NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS:
Moody's: "Aa3"
S&P: "AA+"
Fitch: "AA+"
See "Ratings" herein.

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 2011 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 2011 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is 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 the accrual or receipt of interest evidenced by, the Series 2011 Certificates. See "Tax Matters" herein.

$19,260,000
COUNTY OF SAN DIEGO
Certificates of Participation
(2011 MTS Tower Refunding)

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

The County of San Diego Certificates of Participation (2011 MTS Tower Refunding) (the "Series 2011 Certificates") are being executed and delivered pursuant to the Trust Agreement, dated as of May 1, 2011, by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego Regional Building Authority (the "Authority"). The Series 2011 Certificates evidence proportionate undivided interests in the base rental payments (the "Base Rental Payments") to be made by the County pursuant to that certain Lease, dated as of May 1, 2011, by and between the County and the Authority, pursuant to which the County will lease from the Authority certain real property and the buildings and improvements located thereon, as more particularly described herein. See "Security and Sources of Payment for the Series 2011 Certificates – Base Rental Payments" herein. The proceeds of the Series 2011 Certificates, together with other moneys available therefor, will be applied to (i) prepay certain outstanding Certificates of Participation (2001 MTS Tower Refunding), as described herein, (ii) fund a reserve fund for the Series 2011 Certificates, and (iii) pay certain costs of issuance incurred in connection with the Series 2011 Certificates. See "Plan of Refinancing" and "Estimated Sources and Uses of Funds" herein.

Interest represented by the Series 2011 Certificates is payable on May 1 and November 1 of each year, commencing on November 1, 2011. The Series 2011 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 2011 Certificates. Individual purchases of the Series 2011 Certificates will be made in book-entry form only. Purchasers of the Series 2011 Certificates will not receive certificates representing their ownership interests in the Series 2011 Certificates purchased. Principal and interest payments represented by the Series 2011 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 2011 Certificates. See Appendix F – "Book-Entry System" attached hereto.

The Series 2011 Certificates are subject to extraordinary prepayment, as described herein. See "The Series 2011 Certificates – Prepayment" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS 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 PAYMENTS 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 2011 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 passed upon for the County and the Authority by the County Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is anticipated that the Series 2011 Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about May 3, 2011.

Citi **Stone & Youngberg**

Dated: April 20, 2011

$19,260,000
COUNTY OF SAN DIEGO
CERTIFICATES OF PARTICIPATION
(2011 MTS TOWER REFUNDING)

MATURITY SCHEDULE

BASE CUSIP No.[†]: 797391

Maturity (November 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix[†]
2011	$1,995,000	1.00%	0.38%	R68
2012	2,090,000	2.00	0.82	R76
2013	2,085,000	2.00	1.18	R84
2014	2,200,000	4.00	1.64	R92
2015	2,220,000	4.00	2.08	S26
2016	2,340,000	4.00	2.47	S34
2017	2,450,000	4.00	2.82	S42
2018	2,565,000	5.00	3.21	S59
2019	1,315,000	5.00	3.56	S67

[†] CUSIP data, copyright 2011, American Bankers Association. CUSIP data herein is set forth for convenience of reference only. The Authority, the County and the Underwriters assume no responsibility for its accuracy.

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

Greg Cox	First District
Dianne Jacob	Second District
Pam Slater-Price	Third District
Ron Roberts, Vice Chairman	Fourth District
Bill Horn, Chairman	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*
Thomas E. Montgomery, *County Counsel*

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SAN DIEGO REGIONAL BUILDING AUTHORITY

BOARD OF COMMISSIONERS

Ron Roberts	Chairman
Greg Cox	Vice Chairman
Harry Mathis	Member

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 2011 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 Authority, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2011 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 Authority, 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 Authority, 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 Authority 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 2011 Certificates, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2011 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 2011 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
Certificates of Participation
(2011 MTS Tower Refunding)

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Series 2011 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 Lease (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 (2011 MTS Tower Refunding) in an aggregate principal amount of $19,260,000 (the "Series 2011 Certificates"). The Series 2011 Certificates are being executed and delivered pursuant to the Trust Agreement, dated as of May 1, 2011, by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego Regional Building Authority (the "Authority"). Proceeds of the Series 2011 Certificates, together with other moneys available therefor, will be applied to (i) prepay all outstanding Certificates of Participation (2001 MTS Tower Refunding) (the "Prior Certificates"), (ii) fund a reserve for the Series 2011 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2011 Certificates. See "Plan of Refinancing" and "Estimated Sources and Uses of Funds" herein.

The County will lease certain real property and buildings and improvements located thereon constituting the Metropolitan Transit System Tower Complex, as more particularly described herein (the "Property"), from the Authority pursuant to the Lease, dated as of May 1, 2011 (the "Lease"), by and between the County and the Authority. The Authority is the fee title owner of a portion of the Property and derives its right, title and interest in and to the remainder of the Property from the Ground Lease, dated as of November 1, 1987, between the San Diego Metropolitan Transit Development Board (the "MTDB") and the Authority, as amended and restated, including as amended and restated by the Amended and Restated Ground Lease, dated as of May 1, 2011 (collectively, the "Ground Lease"), by and between the MTDB and the Authority. Pursuant to the Assignment Agreement, dated as of May 1, 2011 (the "Assignment Agreement"), by and between the Trustee and the Authority, the Authority will assign to the Trustee, for the benefit of the Owners of the Series 2011 Certificates, among other things, (i) all right, title and interest of the Authority as lessee under the Ground Lease and (ii) all rights of the Authority to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Lease for the benefit of the Owners of the Series 2011 Certificates. The Series 2011 Certificates evidence proportionate undivided interests in the base rental payments to be made by the County as the rental for the Property under and pursuant to the Lease (the "Base Rental Payments"). See "Security and Sources of Payment for the Series 2011 Certificates" herein.

