrease in general sales and use taxes.

- $2 million decrease in investment income due to a decrease in the annual County pool investment earnings rate from 5% to 4.61%.
- $78 million increase in current and delinquent property taxes attributable to the growth in assessed property values.
- $25 million increase in property taxes in lieu of vehicle license fees attributable to an increase in the gross taxable property assessed values.

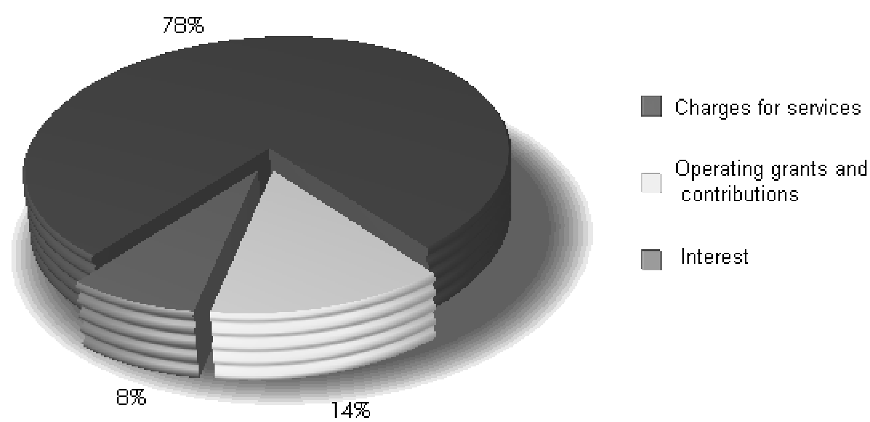
The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in **Chart 2**, operating grants and contributions of $2.15 billion accounted for 56%, the largest share of this revenue. These monies are received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenue for public assistance programs and health and sanitation programs.

Property taxes and property taxes in lieu of vehicle license fees are not shown by program, but are effectively used to support program activities County-wide. Combined, these general revenues of $941 million account for 25% of governmental activities. Additionally, $486 million applicable to charges for services accounted for 13%.

At the end of fiscal year 2008, total revenues for the governmental activities were $3.82 billion, while total expenses for governmental activities were $3.57 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."

Chart 3
Revenue By Source - Business-type Activities
(As a Percent)



Business-type Activities:

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in **Chart 3**, charges for services represent $41 million or 78% while grants ($8 million) and investment income ($4 million) represent 14% and 8% of total revenues respectively.

Net assets of business-type activities increased by $21 million or 11%. This increase primarily included: a) an $11 million increase in current and other assets due to: i) a $6 million increase in airport receivables, chiefly as a result of reversionary interest and leasehold improvement income and ii) a $5 million increase in pooled cash and investments; b) a $13 million increase in capital assets principally due to airport and sewer improvements; and c) a $3 million increase in other liabilities, due to increases primarily in accounts payable.

Financial Analysis of the County Funds

The County uses fund accounting to demonstrate and ensure 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, the Public Safety Special Revenue Fund and the Tobacco Securitization Special Revenue Fund. Nonmajor governmental funds include special revenue funds, debt service funds, and capital project funds.

As of the end of fiscal year 2008, the County's governmental funds reported combined ending fund balances of $2.12 billion, a decrease of $5 million in comparison with the prior year fund balance. Of the total June 30, 2008 amount, $1.65 billion constitutes unreserved fund balance, which is available for spending at the County's discretion. The remaining $472 million of fund balance is reserved to indicate that it is not available for new spending because it has already been committed. These reservations of fund balances include: (1) $312 million reserved for other purposes; (2) $92 million reserved for debt service; (3) $58 million reserved for loans, advances and prepaids; and $10 million reserved for: inventories ($9 million); and landfill closure costs ($1 million).

Governmental revenues overall totaled $3.76 billion representing a 4% increase. Governmental expenditures totaled $3.77 billion, a 10% increase from the fiscal year ended June 30, 2007.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2008, the unreserved fund balance of the General Fund was $947 million, while total fund balance was $1.22 billion, an increase of $65 million from fiscal year 2007.

- This was primarily attributed to: a $66 million increase in current, delinquent and other property taxes principally due to the growth in assessed property values; an $81 million increase in Aid from other governmental agencies - Federal, attributable to the increase in Welfare-to-Work contracts and reimbursements for the costs incurred for CALWORKs Assistance payments and In-Home Support Services; a $7 million decrease in Aid from other governmental agencies - Other related to Sheriff police protection; offset by increased expenditures including, $30 million in public works activities attributable to the costs of the 2007 County Firestorm debris removal in fiscal year 2007-08; $15 million in Sheriff police protection activities; $13 million in District Attorney judicial expenditures; $11 million in Sheriff adult detention expenditures; and $6 million in Probation detention and correction activities. 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 31% of total General Fund expenditures of $3.04 billion, while total fund balance represents 40% of that same amount.

Public Safety Special Revenue Fund:

This fund was established to account for Proposition 172 half-cent sales taxes collected and apportioned to the County by the State Board of Equalization to fund public safety activities. Per Government Code 30052, a "maintenance of effort" (pre-Proposition 172 public safety funding level) must be maintained by the County to comply with the statute's spending requirements. In accordance with the Code, funds are allocated to the Sheriff, District Attorney and Probation departments. Transfers-out of this fund subsidize the following types of public safety activities: juvenile detention services; facilities maintenance and support; capital projects, equipment and other one-time expenditures; on-going technology initiatives; and various region-wide services. As of June 30, 2008, the total (unreserved) fund balance in the Public Safety Special Revenue Fund was $4 million, a decrease of $3.9 million from the prior fiscal year attributed to a decrease in State allocation of one-half sales and use tax due to the slowing economy during fiscal year 2008.

Tobacco Securitization Special Revenue Fund:

This special revenue fund is used to account for the $411 million the County received from the Tobacco Asset Securitization Corporation (Corporation) related to the sale of 25 years of tobacco settlement revenue in fiscal year 2002; and an additional $123 million the County received from Corporation resulting from the issuance of the San Diego County Tobacco Asset Securitization Corporation refunding bonds in fiscal year 2006. The County will continue to invest these funds in investment products to maximize the sustained long-term use of these dollars. At the end of fiscal year 2008, fund balance was $428 million, a decrease of $2 million from fiscal year 2007. This decrease was attributable to investment income of $22 million; offset by transfers out of $24 million to support health related program expenditures.

Other Governmental Funds:

Other governmental funds consist of nonmajor funds, which include special revenue funds, debt service funds, and capital project funds. Individual fund data for each of these nonmajor governmental funds is provided in the combining financial statements/schedules and supplemental information section of this report. As of the end of fiscal year 2008, the fund balances of the other governmental funds totaled $470 million, a net decrease of $64 million over the prior year. This $64 million net decrease to these fund balances was primarily due to the following:

Decreases to the Other Governmental Funds' fund balances totaling $69 million were principally due to the activity in the following funds: an $11 million decrease in SANCAL Debt Service fund other financing sources' face value of bonds issued (in fiscal year 2007 SANCAL issued certificates of participation to finance the completion of the new Edgemoor Skilled Nursing Facility for which there were no new debt issuances in fiscal year 2008) offset by a $2 million decrease in principal and bond issuance costs; a $48 million decrease in the SANCAL Capital Projects fund resulting from a $31 million decrease in other financing sources' face value of bonds related to the aforementioned completion of the Edgemoor Skilled Nursing Facility for which there were no new debt issuances in fiscal year 2008, coupled with an approximately $20 million increase in Transfers Out attributable the accelerated schedule for payment of construction costs in fiscal year 2008 offset by investment income of $2 million and $1 million Transfers In; $12 million net decrease in Pension Obligation Bonds Debt Service fund due to the increase in principal debt service payments attributed to a $100 million prepayment for the Series 2002C PINES and a $20 million prepayment attributed to the Series 2002 B Pension Obligation Bonds, offset by a $95 million Transfer In from the General Fund to fund the aforementioned prepayments, and an overall decrease in other debt service payments of approximately $13 million.

The $5 million increase to the Other Governmental Funds' fund balance was principally attributable to the Road Fund. The increase to its fund balance resulted from tax revenues, intergovernmental revenues from the State and other revenue sources totaling $120 million, offset by $71 million of expenditures incurred for road related activities, $42 million in capital outlay expenditures, and $2 million transfers to the Pension Obligation Debt Service Fund for its share of pension obligation bond payment costs.

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 nonmajor enterprise funds and the internal service funds are combined into single, aggregated presentations in the proprietary fund financial statements. Individual proprietary fund data is presented in the combining financial statements/schedules and supplemental information section of this report.

Enterprise Funds:

See previous discussion above regarding Business-type activities "Revenues by Source."

Internal Service Funds:

Net Assets of the internal service funds (ISF) totaled $104 million, a net decrease of $2 million from the prior year. This decrease included a combined decrease of $23 million which included $19 million and $4 million decreases in the Information Technology Fund and Public Liability Insurance Fund respectively. This decrease was offset by increases of $21 million which were attributable to increases of $19 million in the Employee Benefits Fund and a net increase of $2 million in various other ISF funds.

The $19 million decrease in the information Technology Fund net assets was essentially due to increases in expenses for contracted services while the $19 million increase in Employee Benefits Fund net assets was due in large part to decreases in claims and judgment expenses.

Fiduciary Funds:

The County maintains fiduciary funds for the assets of the *Investment Trust Fund* and the *Agency Funds*.

Investment Trust Fund:

This Fund was established for the purpose of reporting pooled and specific investments. The Investment Trust Fund 's net assets totaled $3.62 billion, an increase in net assets of $657 million, primarily due to contributions on investments of $6.492 billion and investment earnings of $169 million offset by distribution from investments of $6.004 billion.

Agency Funds:

Agency funds maintain 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 funds' assets held at fiscal year end for other County funds, are reported in those funds rather than in the agency funds.

General Fund Budgetary Highlights

The County's final budget differs from the original budget (see Notes to required supplementary information) in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as transfers of appropriations, budget corrections, re-budgets, and account reclassifications. For the fiscal year ended June 30, 2008 net expenditure appropriations increased by $104.1 million and appropriations for transfers-out increased by $33.3 million for a net increase of $137.4 million.

Appropriation increases of note to the original budget were the following:

- $42.1 million in the Department of Public Works to fund a comprehensive debris management program for Firestorm 2007 based on $35.1 million in revenue from the State Office of Emergency Services, the Federal Emergency Management Agency (FEMA) and $7.0 million in fund balance. The funds were used for debris removal contracts and contract administration to remove hazardous materials and debris from private property to eliminate further risk to public health and safety.
- $4.4 million in the Department of Public Works for erosion control services related to Firestorm 2007, funded by fund balance.
- $6.6 million for the County Operations Center and Annex Redevelopment project for environmental review, planning and design, Disposition and Development Agreement and relocation site searches, funded by fund balance.
- $6.6 million for Homeland Security in various departments including the Office of Emergency Services, Sheriff, Health and Human Services and the Medical Examiner for emergency planning, continued development of an exercise program, equipment purchases regional projects and grant administration based on revenue from the California Office of Homeland Security.
- $11.2 million for the construction of the Ramona Library, funded by fund balance. The total cost for the project is projected to be $11.6 million.
- $7.0 million for the construction of the Fallbrook Library, funded by fund balance. The total cost for the project is projected to be $10.3 million.
- $25.2 million for salaries and benefits for incentives earned through the County's Fiscal Year 2006-07 Quality First program, funded by fund balance.
- $2.9 million in the Probation Department to increase staffing which will enable the department to open additional units and alleviate overpopulation in the detention facilities to comply with State mandated programs and regulations, based on $1.5 million in revenue from the Youthful Offender Block Grant and $1.4 million in fund balance.
- $2.8 million in the Land Use and Environment Group Executive Office for software licensing and implementation and source selection services for a Business Case Management System, funded by fund balance.

- $3.0 million for increased design and construction costs for the Edgemoor Skilled Nursing Facility, funded by fund balance.
- $2.2 million in the District Attorney's Office for the purchase of IT equipment to support the upgrade and enhancement of the department's network infrastructure, funded by fund balance.
- $2.0 million for completion of the environmental documentation and to begin the programming/design phase for the replacement of the Las Colinas Detention Facility, based on fund balance available in the Sheriff Capital Projects fund balance designation.

Actual revenues fell short of the final budgeted amounts by $45.2 million, while actual expenditures were less than the budgeted amount by $417.8 million. The combination of the revenue and expenditure shortfalls resulted in a revenue over expenditure operating variance of $372.6 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $153.2 million and there was no variance in the increase to the reserve for inventories of materials and supplies. These combined amounts resulted in a variance in the net change in fund balance of $525.8 million.

Highlights of actuals compared to budgeted amounts are discussed below:

Health and Human Services Agency:

Funded by a combination of State, federal, and County revenues, most agency programs are carried out in the functional areas of health and sanitation and public assistance, with budget over expenditure variances of $89.6 million and $43.5 million respectively. The expenditure variances result from demand for services being less than the budgeted level. This includes Child Care payments, CalWORKs and Welfare to Work. It also includes aid payments for Severely Emotionally Disturbed, Foster Care, Aid to Adoptive Parents and KinGap in Child Welfare Services. These lowered expenditures were offset by corresponding reductions in federal and State revenue.

Salaries and Benefits:

In the continuing environment of uncertainty over State and federal funding, many County functions have deferred hiring staff for ongoing programs in anticipation of future budget constraints. In addition, the Sheriff's department is having recruiting difficulties due to a nationwide shortage of peace officers. The total budget over expenditures variance across all functions in this category is $46.2 million of which $9.3 million is attributable to the Sheriff's department.

Delayed expenditures:

Many County projects, such as maintenance and information technology, take place over more than one fiscal year. However, at inception they are budgeted at full expected cost, resulting in budgeted over expenditure variances that are rebudgeted in the new fiscal year. For example, in the Department of Planning and Land Use, re-budgets include: $1.1 million for consultant and acquisition costs related to the Fire Prevention Program to continue to supplement fire services and apparatus in the unincorporated area of the county; $0.5 million for the Dead, Dying and Diseased Tree removal program; $1.8 million for costs related to the General Plan Update and subsequent Zoning Ordinance revisions and $0.6 million for various projects related to the Multiple Species Conservation Program. The Department of Parks and Recreation has rebudgeted $0.6 million for various projects in local parks. The Sheriff has rebudgeted 5.5 million for various law enforcement grants, including $3.8 million for Homeland Security and $0.9 million in Department Of Justice grants for violent and gang related crime. The District Attorney has rebudgeted $3.0 million for the purchase and installation of IT network equipment to refresh and support current business requirements and the County Technology Office has rebudgeted $2.0 million, also for IT initiatives, including Server Consolidation and the Integrated Property Tax System.

Management and Contingeny Appropriations:

The County annually set up management and contingency appropriations based on both ongoing general purpose revenues and prior years' fund balance for a variety of one-time capital and operating expenditures as well as potential emergencies. Unexpended appropriations resulted in a budget over actual variance of $38.4 million. In addition, in Fiscal Year 2008, the County set aside $56.2 million for economic uncertainty with the intent that it not be spent unless unusual needs arose; of that amount, $49 million was unexpended at year end.

Capital Assets and Commitments

Capital Assets

At June 30, 2008, the County's capital assets for both governmental and business-type activities was $2.82 billion and $128 million, respectively, net of accumulated depreciation (See Note IV-D of the Notes to the Financial Statements for more detailed information). 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 capital asset activity in fiscal year 2008 was as follows:

Governmental Activities:

- $50.1 million towards the construction of the Edgemoor Skilled Nursing Facility in Santee. Total project costs are estimated at $121.8 million.
- $41.6 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure. An additional $16.6 million in infrastructure was donated by developers.
- $12.4 million towards the construction of the Medical Examiner Building at the County Operation Center in Kearny Mesa. Total project costs are estimated at $85.4 million.
- $10.6 million for the acquisition of real property for the multi species conservation program.
- $6.2 million towards construction of improvements at the County Operations Center. Total project costs are estimated at $308.5 million.
- $4.4 million towards the construction of Lakeside Baseball Park. Total project costs are estimated at $10.6 million.
- $3.8 million towards the construction of flood control drainage channels.
- $3.2 million towards improvements at the Otay Valley Regional Park. Total project costs are estimated at $10 million.
- $2.1 million towards the construction of the Sheriff station in Alpine. Total projects costs are estimated at $6.5 million.
- $1.4 million towards the San Elijo Nature Center Expansion. Total project costs are estimated at $5.7 million.
- $8.6 million towards the construction of numerous other Capital Outlay Fund projects.

Business-type Activities:

- $6.0 million towards improvements at the Palomar Airport Terminal, parking lot and road. Total project costs are estimated at $18.2 million.
- $2.5 million towards improvements at the Gillespie Field Airport parking lot. Total project costs are estimated at $3.7 million.
- $1.1 million towards improvements at the Spring Valley Outfall Sewer.

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

Capital Commitments:

As of June 30, 2008, capital commitments included the following:

- $70 million for the construction of the Medical Examiner building, Valley Center Road, Edgemoor Skilled Nursing Facility, Lakeside Sports Complex, San Elijo Nature Center, and the acquisition of 2,827 acres of real property.
- $15.7 million for the construction of improvements at Palomar Airport Terminal, Jamacha Boulevard Sewer Improvements and the Flow Monitoring Systems at Alpine, Lakeside, and Spring Valley Sanitation Districts.

Long-Term Liabilities

At June 30, 2008, for governmental activities, the County had outstanding long-term liabilities of $2.22 billion (See Note IV-I of the Notes to the Financial Statements for more detailed information). Of this amount, $330 million pertained to outstanding certificates of participation, and the remaining $1.89 billion pertained to the following obligations: $1.07 billion of taxable pension obligation bonds; $581 million of Tobacco Settlement Asset-Backed Bonds; $15 million of Redevelopment Agency bonds; $7 million for loans; $7 million of unamortized issuance premiums; $(20) million of unamortized issuance discounts; $(19) million of unamortized deferred amounts on refundings; $28 million for capital leases; $106 million for claims and judgments; $98 million for compensated absences; $22 million for landfill closure and postclosure costs; and $500 thousand for arbitrage.

Long-term liabilities for business-type activities totaled $2.65 million and consisted of $2.26 million for capital loans and $390 thousand for compensated absences.

During fiscal year 2008, the County's total principal amount of COPs, bonds, and loans for governmental activities decreased by $177.4 million, before giving effect to arbitrage, unamortized issuance premiums, unamortized issuance discounts and unamortized deferred amounts on refundings. The $177.4 million net decrease was due to the following:

Increases - $7.6 million

$7.6 million of principal was accreted (added) to the outstanding CAB principal balances outstanding.

Decreases - $185 million

Decreases to debt included $185 million in principal debt service payments.

The long-term liabilities for business-type activities decreased by $248 thousand due to $296 thousand debt service payments on capital loans, and a net increase of $48 thousand in compensated absences.

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

Table 3

Credit Ratings

	Moody's	Standard & Poor's	Fitch
Issuer Rating	Aa2	AA+	AA+
Certificates of Participation	A1	AA	AA
Pension Obligation Bonds	Aa3	AA	AA

There were no changes to the previous year's credit ratings issued by Moody's and Fitch, while the credit ratings issued by Standard and Poor's increased in each category as compared to the previous fiscal year. The prior year's Standard and Poor's ratings were as follows: AA Issuer rating; AA- Certificates of Participation rating; and, an AA Pension Obligation Bonds rating.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2008-09 (2009) General Fund budget utilizes as funding sources for one-time expenditures $214.7 million out of $571.4 million in unreserved undesignated fund balance and $0.2 million out of $375.9 million unreserved designated fund balance.
- The state of the economy plays a significant role in the cost of and demand for County services and the resources available to provide them. The fiscal year 2009 General Fund budget contains total appropriations of $3.679 billion. This is an increase of $158.6 million or 4.5% from the fiscal year 2008 General Fund budget. A number of risk factors continue to be tracked closely: the U.S. economy, the State of California's ability to operate within its 2009 budget and its projected budget imbalances for fiscal year 2010, 2011 and beyond; the slump in the housing sector; credit tightening; the weakening labor market; high energy and commodity prices; and a widening federal budget deficit.
- The U.S. economy's Gross Domestic Product (GDP) for 2007 showed an increase of 2.0% versus an adjusted growth rate of 2.8% in 2006. GDP growth for 2008 is projected to be weak, with projections ranging from 1.2% to 1.5%.
- The State of California's economy has deteriorated. In 2007, leading indicators have shown mixed results, payroll job growth dropped to 0.7%, real personal income growth came in at 2.7%, and adjusted taxable sales declined by 2.3%. California's economy in 2008 is expected to remain weak. Gross State Product (GSP) is projected to drop to 1.1%, the number of jobs is expected to improve marginally by 0.1%, taxable sales will continue to decline by 2.4%, and personal income is anticipated to grow by 1.5%.

- The San Diego economy continues to show positive growth (i.e., gross regional product at 6.1% for 2004, 3.3% in 2005, 3.6% in 2006, and 2.1% in 2007). Growth is forecasted to be 2.5% in 2008.
- A weakened real estate market affects the operations and program revenue of a number of County departments including the Assessor/Recorder/County Clerk in the area of document recordings. It challenges the Department of Planning and Land Use to balance construction activity fluctuations with fiscal and customer service stability. It impacts the Library's ability to maintain service hours and provide a collection that meets the needs of patrons. Other economic impacts can be seen in Parks and Recreation where a slowdown in land development delays the provision of park facilities slated to be funded from parkland dedication ordinance fees. A weakened real estate market also negatively affects general purpose revenue growth which is relied upon to sustain core local discretionary services and to provide new or expanded services in response to County residents' needs.
- The State's budget outlook continues to be strained by an ongoing structural imbalance between revenues and expenditures exacerbated by the housing slump and overall economic volatility.

The County's general purpose revenues continue to grow (with budgeted revenue anticipated to grow at 5.3%) but at a slower rate compared to recent trends of 6.2%. Specifically:

- The largest source of general purpose revenues is property taxes ($543.1 million budgeted in fiscal year 2009), representing 53.5% of the total. For the last seven years, property tax growth has been high (9.7% average annual growth) due to the County's strong overall economy and healthy real estate market. In 2009, a more modest growth rate of 6.2% is based on the slowed demand for housing in the county as evidenced by the reduction in residential building permits, year over year decline in the median price of homes in the county, a significant increase in notices of default and foreclosures and slowing in total deeds recorded. Current property taxes consist of three components: current secured property taxes, current supplemental property taxes, and current unsecured property taxes.
- The budgeted amount of current secured property tax revenues ($511.8 million) assumes a net assessed value growth of 6.0% over the prior year and includes an allowance for tax increment allocations to redevelopment agencies and an allowance for delinquent property tax payments. Actual gross assessed value growth fell short of the assumed net assessed value growth coming in at 4.5%. The actual current secured property tax revenues in fiscal year 2009 will likely come in lower than budget. Overall, property tax growth is expected to be low over the next two years.
- Current supplemental property taxes ($15.0 million budgeted in Fiscal Year 2009) are derived from additions to the tax roll based on new construction and changes in ownership. The actual amount of these revenues in Fiscal Year 2008 was 32.7% less than budgeted ($14.0 million actual versus $20.8 million budgeted) as a result of weakness in assessed value growth from the slowing in the real estate market. The budget assumes that this weakness will continue through the next two fiscal years with the Fiscal Year 2009 budgeted figures remaining well below the higher amounts realized in fiscal years 2005 and 2006.
- Current unsecured property taxes ($16.2 million budgeted in Fiscal Year 2009) do not build on a prior year base. The roll is forecasted based on trends and available information at the time the budget is developed. Growth of 1.1% is budgeted for Fiscal Year 2009 over the Fiscal Year 2008 adopted budget.
- Property taxes in lieu of vehicle license fees (VLF) comprises 31.6% (an estimated $320.9 million) of budgeted general purpose revenues in fiscal year 2009. This revenue source was established by the state in fiscal year 2005 to replace the previous distribution of vehicle license fees to local governments. Growth in this revenue source is based on the growth in the County's gross taxable assessed value. The certified growth rate for 2009 is

4.4757%, but as for current secured property tax revenue, the rate of growth is expected to decline over the next two years.