Security and Source of Payment for the Series 2011 Certificates

Under the Lease, in consideration for the use and occupancy of the Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Payments with respect to the Property (the "Additional Payments"), in the amounts, at the times and in the manner set forth in the Lease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2011 Certificates. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Lease in its operating budget for each fiscal year commencing after the date of the Lease and to make all necessary appropriations for such Base Rental Payments and Additional Payments.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS 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 PAYMENTS 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 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 2011 Certificates – Base Rental Payments" and "– Abatement" herein.

The Series 2011 Certificates

The Series 2011 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 2011 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 2011 Certificates will represent the sum of the portions of the Base Rental Payments designated as interest components coming due on the Interest Payment Dates (herein defined) in each year. The principal represented by the Series 2011 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 2011 Certificates is payable on May 1 and November 1 of each year, commencing on November 1, 2011 (each an "Interest Payment Date").

The Series 2011 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 2011 Certificates. Individual purchases of the Series 2011 Certificates will be made in book-entry form only. Purchasers of the Series 2011 Certificates will not receive certificates representing their ownership interests in the Series 2011 Certificates purchased. Principal and interest payments represented by the Series 2011 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 2011 Certificates. See "The Series 2011 Certificates – General" herein and Appendix F – "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 2011 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 2011 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is 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 the accrual or receipt of interest evidenced by, the Series 2011 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 notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "Continuing Disclosure" herein and Appendix E – "Form of Continuing Disclosure Agreement" attached hereto.

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 Authority 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 2011 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 Ground Lease, the Lease and the Assignment Agreement and any other agreements relating to the Series 2011 Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2011 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 Authority 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 PROPERTY

The Property, commonly referred to as the Metropolitan Transit System Tower Complex, is a 10-story office complex containing approximately 180,000 square feet that includes a light rail trolley station and a parking garage with approximately 1,000 spaces and a free-standing clock tower approximately 225 feet tall. The Property also has 5,600 square feet of incidental retail and commercial spaces. Construction of the Property was completed in 1989. The Property houses Metropolitan Transportation System offices and certain County groups, including the Strategic Planning Department, Child Welfare Services and In-Home Supportive Services administration. The Property is located at 1255 Imperial Avenue, in an area bounded on the north by Imperial Avenue, on the west by 11th Street, on the east by 13th Street and on the south by the railroad right-of-way, all located within the City of San Diego, California. The Property site consists of two parcels, one of which is owned by the MTDB and one of which is owned by the Authority. The portion of the Property owned by the MTDB is leased to the Authority pursuant to the Ground Lease. The Authority leases both parcels to the County pursuant to the Lease. The MTDB subleases from the County approximately 47,000 square feet of the office and retail space, which includes the previously mentioned retail and commercial spaces, the approximately 10,000 square-foot light rail trolley station under the office building, and 220 spaces in the parking garage pursuant to the Sublease, dated as of May 1, 2011 (the "MTDB Sublease"), for a term ending on November 1, 2086, unless extended or sooner terminated in accordance with the MTDB Sublease.

PLAN OF REFINANCING

The Series 2011 Certificates are being executed and delivered to (i) provide for the prepayment of the Prior Certificates, (ii) fund a reserve fund for the Series 2011 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2011 Certificates. The Prior Certificates were executed and delivered in the original principal amount of $36,960,000 to prepay previously outstanding Certificates of Participation (1991 MTS Tower Refunding Project) (the "1991 Certificates"). The 1991 Certificates were executed and delivered to finance the defeasance of the Authority's previously outstanding Lease Revenue Bonds (MTS Tower Project), Series 1989A, which were issued to finance the acquisition, construction and installation costs of certain improvements to the Property.

A portion of the net proceeds of the Series 2011 Certificates will be deposited into the escrow fund established under the Escrow Agreement, dated as of May 1, 2011 (the "Escrow Agreement"), by and between the County and Zions First National Bank, as escrow agent thereunder (the "Escrow Agent"). Such amounts, together with amounts transferred from certain funds held under the trust agreement pursuant to which the Prior Certificates were executed and delivered (the "Prior Trust Agreement"), will be invested in cash and defeasance securities authorized under the Prior Trust Agreement (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 Agreement, as to provide amounts sufficient to prepay the outstanding Prior Certificates on June 2, 2011 (the "Prepayment Date"), at a prepayment price equal to 100% of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment.