- Real Property Transfer Tax Revenue (RPTT) for fiscal year 2009 is budgeted at $17.7 million, which is 1.7% of general purpose revenues. RPTT is paid when any lands, tenements, or other realty exceeding $100 in value are sold and granted, assigned, transferred or conveyed to the purchaser. The tax rate set by the State is $1.10 per $1,000 of assessed valuation. The County is entitled to 100% of the revenues from all transactions in the unincorporated area and 50% of the revenues from transactions in the incorporated areas.
- Sales & use tax revenue & in lieu local sales & use tax ($24.8 million in fiscal year 2009) represents about 2.4% of budgeted general purpose revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income, but is primarily due to economic development and new business formation in the County. These amounts reflect both the Sales Tax revenues and the in lieu local sales & use tax replacement funding that will be transferred from ERAF. Again, effective July 1, 2004, provisions of AB7 X1, one of the 2004 State budget bills referred to as the "triple flip", took effect. It enabled the state to redirect one-quarter cent of the local sales and use tax to the state to repay up to $15 billion in bonds authorized by Proposition 57 (March 2004) to help the state refinance its past debt. In turn, the lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. Retail sales revenue has been growing moderately over the past few years in concert with population growth and new retail business formation in the unincorporated area. Currently, however, retail sales in the unincorporated area are following statewide flattening to marginally declining trends. The amount of budgeted revenue in 2009 is approximately $0.03 million (0.1%) above the 2008 budgeted revenue.
- Other revenues budgeted for fiscal year 2009 total $108.2 million. Various revenue sources make up this category including investment income on deposits, fines, fees and forfeitures, redevelopment agency tax increment, prior year adjustments on property taxes, franchise revenue, payment from the City of San Diego in lieu of booking fees, and other miscellaneous revenues. The decrease in revenues is primarily due to anticipated lower investment income on deposits as a result of a decline in interest rates that is partially offset by growth in redevelopment agency tax increment.

The County's Operational Plan for Fiscal Year 2009 and for Fiscal Year 2010 can be found on the internet at http://www.sdcounty.ca.gov/auditor/budinfo.html.

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.

Basic Financial Statements

STATEMENT OF NET ASSETS
June 30, 2008
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	First 5 Commission Fund
ASSETS				
Pooled cash and investments	$ 1,448,834	85,446	1,534,280	21,450
Cash with fiscal agents	494		494	
Investments with fiscal agents	51,402		51,402	177,475
Receivables, net	427,267	9,255	436,522	8,579
Property taxes receivables, net	219,042		219,042	
Internal balances	(3,406)	3,406		
Inventories	10,822		10,822	
Deposits with others	81		81	
Prepaid items	589		589	2
Deferred charges	16,868		16,868	
Restricted assets:				
Cash with fiscal agents	560		560	
Investments with fiscal agents	507,974		507,974	
Capital assets				
Land and construction in progress	553,134	61,192	614,326	
Other capital assets, net of accumulated depreciation	2,268,419	67,300	2,335,719	
Total assets	5,502,080	226,599	5,728,679	207,506
LIABILITIES				
Accounts payable	151,917	4,835	156,752	10,847
Accrued payroll	31,895	144	32,039	
Accrued interest	25,436		25,436	
Unearned revenue	67,972	52	68,024	
Noncurrent liabilities:				
Due within one year	130,268	373	130,641	25
Due in more than one year	2,093,926	2,272	2,096,198	66
Total liabilities	2,501,414	7,676	2,509,090	10,938
NET ASSETS				
Invested in capital assets, net of related debt	2,468,142	126,237	2,594,379	
Restricted for:				
Housing Assistance	49,069		49,069	
Donations	2,061		2,061	
Landfill closure costs	1,259		1,259	
Defray administrative costs, other general reserves	21,357		21,357	
Emergency medical services, various construction costs	16,514		16,514	
Mental health	69,233		69,233	
Social programs	5,939		5,939	
Domestic violence and child abuse prevention	5,254		5,254	
Sheriff vehicle maintenance and replacement	304		304	
Fingerprinting equipment purchase and operation	7,130		7,130	
Delinquency and juvenile crime prevention	2,670		2,670	
Housing repairs and improvements	408		408	
Unrestricted	351,326	92,686	444,012	196,568
Total net assets	$ 3,000,666	218,923	3,219,589	196,568

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2008
(In Thousands)

Functions/Programs:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit: First 5 Commission Fund
Governmental Activities:								
General government	$ 298,607	130,645	39,521	7,915	(120,526)		(120,526)	
Public protection	1,180,114	217,953	463,735	5	(498,421)		(498,421)	
Public ways and facilities	144,452	32,277	83,109	16,554	(12,512)		(12,512)	
Health and sanitation	638,869	86,166	451,169		(101,534)		(101,534)	
Public assistance	1,114,453	9,647	1,112,399		7,593		7,593	
Education	36,355	1,267	1,146		(33,942)		(33,942)	
Recreation and cultural	33,941	7,663	1,301		(24,977)		(24,977)	
Interest expense	119,138				(119,138)		(119,138)	
Total governmental activities	3,565,929	485,618	2,152,380	24,474	(903,457)		(903,457)	
Business-type Activities:								
Airport	8,848	16,097	7,708			14,957	14,957	
Wastewater management	5,320	5,318	17			15	15	
Sanitation districts	17,574	20,060				2,486	2,486	
Total business-type activities	31,742	41,475	7,725			17,458	17,458	
Total primary government	3,597,671	527,093	2,160,105	24,474	(903,457)	17,458	(885,999)	
Component Unit:								
First 5 Commission	$ 44,348		44,058					(290)

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2008
(In Thousands)

(Continued)	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	First 5 Commission Fund
Changes in net assets:				
Net (expense) revenue	$ (903,457)	17,458	(885,999)	(290)
General revenues:				
Taxes:				
Property taxes	637,491		637,491	
Other taxes	20,374		20,374	
Property taxes in lieu of vehicle license fees	303,348		303,348	
Sales and use taxes	24,872		24,872	
Total general tax revenues	986,085		986,085	
Investment income	87,554	4,113	91,667	8,223
Other	80,804	105	80,909	
Total general revenues	1,154,443	4,218	1,158,661	8,223
Transfers	81	(81)		
Total general revenues and transfers	1,154,524	4,137	1,158,661	8,223
Change in net assets	251,067	21,595	272,662	7,933
Net assets at beginning of year (Component Unit restated)	2,749,599	197,328	2,946,927	188,635
Net assets at end of year	$ 3,000,666	218,923	3,219,589	196,568

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008
(In Thousands)

	General Fund	Public Safety Special Revenue Fund	Tobacco Securitization Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled cash and investments	$ 977,544	26,661	2,220	284,264	1,290,689
Cash with fiscal agents	19			475	494
Investments with fiscal agents	2			51,400	51,402
Receivables, net	270,900	39,561	5,789	108,233	424,483
Property taxes receivables, net	218,048			994	219,042
Due from other funds	79,915			23,947	103,862
Advances to other funds	7,203			43	7,246
Inventories	7,326			1,671	8,997
Deposits with others				81	81
Prepaid items	17			572	589
Restricted assets:					
Cash with fiscal agents	171			389	560
Investments with fiscal agents			421,482	86,492	507,974
Total assets	1,561,145	66,222	429,491	558,561	2,615,419
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	85,308			33,719	119,027
Accrued payroll	29,425			1,758	31,183
Due to other funds	42,169	62,119	1,117	14,375	119,780
Advances from other funds				8,743	8,743
Deferred revenues	123,470			23,171	146,641
Unearned revenue	60,307			6,938	67,245
Total liabilities	340,679	62,119	1,117	88,704	492,619
Fund balances					
Reserved fund balance:					
Reserved for loans, advances and prepaids	13,294			44,610	57,904
Reserved for deposits with others				81	81
Reserved for landfill closure costs	1,259				1,259
Reserved for inventories	7,326			1,671	8,997
Reserved for debt service				92,009	92,009
Reserved for other purposes	251,352			61,101	312,453
Unreserved:					
Designated for encumbrances	236,272	3,985			240,257
Designated for subsequent years' expenditures	138,729				138,729
Designated for landfill postclosure and landfill closure costs	854				854
Undesignated	571,380	118	428,374		999,872
Unreserved, reported in nonmajor:					
Special Revenue Funds					
Designated for encumbrances				22,342	22,342
Designated for subsequent years' expenditures				625	625
Designated for landfill postclosure and landfill closure costs				63,209	63,209
Undesignated				153,999	153,999
Capital Projects Funds					
Designated for encumbrances				4,961	4,961
Undesignated				25,249	25,249
Total fund balances	1,220,466	4,103	428,374	469,857	2,122,800
Total liabilities and fund balances	$ 1,561,145	66,222	429,491	558,561	2,615,419

The notes to the 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, 2008 (In Thousands)		
Total fund balances - governmental funds.	$	2,122,800
Capital assets used in governmental activities (excluding internal service funds) are not current financial resources and, therefore, are not reported in the balance sheet. This amount represents capital assets net of accumulated depreciation.		2,748,214
Accrued interest on long-term debt.		(25,433)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds and recognized as revenue in the statement of activities.		146,641
Long-term liabilities, including bonds, notes, and loans payable, are not due and payable in the current period and, therefore, are not reported in the balance sheet.		(2,094,842)
Internal service funds are used by management to charge the costs of information technology, vehicle operations and maintenance, employee benefits, public liability, and communications services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		103,286
Net assets of governmental activities	$	3,000,666

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

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008
(In Thousands)

	General Fund	Public Safety Special Revenue Fund	Tobacco Securitization Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 928,066			43,550	971,616
Licenses, permits and franchise fees	34,735			10,522	45,257
Fines, forfeitures and penalties	59,782			3,232	63,014
Revenue from use of money and property	48,381	147	21,711	67,724	137,963
Aid from other governmental agencies:					
State	849,783	227,563		92,296	1,169,642
Federal	792,430			116,152	908,582
Other	71,663			7,403	79,066
Charges for current services	267,624			44,394	312,018
Other revenue	30,705			43,040	73,745
Total revenues	3,083,169	227,710	21,711	428,313	3,760,903
Expenditures:					
Current:					
General government	270,236			7,050	277,286
Public protection	1,135,288	1,000		9,519	1,145,807
Public ways and facilities	5,907			74,144	80,051
Health and sanitation	593,104			40,278	633,382
Public assistance	987,730			123,971	1,111,701
Education	1,101			34,468	35,569
Recreation and cultural	29,606			2,436	32,042
Capital outlay	11,453			146,365	157,818
Debt service:					
Principal				184,614	184,614
Interest and fiscal charges	5,169			102,462	107,631
Total expenditures	3,039,594	1,000		725,307	3,765,901
Excess (deficiency) of revenues over (under) expenditures	43,575	226,710	21,711	(296,994)	(4,998)
Other financing sources (uses)					
Sale of capital assets	41			27	68
Transfers in	257,890			336,622	594,512
Transfers out	(236,400)	(230,534)	(24,200)	(103,748)	(594,882)
Total other financing sources (uses)	21,531	(230,534)	(24,200)	232,901	(302)
Net change in fund balances	65,106	(3,824)	(2,489)	(64,093)	(5,300)
Fund balances at beginning of year	1,155,082	7,927	430,863	534,153	2,128,025
Increase (decrease) in reserve for inventories	278			(203)	75
Fund balances at end of year	$ 1,220,466	4,103	428,374	469,857	2,122,800

The notes to the 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
For the Year Ended June 30, 2008
(In Thousands)

Net change in fund balances - total governmental funds	$	(5,300)
Governmental funds accrue property tax revenue which is deemed collectible within 60 days. However, for the statement of activities the total amount estimated to ultimately be collected is accrued.		14,685
Revenues that do not provide current financial resources are not reported as revenues in the funds (deferred revenue) but are recognized as revenue in the statement of activities.		4,898
Adjustment to reserve for inventories.		75
Change in accounting estimate for closure and postclosure costs - (public protection function) - San Marcos Landfill.		1,418
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		66,635
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		14,805
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		186,152
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(30,630)
Internal service funds are used by management to charge the costs of centralized services to individual funds. The net revenue (or expense) of internal service funds is reported within governmental activities.		(1,671)
Change in net assets - governmental activities	$	251,067

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008
(In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
ASSETS		
Current assets:		
Pooled cash and investments	$ 85,446	158,145
Receivables, net	9,255	2,784
Due from other funds	2,073	21,698
Inventories		1,825
Total current assets	96,774	184,452
Noncurrent assets:		
Advances to other funds	3,363	148
Capital assets:		
Land	11,338	
Construction and contracts in progress	49,854	
Buildings and improvements	52,555	
Equipment	1,341	176,264
Road network	335	
Sewer network	68,994	
Accumulated depreciation	(55,925)	(102,925)
Total noncurrent assets	131,855	73,487
Total assets	228,629	257,939
LIABILITIES		
Current liabilities:		
Accounts payable	4,835	32,890
Accrued payroll	144	712
Accrued interest		3
Due to other funds	2,690	5,163
Unearned revenue	52	726
Bonds and loans payable	217	502
Compensated absences	156	957
Claims and judgments		29,471
Total current liabilities	8,094	70,424
Noncurrent liabilities:		
Advances from other funds	14	2,000
Bonds and loans payable	2,038	3,345
Compensated absences	234	1,437
Claims and judgments		76,773
Total noncurrent liabilities	2,286	83,555
Total liabilities	10,380	153,979
NET ASSETS		
Invested in capital assets, net of related debt	126,237	73,339
Unrestricted	92,012	30,621
Total net assets (deficits)	$ 218,249	103,960

Reconciliation between net assets - enterprise funds and net assets of business-type activities as reported in the government-wide statement of net assets	
Total net assets (deficits)	$ 218,249
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	674
Net assets of business type activities	$ 218,923

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008
(In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Operating revenues:		
Charges for current services	$ 41,475	301,531
Miscellaneous	105	660
Total operating revenues	41,580	302,191
Operating expenses:		
Salaries	6,271	33,216
Repairs and maintenance	5,202	36,142
Equipment rental	872	983
Sewage processing	9,828	
Contracted services	4,220	144,409
Depreciation	2,494	29,548
Utilities	141	17,865
Cost of material		1,659
Claims and judgments		15,167
Fuel		11,765
Other operating expenses	2,466	20,380
Total operating expenses	31,494	311,134
Operating income (loss)	10,086	(8,943)
Nonoperating revenues (expenses):		
Grants	7,725	777
Investment income	4,113	6,580
Interest expense	(159)	(171)
Gain or loss on disposal of assets		(455)
Total nonoperating revenues (expenses)	11,679	6,731
Income (loss) before contributions and transfers	21,765	(2,212)
Capital contributions		1
Transfers in	3,033	3,626
Transfers out	(3,114)	(3,175)
Change in net assets	21,684	(1,760)
Net assets (deficits) at beginning of year	196,565	105,720
Net assets (deficits) at end of year	$ 218,249	103,960

Reconciliation between changes in net assets - enterprise funds and changes in net assets of business-type activities as reported in the government-wide statement of activities	
Change in net assets	$ 21,684
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(89)
Change in net assets of business-type activities	$ 21,595

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008
(In Thousands)

	Business-type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	$ 33,238	13,900
Cash received from other funds	6,562	291,571
Cash payments to suppliers	(17,793)	(233,634)
Cash payments to employees	(6,191)	(32,946)
Cash payments to other funds	(8,314)	(8,782)
Cash paid for judgments and claims		(20,105)
Net cash provided (used) by operating activities	7,502	10,004
Cash flows from noncapital financing activities:		
Operating grants	4,133	625
Transfers from other funds	3,033	3,685
Transfers to other funds	(1,561)	(3,175)
Advances to other funds		67
Other noncapital (decreases)		(650)
Net cash provided (used) by noncapital financing activities	5,605	552
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,507)	(13,939)
Proceeds from sale of assets		639
Retirement of capital leases, bonds and loans	(478)	
Interest paid on long-term debt	(159)	
Net cash provided (used) by capital and related financing activities	(13,144)	(13,300)
Cash flows from investing activities:		
Investment income	4,455	7,100
Net increase (decrease) in cash and cash equivalents	4,418	4,356
Cash and cash equivalents - beginning of year	81,028	153,789
Cash and cash equivalents - end of year	85,446	158,145
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	10,086	(8,943)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Inc (dec) in compensated absences	48	180
Inc (dec) in accrued payroll	35	135
Inc (dec) in due to other funds	(1,500)	1,310
Inc (dec) in accounts payable	(369)	(8,203)
Inc (dec) in claims and judgments		(4,938)
Inc (dec) in unearned revenue	(79)	(2)
Dec (inc) in accounts and notes receivable	(2,786)	136
Dec (inc) in due from other funds	(427)	1,607
Dec (inc) in Inventories		(826)
Depreciation	2,494	29,548
Total adjustments	(2,584)	18,947
Net cash provided by (used in) operating activities	7,502	10,004
Noncash investing and capital financing activities:		
Capital acquisitions included in accounts payable	3,379	1,308
Governmental contributions of capital assets	$	1

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008
(In Thousands)

	Investment Trust	Agency Funds
ASSETS		
Pooled cash and investments	$ 3,119,116	406,676
Cash with fiscal agents	18	3,723
Investments with fiscal agents	468,588	
Receivables:		
Accounts receivable	13,114	
Investment income receivable	27,967	38,054
Total assets	3,628,803	448,453
LIABILITIES		
Accounts payable	6,095	33,711
Warrants outstanding		206,190
Due to other governments		208,552
Total liabilities	6,095	448,453
NET ASSETS		
Held in trust for other purposes	$ 3,622,708	

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2008
(In Thousands)

	Investment Trust
ADDITIONS	
Contributions:	
Contributions on investments	$ 6,491,717
Total contributions	6,491,717
Investment earnings:	
Net increase (decrease) in fair value of Investments	12,376
Investment income	157,099
Total investment earnings	169,475
Total additions	6,661,192
DEDUCTIONS	
Distribution from investments	6,004,041
Total deductions	6,004,041
Change in net assets	657,151
Net assets at beginning of year	2,965,557
Net assets at end of year	$ 3,622,708

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

Contents - Notes to the Financial Statements

I. Summary of Significant Accounting Policies

A. The Reporting Entity

The County of San Diego (the "County" or "CoSD"), is a political subdivision of the State of California (the "State") and as such can exercise the powers specified by the Constitution and laws of the State of California. The County operates under a charter and is governed by an elected five-member Board of Supervisors (the "Board").

The County provides a full range of general government services including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, inactive waste management, airport management and general financial and administrative support.

The County reporting entity includes all significant organizations, departments, and agencies over which the County is considered to be financially accountable. The component units discussed below are included in the County's reporting entity because of the significance of their operational and financial relationships with the County. As required by generally accepted accounting principles in the United States of America (GAAP), the financial statements present the financial position of the County and its component units (entities for which the County is considered to be financially responsible).

Blended component units, although legally separate entities are, in substance, part of the County's operations and data from these component units are combined with the data from the primary government.

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.

1. Blended Component Units

The blended component units listed below are agencies and special districts whose governing board is the County Board of Supervisors. These component units are fiscally dependent on the County and as such financial actions including the setting of rates, issuance of debt and the adoption of the annual budget remain with the County.

County of San Diego In-Home Supportive Services Public Authority (IHSS) - This authority 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 as a *special revenue fund*.

San Diego County Housing Authority - This authority 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*.

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*.

Air Pollution Control District - This district 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*.

County Service Districts - These special districts 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 district 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 district 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*.

Sanitation Districts - These districts 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*.

Blended component units governed by boards other than the CoSD Board of Supervisors are listed below. These component units are, in substance, part of the County's operations due to their relationship with the County and the nature of their operations. Specifically, the CoSD Board appoints either all or a majority of their board members and the services they provide solely benefit the County.

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 CoSD Board. This corporation is included in the *special revenue, debt service* and *capital projects 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 a Tobacco Master Settlement Agreement (see Note IV, I-3. Tobacco Settlement Asset Backed Bonds).

The Corporation is governed by a 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. This fund is included as a *special revenue fund*.

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 between the County of San Diego and the County of Sacramento pursuant to Government Code Sections 6500 et seq. The Authority's purpose is to finance a loan to the San Diego County Tobacco Asset Securitization Corporation (the Corporation) via the sale of tobacco asset backed bonds. The Corporation in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under a purchase and sale agreement. The Authority is administered by a Board of Directors consisting of three members, two members who are appointed by the CoSD Board and the third member is appointed by the Sacramento County Board of Supervisors. This fund is included as a *Special Revenue Fund*.

Separately issued financial reports of the County's blended component units can be obtained from the County Auditor and Controller's Office located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

2. Discrete Component Unit

The *First 5 Commission of San Diego (Commission)* was established by the Board as a separate legal entity under the authority of the California Children and Families First Act and Sections 130100 et seq. of the Health and Safety Code. It administers the County's share of tobacco taxes levied by the State for the purpose of implementing early childhood development programs. The County appoints all of the Commission's board and can remove appointed members at will.

The Commission is discretely presented because its Board is not substantively the same as the County's and it does not provide services entirely or almost entirely to the County. A separately financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 202, (MS-A211), San Diego, CA, 92101-6466.

B. Government-Wide and Fund Financial Statements

1. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. The statement of activities presents function revenue and expenses of governmental activities and business-type activities. 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. In the statement of activities, internal service funds' revenue and expenses related to interfund services have been eliminated. Revenue and expenses related to services provided to external customers have not been eliminated and are presented within governmental activities.

The 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, public assistance, health and sanitation, recreation and cultural, and education activities. The business type activities of the County include sanitation, wastewater and airport.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

2. Fund Financial Statements

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 recreation and cultural. Expenditures 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.

The *Public Safety Special Revenue Fund* accounts for Proposition 172 half-cent sales taxes collected and apportioned to the County by the State Board of Equalization to fund public safety activities. Per Government Code 30052, a "maintenance of effort" (pre-Proposition 172 public safety funding level) must be maintained by the County to comply with the statute's spending requirements. In accordance with the Code, funds are allocated to the Sheriff, District Attorney and Probation departments. Transfers-out of this fund subsidize the following types of public safety activities: juvenile detention services; facilities maintenance and support; capital projects, equipment and other one-time expenditures; on-going technology initiatives; and various region-wide services.

The County reports the following additional funds and fund types:

Enterprise Funds account for airport, sanitation district and wastewater management activities, including operations and maintenance, sewage collection and treatment services.

Internal Service Funds account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); start up services for new and existing county service districts; the County's public liability and employee benefits activities; the financing of fleet services; facilities management activities; the financing of information technology services; and the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Goods or services provided by servicing County departments are paid for on a cost reimbursement basis by receiving departments.

The following fiduciary funds account for resources that are held by the County as a trustee or agent for outside parties and cannot be used to support the County's programs.

Investment Trust Funds account for two types of investment activities on behalf of external entities and include: the portion of the County Treasurer's investment pool applicable to external entities (Pool Investments- Investment Trust Fund); and the total amount of individual investment accounts held on behalf of external entities by the Treasurer (Specific Investments - Investment Trust Fund). In general, external entities include school districts, independent special districts and various other governments. The Specific Investments - Investment Trust Fund accounts for individual external entities investments which are offered as an alternative to a pooled position.

Agency Funds are custodial in nature, do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments, organizations and individuals. Included are funds for child support payments; payroll taxes; public administrator and public guardian accounts; and apportioned taxes for other local governments.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, 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 fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Sales taxes, investment income, state and federal grants, and charges for services are accrued when their receipt occurs within 180 days following the end of the fiscal year. Property taxes are accrued if they are collectible within 60 days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due. General capital assets acquisitions and general principal payments are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For governmental and business-type activities the County applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The County has elected not to apply the FASB standards issued subsequent to November 30, 1989. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental users.

When both *restricted and unrestricted resources* are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Fund Balance

1. Cash and Investments

The County's cash and cash equivalents for cash flow reporting purposes are considered to be cash on hand, demand deposits, restricted cash, and investments held in the County's Pool.

Investments are stated at fair value. The fair value of investments is determined monthly and is based on quoted market prices.