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 Agreement, 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 the 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 2011 Certificates, together with other moneys available therefor, are expected to be applied approximately as follows:

Sources:	
Principal Amount of Series 2011 Certificates	$ 19,260,000
Original Issue Premium	1,236,860
Transfers From Amounts Held Under Prior Trust Agreement	3,436,756
Total Sources	$ 23,933,616
Uses:	
Escrow Fund	$ 22,210,963
Reserve Fund	1,359,200
Costs of Issuance[(1)]	363,453
Total Uses	$ 23,933,616

(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 2011 CERTIFICATES

The following is a summary of certain provisions of the Series 2011 Certificates. Reference is made to the Series 2011 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 2011 Certificates will be dated their date of delivery and principal with respect to the Series 2011 Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Series 2011 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 2011 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 2011 Certificates will be payable semiannually on each May 1 and November 1 of each year, commencing on November 1, 2011 and will be computed on the basis of a 360-day year of twelve 30-day months.

Book-Entry System

The Series 2011 Certificates will be initially issued in denominations of $5,000 and any integral multiple thereof. The Series 2011 Certificates will be delivered in fully registered form only, and, when delivered, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series 2011 Certificates. Individual purchases of the Series 2011 Certificates will be made in book-entry form only. Purchasers of the Series 2011 Certificates will not receive certificates representing their ownership interests in the Series 2011 Certificates purchased. Principal and interest payments represented by the Series 2011 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 2011 Certificates. See Appendix F – "Book-Entry System" attached hereto.

Prepayment

Optional Prepayment. The Series 2011 Certificates are not subject to optional prepayment prior to maturity.

Extraordinary Prepayment. The Series 2011 Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the direction of the County, from the net proceeds of any award in eminent domain or any insurance or condemnation award with respect to the Property or portions thereof, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented 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 of the prepayment of the Series 2011 Certificates. The notice of prepayment shall specify: (a) the Series 2011 Certificates or designated portions thereof (in the case of prepayment of the Series 2011 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 2011 Certificates to be prepaid, (f) the numbers of the Series 2011 Certificates to be prepaid in whole or in part (if less than all of the Series 2011 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 2011 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 2011 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 2011 CERTIFICATES

Base Rental Payments

General. The Series 2011 Certificates represent the aggregate principal components of the Base Rental Payments under the Lease and each Series 2011 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

Lease to make Base Rental Payments subject to the provisions of the Lease related to abatement. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Lease in its operating budget for each fiscal year commencing after the date of the Lease and to make all necessary appropriations for such Base Rental Payments and Additional Payments. Base Rental Payments are scheduled to be paid as set forth herein. See "– Base Rental Payments Schedule" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS 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 PAYMENTS 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 LEASE – RENTAL PAYMENTS – OBLIGATION TO MAKE RENTAL PAYMENTS" ATTACHED HERETO.

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 Authority of the other agreements and covenants required to be performed by them, respectively contained in the Ground Lease, the MTDB Sublease, the Lease or the Trust Agreement. Additional Payments payable by the County under the Lease include, among others, amounts sufficient to pay certain taxes and assessments, insurance premiums, and certain administrative costs.

Pursuant to the Lease, the lease payments under the Lease shall be absolutely net to the Authority so that the Lease shall yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as herein specifically otherwise provided. The Lease provides 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 its agreements and covenants contained in the Lease.

The Lease provides that, upon the occurrence of an Event of Default under the Lease, the Authority or its assignee must thereafter maintain the 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 Property regardless of whether or not the County has abandoned the Property; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE LEASE OR OTHERWISE. Pursuant to the Lease, in such event, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the County and, to pay the rent to the end of the term of the 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 Lease for the payment of rent thereunder (without acceleration).

Base Rental Payments Schedule. The Lease provides that all Base Rental Payments due in any Lease Year (herein defined) shall be due and payable in one sum on July 5 of each year (or the next Business Day if

July 5 does not fall on a Business Day), commencing on July 5, 2011, in the case of Base Rental Payments accruing in each Lease Year.

A table of annual Base Rental Payments under the Lease is set forth below.

BASE RENTAL PAYMENTS

Fiscal Year Ending	Principal Component	Interest Component	Total Base Rental Payments[1]
June 30, 2012	$1,995,000	$652,176	$2,647,176
June 30, 2013	2,090,000	625,000	2,715,000
June 30, 2014	2,085,000	583,250	2,668,250
June 30, 2015	2,200,000	518,400	2,718,400
June 30, 2016	2,220,000	430,000	2,650,000
June 30, 2017	2,340,000	338,800	2,678,800
June 30, 2018	2,450,000	243,000	2,693,000
June 30, 2019	2,565,000	129,875	2,694,875
June 30, 2020	1,315,000	32,875	1,347,875

(1) Amounts reflect the aggregate amount of scheduled Base Rental Payments due and payable under the Lease on July 5 of each fiscal year.

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" means an amount with respect to all Series 2011 Certificates and any additional certificates of participation executed and delivered pursuant to the Trust Agreement (the "Additional Certificates") equal, as of any date of calculation, to the lesser of (a) 50% of Maximum Annual Debt Service on all Outstanding Series 2011 Certificates and Additional Certificates or (b) 125% of Average Annual Debt Service on all Outstanding Series 2011 Certificates and Additional Certificates; provided however, that the Reserve Fund Requirement with respect to any Series of Certificates or Additional Certificates shall be the least of (i) or (ii) above, or an amount equal to, or derived by the addition of, 10% of the proceeds from the sale of such Series of Certificates or Additional Certificates to the Reserve Fund. "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. "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. "Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year. "Lease Year" means the period from each July 1 to and including the following June 30 during the term hereof. Upon the execution and delivery of the Series 2011 Certificates, $1,359,200 will be deposited into the Reserve Fund to satisfy the Reserve Fund Requirement.