2. Receivables and Payables

Activity between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All property taxes and accounts receivable are shown net of an allowance for uncollectibles.

Secured property taxes are levied based upon the assessed valuation as of the previous January 1st, (lien date) and the tax levy is recorded on July 1st. They are payable in two equal installments due on November 1st and February 1st and are considered delinquent with ten percent penalties after December 10th and April 10th, respectively. An additional penalty of one and one-half percent per month begins to accrue on July 1st and November 1st on delinquent secured property taxes. Unsecured property taxes are due as of the January 1st lien date and become delinquent, with 10 percent penalties, after August 31st. An additional penalty of one and one-half percent per month begins to accrue on October 31st on delinquent unsecured property taxes.

Governmental funds’ property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year end, and are collected within 60 days after the fiscal year end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Pursuant to State law, in fiscal year 1994 the County adopted the Teeter Plan, an alternative method of distributing secured property taxes to local agencies. Under this tax distribution method, the County General Fund annually advances to participating agencies the full amount of their share of current delinquent property taxes on the secured roll. In exchange, the General Fund receives all future delinquent tax payments, penalties and interest. While the County bears the risk of loss on delinquent taxes that go unpaid, it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, participating local agencies receive a stable cash flow and eliminate collection risk. Under the Teeter Plan, the County is required to establish a tax loss reserve fund, equal to 25% of the current year delinquent secured tax levy at June 30, 2008, to cover losses that may occur 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 tax loss reserve requirement for fiscal year 2008 was $23.8M.

3. County Leased Property

The County leases real property to the private sector and other governmental agencies. In the government-wide and proprietary funds financial statements, non-cancelable and cancelable leases are reported in the applicable governmental activities or proprietary funds' statement of net assets.

4. Inventories and Prepaid Items

Inventories consisting 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 other governmental funds as an asset with an offsetting reserve. Proprietary fund types are carried at average cost and are expended when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The inventories and prepaid items recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reserved.

5. Deferred Charges

Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the government-wide financial statements, deferred charges are reported as assets in the governmental activities.

6. Restricted Cash and Investments

Debt covenants require resources to be set aside to repay principal and interest thereon for tax and revenue anticipation notes, pension obligation bonds, SANCAL certificates of participation and Redevelopment Agency bonds as restricted assets. Additionally, Tobacco Securitization Special Revenue Fund resources have been restricted and set aside to fund new and existing programs.

7. Capital Assets

Capital assets are of a long-term character and include: land, buildings and improvements, construction in progress, equipment and infrastructure.

Infrastructure assets include roads, bridges, street lights, signals, flood channels and sewers.

Capital assets are recorded at *historical cost* if purchased or constructed. Donated capital assets are recorded at *estimated fair market value* at the date of donation. Capital assets with original unit costs equal to or greater than the *capitalization thresholds* shown in the following table are reported in the applicable *governmental* or *business-type activities* columns in the government-wide financial statements.

Table 1

Capitalization Thresholds	
Buildings and improvements	$ 50
Infrastructure	25-50
Equipment	5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. 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. Estimated useful lives are shown in **Table 2.**

Table 2

Estimated Useful Lives	
Buildings and improvements	50 years
Infrastructure	10-15 years
Equipment	5-20 years

8. Deferred and Unearned Revenue

Under both the accrual and the modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for unearned revenue. Unearned revenue can be found in government-wide financial reporting as well as in governmental fund, proprietary fund, and fiduciary fund financial statements.

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. Revenue must also be susceptible to accrual (it must be both measurable and available to finance expenditures of the current fiscal period, see Note I.C above). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue. This type of deferred revenue is unique to governmental funds, since it is tied to the modified accrual basis of accounting, which is used only in connection with governmental funds.

9. Lease Obligations

The County leases various assets under both *operating* and *capita*l lease agreements. In the government-wide and proprietary funds financial statements, capital lease obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary funds statement of net assets.

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt may be issued at par (face) value, with a premium (applicable to debt issued in excess of face value) or at a discount (applicable to debt issued at amounts less than the face value). On occasion, the County refunds some of its existing debt. When such an event occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a Deferred Amount on Refunding.

Capital Appreciation Bonds (CABs) issued by the County represent bonds that are issued at a deep discount, pay no current interest but accrete or compound in value from the date of issuance to the date of maturity. CABs are presented at their maturity value less the unaccreted appreciation. Unaccreted appreciation represents the difference between the maturity value of the debt and their par (face) value. The unaccreted appreciation is accreted as interest over the life of the CABs.

Bonds and certificates of participation payable are reported net of the applicable premium, discount, or deferred amount on refunding. In the fund financial statements, governmental fund types recognize bond and certificates of participation premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Debt premiums, discounts, deferred amounts on refundings and issuance costs are deferred and amortized over the life of the debt using the straight-line method. Premiums are amortized as a reduction of interest expense over the life of the debt issuance. Similarly, discounts and deferred amounts on refundings are amortized as an increase to interest expense over the life of the debt issued. Issuance costs are amortized as an increase to the general function expense over the life of the debt issuance.

11. Employee Compensated Absences

The County's policy is to permit employees to accumulate *earned* but *unused* vacation, compensatory time, holiday and sick leave benefits. Each of these benefits is subject to certain limits based on employee class, except for sick leave and compensatory time that is subject to Fair Labor Standands Act (FLSA) rules or California Labor Code. All vacation pay and a certain portion of compensatory and sick pay for specified employee classes is accrued when incurred in the government-wide and proprietary funds financial statements. Except for specified employee classes, there is no liability for *unpaid accumulated* sick leave since the County does not cash out unused sick leave when employees separate from service with the County. However, employees eligible for retirement benefits that meet minimum balance requirements may apply unused sick leave toward determining their length of service for purposes of determining their retirement benefits.

Accumulated leave benefits including vacation, sick leave, and compensatory time worked, in the amount of approximately $98.4 million for the governmental activities as of June 30, 2008, is recorded in the government-wide statement of net assets. Amounts recorded as accumulated leave benefits include the employer's share of Social Security and Medicare taxes. 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.

County employees in the unclassified service and certain employees hired prior to 1979 may receive up to 50% and 25%, respectively, of the cash value of all or a portion of their sick leave balances upon termination or retirement. The cash value of these benefits is included in the accumulated leave benefits above and totaled $10.9 million at June 30, 2008. This liability has been recorded in the current and long-term portion of compensated absences in the appropriate proprietary funds and government-wide statement of net assets.

California Labor Code 4850 entitles safety officers who meet certain criteria to receive full salary in lieu of temporary disability payments for the period of disability, not exceeding 365 days, or until such earlier date as he or she is retired on permanent disability pension. The Labor Code 4850 liability at June 30, 2008 amounting to $11.3 million is accrued in the current and long-term portion of compensated absences.

All County employees who have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The impact of the conversion of sick leave balances to retirement service credits on the County's actuarial accrued liability, as part of its defined benefit pension plan, is not estimable, however, contribution requirements as determined in the actuarial valuation as of June 30, 2007 include assumptions regarding employee terminations, retirement, death, etc.

12. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As the *lapse period* for encumbrance liquidation is not employed, encumbered amounts that are reappropriated as part of the following year's budget are presented as unreserved fund balance designated for encumbrances. Previously, these encumbrances were reported as reservations of fund balance.

13. Net Assets Invested in Capital Assets, Net of Related Debt

This amount represents capital assets net of accumulated depreciation less the outstanding principal of capital related debt (adjusted by any unamortized premiums, discounts, deferred amounts on refundings, and unspent proceeds related to debt), incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

14. Restricted Net Assets

Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $181.198 million of restricted net assets. Of this amount $49.069 million is restricted by grantors (Housing Assistance), $2.061 million is restricted by donors, $1.259 million is restricted for landfill closure costs, and the remaining $128.809 million is restricted by laws or regulations of other governments.

15. Unrestricted Net Assets

These assets are resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a restricted fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net assets.

16. Indirect Costs

Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments. Cost allocations are based on the annual *County-wide Cost Allocation Plan* which is prepared in accordance with Federal Office of Management and Budget Circular A-87.

17. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

(Amounts Expressed in Thousands Unless Otherwise Noted)

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Balance Sheet/Net Assets

Explanations of certain differences between the governmental funds balance sheet and the government-wide statement of net assets are detailed below:

Table 3

Governmental Fund Balance Sheet / Government-Wide Statement of Net Assets Reconciliation At June 30, 2008	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $2,094,842 difference are as follows:	
Bonds, notes and loans payable	$ 2,250,777
Less: Unaccreted appreciation - capital appreciation bonds	(253,186)
Less: Unamortized deferred amounts on refundings (to be amortized as interest expense)	(18,906)
Less: Unamortized issuance discounts (to be amortized as interest expense)	(20,168)
Less: Unamortized issuance costs (to be amortized over the life of the debt)	(16,868)
Add: Unamortized issuance premiums	6,879
Capital lease obligations (excluding Internal Service Funds)	27,590
Arbitrage	498
Compensated absences (excluding Internal Service Funds)	96,027
Landfill closure and postclosure - San Marcos landfill	22,199
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ 2,094,842
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, Internal Service Funds.) The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. The details of this $103,286 difference are as follows:	
Net assets of the internal service funds	$ 103,960
Less: Internal payable representing charges in excess of cost to business-type activities - prior years	(763)
Less: Internal payable representing charges in excess of cost to business-type activities - current year	89
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 103,286

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

Explanations of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are detailed below:

Table 4

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation For the Year Ended June 30, 2008		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $66,635 difference are as follows:		
Capital outlay	$	157,818
Depreciation expense		(91,183)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	66,635
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The details of this $14,805 difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(68)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets		(1,686)
Donations of assets to the County do not provide current financial resources but resources increase net assets		16,559
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	14,805
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this $(186,152) difference are as follows:		
Debt issued or incurred:		
Principal repayments	$	(184,615)
Capital lease payments		(2,033)
Arbitrage		496
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(186,152)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this($30,630) difference are as follows:		
Compensated absences	$	(15,482)
Accrued interest		5,494
Accretion of capital appreciation bonds		(7,596)
Amortization of premium		472
Amortization of deferred amounts on refundings		(8,016)
Amortization of issuance costs		(4,308)
Amortization of discounts		(1,194)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(30,630)
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, Internal Service Funds.) The net revenue of certain activities of internal service funds is reported with governmental activities." The details of this $(1,671) difference are as follows:		
Change in net assets of the internal service funds	$	(1,760)
Less: Loss from charges to business activities		89
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(1,671)

(Amounts Expressed in Thousands Unless Otherwise Noted)

III. Stewardship, Compliance and Accountability

A. Fund Deficits

Funds with accumulated deficits at June 30, 2008 are noted below:

Table 5

Fund Deficits - Various Funds At June 30, 2008	
Internal Service Funds:	
Employee Benefits Fund	$ 7,002
Facilities Management	1,007

The deficit in the Employee Benefits fund resulted from the accrual of known and projected losses, allocated loss adjustment expenses and unallocated loss adjustment expenses based on actuarial studies. The deficit has decreased by $19 million from the previous year due to investment income earned in the fund, an increase in the premium rate, and lower claims and other expenses. The County intends to reduce the deficit through increased premium rate charges to County departments by $4 million per year.

The deficit within the Facilities Management Internal Service fund decreased from $2.1 million at June 30, 2007 to $1 million at June 30. 2008. The deficit is due to the use of California Energy Commission loans for expenses incurred for maintenance cost and energy conservation. The deficit will decrease annually as it is included in the utility rates calculation charged to the departments. The loans will be repaid by fiscal year 2016.

IV. Detailed Notes on all Funds

A. Deposits and Investments

The Treasurer is responsible for authorizing all County bank accounts and pursuant to Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686 is responsible for conducting County investment activities of the County's investment pool (the Pool) as well as various individual investment accounts outside of the Pool. Additionally, the Treasurer has oversight responsibilities for investments with fiscal agents.

The Pool is a County sponsored "external investment pool" wherein moneys of the County and other legally separate external entities, which are not part of the County Reporting Entity, are commingled (pooled) and invested on the participants' behalf. A separately issued annual financial report for the Pool can be obtained from the Treasurer-Tax Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101 and can also be accessed at http:// www.sdtreastax.com.

1. Deposits

Government Code 53652 et. seq. and the Treasurer's Pool Investment Policy (Pool Policy) prescribe the amount of collateral that is required to secure the deposit of public funds.

Federal Depository Insurance (FDIC) is available for funds deposited at any one financial institution up to a maximum of $100,000 for demand deposits, time and savings deposits. The aforementioned Government Code and Pool Policy require that depositories collateralize public funds with securities having a market value of at least 10% in excess of the total amount of the deposits, reduced by the amount of FDIC insurance available. These securities shall be placed in the institution's pooled collateral account and monitored by a third party custodian bank.

a. Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized.

The Investment Pool does not have a formal policy regarding sweep (deposit) accounts, but the practice is to utilize national or state chartered banks where the excess over FDIC insurance is invested in repurchase agreements that are collateralized by U.S. Treasury and Federal Agency securities equal to or greater than the deposit amount in accordance with California Government Code.

At June 30, 2008 the carrying amount of the County's demand and time deposits was $54.705 million and the bank balance per various financial institutions was $55.463 million.

Except as noted below, the County's deposits were not exposed to custodial credit risk as these deposits were either covered by FDIC insurance or collateralized with securities in accordance with the noted requirements:

$19.933 million in the County's demand and time deposits was exposed to custodial credit risk as follows:

a. $.474 million in escrow retainage payments was not collateralized; and

b. $19.459 million collateralized by pledging bank's trust department was held in a named agent depository.

Future escrow contracts with financial institutions covering construction retainage payments will include requirements consistent with the aforementioned legal and policy provisions governing deposits.

2. Investments

Government Code 53601 governs the types of investments that may be purchased and makes certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality and timing to minimize the risk of loss.

Permitted types of investments and financial instruments include: U.S. treasuries, Federal agencies, and local agency obligations; banker's acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; medium-term notes; collateralized certificates of deposit; money market mutual funds; mortgage pass-through securities; mortgage backed securities; and mortgage collateralized securities.

In addition to the above, the Board annually adopts a Pooled Money Fund Investment Policy. This policy is based on the criteria in Government Code 53601 but adds further specificity and restrictions to permitted investments.

In conjunction with the discussion below regarding investment risks, please refer to **Table 8** which details the types of securities held at fiscal year-end along with their fair value; interest rate and maturity ranges; weighted average maturity (days); security rating; and percentage of portfolio and **Table 9** which provides a comparison of Pool investment restrictions to investments permitted by the Government Code**.** Also please refer to **Table 10**, Deposits and Investments Reconciliation which summarizes these balances by fund type.

a. Interest Rate Risk - Investments

This is the risk that changes in interest rates will adversely affect the fair value of an investment.

Declines in the fair value of investments are managed by limiting the length of the maturity of securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment program. The policy related to the maturity structure of Pool requires that 50% of the portfolio include short-term instruments up to one year (25% maturing within 90 days and 25% maturing within 91to 365 days) and no more than 50% to mature in 1 to 5 years. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. In compliance with the policy, a weighted average of 56% of the Pool's investments had a maturity of 90 days or less at June 30, 2008.

Generally, investments with fiscal agents are structured in such a way that securities mature at the times and in the amounts that are necessary to meet scheduled expenditures and withdrawals.

b. Credit Risk - Investments

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations.

The Pool investment policy and the Government Code set minimum credit ratings for each type of security. Asset allocations with respect to the credit quality are based on Standard and Poor's Fund Credit Quality Rating Matrix as noted below:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 6

S & P Investment Rating		
Investment Pool		
Rating	Min. Fund%	Max. Fund%
AAA	67	100
AA	0	33
A	0	13
Investments with fiscal agents		
Short Term	A-1	
Long Term	A	

c. Concentration of Credit Risk - Investments

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Pool Investment policy limits the amount of exposure to any one single issuer to five percent. An exclusion to this limit is dependent upon the weighted average days to maturity for commercial paper. If the weighted average days is 5 days or less, the issuer limit can increase to ten percent of the total portfolio. Additionally, the maximum exposure to a single repurchase agreement (RP) is 10% of the portfolio value for RP's with maturities greater than 5 days and 15% of the portfolio for RP's maturing in 5 days or less. The Government Code requires specific percentage limitations for a particular category of investment and limits the purchase of commercial paper to no more than ten percent of the outstanding commercial paper of any single issuer. Investments are in compliance with State law and the Pooled Money Fund Investment Policy. Please refer to **Table 8**.

Instruments in any one issuer that represent 5% or more of the external investment pool or individual fund holdings as of June 30, 2008 are as follows:

Table 7

Concentration of Credit Risk		
Issuer	External Investment Pool	Inactive Wastesites Fund
Federal home loan bank	$ 1,047,146	$ 32,534
Federal home loan mortgage Corporation	1,036,044	4,050
Federal national mortgage association (Fannie Mae)	841,707	5,317
MTNA General electric capital corporation	$	4,992

d. Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The County of San Diego utilizes third party delivery versus payment custodian which mitigates any custodial credit risk. No level three investments were held during the fiscal year ended June 30, 2008, and there was no securities lending.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Investments At June 30, 2008	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
Pooled Investments						
US treasury notes	$ 377,359	3.13% - 4.88%	09/08 - 04/13	857	N/A	7.45%
Federal farm credit bank notes	90,053	3.05% - 5.05%	10/09 - 10/11	720	AAA	1.78%
Federal home loan bank notes (1)	1,047,146	1.95% - 6.63%	07/08 - 01/13	651	AAA	20.68%
Federal national mortgage assn. notes (1)	841,707	1.90% - 5.00%	07/08 - 10/11	285	AAA	16.62%
Federal home loan mortgage corp. notes (1)	1,036,044	3.00% - 6.00%	07/08 - 02/13	706	AAA	20.46%
Medium-term notes	98,270	3.60% - 5.88%	10/08 - 03/12	740	AAA	1.94%
Commercial paper	619,295	2.36% - 2.66%	07/08 - 08/08	15	A-1/A-1+	12.23%
Bond funds	34,895	2.50%	07/08	1	AA	0.69%
Asset-backed notes (semi-annual)	25,410	5.30%	05/09	324	AAA	0.50%
Asset-backed notes (monthly)	14,113	4.35%	05/09	319	AAA	0.28%
Repurchase agreements	360,677	1.83% - 2.57%	07/08	1	N/A	7.12%
Negotiable certificates of deposit	375,035	2.40% - 5.36%	07/08 - 08/08	20	A-1/A-1+	7.41%
Open-end institutional money market funds	43,270	1.82% - 2.27%	07/08	1	AAA	0.85%
Collateralized certificates of deposit	35,000	2.60% - 2.85%	01/09	213	N/A	0.69%
Collateralized certificates of deposit	30,000	2.32% - 3.57%	11/08 - 05/09	236	N/A	0.59%
Time deposits	396	2.90% - 4.38%	08/07 - 05/08	194	N/A	0.01%
Time deposits	34,604	1.95% - 4.89%	07/08 - 05/09	100	N/A	0.68%
Total pooled investments	$ 5,063,274			427		100.00%
County investments with fiscal agents						
Unrestricted:						
Federal home loan bank notes	$ 32,536	3.00% - 6.79%	07/08 - 09/09	298	AAA	5.82%
Federal home loan mortgage corp. notes	4,050	5.25%	02/11	969	AAA	0.72%
Federal national mortgage assn. notes	5,317	7.25%	01/10	564	AAA	0.95%
Medium term notes	4,992	3.77%	10/08	122	AAA	0.89%
US treasury bills	2,829	1.85% - 1.95%	07/08 - 12/08	80	N/A	0.51%
Negotiable certificates of deposit	1,678	2.19% - 2.57%	09/08 - 11/08	108	A-1+	0.30%
Subtotal	51,402					
Restricted:						
Federal home loan bank discount notes	33,805	5.16%	8/08 - 11/08	151	N/A	6.04%
Fixed income tax exempt bonds	4,980	3.45%	04/35	9771	A-1	0.89%
Fixed income tax exempt bonds	10,382	5.75%	09/09	428	A-1+	1.86%
Fixed income tax exempt bonds	7,539	0% - 5.25%	07/11 - 09/12	1141	A+	1.35%
Fixed income tax exempt bonds	115,871	0% - 5.63%	10/08 - 08/15	1046	AA	20.71%
Fixed income tax exempt bonds	22,557	5.00% - 5.25%	05/10 - 5/12	969	AA-	4.03%
Fixed income tax exempt bonds	65,023	3.50% - 6.00%	07/08 - 01/15	1092	AA+	11.62%
Fixed income tax exempt bonds	163,758	0% - 8.95%	08/08 - 11/13	888	AAA	29.28%
Fixed income tax exempt bonds	1,372	5.90%	03/10	609	N/A	0.25%
Guaranteed investment contracts	32,521	4.11% - 5.27%	08/08 - 05/09	251	N/A	5.81%
Mutual funds	30,000	1.64%	07/08	1	N/A	5.36%
Money market funds	19,913	1.23% - 1.75%	07/08	1	AAAm	3.56%
Negotiable certificates of deposit	253	2.7% - 3.05%	08/08 - 11/08	102	N/A	0.05%
Subtotal	507,974					
Total County investments with fiscal agents	$ 559,376					100.00%

Table continued on next page

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments
At June 30, 2008

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
Table continued from previous page						
External specific investments:						
Federal home loan bank notes	$ 4,286	4.20% - 5.25%	10/09 - 1/13	1159	AAA	0.91%
Federal national mortgage assn. notes	2,015	4.90%	11/08	126	AAA	0.43%
Federal home loan mortgage corp. notes	1,517	4.48% - 4.75%	09/08 - 09/10	329	AAA	0.32%
Guaranteed investment contracts	454,628	4.26% - 5.20%	07/08 - 09/10	413	N/A	97.02%
Medium term notes	1,516	4.63% - 4.88%	09/09 - 10/10	576	AAA	0.32%
Money market funds	4,626	1.52% - 1.75%	07/08	1	AAAm	0.99%
Total external specific investments	$ 468,588					100.00%
Total investments with fiscal agents	$ 1,027,964					

(1) More than 5% of the Pool's investments are with U.S. agencies whose debt is not guaranteed by the U.S. government.

Table 9

Investment Pool Policy Restrictions versus Government Code 53601 Requirements

	Maximum Maturity		Maximum% of Portfolio		Maximum% with One Issuer		Minimum Rating	
Investment Type	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
US Treasury and agency obligations	5 years	5 years	None	None	None	25%	None	None
Local agency obligations	5 years	5 years	None	15%	None	10%	None	A
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A
Commercial paper	270 days	270 days	40%	40%	10%	(1)	A-1	A-1
Negotiable certificates	5 years	5 years	30%	30%	30%	5%	None	A
Repurchase agreements	1 year	1 year	None	40%	None	(2)	None	None
Reverse repurchase agreements	92 days	92 days	20%	20%	None	5%	None	None
Local agency investment fund of California	N/A	N/A	None	10%	None	10%	None	None
Medium term notes/bonds	5 years	5 years	30%	30%	30%	5%	A	A
Mutual funds	N/A	N/A	20%	15%	10%	10%	AAA	AAA
Pass -through securities (3)	5 years	5 years	20%	20%	None	5%	A	A

(1) Maximum exposure per issuer - The maximum exposure to a single issuer shall be 5% of the portfolio when the dollar weighted average maturity is greater than 5 days, 10% of the portfolio when the dollar weighted average maturity is 5 days or less.

(2) Maximum exposure per issue - The maximum exposure to a single RP issue shall be 10% of the portfolio value for RP's with maturities greater than 5 days, 15% of the portfolio for RP's maturing in 5 days or less.