The Trust Agreement provides that, for purposes of determining the amount on deposit in the Reserve Fund, all investments shall be valued semi-annually on or before each Interest Payment Date 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. The Trust Agreement also 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 Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the 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.

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 2011 Certificates. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Proceeds of the Certificates – Reserve Fund" attached hereto.

The Ground Lease and Nondisturbance Agreement

The Property site consists of two parcels, one of which is owned by the MTDB and one of which is owned by the Authority. The portion of the Property owned by the MTDB is leased to the Authority pursuant to the Ground Lease. The Authority leases both parcels to the County pursuant to the Lease. The MTDB subleases from the County approximately 47,000 square feet of the office space and retail space, the approximately 10,000 square-foot light rail trolley station under the office building, and 220 spaces in the parking garage pursuant to the MTDB Sublease for a term ending on November 1, 2086, unless sooner terminated as provided therein. MTDB will enter into a Nondisturbance Agreement and Agreement Re: Ground Lease (2011 MTS Tower Refunding), dated as of May 1, 2011 (the "Nondisturbance Agreement") with the Authority which will provide, among other things, that in the event the Trustee obtains possession of the land and facilities covered by the Ground Lease through actions taken under the Lease, the MTDB will recognize the Trustee and any entity claiming through the Trustee as the rightful occupier of the facilities under the Lease and will not withhold consent to such a transfer, provided that the Trustee or new occupying lessee assumes obligations under the Lease and there does not occur thereafter an event of default under the Lease or event which with the passing of time or giving of notice or both would constitute such an event of default. See Appendix C – "Summary of Principal Legal Documents – Ground Lease" and "Summary of Principal Legal Documents – Nondisturbance Agreement" attached hereto.

Insurance

The Lease provides that the County shall secure and maintain, or cause to be secured and maintained, at all times with insurers of recognized responsibility or through a program of self-insurance or self funding pursuant to the Lease, insurance against the risks and in the amounts set forth in the Lease. Such insurance includes "all risk" insurance against loss or damage to the Property including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the greater of (i) the cumulative replacement values of the Property and, in the case of a policy covering more than the 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 the then-remaining Base Rental Payments payable under the Lease; provided 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 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 Property and one or more additional parcels of real property leased or owned by the County and 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 Lease, the County may obtain such coverage as a joint insured with one or more other public agencies located within or outside of the County of San Diego, which may be limited in an amount per occurrence in the aggregate for all insureds as described in 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 Property through an insurance policy described in the immediately preceding sentence. As a consequence, the 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 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 Property.

The Lease provides that the County will also obtain rental interruption insurance with respect to the Property in an amount sufficient at all times to pay the total rent payable under the Lease for a period of not less than two years' Base Rental Payments for the Property; provided that such rental interruption insurance may be included in the Pooled Public Agencies Insurance without increasing the aggregate limits for coverage with respect to any hazard covered thereby. See Appendix C – "Summary of Principal Legal Documents – The Lease – Maintenance; Taxes; Insurance and Other Charges – Insurance" attached hereto. 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 Lease – 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 2011 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 Property, rental payments due under the Lease with respect to such Property shall be abated to the extent that the annual fair rental value of the portion of such 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 lease any or all of the Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the fair rental value available to pay Base Rental Payments, annual fair rental value of the Property shall first be allocated to the Lease, as provided therein. Any abatement of rental payments pursuant to the Lease shall not be considered an Event of Default under the 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 Property so damaged, destroyed, defective or condemned.

The Lease provides that, 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 Property and the County is unable to repair, replace or rebuild such Property from the proceeds of insurance, if any, pursuant to the 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 Property.

Substitution or Removal of Property

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

Additional Certificates

The Trust Agreement provides that, in addition to the Series 2011 Certificates, the County, the Authority 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 Authority, 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, the condition that the County and the Authority must enter into an amendment to the Lease, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder an aggregate amount equal to the principal and interest represented by such Additional Certificates. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Additional Certificates" attached hereto.

THE AUTHORITY

The Authority was organized by the County and the MTDB pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State. The Authority was established for the purpose, among others, of providing for the financing of public capital improvements for its members. The Authority has all powers conferred upon joint exercise of powers authorities by the laws of the State of California and the joint exercise of powers authorities agreement pursuant to which it was formed. Except as provided by the Trust Agreement, the Authority has no liability to the Owners of the Series 2011 Certificates and has pledged none of its moneys, funds or assets as revenues or otherwise toward the Base Rental Payments or Additional Payments under the Lease, or toward the payment of any amount due in connection with the Series 2011 Certificates.

The Authority is a separate legal entity from the County. It is governed by a three member Board of Commissioners (the "Board of Commissioners") consisting of two appointees of the Board of Supervisors of the County and one appointee of the MTDB. The Authority has no employees. All staff work, including that of Counsel, is performed by employees of the County. The members of the Authority's Board of Commissioners are Ron Roberts (Chairman), Greg Cox (Vice Chairman) and Harry Mathis (Member).

The Authority has not entered into any material financing arrangements with respect to the Series 2011 Certificates other than those referred to in this Official Statement. Further information concerning the Authority may be obtained from the County of San Diego 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 2011 Certificates.

Not a Pledge of Taxes

The obligation of the County to pay the Base Rental Payments or Additional Payments 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 Payments 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 Lease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Lease that, for as long as the Property 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 Lease (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) 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

The Lease provides that, upon the occurrence of an Event of Default under the Lease, the Authority or its assignee must thereafter maintain the 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 Property regardless of whether or not the County has abandoned the Property; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE LEASE OR

OTHERWISE. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Lease, nor is the Trustee empowered to sell the Property and use the proceeds of such sale to prepay the Series 2011 Certificates or pay debt service thereon. Pursuant to the Lease, in such event, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the County and, to pay the rent to the end of the term of the 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 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 2011 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 2011 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 2011 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.

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 2011 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 Property, rental payments due under the Lease with respect to such Property shall be abated to the extent that the annual fair rental value of the portion of such 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 lease any or all of the Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the fair rental value available to pay Base Rental Payments, annual fair rental value of the Property shall first be allocated to the Lease, as provided therein. Any abatement of rental payments pursuant to the Lease shall not be considered an Event of Default under the 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 Property so damaged, destroyed, defective or condemned.

Seismic Events

The Property is located within a seismically active area, and damage from an earthquake could be substantial. The County is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property 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 Property, 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 2011 Certificates or debt service on the Series 2011 Certificates. If there is no earthquake insurance on the Property and if the Property is damaged in an earthquake, the Base Rental Payments would be subject to abatement. See "Risk Factors – Abatement" herein.

The Property 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 Lease – 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 2011 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 2011 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is 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 D hereto.

To the extent the issue price of any maturity of the Series 2011 Certificates is less than the amount to be paid at maturity of such Series 2011 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Series 2011 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 2011 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 2011 Certificates is the first price at which a substantial amount of such maturity of the Series 2011 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 2011 Certificates accrues daily over the term to maturity of such Series 2011 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 2011 Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Series 2011 Certificates. Beneficial Owners of the Series 2011 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Series 2011 Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2011 Certificates in the original offering to the public at the first price at which a substantial amount of such Series 2011 Certificates is sold to the public.

Series 2011 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 2011 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 2011 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 2011 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Series 2011 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 2011 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Series 2011 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 2011 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 2011 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 2011 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 market price for, or marketability of, the Series 2011 Certificates. Prospective purchasers of the Series 2011 Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, 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 2011 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 2011 Certificates ends with the execution and delivery of the Series 2011 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 2011 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 2011 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 2011 Certificates, and may cause the County or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

Certain legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix D hereto. Certain legal matters will be passed upon for the Authority 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 for the Fiscal Year ended June 30, 2010, 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 November 22, 2010.

LITIGATION

No litigation is pending or, to the best knowledge of the County, threatened against the County or the Authority concerning the validity of the Series 2011 Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Authority or contesting the County's ability to issue the Series 2011 Certificates or pay the Base Rental Payments pursuant to the Lease. There are a number of lawsuits and claims pending against the County. 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 Financial Services, LLC, a subsidiary of the McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aa3," "AA+" and "AA+," respectively, to the Series 2011 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 2011 Certificates.

UNDERWRITING

The Series 2011 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 2011 Certificates the Underwriters have agreed, subject to certain conditions, to purchase the Series 2011 Certificates at a price of $20,373,586.71 (representing the principal amount of the Series 2011 Certificates of $19,260,000.00, plus an original issue premium of $1,236,860.00, less underwriters' discount of $123,273.29). The Purchase Contract for the Series 2011 Certificates provides that the Underwriters will purchase all of the Series 2011 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 2011 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.

The following two sentences have been provided by Citigroup Global Markets Inc., one of the underwriters for the Series 2011 Certificates: Citigroup Inc., parent company of Citigroup Global Markets Inc., an underwriter of the Series 2011 Certificates, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2011 Certificates.

The following two sentences have been provided by Stone & Youngberg LLC, one of the underwriters for the Series 2011 Certificates: Stone & Youngberg LLC has entered into an agreement (the "Distribution Agreement") with First Republic Securities Company LLC, Member FINRA/SIPC, a subsidiary of First Republic Bank, for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the Distribution Agreement, if applicable to the Series 2011 Certificates, Stone & Youngberg will share a portion of its underwriting compensation with respect to the Series 2011 Certificates, with First Republic Securities Company LLC.

FINANCIAL ADVISOR

Gardner, Underwood & Bacon LLC, Los Angeles, California, which was acquired by Loop Capital Markets LLC in January of 2011, served as Financial Advisor to the County in connection with the execution and delivery of the Series 2011 Certificates. 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 2011 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 prepay the outstanding Prior Certificates on the Prepayment Date, at a prepayment price equal to 100% of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") with Digital Assurance Certification, L.L.C., the County has agreed to provide, or cause to be provided, with respect to each fiscal year of the County, commencing with Fiscal Year 2010-11, 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 certain annual financial information and operating data with respect to the County for the most current fiscal year available. In addition, the County has agreed to provide, or cause to be provided, to the Repository notice of the occurrence of any of the Notice Events enumerated in paragraph (b)(5)(i)(C) of the Rule. These covenants have been made in order to assist the Underwriters in complying with the Rule. See Appendix E – "Form of Continuing Disclosure Agreement" attached hereto.