(3) Limited to equipment leasebacked certificates, consumer receivable pass-through certificates or consumer receivable-backed bonds.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 10

Deposits and Investments Reconciliation
At June 30, 2008

	Primary Government						
	Governmental Activities	Business-Type Activities	Total Primary	First 5 Commission	Investment Trust	Agency Funds	Total
Pooled cash and investments	$ 1,448,834	85,446	1,534,280	21,450	3,119,116	406,676	5,081,522
Cash with fiscal agents:							
Unrestricted	494		494		18	3,723	4,235
Restricted	560		560				560
Total cash with fiscal agents	$ 1,054		1,054		18	3,723	4,795
Investments with fiscal agents:							
Unrestricted	$ 51,402		51,402				51,402
Restricted	507,974		507,974				507,974
Unrestricted Investment Trust					468,588		468,588
Subtotal investments with fiscal agents	559,376		559,376		468,588		1,027,964
First 5 Commission				177,475			177,475
Total investments with fiscal agents	$ 559,376		559,376	177,475	468,588		1,205,439
Reconciliation of pooled cash and investments:							
Investments in county pool	$ 5,028,274						
Add: Demand deposits	49,911						
Collection in transit	2,806						
Imprest cash	531						
Total pooled cash and investments	$ 5,081,522						
Reconciliation of pooled investments to Table 8:							
Investments in county pool	$ 5,028,274						
Add: Time deposits included in demand deposits above	35,000						
Investments in county pool - Table 8	$ 5,063,274						

B. Receivables

Details of receivables reported in the government-wide Statement of Net Assets are presented on **Table 11**. Amounts that are not expected to be collected within the next fiscal year are identified below:

Due from Other Governmental Agencies - Governmental activities - $39.247 million

This amount represents Senate Bill (SB) 90 cost reimbursements due the County for the provision of State mandated programs and services for fiscal years prior to 2004. The State Constitution requires reimbursement for these program costs and interest will accrue on the reimbursement claims until they are paid according to Government Code 17617 over a period not more than 15 years beginning in FY 2007. The State began to reimburse the County for these programs and services in FY 2007, but has not budgeted appropriations in the current year.

Loans - Governmental activities- $50.069 million

This amount includes: $23.768 million in housing rehabilitation loan programs for low-income or special need residents; $22.215 million in community development block grant loans; and $4.086 million in loans for low income housing down payments such as closing costs.

Loans- Business-type activities- $4.262 million

This amount represents Airport Enterprise Fund (AEF) loans to Airport lessees for the purchase of AEF reversionary interests in leasehold improvements existing at the expiration of previous operating leases.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2008

	Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:								
General Fund	$ 2,522	9,391	255,710	6,074		273,697	(2,797)	270,900
Public Safety Special Revenue Fund			39,561			39,561		39,561
Tobacco Securitization Special Revenue Fund		5,789				5,789		5,789
Other Governmental Funds	24,353	4,191	38,430	43,995	9	110,978	(2,745)	108,233
Internal Service Funds	717	1,151	1,089			2,957	(173)	2,784
Total governmental activities	$ 27,592	20,522	334,790	50,069	9	432,982	(5,715)	427,267
Business-type activities:								
Enterprise Fund	$ 502	734	3,757	4,262		9,255		9,255
Component Unit:								
First 5 Commission	$ 6,316	2,263				8,579		8,579

C. County Property on Lease to Others

The County has *noncancelable* operating leases for certain properties which are not material to the County's governmental operations, with the exception of a sublease of a share of the Metropolitan Transit System (MTS) Towers. In this regard, the share of the County's property under this lease is an estimated $12.74 million in land and structures and improvements with accumulated depreciation of $5.0 million at June 30, 2008.

Additionally, the Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires. The Airport Enterprise Fund's property under operating leases includes an estimated $2.48 million in land at June 30, 2008.

Lease revenue from noncancelable operating leases for the year ended June 30, 2008 was approximately $15.6 million.

Future minimum *revenue* to be received under these noncancelable operating leases are noted below in **Table 12**.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year	Minimum Lease Revenue
2009	$ 15,994
2010	15,070
2011	13,869
2012	12,716
2013	12,348
2014-2077	173,533
Total	$ 243,530

(Amounts Expressed in Thousands Unless Otherwise Noted)

D. Capital Assets

1. Changes in Capital Assets

Increases and decreases in the County's capital assets for governmental and business-type activities during the fiscal year were as follows:

Table 13

Capital Assets - Governmental Activities	Beginning Balance at July 1, 2007	Increases	Decreases	Ending Balance at June 30, 2008
Capital assets, not being depreciated:				
Land	$ 275,267	11,461	(1,087)	285,641
Construction and contracts in progress	198,503	99,459	(30,469)	267,493
Total capital assets, not being depreciated	473,770	110,920	(31,556)	553,134
Capital assets, being depreciated:				
Buildings and improvements	1,007,175	17,543	(437)	1,024,281
Equipment	273,330	29,684	(11,439)	291,575
Road infrastructure	2,244,086	60,722		2,304,808
Bridge infrastructure	43,296	1,226		44,522
Total capital assets, being depreciated	3,567,887	109,175	(11,876)	3,665,186
Less accumulated depreciation for:				
Buildings and improvements	(330,025)	(19,378)	125	(349,278)
Equipment	(134,632)	(37,745)	9,990	(162,387)
Road infrastructure	(807,558)	(62,783)		(870,341)
Bridge infrastructure	(13,936)	(825)		(14,761)
Total accumulated depreciation	(1,286,151)	(120,731)	10,115	(1,396,767)
Total capital assets, being depreciated, net	2,281,736	(11,556)	(1,761)	2,268,419
Governmental activities capital assets, net	$ 2,755,506	99,364	(33,317)	2,821,553

Table 14

Capital Assets - Business-type Activities	Beginning Balance at July 1, 2007	Increases	Decreases	Ending Balance at June 30, 2008
Capital assets, not being depreciated:				
Land	$ 11,243	95		11,338
Construction and contracts in progress	42,583	15,889	(8,618)	49,854
Total capital assets, not being depreciated	53,826	15,984	(8,618)	61,192
Capital assets, being depreciated:				
Buildings and improvements	47,503	5,052		52,555
Equipment	1,341			1,341
Road infrastructure	235	100		335
Sewer infrastructure	65,626	3,368		68,994
Total capital assets, being depreciated	114,705	8,520		123,225
Less accumulated depreciation for:				
Buildings and improvements	(22,558)	(1,324)		(23,882)
Equipment	(1,004)	(58)		(1,062)
Road infrastructure	(6)	(5)		(11)
Sewer infrastructure	(29,863)	(1,107)		(30,970)
Total accumulated depreciation	(53,431)	(2,494)		(55,925)
Total capital assets, being depreciated, net	61,274	6,026		67,300
Business-type activities capital assets, net	$ 115,100	22,010	(8,618)	128,492

2. Depreciation

Depreciation expense was charged to governmental activities and business-type activities as shown below.

Table 15

Depreciation Expense - Governmental Activities	
General government	$ 2,120
Public protection	20,528
Public ways and facilities	63,078
Health and sanitation	2,332
Public assistance	1,097
Education	257
Recreation and cultural	1,771
Internal Service Funds	29,548
Total	$ 120,731

Table 16

Depreciation Expense - Business-type Activities	
Airport Fund	$ 1,111
Wastewater Management Fund	19
Sanitation Districts Fund	1,364
Total	$ 2,494

(Amounts Expressed in Thousands Unless Otherwise Noted)

3. Capital Commitments

At June 30, 2008, major contracts entered into for equipment, land, structures and improvements and other commitments listed by fund within governmental and business-type activities were as follows:

Table 17

Capital Commitments At June 30, 2008	Remaining Commitments
Governmental Activities	
Other Governmental Funds:	
Construction of Medical Examiner/Forensics Center	$ 34,985
Construction of Valley Center Road, Phase II	16,869
Acquisition of 2,837 Acres for Multi Species Conservation Program	6,174
Construction of Edgemoor Skilled Nursing Facility	4,963
Construction of Lakeside Sports Complex	4,500
Construction of San Elijo Lagoon Nature Center	2,767
Subtotal	70,258
Business-type Activities	
Enterprise Funds:	
Palomar Airport Terminal Redevelopment	13,676
Sanitation District Sewer and Flow Monitoring System Improvements	2,065
Subtotal	15,741
Total	$ 85,999

E. Interfund Transactions

The composition of interfund balances at fiscal year-end, was as follows:

1. Due To/Due From Other Funds

Due To/Due from Other Funds at year-end consisted of the following amounts on **Table 18** below.

Table 18

Due To/From Other Funds
At June 30, 2008

	DUE FROM							
		General Fund	Public Safety Special Revenue	Tobacco Securitization Special Revenue	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
DUE TO	General Fund	$	$ 62,104	$ 1,117	$ 11,911	$ 228	$ 4,555	$ 79,915
	Nonmajor Governmental	22,413	15		1,100	297	122	23,947
	Nonmajor Enterprise	42			31	2,000		2,073
	Internal Service	19,714			1,333	165	486	21,698
	Total	$ 42,169	$ 62,119	$ 1,117	$ 14,375	$ 2,690	$ 5,163	$ 127,633

Balances resulted from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

(Amounts Expressed in Thousands Unless Otherwise Noted)

2. Advances

Advances to/advances from other funds at year-end are noted on **Table 19** below.

Table 19

**Advances To/From
At June 30, 2008**

ADVANCES FROM	ADVANCES TO: Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$ 5,189	$ 14	$ 2,000	$ 7,203
Nonmajor Governmental	43			43
Nonmajor Enterprise	3,363			3,363
Internal Service	148			148
Total	$ 8,743	$ 14	$ 2,000	$ 10,757

Outstanding balances on loans from the General Fund and the Airport Enterprise Fund to the funds listed below were made for the following purposes:

General Fund loans:

$4.5 million to the Housing and Community Development Special Revenue Fund and $2 million to the Facilities Management Internal Service Fund (Major Maintenance) for working capital; and

$689 to the Redevelopment Agency Fund (Upper San Diego River Project) to provide funding for project improvements. Loan repayments are to be made out of tax increment.

Airport Enterprise loan:

$3.363 million to the Redevelopment Agency Fund to fund airport projects. Loan repayments are based on the condition that the collection of property tax revenues per H.S. Code 33670 is sufficient to allow the payment of the loan.

3. Transfers In/Transfers Out

Transfers in/transfers out at fiscal year-end are noted in **Table 20** below.

Table 20

**Transfers In/Transfers Out
At June 30, 2008**

TRANSFERS IN	TRANSFERS OUT: General Fund	Public Safety Special Revenue	Tobacco Securitization Special Revenue	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	$ 230,519	$ 24,200	$ 2,549	$	$ 622	$ 257,890
Nonmajor Governmental	232,453	15		101,176	425	2,553	336,622
Nonmajor Enterprise	321			23	2,689		3,033
Internal Service	3,626						3,626
Total	$ 236,400	$ 230,534	$ 24,200	$ 103,748	$ 3,114	$ 3,175	$ 601,171

In general, transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance programs accounted for in other funds in accordance with budgetary authorizations.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Transfers made in FY 2008 for purposes other than those described above include a one-time transfer of $95 million from the General Fund to the Pension Obligation Bond Debt Service Fund to prepay the 2002 Series C Pension Obligation Bonds.

F. Payables

The County's payables at fiscal year-end are shown below for the General Fund, other governmental funds, internal service funds, business type activities' funds, and the discrete component unit:

Table 21

Payables
At June 30, 2008

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 71,651	10,643	3,014	85,308
Other Governmental Funds	29,656	2,958	1,105	33,719
Internal Service Funds	32,595	274	21	32,890
Total governmental activities	$ 133,902	13,875	4,140	151,917
Business-type activities:				
Enterprise Funds	$ 4,712	101	22	4,835
Component Unit:				
First 5 Commission	$ 10,068	155	624	10,847

G. Short-Term Obligations

The County issues tax anticipation notes in advance of property tax collections, depositing the proceeds in the General Fund. These notes are necessary to fund the County's annual cash flow needs. The majority of property tax collections are received in December and April.

Short-term debt activity for the fiscal year was as follows:

Table 22

Short-Term Obligations

	Beginning Balance at July 1, 2007	Issued	Redeemed	Ending Balance at June 30, 2008
Tax and revenue anticipation notes	$ 220,000	95,200	(315,200)	$ 0

H. Lease Obligations

1. Operating Leases

a. Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2017 (**Table 23** below). The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County operations. The total rental expense for all real property leases for the year ended June 30, 2008 was approximately $29.9 million, including $12.8 million for non-cancelable leases.

The future minimum lease payments for these non-cancelable leases are as follows:

Table 23

Lease Commitments - Real Property

Fiscal Year	Minimum Lease Payments
2009	$ 12,379
2010	11,458
2011	10,726
2012	9,298
2013	4,309
2014-2017	7,065
Total	$ 55,235

b. Personal Property

The County has also entered into operating leases for personal property, a large portion of which represents duplicating and heavy duty construction 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, 2008, was approximately $4.5 million.

2. Capital Lease

a. Minimum Lease Payments

Land and a building have been leased from the San Diego Regional Building Authority. 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 agreement. Future minimum lease payments (**Table 24** below) under this capital lease were as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 24

Capital Leases - Future Minimum Lease Payments	
Fiscal Year	**Amount**
2009	$ 3,068
2010	3,053
2011	3,130
2012	3,017
2013	3,083
2014-2018	15,263
2019-2020	6,126
Total minimum lease payments	36,740
Less: Amount representing interest	(9,150)
Net lease payments	$ 27,590

b. Book Value

The book value of capital lease property consisted of the following:

Table 25

Capital Leases - Book Value At June 30, 2008			
Capital Lease Property	**Original Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	$ 2,221		2,221
Buildings and improvements	43,909	18,076	25,833
Total	$ 46,130	18,076	28,054

I. Long-Term Debt

Governmental Activities:

1. Certificates of Participation (COPs)

Certificates of Participation (COPs) provide funds for the acquisition and construction of major capital facilities and equipment. The County's COPs are backed by a lease structure where the County leases certain properties to another entity, a lessor, which in turn leases the properties back to the County. At the County, this lessor is the San Diego Capital Asset Leasing Corporation (SANCAL), (see Note I. A. 1. "Blended Component Units.") COPs are secured by: a) annual base rental lease payments for the use of facilities constructed or equipment purchased with COPs proceeds made by the County primarily from the County General Fund to the lessor; and b) encumbrances on the facilities. Under lease terms, the County is required to make the necessary annual appropriations for lease payments, except to the extent those payments are abated in accordance with the terms of the leases. COPs, which are executed and delivered by the trustee upon receipt of the proceeds generated by their sale, evidence a pro rata share in a specific pledged revenue stream and the certificates entitle the owners to receive a share, or participation, in the lease payments from a particular project. Lease payments are passed through the lessor to the certificate holders. The lessor assigns the lease and lease payments to a trustee, which distributes the lease payments to the certificate holders.

Details of COPs outstanding at June 30, 2008 are as follows:

Table 26

Certificates of Participation				
Issuance	**Original Amount**	**Interest Rate**	**Final Maturity Date**	**Ending Balance at June 30, 2008**
1993 Master Refunding	$ 203,400	2.50 - 5.625%	2013	$ 29,400
1997 Central Jail Refunding	80,675	4.00 - 5.42%	2026	60,670
1998 Downtown Courthouse Refunding	73,115	4.00 - 5.25%	2023	45,610
1999 East Mesa Refunding	15,010	3.60 - 4.75%	2010	3,550
2000 Information Technology Service Financing	51,620	4.50 - 5.125%	2010	12,435
2002 Motorola	26,060	2.00 - 5.00%	2011	9,530
2005 Edgemoor Project	83,510	3.00 - 5.00%	2030	81,300
2005 Regional Communications System Refunding	28,885	3.00 - 5.00%	2019	20,110
2005 North & East Justice Facilities Refunding	28,210	3.25 - 5.00%	2020	25,060
2006 Edgemoor Completion Project	42,390	4.00 - 5.00%	2030	42,390
Total	$ 632,875			$ 330,055

(Amounts Expressed in Thousands Unless Otherwise Noted)

Annual debt service requirements to maturity for COPs are as follows:

Table 27

Certificates of Participation - Debt Service Requirements to Maturity			
Fiscal Year	Principal	Interest	Total
2009	$ 30,400	15,015	$ 45,415
2010	32,065	13,588	45,653
2011	24,950	12,151	37,101
2012	18,400	11,210	29,610
2013	19,205	10,321	29,526
2014-2018	69,935	41,272	111,207
2019-2023	67,185	24,231	91,416
2024-2028	50,625	9,784	60,409
2029-2030	17,290	911	18,201
Subtotal	$ 330,055	138,483	$ 468,538
Add:			
Arbitrage	498		
Unamortized issuance premium	6,879		
Less:			
Unamortized issuance discount	(1,900)		
Total	$ 335,532		

2. Taxable Pension Obligation Bonds (POBs)

POBs are issued by the County to reduce its pension unfunded actuarial liability and to achieve interest rate savings by issuing bonds at interest rates which are less than the assumed rate of return earned on proceeds placed in the San Diego County Employees Retirement Association's (SDCERA) pension plan. POBs also have been issued to refund previously issued POB debt. Because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities, POBs are issued on a taxable basis.

During fiscal year 2008, the County prepaid, in full, $100 million 2002 Series C Pension Obligation Bonds; and $20 million of its Series 2002 B1 Pension Obligation Bonds.

Details of POBs outstanding at June 30, 2008 are as follows:

Table 28

Taxable Pension Obligation Bonds				
Issuance	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
1994 Series A	$ 430,430	6.38 - 6.59%	2008	$ -
2002 Series A	132,215	3.88 - 4.95%	2016	132,215
2002 Series B1	100,000	variable	2031	80,000
2002 Series B2-4	405,125	variable	2031	405,125
2002 Series C	100,000	6.13%	2033	
2004 Series A	241,360	3.28 - 5.86%	2023	223,095
2004 Series B1-2	147,825	5.91%	2025	147,825
2004 Series C CABs	64,928	4.66 - 5.76%	2016	100,170
2004 Series C Unaccreted Appreciation CABs				(20,230)
Total	$ 1,621,883			$ 1,068,200

Annual debt service requirements to maturity for POBs are shown below in **Table 29**. The variable rate used to calculate the interest due on the 2002 taxable pension obligation bonds Series B1 was 3.98% which represents the auction rate bond coupon for June 2008. The variable rate used for the 2002 taxable pension obligation bonds Series B2-4 was 3.97%, which represents the average auction rate bond coupon for June 2008. The maximum interest rate on these bonds shall not exceed 17% per annum.

Table 29

Taxable Pension Obligation Bonds - Debt Service Requirements to Maturity				
Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2009	$ 24,900	4,265	45,096	$ 74,261
2010	24,583	4,011	45,067	73,661
2011	25,662	3,591	44,381	73,634
2012	26,746	3,053	43,621	73,420
2013	27,820	2,386	42,813	73,019
2014-2018	190,012	2,924	194,291	387,227
2019-2023	324,915		129,742	454,657
2024-2028	288,750		43,962	332,712
2029-2033	119,800		4,947	124,747
Subtotal	$ 1,053,188	20,230	593,920	$ 1,667,338
Add:				
Accreted appreciation through June 30, 2008	15,012			
Total	$ 1,068,200			

(Amounts Expressed in Thousands Unless Otherwise Noted)

POB Interest Rate Swap

To manage interest rate risk and lower the County's borrowing cost for its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the “natural” fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the “counterparties”) is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a Swap Confirmation. In fiscal year 2003, the County issued $737.340 million of Pension Obligation Bonds including $505.125 million of Series B Bonds Auction Rate Securities of which $485.125 million are outstanding as of June 30, 2008 (see also Note V. F. “Subsequent Event, 2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B”). Within the Series B Auction Rate Securities there are the following subseries: $80 million of Series B-1, $135.025 million of Series B-2, $135.05 million Series of B-3 and $135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling $405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the $405.125 million our exposure with Citibank is $263.325 million and our exposure with Morgan Stanley is $141.8 million notional amount.

Further details concerning this interest rate swap are discussed below. (See also Note V. F. “Subsequent Event, 2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B”).

i. Terms

County payments are due to bondholders semi-annually on August 15 and February 15, beginning February 15, 2003. The effective date of the swap was September 17, 2002 and the initial six-month calculation period began February 15, 2003. The Agreement and the Confirmation terminate on February 15, 2031 and the series B-2, B-3 and B-4 bonds mature on August 15, 2030. The County did not receive any upfront payments but pursuant to the terms of the Agreement, each August 15 and February 15 the County will receive an amount from each of the counterparties based on the notional amount of principal outstanding for the past six months at an interest rate of one month London Interbank Offered Rate (LIBOR) and each February 15 the County will pay the counterparties the scheduled 5.30% of the notional amount outstanding. The February 15 payment due from the counterparties will be netted against the 5.30% County payment. The notional amount of the swap will begin to decline in fiscal year 2017 in direct proportion to the repayment of the bonds.

The obligations of the County to make payments to the counterparties under this Agreement constitute general obligations of the County, payable from taxes, income, revenue cash receipts and other monies of the County legally available in the General Fund. The payments due to the counterparties and the obligations of the County under this Agreement do not constitute any kind of indebtedness of the County as defined under and/or proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgement decree, or ruling.

As of June 30, 2008, the swap created a synthetic interest rate for the bonds as noted below:

Table 30

Interest Rate Swap - Synthetic Interest Rate	Terms	Rates
Fixed rate to counterparty	Fixed	5.300%
Variable rate from counterparty	1 month LIBOR	-2.460%
Net interest rate swap payments		2.840%
Average auction rate bond coupon payments		3.970%
Synthetic interest rate on bonds		6.810%

ii. Fair Value

As of June 30, 2008 the swaps had a mark to market fair value of $(23.383) million. The mid-market or indicative unwind valuation was derived from a proprietary model using the zero coupon method. This model takes into consideration estimates about relevant present and future market consideration as well as the size and liquidity of the position and any related actual or potential hedging transaction.

(Amounts Expressed in Thousands Unless Otherwise Noted)

The primary risks associated with this transaction are: Credit Risk, Termination Risk, and Basis Risk.

iii. Credit Risk

As of June 30, 2008 the County was not exposed to credit risk because the swap had a negative mark to market fair value of $23.383 million. However, should interest rates change and the fair value of the swap becomes positive the County would be exposed to credit risk in the amount of the swap's fair value. Citibank is rated Aa1/AA/AA- by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below "A-" in the case of Standard & Poors or below "A3" in the case of Moody's, collateral is to be delivered to a third party.

iv. Termination Risk

The Agreement includes standard termination events such as failure to pay, bankruptcy and early termination. For this transaction, the swap and bond maturities match and carries an Interest Rate Swap Insurance Policy by MBIA Insurance Corporation (MBIA). If the Agreement is terminated for any of the conditions in the agreement, and at the time of the termination the swap has a negative fair value, the County would be liable to the counterparties for a payment equal to the swap's fair value. The swap can be terminated by the County for market value at any time. As of June 30, 2008 the fair value of the swap is $(23.383) million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

v. Basis Risk

The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the effect of the differential between the swap index and the bondholder variable rate. For fiscal year 2008, the differential was $(123).

vi. Swap Payments and Associated Debt

Scheduled debt service requirements applicable to variable-rate debt and net swap payments presented in **Table 31** are based on current rates at June 30, 2008. (See also Note V. F. "Subsequent Event, 2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B").

Table 31

Interest Rate Swap - SWAP Payments and Associated Debt

Fiscal Year	Principal	Interest 3.97%	Interest Rates Swaps, Net 2.84%	Total
2009	$	15,566	11,506	$ 27,072
2010		16,082	11,506	27,588
2011		16,082	11,506	27,588
2012		16,082	11,506	27,588
2013		16,082	11,506	27,588
2014-2018	37,600	78,379	56,474	172,453
2019-2023	114,550	60,383	44,419	219,352
2024-2028	151,525	33,592	25,646	210,763
2029-2031	101,450	4,219	4,098	109,767
Total	$ 405,125	256,467	188,167	$ 849,759

3. Tobacco Settlement Asset-Backed Bonds (TSAB)

TSAB are issued by the Tobacco Securitization Joint Powers Authority of Southern California (Authority) to securitize future revenue streams available to the County pursuant to the agreements described below.

A 1998 Master Settlement Agreement (MSA) was originally entered into by the four major cigarette manufacturers, 46 states and six other U.S. jurisdictions (the "Settling States") to provide state governments (including California) with compensation for smoking related medical costs and to help reduce smoking in the United States. There is no limit to the yearly settlement payments, they are perpetual. Also, a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") was agreed to by the State of California and all California counties and four California cities, granting those California municipalities the right to receive tobacco settlement allocation payments (also known as Tobacco Settlement Revenues - TSRs).

(Amounts Expressed in Thousands Unless Otherwise Noted)

In fiscal year 2002, the Authority issued $446.86 million 2001 Tobacco Settlement Asset-Backed Bonds (Bonds), to fund the Authority's loan to the San Diego Tobacco Asset Securitization Corporation (Corporation), pursuant to a loan agreement between the Authority and the Corporation. (Both entities are blended component units of the County, See Note I.A.1. *Blended Component Units*). According to the loan agreement, the Corporation has pledged, assigned and granted to the Authority, a first priority perfected security interest in all rights, title and interest of the Corporation, to the TSRs the Corporation purchased from the County, and future TSRs. The Corporation used the net proceeds of the loan, $411.913 million, to pay the County, in exchange for the County's transfer to the Corporation of all the County's rights, title and interest in the TSRs. Net proceeds have been placed in an endowment fund to fund healthcare-based programs pursuant to Board Policy E-14 and IRS regulations.

In May 2006, the Authority issued Series 2006 TSAB in the amount of $583.631 million to refund the outstanding principal of the original 2001 bonds, noted above and to loan an additional $123.515 million to the Corporation. The Series 2006 Bonds are limited obligations of the Authority, maturing in fiscal year 2035-36. The proceeds were placed into the endowment fund for the aforementioned purposes.

Under the terms of bond indentures, TSRs are pledged to the repayment of the bonds. Accordingly, the bonds are payable solely from certain funds held under the indenture, including payments of TSRs, and earnings on such funds (co1lections).

Details of TSAB outstanding at June 30, 2008 are as follows:

Table 32

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2016-2030	$ 524,645
Series 2006B CABs	19,770	6.25%	2032	92,241
2006B unaccreted appreciation CABs				(69,761)
Series 2006C CABs	8,686	6.40%	2033	46,186
2006C unaccreted appreciation CABs				(36,280)
Series 2006D CABs	20,565	7.10%	2036	150,704
2006D unaccreted appreciation CABs				(126,915)
Total	$ 583,631			$ 580,820

Annual debt service requirements to maturity for TSAB are as follows:

Table 33

Tobacco Settlement Asset-Backed Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2009	$ 9,670	3,790	26,235	$ 39,695
2010	10,345	4,047	25,773	40,165
2011	11,265	4,321	25,278	40,864
2012	10,780	4,613	24,744	40,137
2013	11,685	4,926	24,229	40,840
2014-2018	76,325	30,118	111,785	218,228
2019-2023	122,445	41,822	88,295	252,562
2024-2028	173,775	58,099	52,316	284,190
2029-2033	130,308	66,480	7,500	204,288
2034-2036	17,068	14,740		31,808
Subtotal	$ 573,666	232,956	386,155	$ 1,192,777
Add:				
Accreted appreciation through June 30, 2008	7,154			
Subtotal	$ 580,820			
Less:				
Unamortized issuance discount	(18,227)			
Unamortized deferred amounts on refundings	(18,906)			
Total	$ 543,687			

(Amounts Expressed in Thousands Unless Otherwise Noted)

TSAB pledged revenue for the year ended June 30, 2008 was as follows:

Table 34

Pledged Revenues - Tobacco Settlement Asset-Backed Bonds				
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,202,120	$ 33,464	$ 30,959

4. San Diego County Redevelopment Agency (CRA) Revenue Refunding Bonds

In December 2005, the San Diego County Redevelopment Agency (CRA) issued $16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2032-33. The CRA has pledged property tax increment revenues generated within the Gillespie Field Project Area to pay for the bonds. Gillespie Field Airport revenues may also be used to fund debt service payments if there are insufficient property tax increment revenues to cover a particular fiscal year's debt service requirement. Bonds are also payable from funds held under the indenture, including earnings on such funds.

CRA revenue refunding bonds outstanding at June 30, 2008 were the following:

Table 35

CRA Revenue Refunding Bonds				
Issuance	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 15,320
Total	$ 16,000			$ 15,320

Annual debt service requirements to maturity for CRA bonds are as follows:

Table 36

CRA Revenue Refunding Bonds - Debt Service Requirements to Maturity			
Fiscal Year	Principal	Interest	Total
2009	$ 335	811	$ 1,146
2010	345	797	1,142
2011	360	782	1,142
2012	375	766	1,141
2013	395	748	1,143
2014-2018	2,275	3,420	5,695
2019-2023	2,915	2,756	5,671
2024-2028	3,790	1,847	5,637
2029-2033	4,530	621	5,151
Total	$ 15,320	12,548	$ 27,868
Less:			
Unamortized issuance discount	(41)		
Total	$ 15,279		

CRA pledged revenue for the year ended June 30, 2008 was as follows:

Table 37

Pledged Revenues - CRA Revenue Refunding Bonds				
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 27,868	$ 1,145	$ 1,057

5. Loans - Governmental Activities

Loans for various governmental activities included: Permanent Road Division bank loans for road improvements and maintenance; a United States Department of Agriculture Farmers Home Administration loan for the construction of low income housing; and California Energy Commission loans to fund various projects in County facilities to increase energy efficiency.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of loans outstanding at June 30, 2008 for governmental activities are as follows:

Table 38

Loans - Governmental Activities Loans	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
Singing Trails Zone #1013	$ 66	8.75%	2008	$ 0
Pauma Heights PRD #21	160	7.75%	2009	32
Landavo Zone PRD #1015	344	8.25%	2016	118
El Sereno Way Zone PRD #1016	118	8.25%	2012	94
Firebird Manor	4,486	1.00%	2028	2,952
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	1,348
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	2,499
Total	$ 10,152			$ 7,043

Annual debt service requirements to maturity for loans - governmental activities are as follows:

Table 39

Loans - Governmental Activities Debt Service Requirements to Maturity Fiscal Year	Principal	Interest	Total
2009	$ 727	195	$ 922
2010	716	167	883
2011	739	140	879
2012	742	112	854
2013	728	86	814
2014-2018	1,852	151	2,003
2019-2023	761	62	823
2024-2028	778	23	801
Total	$ 7,043	936	$ 7,979

Business-Type Activities:

6. Loans - Business-Type Activities

Loans for business-type activities included California Department of Transportation loans for the construction of a sewer line and the installation of a control tower at the Ramona Airport.

Details of loans outstanding at June 30, 2008 for business-type activities are as follows:

Table 40

Loans - Business-type Activities Loan	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 1,502
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	753
2003 US Department of Agriculture	100	4.63%	2040	0
Total	$ 3,684			$ 2,255

Annual debt service requirements to maturity for loans - business-type activities are as follows:

Table 41

Loans - Business-type Activities Debt Service Requirements to Maturity Fiscal Year	Principal	Interest	Total
2009	$ 217	127	$ 344
2010	230	114	344
2011	242	102	344
2012	254	88	342
2013	267	74	341
2014 - 2017	1,045	139	1,184
Total	$ 2,255	644	$ 2,899

7. Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased TSAB 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 obligation. Accordingly, the trust account assets and the liability for the defeased obligation are not included in the County's financial statements. At June 30, 2008, $420.050 million of bonds were legally defeased and remain outstanding.

8. Arbitrage

In compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, the County performed arbitrage rebate calculations via a third party to determine probable amounts due to the Federal government. At June 30, 2008, a $498 estimate of probable arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

J. Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2008 were as follows:

Table 42

Changes in Long-Term Liabilities	Beginning Balance at July 1, 2007	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2008	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation	$ 364,355		(34,300)		330,055	$ 30,400
Taxable pension obligation bonds	1,206,887		(142,735)	4,048	1,068,200	24,900
Tobacco settlement asset-backed bonds	584,137		(6,865)	3,548	580,820	9,670
CRA revenue refunding bonds	15,640		(320)		15,320	335
Loans - non-internal service funds	3,591		(395)		3,196	225
Loans - internal service funds (ISF)	4,329		(482)		3,847	502
Arbitrage	2	496			498	
Unamortized issuance premiums	7,351		(472)		6,879	472
Unamortized issuance discounts	(21,362)		1,194		(20,168)	(1,194)
Unamortized deferred amounts on refundings	(26,922)		8,016		(18,906)	(4,827)
Total COPs, bonds & loans	2,138,008	496	(176,359)	7,596	1,969,741	60,483
Other long-term liabilities:						
Capital Leases	29,623		(2,033)		27,590	1,725
Claims and judgments - ISF	111,182	15,167	(20,105)		106,244	29,471
Compensated absences - non-ISF	80,545	77,532	(62,050)		96,027	36,713
Compensated absences - ISF	2,214	1,617	(1,438)		2,393	957
Landfill closure and postclosure	23,617		(1,418)		22,199	919
Total Other long-term liabilities	247,181	94,316	(87,044)		254,453	69,785
Total Governmental Activities	$ 2,385,189	94,812	(263,403)	7,596	2,224,194	$ 130,268
Business-type activities:						
Loans	$ 2,551		(296)		2,255	$ 217
Compensated absences	342	306	(258)		390	156
Total Business-type activities	$ 2,893	306	(554)		2,645	$ 373

K. Conduit Debt Obligations

From time to time, the County has issued tax-exempt conduit debt under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California on behalf of qualified borrowers to provide financial assistance for projects deemed to be of public interest.

Conduit debt consisted of the following: a) fourteen certificates of participation (COPs) for the acquisition, construction, capital improvement and equipping of various facilities; b) three mortgage revenue bonds for the construction and permanent financing of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income; and c) one reassessment bond for infrastructure improvements. Conduit debt is secured by the property that is financed and is payable from the respective COPs base rentals; underlying payments on mortgage loans; and the related property tax assessments. Upon repayment of the debt, ownership of the acquired facilities transfers to the private-sector entity served by the debt issuance.

The County is not obligated in any manner for repayment of this debt. Accordingly, the debt is not reported as liabilities in the accompanying financial statements.

As of June 30, 2008, the aggregate conduit debt principal amount outstanding was $344.503 million.

L. Landfill Site Closure and Postclosure Care Costs

State laws and regulations require the placement of final covers on all landfill sites that stopped accepting solid waste after October 9, 1991 and the performance of certain maintenance and monitoring functions at these sites for a minimum of 30 years after closure. Closure and postclosure care costs are paid near or after the date a landfill stops accepting waste. The San Marcos Landfill is the sole waste disposal site owned by the County that is subject to these regulations. It was operational and accepted solid waste from 1979 until March 11, 1997. Formal closure of this landfill spanned from July 2004 through March 2007. Post closure maintenance began in April 2007.

The County is required by GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", to report the projected closure and postclosure care costs as of each balance sheet date. The projected landfill closure and postclosure care liability at June 30, 2008 for the San Marcos Landfill was $22.199 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2008 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

In addition to the above, state regulations require that landfill closure and postclosure maintenance costs be fully funded at the time of closure, unless a landfill owner/operator can demonstrate financial responsibility towards these activities by using other approved financial assurance alternatives. A pledge of revenue is one of various alternatives allowed to fund estimated postclosure costs. Under this alternative, the Board of Supervisors, on February 3, 1998, approved Minute Order No. 5 "Postclosure Maintenance Funding for the San Marcos Landfill", wherein the County entered into a pledge of revenue agreement with the California Integrated Waste Management Board (CIWMB). Pursuant to Resolution No. 98-24, adopted under Minute Order No. 5, the Board directed that the amount of pledged revenue shall be equal to $790 per year for the 30 year period of postclosure maintenance commencing upon completion of the final closure of the San Marcos Landfill. The pledged amount is a promise of existing funds rather than future revenues and may increase or decrease to match any adjustment to identified cost estimates that are mutually agreed to by the County and the CIWMB.

As of June 30, 2008, $24.460 million has been spent on closure costs and $1.259 of the net assets of the government-wide statement of net assets has been restricted for remaining closure costs of the San Marcos Landfill.

Regulations governing solid waste management are promulgated by government agencies on the federal and state levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities; acceptable and prohibited waste types; and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever owned, operated, contracted to be operated, or into which the County disposed waste. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase.

(Amounts Expressed in Thousands Unless Otherwise Noted)

M. Fund Balances Reserved For Other Purposes

At June 30, 2008, the fund balances reserved for other purposes are presented in **Table 43** as follows:

Table 43

Fund Balances Reserved For Other Purposes At June 30, 2008		
General Fund		
Unforeseen catastrophic events	$	55,500
Defray administrative costs, other general reserves		32,176
Improvement and maintenance of recorded document systems		12,688
Teeter tax losses		23,749
Emergency medical services, various construction costs		16,514
Mental health		69,233
Social programs		5,939
Vector control		10,652
Real estate fraud prosecution		773
Domestic violence and child abuse prevention		5,254
Sheriff vehicle maintenance and replacement		304
Fingerprinting equipment purchase and operation		7,130
Sheriff automated warrant system		4,609
Delinquency and juvenile crime prevention		2,670
Reserve for donations		4,161
Total General Fund		251,352
Special revenue funds		
Road-future road improvements		44,232
County service districts projects		1,271
Flood control-future drainage improvements		14,940
Housing repairs and improvements		408
Total Special revenue funds		60,851
Capital projects funds		
Edgemoor capital projects		250
Total Capital projects funds		250
Total Fund Balances Reserved for Other Purposes	$	312,453

N. Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2008, the fund balances designated for subsequent years' expenditures are presented in **Table 44** as follows:

Table 44

Fund Balances Designated for Subsequent Years' Expenditures At June 30, 2008		
General Fund		
Sheriff's department future capital expenditures	$	4,000
Assessor's department future expenditures		111
Clerk of the Board future expenditures		5
Department of Environmental Health future expenditures		7,049
Realignment health, mental health and social services		74,620
Housing Authority future lease payments		597
Management of conduit financing program		399
Preventative health care for children		847
South County Shelter capital improvements		37
Senior Volunteer Patrols Program in the unincorporated communities		74
Regional Communication System infrastructure enhancements		9,642
Replacement of Sheriff 's department helicopter		2,011
Edgemoor geriatric hospital reconstruction		2,799
Health based programs aimed at reducing adult and youth smoking		8,130
Equipment replacement/system enhancement-Caller ID Remote Access Network		1,160
Future lease payments		2,355
FEMA/other agencies' cost reimbursement for 2003/2007 County fires		24,893
Total General Fund	$	138,729
Special revenue funds		
Equipment acquisition	$	175
Building Maintenance		450
Total Special revenue funds	$	625

V. Other Information

A. Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (per Gov. Code 990), medical malpractice (per Gov. Code 990.9), automobile liability (per CA. DMV Code 16020(b)(4)) and workers' compensation (per Title 8 CCR 15203.4). The County purchases insurance coverage for all risk property losses, government crime insurance, including employee dishonesty and faithful performance, airport comprehensive liability, and aircraft hull and liability insurance. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County's Employee Benefits and Public Liability Insurance Internal Service Funds (ISF) are used 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. Actuarial evaluations were obtained which determine estimates of known and projected public liability and workers compensation claim liabilities.

(Amounts Expressed in Thousands Unless Otherwise Noted)

At June 30, 2008, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $106.2 million, including $19.4 million in public liability and $86.8 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2008 and 2007 are shown below:

Table 45

Risk Management - Changes in Claim Liabilities

	2008	2007
Employee Benefits Fund		
Unpaid claims, July 1	$ 94,686	$ 91,297
Incurred claims	10,128	20,374
Claim payments	(18,012)	(16,985)
Unpaid claims, June 30	$ 86,802	$ 94,686
Public Liability Insurance Fund		
Unpaid claims, July 1	$ 16,496	$ 31,035
Incurred claims	5,039	(11,121)
Claim payments	(2,093)	(3,418)
Unpaid claims, June 30	$ 19,442	$ 16,496

B. Contingencies

1. Litigation

In addition to the accrued liability for litigation and workers compensation claims described in Note V-A, the County has a potential liability of $25.6 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 (in Note V-A) include estimates of claims incurred but not reported at June 30, 2008.

2. Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $157.5 million in sick leave, holiday and compensatory time. 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.

3. 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.

C. Joint Ventures

The San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system; marketing and licensing compiled digital geographic data and software; providing technical services; and publishing geographic and land related information for the City and the County, other public agencies, and the private sector. It is governed by a Board of Directors consisting of the City Manager and the Chief Administrative Officer. SanGIS relies mostly on an annual budget of $1.5 million shared equally by the City and the County to supplement its operating revenues. In its latest report, SanGIS reported an increase in net assets of $47.596 and ending net assets of $82.089 for the fiscal year ending June

30, 2007. The financial report may be obtained by writing to SanGIS at 5469 Kearny Villa Rd. Suite 102, San Diego CA 92123 or by calling (858) 574-7000 or by E-mail at webmaster@sangis.org.

The County is a participant with eighteen incorporated cities to operate the Unified San Diego County Emergency Services Organization for the purpose of providing regional planning and mutual assistance in the event of an emergency in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council (UDC) with one voting member from San Diego County Board of Supervisors who serves as Chair of the Council, and a representative from each of the 18 incorporated cities. The County of San Diego Office of Emergency Services (OES) serves as staff to the UDC. OES is a liaison between the incorporated cities, the State Office of Emergency Services, the Federal Emergency Management Agency, and the American Red Cross. A contractual agreement requires that the cities and the County provide the total required funding each year; one half from the cities and the other half from the County. In its latest report, the organization reported an increase in net assets of $1.2 million and ending net assets of $3.2 million for the fiscal year ending June 30, 2007. Separate financial statements may be obtained from the Operational Area Emergency Operations Center, 5555 Overland Ave., Suite 1911, San Diego CA 92123 or by calling (858) 565-3490.

The City of San Diego and the County of San Diego jointly formed a Consortium under the Workforce Investment Act of 1998 to provide regional employment and training services. The Consortium is governed by a five member board consisting of two members designated from the County Board of Supervisors, two members designated from the San Diego City Council and one member from the Board of Directors of United Way, a charitable organization. The board assigned the San Diego Workforce Partnership, Inc. as grant recipient and the administrative entity to operate the San Diego Consortium. The City and the County agreed to share equally any debt or liability incurred with respect to State and Federal grants. In its latest report, the Partnership reported a decrease in net assets of $589.166 and ending net assets of $457.942 for the fiscal year ending June 30, 2007. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Ave., Suite 400, San Diego CA 92105-1326 or by calling (619) 228-2900.

D. Pension and Retiree Health Plans

1. Pension Plan

a. Plan Description

The County contributes to the San Diego County Employees Retirement Association pension plan, (SDCERA-PP), a cost-sharing multiple-employer defined benefit pension plan that is administered by SDCERA. The SDCERA-PP has three Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier A is the current open system. Tier I is closed to new entrants but has active members and Tier II was eliminated for active members. The Retirement Act, (also referred to as the Retirement Law of 1937 and Government Code Section 31450 et.seq.) assigns the County Board of Supervisors, the authority to establish and amend benefit provisions and assigns the SDCERA Board of Retirement the authority to approve retiree members and beneficiaries cost-of-living increases. (See Note V.D.3. concerning SDCERA Financial Report information.)

b. Funding Policy

The Retirement Act requires that County and member contributions be actuarially determined to provide a specific level of benefit. Contribution rates are expressed as a percentage of covered payroll and member rates vary according to age at entry, benefit tier level and certain negotiated contracts that provide for the County to pay a portion of members' contributions.

The average member contribution rate was 10.23% for all categories combined (General Tier I, General Tier A and Safety members). The employer contribution rate for all categories combined was 23.28%. CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2008 were the following:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 46

CoSD Employer Contributions - SDCERA-PP			
Fiscal Year Ended June 30	Contractually Required Contributions (CRC)	Contributions Made	Percentage of CRC Contributed
2008	$ 214,665	$ 214,665	100.0%
2007	213,119	233,314	109.5%
2006	189,257	217,667	115.0%

2. Retiree Health Plan

a. Plan Description

Effective July 1, 2007, the County commenced contributing to the SDCERA retiree health plan, (SDCERA-RHP) a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The Retirement Act assigns the authority to establish and amend health allowance benefits to the SDCERA Board of Retirement. The retiree health plan provides a non-taxable health insurance allowance to Tier I and Tier II retirees. Health insurance allowances range from $200 per month to $400 per month based on members' service credits. (See Note V.D.3. below concerning SDCERA Financial Report information.)

b. Funding Policy

The SDCERA-RHP was established and is administered as an Internal Revenue Code Section 401(h) account within the defined benefit pension plan under the authority granted by the Retirement Act to the SDCERA Board of Retirement. The SDCERA-RHP is funded by employer contributions that are based on an actuarially determined 20 year level dollar amortization schedule and equaled approximately 2.25% of the fiscal year's covered payroll. The health insurance allowance is not a vested benefit and may be reduced or discontinued at any time by the SDCERA Board of Retirement. Additionally, the total amount of employer contributions are limited by the provisions of 401(h).

CoSD's employer contribution to SDCERA-RHP for the year ended June 30, 2008 was $21.3 million, equal to the required contribution for 2008.

3. SDCERA Financial Report

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-PP and the SDCERA-RHP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way Suite 200, San Diego, California 92108 or by calling (619) 515-0130.

E. Restatement

1. First 5 Commission

The beginning net asset balance of the First 5 Commission is restated as shown in **Table 47** below in the amount of $971 resulting from 1) an adjustment to pooled cash and investments reflecting a year-end fair market value unrealized loss of $888 and 2) a vacation accrual of $83.

Table 47

Restatement - First 5 Commission	
Net asset balance as of June 30, 2007	$ 187,664
Adjustment for restatement	971
Net asset balance, restated June 30, 2007	$ 188,635

F. Subsequent Events

1. Tax and Revenue Anticipation Notes

In July 2008, the County issued tax and revenue anticipation notes (TRANS) totaling $75.0 million due June 30, 2009 at a coupon rate of 3.50% and a yield of 1.57%. Proceeds from the notes will be used to meet fiscal year 2009 cash flow requirements. Fiscal year 2009 unrestricted revenues collateralize the notes.

2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B

In August 2008, the County issued $443.515 million of Taxable Pension Obligation Bonds as follows: 1) $343.515 million fixed rate Series 2008A Taxable Pension Obligation Bonds consisting of $240.100 million of Term Bonds that carry fixed interest rate of 6.029% with a maturity date of August 15, 2026; and $103.415 million Serial Bonds that carry a fixed coupon minimum rate of 3.331% and a maximum coupon rate of 5.748% and final maturity dates ranging from August 15, 2009 through August 15, 2018; and 2)

$100 million variable rate demand obligation Taxable Pension Obligation Bonds with a maturity date of August 15, 2007; $50 million Series 2008B-1; and, $50 million Series B-2.

Series 2008A Bond proceeds of $343.515 and Series 2008B Bond proceeds of $100 million along with along with approximately $16.159 from funds held in the 2002 Series B2-4 indenture accounts and approximately $61.195 of County monies were distributed as follows: 1) $495.77 million (consisting of $443.515 of new bond proceeds; $16.159 from funds held in the 2002 Series B2-4 indenture accounts; and, $36.096 of County monies) was transferred to the escrow bank for the bond refunding to advance refund the outstanding $485.125 million 2002 Series B2-4 Taxable Pension Obligation Bonds (Refunded Bonds) and future interest payments. 2) $21.991 was paid to two counterparties as follows: $17.195 to terminate the two interest rate swap agreements relating to the hedged portion of the Refunded Bonds; and $4.796 million for the accrued interest on the swap; and, 3) $3.108 million to pay certain costs of issuance.

G. New Governmental Accounting Standards

1. Implementation Status

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

Please refer to Note V. D. 2 "Retiree Health Plan."

In June 2005, GASB issued Statement 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45.

The County does not provide termination benefits, consequently this is not applicable.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments - generally, a single lump sum. The financial reporting question addressed by this Statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred. Additionally, this statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. This disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so.

Please refer to Note IV. I. 3. "Tobacco Settlement Asset-Backed Bonds, and 4. San Diego County Redevelopment Agency Revenue Refunding Bonds."