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 2011 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

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 4,261 square miles, extending 75 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 2010-11 Adopted Operational Plan (the “Fiscal Year 2010-11 Adopted Budget”) is approximately $4.96 billion, of which $3.74 billion 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 Fiscal Years 2001-02 through 2010-11:

TABLE 1
TOTAL COUNTY EMPLOYEES[1]

Year	Total Employees
2001-02	18,208
2002-03	17,835
2003-04	16,949
2004-05	16,418
2005-06	16,195
2006-07	16,471
2007-08	16,484
2008-09	16,176
2009-10	15,522
2010-11[2]	15,204

Source: County of San Diego Department of Human Resources.
(1) Excludes temporary employees of the County. Data as of June 30 of the indicated year unless otherwise indicated.
(2) As of January 31, 2011.

County employees are represented by eight unions representing 25 bargaining units. The unions represent approximately 88% of the County's employees and include the Deputy Sheriffs' Association of San Diego County (the "Deputy Sheriffs' Association"); Deputy District Attorneys Association; Service Employees International Union ("SEIU"), Local 221, San Diego Probation Officers' Association; District Attorney Investigators Association; San Diego County 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 the Deputy Sheriffs' Association effective through June 26, 2014 and all other unions, with the exception of six bargaining units of SEIU, Local 221, effective through June 23, 2013. These agreements include reductions to the County's portion of the employee paid retirement offset, flexible benefit increases, and a one-time salary payment equivalent to 2% of base pay. The labor agreements for the remaining six bargaining units of SEIU Local 221 expire June 16, 2011. Members of SEIU, Local 221, are expected to operate under the terms of the current agreements until new agreements are executed. 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, was modified in connection with certain collective bargaining agreements entered into by the County. The SEIU Local 221, 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 effective August 28, 2009. 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, 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 County recently negotiated amendments to the Employer Offsets (herein defined) for six of the 12 bargaining units of SEIU Local 221, the Deputy District Attorneys Association, the District Attorney Investigators Association, the Public Defender Association of San Diego County, the San Diego County Deputy County Counsels Association, the San Diego Supervising Probation Officers' Association, the San Diego Probation Officers' Association and the Deputy Sheriffs' Association. Pursuant to the amendments, the Employer Offsets will be reduced over two fiscal years starting July 1, 2011. The Employer Offsets rates for Tier I/A employees with more than 5 years of service will be reduced by 2.5% while the Employer Offsets rates for Tier I/A employees with less than 5 years of service will be reduced by either 1.25% or 2.5%, based on the applicable bargaining unit. The Employer Offsets rates for Tier B employees with more than 5 years of service will be reduced by 3.5% while the Employer Offsets rates for Tier B employees with less than 5 years of service will be reduced by 1.75% or 3.5%, based on the applicable bargaining unit. In July 2012, the Employer Offsets rates for non-safety employees will range from 1% to 7% of their salary, and the Employer Offsets rates for safety employees will range from 1% to 10.755% of their salary.

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 2009-10 and 2010-11, 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 in accordance with Proposition 13. Annually, property owners may appeal the assessed value of their property. Additionally, under the provisions of Proposition 8, property owners may apply for a temporary reduction in the assessed value when the market value of the real property, as of January 1 of the applicable tax year, falls below its assessed value. Once reduced, the County Assessor must annually review the value of the property until the factored Proposition 13 value is fully restored (adjusted with the annual consumer price index, not to exceed 2%). For Fiscal Year 2009-10, the County Assessor received 21,770 appeals, including appeals relating to real property, business personal property, boats and airplanes. Through February 28, 2011 of Fiscal Year 2010-11, the County Assessor had received 15,195 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 2001-02. See "Economic and Demographic Information – Foreclosures; Notices of Loan Default" herein.

TABLE 2
ASSESSMENT APPEALS
Fiscal Years 2001-02 through 2010-11

Fiscal Year	Applications[1]	Parcels
2001-02	2,954	4,029
2002-03	3,074	3,666
2003-04	2,700	3,035
2004-05	2,573	3,932
2005-06	2,486	2,752
2006-07	3,334	3,601
2007-08	13,150	15,872
2008-09	42,624	47,865
2009-10	21,770	26,635
2010-11[2]	15,195	19,527

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) Application may relate to the reassessment for one or more parcels.
(2) As of February 28, 2011.

Ad Valorem Property Taxation

Table 3 below sets forth the assessed valuation of property within the County subject to taxation for Fiscal Years 2001-02 through 2010-11:

TABLE 3
ASSESSED VALUATION OF PROPERTY
SUBJECT TO AD VALOREM TAXATION
Fiscal Years 2001-02 through 2010-11
(In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[(1)]	Net Assessed Valuation for Tax Purposes[(2)]
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
2010-11	173,642,233	214,286,031	14,639,554	402,567,818	11,790,769	390,777,049

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 manufactured home and possessory interest, state unitary and redevelopment valuation.