In May 2007, GASB issued Statement 50, Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27. This Statement amends GASB Statement 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (GASB Statement 25) and GASB Statement 27 Accounting for Pensions by State and Local Governmental Employers (GASB Statement 27) to require defined benefit pension plans to present notes to financial statements that disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI).

This Statement amends GASB Statement 25 to require defined benefit pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement amends GASB Statement 27 to require cost-sharing employers to include, in the note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis.

This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. In the initial year of implementation, defined benefit pension plans that use the aggregate actuarial cost method to determine the ARC are required to present elements of information in the schedule of funding progress using the entry age actuarial cost method as of the most recent actuarial valuation date. In subsequent years, plans and employers should add to that schedule information as of subsequent actuarial valuation dates until the requirements of Statements 25 and 27, as amended, with regard to the minimum number of years or actuarial valuations to be included have been met.

Please refer to Note V. D. 1 "Pension Plan," only the Cost-Sharing Multiple Employer Defined Benefit Pension Plan disclosure requirements of this Statement apply to the County.

In November 2007, GASB issued Statement 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for the County's fiscal year ending June 30, 2009.

The Statement does not apply to the County.

2. Under Analysis

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals but will be employed for the first time by governments. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. This statement is effective for the County's fiscal year ending June 30, 2009.

In June 2007, GASB issued Statement 51, Accounting and Financial Reporting for Intangible Assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. This statement is effective for the County's fiscal year ending June 30, 2010.

In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices.

A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets.

Much of this Statement describes the methods of evaluating effectiveness. The consistent critical terms method considers the terms of the potential hedging derivative instrument and the hedgeable item. If relevant terms match or in certain instances are similar, a potential hedging derivative instrument is determined to be effective. The other methods are based on quantitative analyses. The synthetic instrument method considers whether a fixed rate or price has been established within a prescribed range. The dollar-offset method evaluates changes in expected cash flows or fair values over time between the potential hedging derivative instrument and the hedgeable item. The regression analysis method considers the relationship between changes in the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item. In these methods, critical and quantitative values are evaluated to determine whether a potential hedging derivative instrument is effective. Quantitative methods other than those specified in the Statement are permitted, provided that they address whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

The disclosures required by Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, have been incorporated into this Statement. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments. This statement is effective for the County's fiscal year ending June 30, 2010.

Required Supplementary Information

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	$ 902,170	902,170	928,066
Licenses, permits and franchise fees	35,992	35,874	34,735
Fines, forfeitures and penalties	54,449	54,546	59,782
Revenue from use of money and property	34,514	34,514	48,381
Aid from other governmental agencies:			
State	914,905	958,340	849,783
Federal	755,067	777,825	792,430
Other	75,061	68,106	71,663
Charges for current services	277,774	271,298	267,624
Other revenue	25,836	25,684	30,705
Total revenues	3,075,768	3,128,357	3,083,169
Expenditures:			
Current:			
General government:			
Assessor/recorder/county clerk - finance	36,553	37,790	35,770
Auditor and controller	30,919	30,800	32,526
Auditor and controller - information technology mgt services	7,108	7,908	3,295
Board of supervisors district #1	1,223	1,399	1,130
Board of supervisors district #2	1,282	1,473	1,256
Board of supervisors district #3	1,170	1,238	1,167
Board of supervisors district #4	1,124	1,324	1,064
Board of supervisors district #5	1,302	1,502	1,163
Board of supervisors general office	1,216	1,216	898
CAC major maintenance	2,227	2,227	1,075
Chief Administrative office - legislative and administrative	4,593	4,685	4,178
Civil service commission	602	619	572
Clerk of the board of supervisors - legislative and administrative	2,952	3,054	2,755
Clerk of the board of supervisors - property management	3,892	3,893	3,194
Community enhancement	3,231	3,232	3,162
Community projects	12,016	10,820	8,815
Community services	12,350	13,110	4,451
Contributions to capital outlay	38,774	38,772	38,417
County counsel	21,507	22,190	20,352
County technology office	10,033	10,100	5,986
Countywide general expense	64,915	64,865	13,427
Financing and general government - legislative and administrative	33,738	33,822	3,524
Financing and general government - other general	142	142	4,443
Health and human services - legislative and administrative	416	416	402
Human resources - other general government	3,804	3,873	3,914
Human resources - personnel	18,962	19,255	17,295
Land use and environment - legislative and administrative	4,684	8,417	5,939
Public safety - legislative and administrative	22,829	18,874	6,945
Registrar of voters	40,631	40,716	26,229
Treasurer/tax collector	17,783	18,683	16,892
Total general government	401,978	406,415	270,236

Continued

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2008
(In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Public protection:			
Agriculture weights and measures	$ 14,850	16,663	13,746
Agriculture weights and measures - sealer	2,471	2,562	2,505
Alternate public defender	15,392	15,652	15,268
Assessor/recorder/county clerk - other protection	17,861	18,670	17,661
Child support	50,140	51,405	47,671
Citizens law enforcement review board	537	552	472
Contributions for trial courts	75,037	75,037	71,353
Defense attorney/contract administration	9,373	9,373	9,321
Department of animal services	13,890	14,265	12,751
District attorney-judicial	131,800	137,754	129,699
Grand jury	734	733	560
LAFCO administration	342	342	342
Land use and environment - other protection	1,043	1,043	949
Medical examiner	7,787	7,983	7,775
Office of emergency services	10,363	18,087	11,047
Planning and land use - fire protection	10,491	10,796	7,647
Planning and land use - other protection	26,984	29,532	23,522
Probation - adult detention	3,879	3,879	4,383
Probation - detention and correction	109,503	114,994	109,596
Probation - juvenile detention	32,340	33,847	35,193
Probation - police protection	2,422	2,422	2,518
Public defender	51,706	52,932	51,462
Public works, flood control, soil and water, general	5,115	5,493	1,923
Public works, general - other protection	156	42,256	31,472
Sheriff - adult detention	197,174	201,041	193,568
Sheriff - detention and correction	1,001	1,001	55
Sheriff - other protection	2,487	2,534	2,283
Sheriff - police protection	342,857	353,591	330,546
Total public protection	1,137,735	1,224,439	1,135,288
Public ways and facilities:			
Public Works, Dept of Gen	667	1,224	144
Public works, general - public ways	1,985	6,543	5,763
Total public ways and facilities	2,652	7,767	5,907
Health and sanitation:			
Environmental health	37,386	39,721	33,698
Health and human services agency - California children services	20,359	20,825	20,189
Health and human services agency - drug and alcohol abuse services	46,039	47,911	46,288
Health and human services agency - health	92,483	93,012	87,553
Health and human services agency - health administration	43,011	42,572	29,996
Health and human services agency - medical care	142,144	142,365	125,705
Health and human services agency - mental health	297,837	297,837	245,218
Public works, general - sanitation	4,837	4,824	4,457
Total health and sanitation	684,096	689,067	593,104

Continued

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
General Fund
For the Year Ended June 30, 2008
(In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Public assistance:			
Health and human services agency - aid programs	$ 45,536	45,536	44,287
Health and human services agency - other assistance	266,327	266,740	265,118
Health and human services agency - social administration	700,424	699,731	659,161
Health and human services agency - veterans' services	806	867	768
Housing Authority	9,679	9,679	8,955
Probation - care of court wards	9,528	9,528	9,441
Total public assistance	1,032,300	1,032,081	987,730
Education:			
Farm and home advisor	797	1,411	1,101
Total education	797	1,411	1,101
Recreation and cultural:			
Parks and recreation	38,276	38,360	29,606
Total recreational and cultural	38,276	38,360	29,606
Contingency reserve	20,000	17,000	
Capital outlay	22,754	28,167	11,453
Debt service:			
Interest and fiscal charges	12,700	12,702	5,169
Total expenditures	3,353,288	3,457,409	3,039,594
Excess (deficiency) of revenues over (under) expenditures	(277,520)	(329,052)	43,575
Other financing sources (uses)			
Sale of capital assets			41
Transfers in	281,398	269,598	257,890
Transfers out	(368,012)	(401,290)	(236,400)
Total other financing sources (uses)	(86,614)	(131,692)	21,531
Net change in fund balance	(364,134)	(460,744)	65,106
Fund balance at beginning of year	1,155,082	1,155,082	1,155,082
Increase (decrease) in reserve for inventories		278	278
Fund balance at end of year	790,948	694,616	1,220,466

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
Public Safety Special Revenue Fund
For the Year Ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Revenue from use of money and property	$		147
Aid from other governmental agencies:			
State	249,919	249,919	227,563
Total revenues	249,919	249,919	227,710
Expenditures:			
Current:			
Public protection:			
Public safety (Prop 172)	1,000	1,000	1,000
Total public protection	1,000	1,000	1,000
Total expenditures	1,000	1,000	1,000
Excess (deficiency) of revenues over (under) expenditures	248,919	248,919	226,710
Other financing sources (uses)			
Transfers out	(256,379)	(256,379)	(230,534)
Total other financing sources (uses)	(256,379)	(256,379)	(230,534)
Net change in fund balance	(7,460)	(7,460)	(3,824)
Fund balance at beginning of year	7,927	7,927	7,927
Fund balance at end of year	$ 467	467	4,103

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
Tobacco Securitization Special Revenue Fund
For the Year Ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Revenue from use of money and property	$		21,711
Total revenues			21,711
Expenditures:			
Current:			
General government:			
Tobacco Settlement	3,300	3,300	
Total general government	3,300	3,300	
Total expenditures	3,300	3,300	
Excess (deficiency) of revenues over (under) expenditures	(3,300)	(3,300)	21,711
Other financing sources (uses)			
Transfers out	(24,200)	(24,200)	(24,200)
Total other financing sources (uses)	(24,200)	(24,200)	(24,200)
Net change in fund balance	(27,500)	(27,500)	(2,489)
Fund balance at beginning of year	430,863	430,863	430,863
Fund balance at end of year	$ 403,363	403,363	428,374

See notes to required supplementary information.

Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year by the Board of Supervisors 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; SANCAL, a non-profit corporation, and the Debt Service and Capital Projects Funds (other governmental funds). Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year with the approval of the Board of Supervisors.

Appropriations may also 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.

The schedule of revenues, expenditures, and changes In fund Balance - budget and actual for the General Fund, Public Safety Special Revenue Fund and the Tobacco Securitization Special Revenue Fund that is presented as Required Supplementary Information was prepared in accordance with generally accepted accounting principles (GAAP).

The Original Budget consists of the adopted budget plus the budget carried forward from the prior fiscal year. Accordingly, encumbrances that are subject to automatic re-appropriation are included as part of the original budget. The original budget is also adjusted to reflect reserves, transfers, allocations, and supplemental appropriations that may occur prior to the start of the fiscal year. The County adopts its budget subsequent to the start of the each new fiscal year by mid-August. The final budget includes the original budget plus amended budget changes occurring during the fiscal year.

The Actual column represents the actual amounts of revenue and expenditures reported on a GAAP basis which is the same basis that is used to present the aforementioned original and final budget.

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected provisions of the Site Leases, the Facility Leases, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Series 2009 Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

Definitions

"Additional Certificates" means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Payment" means those amounts payable by the County under and pursuant to the HOJ Facility Lease and the IRC Facility Lease as summarized herein under the caption "FACILITY LEASES - Rental Payments - Additional Payment."

"Administrative Expense Fund" means the fund by that name established in accordance with the Trust Agreement.

"Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year.

"Assignment Agreement" means that certain Assignment Agreement, dated as of October 1, 2009, by and between the Corporation and the Trustee, as it may from time to time be amended.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Average Annual Debt Service" means an amount equal to the average of the Annual Debt Service for all Lease Years, including the Lease Year in which the calculation is made.

"Base Rental Payment Fund" means the fund by that name established in accordance with the Trust Agreement.

"Base Rental Payments" means the amount payable by the County pursuant to the applicable Facility Lease, as summarized herein under the caption "FACILITY LEASES - Rental Payments - Base Rental Payments."

"Beneficial Owner" shall have the meaning set forth in the Continuing Disclosure Agreement.

"Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

"Certificate, Statement, Written Request or Requisition of the Corporation or the County" means, respectively, a written certificate, statement, request or requisition signed in the name of the Corporation by its Chair, Vice Chair, Secretary or Assistant Secretary, or any other person designated and authorized to sign for the Corporation in writing to the Trustee, and with respect to the County means the Chief Financial Officer, the Auditor and Controller, the Treasurer-Tax Collector, the Chief Deputy Treasurer, the Chief Investment Officer, the Group Finance Director, the Debt Finance Manager or such other person as may be designated and authorized to sign for the County in writing to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"Certificates" means the County of San Diego Certificates of Participation (Justice Facilities Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

"Certificates of Participation Purchase Contract" means that certain Purchase Contract, dated September 30, 2009, by and between the Purchasers and the County relating to the Certificates.

"Closing Date" means October 14, 2009.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

"Cost of Issuance Fund" means the fund by that name established in accordance with the Trust Agreement.

"Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Site Leases, the Facility Leases, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; financial advisor fees; title insurance fees; market study fees; legal fees and expenses of counsel with respect to the lease of the Leased Property and the refunding of the Prior Obligations; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee, the Prior Trustee, including fees and expenses of their respective counsel; and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the refunding of the Prior Obligations, to the extent such fees and expenses are approved by the County.

"County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

"Defeasance Securities" means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations;
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA); and
- State and Local Government Series

"DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

"Earnings Fund" means the fund by that name established in accordance with the Trust Agreement.

"Escrow Agent" means U.S. Bank National Association, successor to State Street Bank and Trust Company of California, N.A., acting as the Prior Trustee under the Prior Trust Agreements.

"Escrow Agreement" means that certain Escrow Agreement dated as of October, 1, 2009, by and between the County and the Prior Trustee as Escrow Agent providing for the defeasance and redemption of the Prior Obligations.

"Event of Default" means (1) with respect to any Event of Default under the Trust Agreement, any occurrence or event specified in and defined by the provisions of the Trust Agreement under the caption "Trust Agreement—Default and Limitations of Liability—Events of Default" below, and (2) with respect to any Event of Default under a Facility Lease, any occurrence or event specified in and defined by the provisions of the applicable Facility Lease under the caption "Facility Leases—Default" below.

"Expiry Date" means October 1, 2022, with respect to the HOJ Facility Lease and October 1, 2025 with respect to the IRC Facility Lease.

"Facility Leases" means the HOJ Facility Lease and the IRC Facility Lease, as originally executed and as each may be amended from time to time.

"Financial Newspaper" means *The Wall Street Journal* or *The Bond Buyer* or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

"Fiscal Year" means the fiscal year of the County which, as of the Closing Date, is the period from July 1 to and including the following June 30.

"Fitch" means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

"Hazardous Substances" means any substances, pollutants, wastes and contaminants now or hereafter included in such (or similar term) term under any federal state or local statute, ordinance, code or regulation now existing or hereafter enacted or amended.

"HOJ Facility Lease" means the Facility Lease (Hall of Justice) (Including Termination Agreement), dated as of October 1, 2009, by and between the Corporation and the County, as originally executed and entered into and as it may from time to time be amended.

"HOJ Leased Property" means the real property more particularly described in the HOJ Facility Lease (as the same may be changed from time to time by Removal or Substitution), together with the improvements thereon or to be located thereon.

"HOJ Site Lease" means that certain Site Lease (Hall of Justice) (Including Termination Agreement), executed and entered into as of October 1, 2009, by and between the County and the Corporation, as originally executed and entered into and as it may from time to time be amended.

"Insurance Proceeds and Condemnation Awards Fund" means the fund by that name established in accordance with the Trust Agreement.

"Insurance Policy" means a financial guaranty insurance policy issued by an Insurer insuring the payment when due of the principal and interest with respect to a Series of Certificates issued under the Trust Agreement. There is no Insurance Policy issued with respect to the Certificates.

"Insurer" means the issuer or issuers of a policy or policies of municipal bond insurance obtained by the County to insure the payment of principal of and interest on a Series of Certificates issued under the Trust Agreement, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Certificates. All consents, approvals or actions required by the Insurer shall mean the unanimous action of all Insurers if there is more than a single Insurer. There is no Insurer with respect to the Certificates.

"Interest Fund" means the fund by that name established in accordance with the Trust Agreement.

"Interest Payment Date" means April 1, 2010 and each April 1 and October 1, thereafter.

"IRC Facility Lease" means the Facility Lease (Inmate Reception Center) (Including Termination Agreement), dated as of October 1, 2009, by and between the Corporation and the County, as originally executed and entered into and as it may from time to time be amended.

"IRC Leased Property" means the real property more particularly described in the IRC Facility Lease (as the same may be changed from time to time by Removal or Substitution), together with the improvements thereon or to be located thereon.

"IRC Site Lease" means that certain Site Lease (Inmate Reception Center) (Including Termination Agreement), executed and entered into as of October 1, 2009, by and between the County and the Corporation, as originally executed and entered into and as it may from time to time be amended.

"Leased Property" means, as applicable, the HOJ Leased Property and the IRC Leased Property (as each may be changed from time to time by Removal or Substitution, as defined in the HOJ Facility Lease and the IRC Facility Lese, respectively).

"Lease Year" means the period from each July 1 to and including the following June 30 during the term of the HOJ Facility Lease or the IRC Facility Lease, as the case may be; provided that the final Lease Year shall terminate on the expiration date of the HOJ Facility Lease or the IRC Facility Lease, as the case may be.

"Mandatory Sinking Account Payment" means the principal amount of any Certificates or Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of the Trust Agreement or any Supplemental Trust Agreement.

"Mandatory Sinking Account Payment Date," if applicable, means October 1 of each year set forth in the Trust Agreement, if any, and in any Supplemental Trust Agreement.

"Maximum Annual Debt Service" means an amount equal to the largest Annual Debt Service for all future Lease Years beginning in the Lease Year in which the calculation is made.

"Moody's" means Moody's Investors Service, Inc. a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

"1997 Prior Trust Agreement" has the meaning set forth in the Trust Agreement.

"1998 Prior Trust Agreement" has the meaning set forth in the Trust Agreement.

"**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.

"**Outstanding**" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates and Additional Certificates, including, but not limited to, the Certificates as described in the Trust Agreement, except:

(1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;

(3) Certificates and Additional Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"**Owner**" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

"Permitted Encumbrances" means, with respect to a Facility Lease as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the applicable Facility Lease permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the applicable Facility Lease as it may be amended from time to time; (iv) the applicable Site Lease as it may be amended from time to time; (v) the Trust Agreement, as it may be amended from time to time; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the applicable Facility Lease in the office of the County Recorder of the County of San Diego; (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of the applicable Facility Lease and to which the Corporation and the County consent in writing and certify to the Trustee will not materially impair the interests of the Corporation or use of the Facilities by the County; and (ix) subleases and assignments of the County which will not adversely affect the exclusion from gross income of interest payable with respect to the Certificates.

"**Permitted Investments**" means any of the following to the extent then permitted by applicable laws and any investment policies of the County:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

—Export-Import Bank;
—Rural Economic Community Development Administration;
—U.S. Maritime Administration;
—Small Business Administration;
—U.S. Department of Housing & Urban Development (PHAs);
—Federal Housing Administration; and
—Federal Financing Bank.

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

—Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);

—Obligations of the Resolution Funding Corporation (REFCORP);

—Senior debt obligations of the Federal Home Loan Bank System; and

—Senior debt obligations of other Government Sponsored Agencies approved by the Insurer.

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P.

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (2) of the definition of "Defeasance Securities" contained in the Trust Agreement, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal Obligations rated in the top two rating categories or higher by both Moody's and S&P.

(9) Investment Agreements rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel);

(10) Any investment authorized by California Government Code Section 53061;

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

(12) The San Diego County Investment Pool, managed by the Treasurer-Tax Collector of the County of San Diego, California; and

(13) Other forms of investments rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel).

Any references to long-term rating categories in the definition of "Permitted Investments" shall not take into account any plus or minus sign or numerical modifiers.

"**Prepayment Fund**" means the fund by that name established in accordance with the Trust Agreement.

"**Principal Corporate Trust Office**" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the Trustee in Los Angeles, California, or such other office specified by the Trustee.

"**Principal Fund**" means the fund by that name established in accordance with the Trust Agreement.

"**Principal Payment**" means the principal amount of Certificates required to be paid on each Principal Payment Date.

"**Principal Payment Date**" means October 1 of each year, commencing October 1, 2010.

"**Prior Trust Agreements**" means collectively the 1997 Prior Trust Agreement and the 1998 Prior Trust Agreement.

"**Prior Trustee**" means U.S. Bank National Association, as successor trustee under the Prior Trust Agreements.

"**Project**" means, to the extent identified by the County as such, the public facilities to be acquired and constructed with the proceeds of Additional Certificates.

"**Purchasers**" means RBC Capital Markets Corporation, as senior manager, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as co-senior manager, and Loop Capital Markets, as co-manager, collectively as underwriters and purchasers of the Certificates pursuant to the Certificates of Participation Purchase Contract.

"**Rebate Requirement**" means the Rebate Requirement as defined in the Tax Certificate.

"**Record Date**" means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

"Removal" means the release of all or a portion of the Leased Property from the leasehold of either Facility Lease and the applicable Site Lease as provided in the applicable Facility Lease.

"Rental Payment Date" means 15th day of the month preceding each Interest Payment Date

"**Rental Payments**" means, collectively, the Base Rental Payments and the Additional Payments as provided in each respective Facility Lease.

"**Representation Letter**" means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

"Reserve Fund" means the fund by that name established in accordance with the Trust Agreement.

"**Reserve Fund Credit Facility**" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein.

"Reserve Fund Requirement" means (i) $4,817,862.50 until July 1, 2022, and thereafter $2,875,003.20, so long as the Certificates are Outstanding plus (ii) in connection with the issuance of

Additional Certificates, an additional amount equal, as of any date of calculation, to the lesser of (a) 50% of Maximum Annual Debt Service, calculated with respect to such Additional Certificates, (b) 10% of the proceeds of the Additional Certificates, or (c) 125% of Average Annual Debt Service, calculated with respect to such Additional Certificates.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

"Series", when used with reference to any Certificates or Additional Certificates, means all of the Certificates or Additional Certificates executed and delivered on original issuance and identified pursuant to the Trust Agreement or a Supplemental Trust Agreement authorizing such Certificates or Additional Certificates as a separate Series of Certificates.

"Site Lease" means the HOJ Site Lease and the IRC Site Lease, as originally executed and as each may be amended from time to time.

"**Substitution**" means the release of all or a portion of the Leased Property from the leasehold of a Facility Lease and of the applicable Site Lease, and the lease of substituted real property and improvements under the applicable Facility Lease and under the applicable Site Lease as provided in the applicable Facility Lease.

"**Supplemental Trust Agreement**" means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms thereof.

"**Tax Certificate**" means that tax certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

"**Term Certificates**" means any Certificates or Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

"**Trust Agreement**" means the Trust Agreement by and among the Trustee, the County and the Corporation, dated as of October 1, 2009, as originally executed and as it may from time to time be amended or supplemented in accordance with the Trust Agreement.

"**Trustee**" means Zions First National Bank, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

FACILITY LEASES

The terms of the HOJ Facility Lease and the IRC Facility Lease are substantially similar and the provisions below are a summary of each agreement.

The Leased Property

Lease of the Leased Property. The Corporation leases to the County, and the County rents and hires from the Corporation, the Leased Property on the conditions and terms set forth in the applicable Facility Lease. The County agrees and covenants that during the term of each Facility Lease, except as provided in the applicable Facility Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated by the applicable Facility Lease and so as to permit the Corporation to carry out its agreements and covenants contained in the applicable Facility Lease and in the Trust Agreement, and the County further agrees and covenants that during the term of the applicable Facility Lease that it will not abandon or vacate the Leased Property.

Quiet Enjoyment. The parties to each Facility Lease mutually covenant that the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the applicable Facility Lease and is not in default under the applicable Facility Lease, shall at all times during the term of the applicable Facility Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Corporation.

Right of Entry and Inspection. The Corporation shall have the right to enter the Leased Property and inspect the Leased Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Corporation's rights or obligations under the applicable Facility Lease and for all other lawful purposes.