The decline of the assessed valuation of property within the County in Fiscal Year 2010-11 is attributable to the continued effects of the real estate market downturn and the attendant defaults and foreclosures, which during Fiscal Year 2008-09 led to the most assessment appeals and applications for valuation reviews on record. While the County experienced declines in assessed value, certain cities, mainly along the coast, including Coronado, Del Mar and Encinitas, experienced assessed value growth ranging from 0.13% to 3.18%.

Table 4 below sets forth the approximate tax levied against the ten largest property taxpayers in the County for Fiscal Year 2010-11. These tax payments represent approximately 4.24% of the total secured property tax levied by the County for Fiscal Year 2010-11, which amount is $4,474,096,680.

TABLE 4
TEN LARGEST TAXPAYERS
Fiscal Year 2010-11

Property Owners	Business Area	Approximate Tax[(1)]
San Diego Gas & Electric Company	Gas and Electric Utility	$63,455,985
Southern California Edison Co.	Electric Utility	28,818,695
Irvine Co.	Real Estate	17,761,358
San Diego Family Housing LLC	Real Estate	14,835,726
Kilroy Realty L P	Real Estate	14,679,407
Qualcomm, Inc.	Telecommunication	13,626,003
Camp Pendleton/Quantico Housing	Real Estate	11,654,352
Pacific Bell Telephone Company	Telecommunication	9,708,652
Arden Realty LTD Partnership	Real Estate	8,440,141
OC/SD Holdings LLC	Real Estate	6,584,929

Source: County of San Diego Auditor and Controller.
(1) Approximate Tax includes local secured and state unitary 1% tax, debt service tax and special assessments.

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 statutory lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes on land and the improvements located on the land. Other property, such as business personal property, boats and aircraft, 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 2001-02 through 2010-11.

TABLE 5
SECURED TAX ROLL STATISTICS
Fiscal Years 2001-02 through 2010-11

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
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	978,170	392,680,850,836	4,509,795,774	40,214	120,563,754	2.67
2010-11(4)	979,128	388,209,168,091	4,474,096,680	38,000	116,000,000	2.60

Source: County of San Diego Auditor and Controller.
(1) Total Gross 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 principal balance of the installment plan 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 unless the property is on an installment plan of redemption prior to the power to sell arising.

Financial Statements

Table 6 below sets forth the audited General Fund Balance Sheet for Fiscal Years 2007-08 through 2009-10. Table 7 sets forth the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2005-06 through 2009-10.

TABLE 6
COUNTY OF SAN DIEGO
GENERAL FUND BALANCE SHEET
For Fiscal Years 2007-08 through 2009-10
(In Thousands)

	Audited 2008[5]	Audited 2009[5]	Audited 2010[5]
ASSETS			
Pooled Cash and Investments	$ 977,544	$ 959,102	$ 1,121,752
Cash with Fiscal Agents	19	14	31
Investments With Fiscal Agents	2	2	2
Property Taxes Receivables, net	218,048	221,671	195,499
Receivables, net	270,900	373,985	338,969
Due from Other Funds[1]	79,915	74,128	67,382
Prepaid Items	17	13	62
Advances to Other Funds	7,203	0	0
Inventories	7,326	8,774	9,418
Restricted Assets – Cash with Fiscal Agents	171	179	146
Restricted Assets – Lease Receivable	0	9,297	8,454
TOTAL ASSETS	$ 1,561,145	$ 1,647,165	$ 1,741,715
LIABILITIES			
Accounts Payable	$ 85,308	$ 71,761	$ 96,014
Accrued Payroll	29,425	32,692	36,576
Due to Other Funds[1]	42,169	40,480	36,888
Deferred Revenues	123,470	141,695	130,190
Unearned Revenue	60,307	170,499	221,939
TOTAL LIABILITIES	$ 340,679	$ 457,127	$ 521,607
FUND BALANCES			
Reserved Fund Balance:			
Reserved for Loans, Due From Other Funds and Prepaids[2]	$ 13,294	$ 6,922	$ 6,765
Reserved for Landfill Closure Costs	1,259	1,069	927
Reserved for Inventories	7,326	8,774	9,418
Reserved for Realignment Health, Mental Health and Social Services[3]	0	74,620	0
Reserved for Other Purposes	251,352	175,049	145,147
Unreserved:			
Designated for Encumbrances	236,272	215,793	267,340
Designated for Economic Uncertainty	0	0	100,000
Designated for Realignment Health, Mental Health and Social Services	0	0	73,729
Designated for Unforeseen Catastrophic Events[4]	0	55,500	55,500
Designated for Subsequent Years' Expenditures	138,729	75,468	66,815
Designated for Landfill Postclosure and Landfill Closure Costs	854	852	852
Undesignated	571,380	575,991	493,615
TOTAL FUND BALANCES	$ 1,220,466	$ 1,190,038	$ 1,220,108
TOTAL LIABILITIES AND FUND BALANCES	$ 1,561,145	$ 1,647,165	$ 1,741,715

Source: County of San Diego Auditor and Controller.

(Table continued from prior page.)

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

(2) Prior to 2009, this category of fund balances was entitled, "Reserved for Loans, Advances and Prepaids." Although the name of the category was changed in 2009, the nature of the balances for all fiscal years is the same.