Prohibition Against Encumbrance or Sale. The County and the Corporation will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Leased Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Certificates as contemplated by both Facility Leases. The County and the Corporation will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property, except as otherwise provided in the applicable Facility Lease. Notwithstanding anything to the contrary contained in the applicable Facility Lease, with the consent of the Insurer, which will not be unreasonably withheld, the County may assign, transfer or sublease any and all of the Leased Property or its other rights under the applicable Facility Lease, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Corporation under the applicable Facility Lease, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the applicable Facility Lease, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in the applicable Facility Lease, (d) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Leased Property for all purposes shall be first allocated to the applicable Facility Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease and (e) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows reentry upon the Leased Property unless concurrently with granting such remedy the same shall be also granted under the applicable Facility Lease by an amendment to the applicable Facility Lease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the County shall at any time during the term of the applicable Facility Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Corporation's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Corporation and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Leased Property or the Corporation's interest therein.

Substitution or Removal of Leased Property.

(a) The County may amend each Facility Lease and the applicable Site Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Leased Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Leased Property, with the consent of the Insurer, and upon compliance with all of the conditions set forth in subsection (b) below. After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected shall be released from the leasehold under the applicable Facility Lease and under the applicable Site Lease.

(b) No Substitution or Removal shall take place under a Facility Lease until the County delivers to the Corporation and the Trustee the following:

(1) A Certificate of the County containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the County (A) stating that the annual fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of the applicable Facility Lease, is at least equal to the maximum annual Base Rental Payments payable under the applicable Facility Lease attributable to the Leased Property prior to said Substitution or Removal, as determined by the County on the basis of an appraisal of the Leased Property after said Substitution or Removal conducted by a member of the Appraisal Institute of America (MAI) designated by the County; and (B) demonstrating that the useful life of the Leased Property after Substitution or Removal equals or exceeds the remaining term of the applicable Facility Lease;

(3) An Opinion of Counsel to the effect that the amendments to the applicable Facility Lease and to the applicable Site Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation enforceable in accordance with their terms;

(4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the principal portion of the then-remaining Base Rental Payments payable under the applicable Facility Lease multiplied by a fraction, the numerator of which is that portion of the principal portion of the then-remaining Base Rental Payments payable under the applicable Facility Lease

attributable to the Substituted Property and the denominator of which is the principal portion of the then-remaining Base Rental Payments payable under the applicable Facility Lease, insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates and any Additional Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;

(7) Evidence that the County has complied with the covenants contained in the applicable Facility Lease regarding insurance requirements with respect to the Substituted Property; and

(8) Evidence that the Substitution or Removal, in and of itself, has not or will not cause a downgrade or withdrawal of the then existing credit ratings on the Certificates and any Additional Certificates.

Term of the Sublease

Commencement of the Sublease. The effective date of the Facility Leases is the Closing Date, and the term of each Facility Lease shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the applicable Facility Lease. If on the Expiry Date, the rental payable under the applicable Facility Lease shall not be fully paid and all Certificates and Additional Certificates shall not be fully paid and retired, or if the rental payable under the applicable Facility Lease shall have been abated at any time and for any reason, then the term of the applicable Facility Lease shall be extended until ten days after the rental payable under the applicable Facility Lease shall be fully paid and all Certificates and Additional Certificates shall be fully paid, except that the term of the applicable Facility Lease shall in no event be extended beyond October 1, 2032 with respect to the HOJ Facility Lease and October 1, 2035 with respect to the IRC Facility Lease. If prior to the Expiry Date, the rental payable under the applicable Facility Lease shall be fully paid and all Certificates and Additional Certificates shall have been fully paid, or deemed fully paid, in accordance with the Trust Agreement, the term of the applicable Facility Lease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the applicable Facility Lease shall be fully paid and all Certificates and Additional Certificates have been fully paid, whichever is earlier, and the applicable Facility Lease shall thereupon terminate. Without further authorization by the Board of Supervisors of the County or the Board of Directors of the Corporation, upon termination of the applicable Facility Lease as provided in the preceding sentence, the appropriate County and Corporation officers and staff shall take whatever steps may be necessary to evidence termination of the applicable Facility Lease and the applicable Site Lease in the real property records of the County.

Use of Proceeds; Tax Covenants

Use of Proceeds. The parties to each Facility Lease agree that the proceeds of the Certificates, together with funds transferred from the Prior Trust Agreements, will be used to refund and defease the 1997 Prior Obligations and the 1998 Prior Obligations, to fund the Base Rental Payment Fund, to fund the Reserve Fund and to pay the costs of executing and delivering the Certificates and incidental and related expenses.

Tax Covenants.

(a) The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Certificates or any Additional Certificates to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Certificates and any Additional Certificates and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided,* that if the County shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions of the applicable Facility Lease. In the event that at any time the County is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

(b) To the ends covenanted in this section, the County specifically agrees to ensure that the following requirements are met:

(1) The County will not invest or allow to be invested proceeds of the Certificates or any Additional Certificates at a yield in excess of the yield on the Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(2) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

Rental Payments

Rental Payments. The County agrees to pay to the Corporation, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

(a) *Base Rental Payments*. The County shall pay to the Corporation rental under each Facility Lease, for the use and occupancy of the Leased Property for each Lease Year or portion thereof, the Base Rental Payments, at the times and in the amounts set forth in the applicable Facility Lease. Notwithstanding the dates designated as the Rental Payment Dates, all

Base Rental Payments due in any Fiscal Year after June 30, 2010 shall be due and payable in one sum on July 5 of each year (the "Prepayment Amount"), commencing on the July 5, 2010. Base Rental Payment due on April 1, 2010 shall be prepaid with a deposit into the Rental Payment Fund on the Closing Date. If the term of the applicable Facility Lease shall have been extended pursuant to the applicable Facility Lease, Base Rental Payment installments shall continue to be payable on the Rental Payment Dates, continuing to and including the date of termination of the applicable Facility Lease. Upon such extension of the applicable Facility Lease, the County shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the Base Rental Payments at an amount sufficient to pay all unpaid principal and interest on the Certificates.

(b) *Additional Payment*. The County shall also pay, as rental under each Facility Lease in addition to the Base Rental Payments, to the Corporation or the Trustee, as provided in the applicable Facility Lease, such amounts ("Additional Payment") in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the applicable Facility Lease or the assignment of the applicable Facility Lease, the Trust Agreement or the respective interests in the Leased Property and the lease of the Leased Property by the Corporation to the County under the applicable Facility Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates or any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Certificates, any Additional Certificates or the Trust Agreement.

The foregoing Additional Payments shall be billed to the County by the appropriate party from time to time, together with a statement certifying that the amount billed has been incurred or paid for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Corporation shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. Any taxes levied against the Corporation with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable under the applicable Facility Lease. Any taxes levied against the Corporation with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Leased Property shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable under the applicable Facility Lease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Corporation in making any determination that costs are payable as Additional Payments under the applicable Facility Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

(c) *Consideration.*

(i) Such payments of Base Rental Payments for each Lease Year or portion thereof during the term of the Facility Leases shall constitute, together with Additional Payments, the total amount due for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. On the Closing Date, the County shall deliver a certificate to the Corporation and the Trustee, which shall set forth the annual fair rental value of the Leased Property. The parties to each Facility Lease have agreed and determined that the annual fair rental value of the Leased Property is not less than the maximum Base Rental Payments payable under the applicable Facility Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Leased Property, other obligations of the parties under the applicable Facility Lease, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the County and the general public.

(ii) The parties to each Facility Lease acknowledge that each Facility Lease may be amended from time to time to increase the Base Rental Payments payable under the applicable Facility Lease so that Additional Certificates may be executed and delivered pursuant to the applicable Facility Lease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained in the applicable Facility Lease, the applicable Facility Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, in any year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the County under the applicable Facility Lease.

(d) *Payment*; *Credit*. Each installment of Rental Payments payable under a Facility Lease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Corporation shall designate. Any such installment of rental accruing under the applicable Facility Lease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the applicable Facility Lease, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the applicable Facility Lease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the applicable Facility Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund. Any payment scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

Annual Budgets; Reporting Requirements. The County covenants to take such action as may be necessary to include all Rental Payments and Additional Payments due under each Facility Lease in its operating budget for each fiscal year commencing after the date of the applicable Facility Lease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Payments.

Application of Base Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the applicable Facility Lease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the applicable Facility Lease and thereafter to all Additional Payments due under the applicable Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the applicable Facility Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, Base Rental Payments due under the applicable Facility Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case Base Rental Payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Leased Property or other rights under the applicable Facility Lease, as permitted by the applicable Facility Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments, annual fair rental value of the Leased Property shall first be allocated to the applicable Facility Lease as provided in the applicable Facility Lease. Any abatement of Base Rental Payments pursuant to the applicable Facility Lease shall not be considered an Event of Default as defined in the applicable Facility Lease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the applicable Facility Lease by virtue of any such interference and the applicable Facility Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the applicable Facility Lease due to damage, destruction, title defect or condemnation of any part of the Leased Property and the County is unable to repair, replace or rebuild the Leased Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

Prepayment of Base Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to on or both Facility Lease, all or any portion of the components of Base Rental Payments payable under the applicable Facility Lease relating to any portion of the Leased Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments payable under the applicable Facility Lease represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an

Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments payable under the applicable Facility Lease represented by the Certificates and any Additional Certificates.

The County may prepay, from any source of available moneys pursuant to the terms of the Trust Agreement, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments payable under one or both Facility Lease then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the applicable Facility Lease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Certificates and any Additional Certificates unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to this Section, at least 45 days before the prepayment date the County shall give written notice to the Corporation and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Corporation and the Trustee.

Obligation to Make Base Rental Payments. The agreements and covenants on the part of the County contained in the applicable Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the agreements and covenants contained in the applicable Facility Lease agreed to be carried out and performed by the County.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENT DOES 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. NEITHER THE CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENT CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Certificates. In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; provided that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the applicable Facility Lease, providing for an increase in the Base Rental Payments to be made under the applicable Facility Lease subject to the limitations set forth in the applicable Facility Lease.

Maintenance; Taxes; Insurance and other Charges

Maintenance of the Leased Property by the County. The County agrees that, at all times during the term of each Facility Lease, it will, at its own cost and expense, maintain, preserve and keep the

Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Corporation shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to each Facility Lease contemplate that the Leased Property will be used for public purposes by the County and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Corporation of the Leased Property is found to be subject to taxation in any form, the County will pay during the term of the applicable Facility Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; *provided,* that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the applicable Facility Lease are in effect.

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility, all coverage on the Leased Property required by the applicable Facility Lease. Such insurance shall consist of :

(1) A policy or policies of insurance against loss or damage to the Leased Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Leased Property and, in the case of a policy covering more than the Leased Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the aggregate amount of the principal component of all then-remaining Base Rental Payments payable under the applicable Facility Lease; *provided*, that with the consent of the Insurer, the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (1) and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than $500,000,000. Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa. The County is,

however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property in an amount not less than $75,000,000 per accident; *provided, however,* that the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to $75,000,000 per accident. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County of San Diego which may be limited in amount to $75,000,000 per accident. Otherwise conforming policies satisfying the requirements of this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (3) for the same occurrence, and *vice versa*.

(3) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) or (2) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the applicable Facility Lease for a period of not less than two years' Base Rental Payments for the Leased Property; provided that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) or (2) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (3) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1) or (2) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (1) or (2), as the case may be, for the same occurrence, and *vice versa*.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the applicable Facility Lease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the applicable Facility Lease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1) or (2) above shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1) or (2) above shall be applied as provided in the applicable Facility Lease. The net proceeds, if any, of the insurance policy described in paragraphs (1) and (2) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (3) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy provided for in the applicable Facility Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

The County shall file a Certificate of the County with the Trustee not later than January 31 of each year certifying that the insurance policies required by the applicable Facility Lease are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the applicable Facility Lease requires to be so endorsed. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the applicable Facility Lease.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the applicable Facility Lease or shall fail to keep the Leased Property in good repair and operating condition, the Corporation may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Corporation shall become Additional Payment, which amounts the County agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Title Insurance. The County covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount of the principal component of all Base Rental Payments payable under the applicable Facility Lease. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Leased Property subject only to such exceptions as do not materially affect the County's right to the use and occupancy of the Leased Property.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the applicable Facility Lease (a) the Leased Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the County or the Corporation in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Corporation will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Leased Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; *provided,* that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of the principal and interest components of the Base Rental Payments due under the applicable Facility Lease attributable to the portion of the Leased Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the Leased Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Leased Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement. Notwithstanding any other provision in the applicable Facility Lease, the County shall only prepay less than all of the principal component of the then-remaining Base Rental Payments if the annual fair rental value of the Leased Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of the principal and interest components of the Base Rental Payments not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Leased Property so that the fair rental value of the Leased Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Certificates and Additional Certificates, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary, but in no event more than the net proceeds available from any insurance claim or condemnation award described in the applicable Facility Lease, to effect such repair, rebuilding or replacement or prepayment; provided that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the applicable Facility Lease.

Disclaimer of Warranties; Vendor's Warranties; Use of the Leased Property

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE CORPORATION MAKES ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE CORPORATION IS A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Corporation or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the applicable Facility Lease or the existence, furnishing, functioning or the County's use of the Leased Property as provided by the applicable Facility Lease.

Use of the Leased Property; Improvements. The County will not use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the applicable Facility Lease. The County shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; *provided,* that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Corporation in and to the Leased Property or its interest or rights under the applicable Facility Lease.

Assignment and Indemnification

Assignment by Corporation. The parties understand that certain of the rights of the Corporation under the Facility Leases and under the Site Leases will be assigned to the Trustee pursuant to the Assignment Agreement, and accordingly the County agrees to make all payments due under the Facility Leases to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of a Facility Lease or otherwise) that the County may from time to time have against the Corporation. The County agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Corporation or the Trustee to protect their interests in the Leased Property during the term of the applicable Facility Lease.

Assignment by County. The Facility Leases and the interest of the County in the Leased Property may not be assigned or encumbered by the County except as permitted by the applicable Facility Lease.

Indemnification. The County shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the applicable Facility Lease, the acquisition, construction, installation and use of the Leased Property and each portion thereof or any accident in connection with the operation, use, condition or possession of the Leased Property or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the County or the Corporation; any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising under the applicable Facility Lease shall continue in full force and effect notwithstanding the full payment of all obligations under the applicable Facility Lease or the termination of the applicable Facility Lease for any reason. The County, the Trustee and the Corporation mutually agree to promptly give notice to each other of any claim or liability indemnified against by the applicable Facility Lease following the learning thereof by such party.

Default

The following events shall be "Events of Default" under each Facility Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the applicable Facility Lease, any one or more of the following events:

(1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the applicable Facility Lease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the applicable Facility Lease shall not constitute an Event of Default;

(2) The County shall fail to pay any item of Additional Payments when the same shall become due and payable pursuant to the applicable Facility Lease; or

(3) The County shall breach any other terms, covenants or conditions contained in the applicable Facility Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; *provided, however,* that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the Events of Default specified in the applicable Facility Lease, it shall be lawful for the Corporation or its assignee, subject to the terms of the applicable Facility Lease, and to the direction and control of the Insurer, so long as the Insurer is not in default under the Insurance

Policy, to exercise any and all remedies available or granted to it pursuant to law or under the applicable Facility Lease.

Upon the occurrence of an Event of Default, the Corporation or its assignee must thereafter maintain each Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Leased Property, regardless of whether or not the County has abandoned the Leased Property; **THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASES OR OTHERWISE**. In such event, the County shall remain liable and agrees to keep or perform all covenants and conditions in the applicable Facility Lease contained to be kept or performed by the County and, to pay the rent to the end of the term of the applicable Facility Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the applicable Facility Lease for the payment of rent under the applicable Facility Lease (without acceleration).

The Corporation expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of each Facility Lease, if the County's interest in the applicable Facility Lease or any part thereof assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the applicable Facility Lease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Leased Property or any portion thereof (except as permitted by the applicable Facility Lease); then in each and every such case the County shall be deemed to be in default under the applicable Facility Lease.

Neither the County nor the Corporation shall be in default in the performance of any of its obligations under each Facility Lease (except for the obligation to make Base Rental Payments pursuant to the applicable Facility Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County of the Corporation, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

The County and Corporation and its successors and assigns shall honor the exclusive rights of the County to use the Leased Property.

Miscellaneous

Trustee as Third Party Beneficiary. The Trustee is designated a third party beneficiary under the Facility Leases for the purpose of enforcing any of the rights under the Facility Leases assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Corporation and the County that lease payments under the Facility Leases shall be absolutely net to the Corporation so that the Facility Leases shall yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the applicable Facility Lease. The Corporation shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Facility Leases except as expressly set forth in the applicable Facility Lease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of the Facility Leases shall be paid by the County.

Amendments. The Facility Leases may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; *provided,* that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the applicable Facility Lease.

The Facility Leases and the rights and obligations of the Corporation and the County under the applicable Facility Lease may also be amended or supplemented at any time by an amendment of the applicable Facility Lease or supplement to the Trust Agreement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the applicable Facility Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the applicable Facility Lease to or conferred in the applicable Facility Lease on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the applicable Facility Lease or in regard to questions arising under the applicable Facility Lease which the Corporation or the County may deem desirable or necessary and not inconsistent with the applicable Facility Lease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the applicable Facility Lease;

(d) to facilitate the issuance of Additional Certificates as provided in the applicable Facility Lease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners or the Insurer.

Discharge of County. Upon the payment of all Base Rental Payments and Additional Payments payable under the Facility Leases, all of the obligations of the County under the applicable Facility Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied; *provided, however,* if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the applicable Facility Lease pursuant to the Trust Agreement, then the obligation of the County under the applicable Facility Lease to make Rental Payments under the applicable Facility Lease shall continue in full force and effect until the Outstanding Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the applicable Facility Lease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

California Law. The Facility Leases shall be governed by and construed and interpreted in accordance with the laws of the State of California.

Insurer Deemed Owner. For the purpose of (i) the giving of consents to amendments to each Facility Lease, (ii) the giving of any other consent of the Owners under the applicable Facility Lease, and (iii) the control and direction of all rights and remedies upon the occurrence of an Event of Default, the Insurer shall be deemed to be the sole Owner of the Certificates for so long as it has not failed to comply with its payment obligations under the Insurance Policy; *provided*, *however*, that, notwithstanding the foregoing, the Insurer shall not be deemed to be the Owner of the Certificates for any consent to an amendment to the applicable Facility Lease that (a) extends the payment date of any Base Rental Payment, or reduces the interest, principal or prepayment premium component of any Base Rental Payment, or (b) reduces the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the applicable Facility Lease.

SITE LEASES

The terms of the HOJ Site Lease and the IRC Site Lease are substantially similar and the provisions below are a summary of each agreement.

Leased Property. The County leases to the Corporation and the Corporation rents and hires from the County, on the terms and conditions set forth in the applicable Site Lease, the Leased Property.

Term.

(a) The term of the Site Leases will commence on the Closing Date and shall end on the Expiry Date (as defined in each Facility Lease) unless such term is sooner terminated or is extended as provided in the applicable Site Lease. If prior to the Expiry Date all Base Rental Payments under the applicable Facility Lease shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the applicable Facility Lease shall end simultaneously therewith.

(b) If a Facility Lease is extended beyond the Expiry Date pursuant to the terms thereof, the applicable Site Lease shall also be extended to the day following the date of termination of the applicable Facility Lease.

Rent. The Corporation shall pay to the County an advance rent of $1.00, which, together with the execution and delivery of each Facility Lease, shall constitute full consideration for the Site Leases over their term. The Corporation waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Corporation of the Leased Property or portion thereof as a result of material damage, destruction or condemnation.

Purpose. The Corporation shall use the Leased Property solely for the purpose of subleasing the same to the County; *provided,* that in the event of default by the County under a Facility Lease, the Corporation may exercise the remedies provided in the applicable Facility Lease.

Owner in Fee. The County covenants that it is the owner of the Leased Property free and clear of all liens, claims or encumbrances which affect marketability.

Assignments and Facility Leases. Unless the County shall be in default under a Facility Lease, the Corporation may not, without the prior written consent of the County, assign its rights under the applicable Site Lease or sublet the Leased Property except that the County expressly approves and consents to the assignment and transfer of the Corporation's right, title and interest in the applicable Site Lease to the Trustee pursuant to the Assignment Agreement.

Right of Entry. The County reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination. The Corporation agrees, upon the termination of the Site Leases, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the terms under the applicable Site Lease, reasonable wear and tear excepted, and agrees that any permanent improvements to the Leased Property at the time of the termination of the applicable Site Lease shall remain thereon and title thereto shall vest in the County.

Default. In the event the Corporation shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Leases, which default continues for thirty (30) days following notice and demand for correction thereof to the Corporation, the County may exercise any and all remedies granted by law, except that no merger of the applicable Site Lease and of the applicable Facility Lease shall be deemed to occur as a result thereof; *provided,* that so long as the Certificates executed and delivered pursuant to the Trust Agreement are Outstanding, the County shall have no power to terminate the Site Leases by reason of any default on the part of the Corporation, if such termination would affect or impair any assignment of the applicable Facility Lease then in effect between the Corporation and the Trustee that executes and delivers the Certificates.

Eminent Domain. In the event the whole or any portion of the Leased Property is taken by eminent domain proceedings, the interest of the Corporation shall be recognized and is determined to be the amount of the then unpaid Base Rental Payments payable under the applicable Facility Lease, and the amount of the unpaid Additional Payments due under the applicable Facility Lease, and the balance of the award, if any, shall be paid to the County.

Amendments. Each Site Lease may be amended for the purposes and in the manner and under the circumstances described in connection with the amendment of the applicable Facility Lease, as further described in the applicable Facility Lease.

Governing Law. The Site Leases are made in the State of California under the Constitution and laws of the State of California and are to be so construed.

ASSIGNMENT AGREEMENT

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged, does unconditionally grant, transfer and assign to the Trustee without recourse (a) all right, title and interest of the Corporation as lessee under each of the Site Leases; (b) all rights of the

Corporation to receive the portion of Base Rental Payments scheduled to be paid by the County under and pursuant to each of the Facility Leases for the benefit of the Owners of the Certificates; (c) all rents, profits and products from the Leased Property to which the Corporation has any right or claim whatsoever under each of the Facility Leases; (d) the right to take all actions and give all consents under each of the Facility Leases; (e) the right of access more particularly described in each of the Facility Leases; and (f) any and all other rights and remedies of the Corporation in each of the Facility Leases as lessor thereunder for the purpose of (i) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (ii) performing and discharging each agreement, covenant and obligation of the County contained in each of the Facility Leases and in the Trust Agreement.

Acceptance. The Trustee accepts the foregoing assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments payable under each of the Facility Leases shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Payment of Rentals. Upon payment or provision for payment to the Trustee in full of all Base Rental Payments under either of the Facility Leases and of all other amounts, including any additional rental or other amounts owed by the County under either of the Facility Leases or the Trust Agreement, the Assignment Agreement shall become and be void and of no effect with respect to the Facility Lease and the Site Lease with respect to which such payments have been made and the Trustee shall execute any and all documents or certificates reasonably requested by the Corporation to evidence the termination of the Assignment Agreement with respect to the Facility Lease and the Site Lease with respect to which such payments have been made.

Governing Law. The Assignment Agreement is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

TRUST AGREEMENT

Terms and Conditions of Certificates

Dating of Certificates. The Certificates shall be dated their date of delivery. Each Certificate shall represent interest from the Interest Payment Date to which interest has been paid or duly provided for next preceding its date of execution, unless such date of execution shall be (i) prior to the close of business on March 15, 2010, in which case such Certificate shall represent interest from its date of delivery, (ii) subsequent to a Record Date but before the related Interest Payment Date, in which case such Certificate shall represent interest from such Interest Payment Date, or (iii) an Interest Payment Date to which interest has been paid in full or duly provided for, in which case such Certificate shall represent interest from such date of execution; *provided*, *however*, that if, as shown by the records of the Trustee, interest shall be in default, each Certificate shall represent interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

Method and Place of Payment. Except as otherwise provided in the Representation Letter, the interest represented by the Certificates shall be payable on each Interest Payment Date by check sent by first class mail by the Trustee to the respective Owners of the Certificates as of the Record Date for such Interest Payment Date at their addresses shown on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Payments of defaulted interest with respect to any Certificate shall be paid by check to the Owner as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owner of the Certificate not less than ten days prior thereto. The principal and premium, if any, represented by the Certificates shall be payable upon presentation and surrender thereof on maturity or on prepayment prior thereto at the Principal Corporate Trust Office of the Trustee.

The Owner of $1,000,000 or more in aggregate principal amount represented by the Certificates may request in writing that the Trustee pay the interest represented by such Certificates by wire transfer to an account in the United States of America and the Trustee shall comply with such request for all Interest Payment Dates following the 15th day after receipt of such request.

Transfer and Payment of Certificates; Exchange of Certificates. All Certificates may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same principal amount in Authorized Denominations. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be presented for exchange at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificate Registration Books. The Trustee will keep sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection by the Corporation and the County at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates or his agent duly authorized in writing.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it will execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Corporate Trust Office of the Trustee, in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, payment date in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee shall require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the Trust Agreement and of the expenses which may be incurred by it under the Trust Agreement. Any Certificate executed and delivered under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which has matured or will mature within 30 days after the Trustee has received all required indemnity and payments on account of a lost, destroyed or stolen Certificate, the Trustee may make payment of such Certificate to the Owner thereof on or after the maturity date.

Execution and Delivery of Additional Certificates. In addition to the County's Certificates of Participation, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners but with the consent of the Insurer (which consent shall not be unreasonably withheld), provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Corporation shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under either of the Site Leases or the Facility Leases;

(b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement;

(c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement; and

(f) Either the HOJ Site Lease and the HOJ Facility Lease or the IRC Site Lease and the IRC Facility Lease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; *provided, however,* that no such amendment shall be made such that Base Rental Payments, including any such amendment, in any year shall be in excess of the annual fair rental value of the Leased Property, and evidence of the satisfaction of this condition shall be made by a Certificate of the County as required by the Trust Agreement.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

The County shall cause to be given to each rating agency rating the Certificates, and the Insurer, notice of any execution and delivery of Additional Certificates.

<u>Proceedings for Authorization of Additional Certificates</u>. Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County and the Corporation shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel (which may rely upon the Certificate of the County required by the Trust Agreement and such other opinions and certificates as may be appropriate) setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to either the HOJ Site Lease and the HOJ Facility Lease or the IRC Site Lease and the IRC Facility Lease, as applicable, required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the County and the Corporation; (3) that said amendments to either the HOJ Site Lease and the HOJ

Facility Lease or the IRC Site Lease and the IRC Facility Lease, as applicable, and the Supplemental Trust Agreement, when duly executed by the County and the Corporation, will be valid and binding obligations of the County and the Corporation; (4) that said amendments to either the HOJ Site Lease and the HOJ Facility Lease or the IRC Site Lease and the IRC Facility Lease, as applicable, have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to either the HOJ Site Lease and the HOJ Facility Lease or the IRC Site Lease and the IRC Facility Lease, as applicable, do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that the requirements of the Trust Agreement have been met, including a Certificate of the County as to the annual fair rental value of the Leased Property; which Certificate may assume the timely construction and completion of any Project to be financed with the proceeds of Additional Certificates so long as the proceeds of Additional Certificates or other funds of the County have been deposited with the Trustee (i) in a construction fund, in an amount reasonably expected to be sufficient to provide for the construction costs of such Project, and (ii) in the Interest Fund (including a capitalized interest account therein), in an amount sufficient to pay interest on the Additional Certificates for the period of time from their date of issuance until 6 months following the expected delivery date of a certificate of completion with respect to such Project;

(c) Certified copies of the resolutions of the County and the Corporation, authorizing the execution of the amendments to either the HOJ Site Lease and the HOJ Facility Lease or the IRC Site Lease and the IRC Facility Lease, as applicable, required by the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to either the HOJ Site Lease and the HOJ Facility Lease or the IRC Site Lease and the IRC Facility Lease, as applicable, as required by the Trust Agreement;

(e) Certified copies of the policies of insurance required by either the HOJ Facility Lease or the IRC Facility Lease, as applicable, or certificates thereof, which shall evidence that the amounts of the insurance required under either the HOJ Facility Lease or the IRC Facility Lease, as applicable, have been increased, if necessary, to cover the amount of such Additional Certificates; and

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in either the HOJ Facility Lease or the IRC Facility Lease, as applicable,.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

Funds

Reserve Fund.

(a) There is established in trust a special fund designated as the "Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee.

Moneys in the Reserve Fund shall be in the amount of the Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Reserve Fund shall be reduced below the Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the applicable Facility Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the applicable Facility Lease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Reserve Fund to the Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Reserve Fund shall be in excess of the Reserve Fund Requirement the Trustee shall, upon Written Request of the County, transfer such excess first to the County for deposit in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the County for deposit in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates and thereafter to the Principal Fund. At the termination of both Facility Leases in accordance with their respective terms, any balance remaining in the Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct in writing. For purposes of determining the amount on deposit in the Reserve Fund, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

(b) At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Reserve Fund satisfies the Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a *pro rata* portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the

Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Reserve Fund Requirement, in either case for deposit into the Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision of the Trust Agreement, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Reserve Fund before drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a *pro rata* basis, and (2) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Reserve Fund (a) in the event the Reserve Fund Credit Facility has been drawn upon, shall be first paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment and (b) to the extent all such draws on Reserve Fund Credit Facilities have been paid, then, second, shall be transferred or deposited to the Reserve Fund in amount such that after giving effect to the deposit the amount on deposit in the Reserve Fund is equal to the Reserve Fund Requirement.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

The term “substitution” as used above shall include such initial funding of the Reserve Fund Requirement by means of a Reserve Fund Credit Facility instead of by deposit of moneys, and shall not be read to mean that the County must first make an initial cash deposit in the Reserve Fund before invoking the provisions of the Trust Agreement relating to Reserve Fund Credit Facilities and satisfying the Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

<u>Cost of Issuance Fund</u>. There is established in trust a special fund designated as the “Cost of Issuance Fund” which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The moneys in the Costs of Issuance Fund shall be applied to the payment of Costs of Issuance of the Certificates, upon a Written Request of the County. All payments from the Costs of Issuance Fund shall be reflected in the Trustee’s regular accounting statements. On or before six months after the execution and delivery of the Certificates or Additional Certificates, the Trustee shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Reserve Fund to the extent the amount on deposit therein is less than the Reserve Fund Requirement, then to the Administrative Expense Fund to the extent that the amount on deposit therein is less than $20,000, and thereafter to the Base Rental Payment Fund.

Administrative Expense Fund.

(a) There is established in trust a special fund designated as the "Administrative Expense Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee.

(b) Amounts in the Administrative Expense Fund shall be paid out from time to time by the Trustee at the direction of the county for Administrative Fees and Expenses.

(c) Amounts in the Administrative Expense Fund in excess of $20,000 shall be transferred by the Trustee to the Base Rental Payment Fund.

Earnings Fund. There is established in trust a special fund designated as the "Earnings Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer the Earnings Fund as provided in the Trust Agreement.

The Trustee shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the Trustee in trust and shall be kept separate and apart from all other funds and money held by the Trustee. All investment earnings on the funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account upon receipt by the Trustee of written instructions from the County given in accordance with the provisions of the Tax Certificate.

Transfers of amounts in the Investment Earnings Account or any amount on deposit in the Excess Earnings Account which the County determines and informs the Trustee in writing exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate, shall be transferred on June 1 of each year or any other date or dates the County may direct, first, to the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement, and then, for deposit in the Base Rental Payment Fund. Except as set forth in the proceeding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Rental Payments

Pledge of Base Rental Payments and Additional Payments; Base Rental Payment Fund.

(a) There is established a special fund designated as the "Base Rental Payment Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Excess Earnings Account) subject to provisions of the Trust Agreement permitting the disbursement thereof for the purposes and on the conditions and terms set forth in the Trust Agreement, and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Certificates or Additional Certificates remain Outstanding. It is the intent of the parties to the Trust Agreement that the Corporation shall not have any right, title, in or to the Base Rental Payments. In the event, however, that it should be determined that the Corporation has any right, title or interest in or to the

Base Rental Payments, then the Corporation irrevocably pledge and transfer to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates. These pledges shall constitute a first and exclusive lien on the funds established under the Trust Agreement and the Base Rental Payments in accordance with the terms of the Trust Agreement subject in all events to the power of the County to cause the execution and delivery of Additional Certificates pursuant to the Trust Agreement which shall be on a parity with the Certificates and any Additional Certificates Outstanding.

(b) All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments, the proceeds of rental interruption insurance and liquidated damages, if any, shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee agrees to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to both Facility Leases or until such date as the Certificates and any Additional Certificates are no longer Outstanding; *provided, however,* and notwithstanding the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose under the Trust Agreement, and if the amount then in the Reserve Fund is at least equal to the Reserve Fund Requirement and there exists no Event of Default under the Trust Agreement, then amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Reserve Fund investment which provides for such payments, if any, or for any other purpose.

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner provided in the Trust Agreement in the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to both Facility Leases or until such date as the Certificates and any Additional Certificates are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund*. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Moneys in the Interest Fund shall be used by the Trustee for the purpose of paying the interest evidenced by the Certificates and the Additional Certificates when due and payable.

(b) *Principal Fund*. The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Certificates and any Additional Certificates when due and payable at maturity or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) *Prepayment Fund*. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to either of the Facility Leases, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Prepayment Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest represented by the Certificates and any Additional Certificates to be prepaid.

<u>Application of Insurance Proceeds and Condemnation Awards</u>. The Trustee shall not be responsible for the sufficiency of any insurance required by the Facility Leases and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County or the Corporation. Delivery to the Trustee of the schedule of insurance policies under the Facility Leases shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies.

Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to each of the Facility Leases, the County and the Corporation shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the HOJ Facility Lease or the IRC Facility Lease, as applicable. The Trustee shall hold said proceeds in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund." The Trustee shall only make disbursements from the Insurance Proceeds and Condemnation Awards Fund upon receipt of a Written Request of the County on behalf of the Corporation which (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred for the purpose of repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds and is a proper charge against the Insurance Proceeds and Condemnation Awards Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be transferred by the Trustee to Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement; provided, that if the County elects to so prepay the Outstanding Certificates and Additional Certificates, then the County shall make said election within 45 days after the damage to or destruction of the Leased Property. Notwithstanding any other provision in the Trust Agreement, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the Leased Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates and Additional Certificates not being prepaid.

The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the County, the Corporation or the Trustee in respect of the Leased Property shall be applied and disbursed by the County, the Corporation or the Trustee as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Base Rental Payments payable by the County under either of the Facility Leases, such proceeds shall be deposited first in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Reserve Fund to the extent that the amount therein is less than the Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County with respect to the Certificates, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Leased Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Base Rental Payments payable by the County under either of the Facility Leases, then the County, the Corporation or the Trustee shall immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates and Additional Certificates in the manner provided in the Trust Agreement.

Covenants

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates or Additional Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and neither of the County nor the Corporation will suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

Compliance with Site Leases and Facility Leases. The County and the Corporation will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Site Leases and the Facility Leases required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Site Leases and the Facility Leases against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Corporation will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Leased Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances (with respect to the HOJ Leased

Property, as such term is defined in the HOJ Facility Lease, and, with respect to the IRC Leased Property, as such term is defined in the IRC Facility Lease) and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Leased Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however,* that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

<u>Prosecution and Defense of Suits</u>. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Leased Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

<u>Accounting Records and Statements</u>. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

<u>Recordation and Filing</u>. The Corporation will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Site Leases, the Facility Leases, the Assignment Agreement and the Trust Agreement at all times as a security interest in the Base Rental Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to perfect, preserve and protect fully the security of the Owners and the rights and security interests of the Trustee, and the Corporation will do whatever else may be necessary or be reasonably required in order to perfect and continue the liens of the Site Leases, the Facility Leases, the Assignment Agreement and the Trust Agreement.

<u>Further Assurances</u>. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Corporation 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 Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Facility Leases or the Site Leases.

Excess Earnings Account of the Earnings Fund; Tax Covenants. (a) The County shall establish and maintain an account separate from any other fund or account established and maintained under the Trust Agreement designated as the "Excess Earnings Account." There shall be deposited in the Excess Earnings Account such amounts set forth in a written direction from the County to the Trustee as the County determines are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the County in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. The Trustee shall disburse such funds upon receipt of a written direction from the County. Notwithstanding defeasance of the Certificates and the Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively by the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants" and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate and shall be determined to have complied with its obligations with respect to the Excess Earnings Account if it follows the written directions of the County.

(b) Any funds remaining in the Excess Earnings Account after payment in full of all of the Certificates and any Additional Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants", shall be transferred to the County to be used for any lawful purpose.

Continuing Disclosure. The County covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Purchasers or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Owner or Beneficial Owner of Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this paragraph; *provided*, that the Trustee shall only be required to take an action under this paragraph to the extent funds have been provided to it or it has been otherwise indemnified to its reasonable satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys.

Default and Limitations of Liability

Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the

County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; *provided, however,* that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under either of the Facility Leases.

Action on Default. Subject to the Trust Agreement, in each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates and any Additional Certificates at the time Outstanding (subject to the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Site Leases, to the Corporation under the Facility Leases, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates and any Additional Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the applicable remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee 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 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 therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee in the Trust Agreement 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 any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation or the County to the Owners. Except as expressly provided in the Trust Agreement, the Corporation shall have no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County of the other agreements and covenants required to be performed by it contained in the Facility Leases or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the County to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Facility Leases or in the Trust Agreement, the County shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Site Leases or the Facility Leases or in the Trust Agreement.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the County pursuant to the HOJ Facility Lease or the IRC Facility Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the HOJ Facility Lease or the IRC Facility Lease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due as interest with respect to the Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates and any Additional Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates and Additional Certificates.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates and any Additional Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or Additional Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates or Additional Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Certificates and Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

The Trustee

Employment of the Trustee. The County and the Corporation appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment referred to in the Trust Agreement and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall 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.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing), but any such successor

Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars ($75,000,000) and subject to supervision or examination by federal or state authorities. 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 purposes of the Trust Agreement 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, the Corporation and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

<u>Compensation and Indemnification of the Trustee</u>. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its advances and expenditures under the Trust Agreement, including but not limited to payments due any provider of a Reserve Fund Credit Facility or Reserve Fund investment which provides for such payments, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however,* that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement or under either of the Facility Leases (except that such compensation or reimbursement may be made from the Cost of Issuance Fund held by the County to the extent provided in the Trust Agreement or as provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Corporation. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the each of the Facility Leases.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

The County covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Trust Agreement, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity shall survive the discharge of the Trust Agreement or the resignation or removal of the Trustee.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or Additional Certificate or to take any action at the request of any such person unless such Certificate or Additional Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate or Additional Certificate shall be furnished to the Trustee. 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 or direction of any of the Owners of the Certificates or Additional Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith. If requested by the County, counsel to the Trustee shall be of recognized national standing in the field of law relating to municipal bonds.

The Trustee shall not be responsible for the sufficiency or adequacy of the Certificates or any Additional Certificates, the Site Leases, the Facility Leases, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Certificates or any Additional Certificates, or of the title to or value of the Leased Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement or an Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Corporation or by the Owners of not less than 25% in aggregate principal amount represented by the Certificates and Additional Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and Additional Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Corporation, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the County as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct or negligence.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Trust Agreement) in aggregate principal amount of the Certificates at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Trust Agreement.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Facility Leases, the Site Leases or the Trust Agreement for the existence, furnishing or use of the Leased Property.

Every provision of the Trust Agreement, the Facility Leases, the Site Leases and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement.

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise specifically provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the County or the Corporation, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment of or Supplement to Trust Agreement

Amendment or Supplement. The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates and Additional Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or Additional Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each

Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, (4) modify any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer in any manner which affects the rights of the Insurer under the Trust Agreement without its prior written assent thereto or (5) amend the provisions of the Trust Agreement described by the provisions of the Trust Agreement described under the caption "—Amendment or Supplement" without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Trust Agreement by the County or the Corporation, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Leased Property as may be requested from time to time by the County in accordance with either of the Facility Leases; or

(c) 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 or in regard to questions arising under the Trust Agreement which the County or the Corporation may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners or the Insurer, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Trust Agreement without the prior written consent of the Insurer.

Disqualified Certificates. Certificates and Additional Certificates actually known by the Trustee to be owned or held by or for the account of the County (but excluding Certificates and Additional Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates and Additional Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in this section, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates and Additional Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement, the Trustee may determine that the Certificates and Additional Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate or Additional Certificate and presentation of such Certificate or Additional Certificate for such purpose at the Principal Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate or Additional Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates or Additional Certificates modified to conform to such action are necessary, modified Certificates or Additional Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates or Additional Certificates such new Certificates or Additional Certificates shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Owner for Certificates or Additional Certificates then Outstanding upon surrender of such Outstanding Certificates or Additional Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular Certificates or Additional Certificates owned by him, provided that due notation thereof is made on such Certificates or Additional Certificates.

Opinion of Counsel. In executing any amendment or supplement to the Trust Agreement, the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Trust Agreement have been satisfied.

Defeasance

Discharge of Certificates and Trust Agreement. (a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated therein, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or prepayment date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case said Certificates or Additional Certificates are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates or Additional Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on, said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates or Additional Certificates and to the securities depositories and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; provided that Defeasance Securities deposited with the Trustee pursuant to this paragraph may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates and Additional Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to this paragraph, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in this paragraph shall preclude prepayments pursuant to the Trust Agreement.

Any release under this subsection (b) shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; provided however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Trust Agreement.

(c) After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Facility Leases, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

(d) In the event that the principal, interest, or both due on the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall not be considered paid by the County or the Corporation under the Trust Agreement, and all covenants, agreements and other obligations of the Corporation and the County to the benefit of the Owners shall continue to exist and shall run to the benefit of the Insurer and the Insurer shall be subrogated to the rights of the Owners.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal and premium, if any, represented by any of the Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal, and premium, if any, represented by such Certificates or Additional Certificates have become payable, shall 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 Owners shall look only to the County for the payment of the interest and principal and premium, if any, represented by such Certificates or Additional Certificates; *provided, however,* that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Miscellaneous

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the County, the Corporation, the Trustee, the Insurer and the Owners, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the County or the Corporation shall be for the sole and exclusive benefit of the County, the Corporation, the Trustee, the Insurer and the Owners.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificate or Additional Certificate and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement.

Any declaration, consent, request or other instrument in writing of the Owner of any Certificate or Additional Certificate shall bind all future Owners of such Certificate or Additional Certificate with respect to anything done or suffered to be done by the County, the Corporation or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer, employee or agent of the County, the Corporation or the Trustee shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal represented by the Certificates and Additional Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer, employee or agent of the County from the performance of any official duty provided by any applicable provisions of law or by the Site Leases, the Facility Leases or the Trust Agreement.

Acquisition of Certificates by County. All Certificates and Additional Certificates acquired by the County, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Certificate of the County or Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the County or the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the County upon a representation by an officer or officers of the County, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Publication for Successive Weeks. Any publication required to be made under the Trust Agreement for two successive weeks in a Financial Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Financial Newspaper for any subsequent publication, but may be made on different Business Days or in different Financial Newspapers, as the case may be.

Funds. Any fund required to be established and maintained in the Trust Agreement by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

The County and the Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; *provided, however,* that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the written request of the County Treasurer or the Chief Investment Officer of the County only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (6) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this paragraph. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments in any funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited in the Earnings Fund and are to be transferred as provided in the Trust Agreement. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Trust Agreement.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

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APPENDIX D

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS APPENDIX D CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CORPORATION, THE COUNTY AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE CORPORATION, THE COUNTY AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2009 Certificates. The Series 2009 Certificates 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 2009 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). 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 and www.dtc.org. The information set forth on such websites is not incorporated by reference.

Purchases of the Series 2009 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Certificates on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations 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 2009 Certificates 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 2009 Certificates, except in the event that use of the book-entry system for the Series 2009 Certificates is discontinued.

To facilitate subsequent transfers, all Series 2009 Certificates 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 2009 Certificates 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 2009 Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Certificates 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 Authority and 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 2009 Certificates. Beneficial Owners of the 2009 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2009 Certificates, such as prepayments, tenders, defaults, and proposed amendments to the 2009 Certificates. For example, Beneficial Owners of the 2009 Certificates may wish to ascertain that the nominee holding the 2009 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices will be sent to DTC. If less than all of the Series of a particular maturity are being prepaid, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in the 2009 Certificates of such maturity to be prepaid. None of the Corporation, the County or the Trustee can provide any assurance that DTC, the Direct Participants or the Indirect Participants will allocate prepayments of the 2009 Certificates of a particular maturity among Beneficial Owners on such a proportional basis.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2009 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI 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 2009 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments evidenced by the Series 2009 Certificates 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 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 AUTHORITY, 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 2009 CERTIFICATES (i) PAYMENTS OF PRINCIPAL OF AND INTEREST EVIDENCED BY THE SERIES 2009 CERTIFICATES, (ii) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2009 CERTIFICATES OR (iii) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2009 CERTIFICATES, 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.

NONE OF THE AUTHORITY, THE COUNTY OR 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 EVIDENCED BY THE SERIES 2009 CERTIFICATES; (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 2009 CERTIFICATES.

DTC may discontinue providing its services as depository with respect to the Series 2009 Certificates at any time by giving reasonable notice to the Corporation, the County or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2009 Certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2009 Certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation and the County believe to be reliable, but the Corporation and the County take no responsibility for the accuracy thereof.

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APPENDIX E

FORM OF SPECIAL COUNSEL OPINION

Upon execution and delivery of the Series 2009 Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel, proposes to render its final approving opinion with respect to the Series 2009 Certificates in substantially the following form:

[Date of Delivery]

County of San Diego
San Diego, California

County of San Diego
Certificates of Participation
Justice Facilities Refunding)
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the County of San Diego (the "County") in connection with execution and delivery of $80,940,000 aggregate principal amount of County of San Diego Certificates of Participation (Justice Facilities Refunding) (the "Certificates"), executed and delivered pursuant to a trust agreement, dated as of October 1, 2009 (the "Trust Agreement"), by and among the County, the San Diego County Capital Asset Leasing Corporation (the "Corporation") and Zions First National Bank, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Site Lease (Hall of Justice) (Including Termination Agreement), dated as of October 1, 2009 (the "HOJ Site Lease"), between the County and the Corporation, the Facility Lease (Hall of Justice) (Including Termination Agreement), dated as of October 1, 2009 (the "HOJ Facility Lease"), between the Corporation and the County, the Site Lease (Inmate Reception Center) (Including Termination Agreement), dated as of October 1, 2009 (the "IRC Site Lease"), between the County and the Corporation, the Facility Lease (Inmate Reception Center) (Including Termination Agreement), dated as of October 1, 2009 (the "IRC Facility Lease"), between the Corporation and the County, the Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the County and the Assignment Agreement, dated as of October 1, 2009 (the "Assignment Agreement"), between the Corporation and the Trustee, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Corporation, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, 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 assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the HOJ Site Lease, the HOJ Facility Lease, the IRC Site Lease, the IRC Facility Lease, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the HOJ Site Lease, the HOJ Facility Lease, the IRC Site Lease, the IRC Facility Lease, the Assignment Agreement and the Tax Certificate and their enforceability 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, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the liens of the HOJ Site Lease, the HOJ Facility Lease, the IRC Site Lease, the IRC Facility Lease or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates 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 Trust Agreement, the HOJ Site Lease, the IRC Site Lease, the HOJ Facility Lease and the IRC Facility lease have been duly executed and delivered by, and constitute valid and binding obligations of the County.

2. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest evidenced by the Certificates, of the Base Rental Payments and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Excess Earnings Account, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. Interest evidenced by the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by the Certificates.

Faithfully yours,

COUNTY OF SAN DIEGO • Certificates of Participation (Justice Facilities Refunding)

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
FSC
www.fsc.org Cert no. BV-COC-960893
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