(3) For Fiscal Year 2008, the $74,620 Reserved for Realignment Health, Mental Health and Social Services was included in the "Designated for Subsequent Years' Expenditures" row.

(4) For Fiscal Year 2008, the $55,500 "Designated for Unforeseen Catastrophic Events" was included in the "Reserved for other Purposes" category.

(5) 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 2005-06 through 2009-10
(In Thousands)

	Audited 2005-06	Audited 2006-07	Audited 2007-08	Audited 2008-09	Audited 2009-10
Revenues:					
Taxes	$ 791,241	$ 842,396	$ 928,066	$ 930,584	$ 904,515
Licenses, Permits and Franchise Fees	31,847	33,752	34,735	35,838	40,967
Fines, Forfeitures and Penalties	56,177	55,248	59,782	56,252	53,996
Revenue From Use of Money and Property	43,757	51,894	48,381	28,396	23,171
Aid From Other Governmental Agencies:					
State	578,736	851,309	849,783	878,902	814,553
Federal	660,976	704,440	792,430	729,675	824,821
Other	88,210	92,769	71,663	134,026	91,478
Charges for Current Services	271,448	269,282	267,624	282,151	277,252
Other Revenue	25,668	33,227	30,705	61,847	33,757
Total Revenues	$ 2,548,060	$ 2,934,317	$ 3,083,169	$ 3,137,671	$ 3,064,510
Expenditures:					
Current:					
General Government	$ 188,223	$ 224,261	$ 270,236	$ 236,874	$ 197,124
Public Protection	1,001,110	1,059,826	1,135,288	1,126,903	1,055,315
Public Ways and Facilities	1,974	1,369	5,907	690	10,063
Health and Sanitation	517,837	539,954	593,104	630,633	635,148
Public Assistance	901,122	928,234	987,730	1,039,496	1,034,340
Education	820	1,157	1,101	808	906
Recreation and Cultural	21,375	24,509	29,606	29,274	28,102
Capital Outlay	18,590	17,190	11,453	8,059	27,184
Debt service:					
Principal(1)	--	--	--	32,125	28,777
Interest and Fiscal Charges	12,368	10,843	5,169	12,255	17,025
Payment to Refunded Bond Escrow Agent	0	0	0	0	4,436
Total Expenditures	$ 2,663,419	$ 2,807,343	$ 3,039,594	$ 3,117,117	$ 3,038,420
Excess (Deficiency) of Revenues over (under) Expenditures	($ 115,359)	$ 126,974	$ 43,575	$ 20,554	$ 26,090
Other Financing Sources (Uses):					
Sale of Capital Assets	$ 12,241	$ 130	$ 41	$ 29	$ 338
Refunding Bonds Issued(2)	0	0	0	443,515	0
Payment to Escrow Agent/Refunded Bond(2)	0	0	0	(441,038)	0
Transfers In(3)	486,203	283,535	257,890	230,296	226,039
Transfers Out(4)	(151,503)	(152,854)	(236,400)	(285,232)	(223,042)
Total Other Financing Sources (Uses)	$ 346,941	$ 130,811	$ 21,531	$ (52,430)	$ 3,335
Net Change in Fund Balance	$ 231,582	$ 257,785	$ 65,106	$ (31,876)	$ 29,425
Fund Balances at Beginning of Year	667,458	898,885	1,155,082	1,220,466	1,190,038
Increase (Decrease) in Reserve for Inventories	(155)	(1,588)	278	1,448	645
Fund Balances at End of Year	$ 898,885	$ 1,155,082	$ 1,220,466	$ 1,190,038	$ 1,220,108

Source: Comprehensive Annual Financial Report of the County.

(1) Represents various base rental payments made to the San Diego County Capital Asset Leasing Corporation ("SANCAL") and the San Diego Regional Building Authority ("SDRBA") treated as debt service payments in the General Fund as SANCAL and the SDRBA are blended component units of the County. Prior to Fiscal Year 2008-09, the base rental

(Table continued from prior page.)

payments to SANCAL were treated as "Transfers Out" as noted in the "Transfers Out" note below, and base rental payments to the SDRBA were treated as General Government expenditures.

(2) In Fiscal Year 2008-09, the County issued $443.515 million Series 2008 Taxable Pension Obligation Bonds. As part of this transaction, $441.038 million was transferred to an escrow agent to advance refund the outstanding 2002B Bonds, Subseries B1 and B2-4 Auction Rate Securities and to pay future interest payments. The transaction is further described in Note 13 "Long-Term Debt" in the Notes to the Financial Statements of the County's Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2009.

(3) Revenues from the Public Safety Augmentation Sales Tax (Proposition 172) and the tobacco securitization proceeds are recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred.

(4) For all fiscal years presented, "Transfers Out" generally represents contributions to the Pension Obligation Bond fund; contributions to capital funds for General Fund projects; and, County contributions to the Library fund and the In-Home Supportive Services ("IHSS") Public Authority fund. "Transfers Out" for Fiscal Years 2005-06 through 2007-08 also represent annual base rental payments to SANCAL.

General Fund Budget

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than October 2 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 mitigate the shortfall through the identification of alternative funding sources or freezing appropriations. Similarly, if expenditures are projected to exceed appropriations, steps are taken to freeze expenditures in other accounts within the affected department 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.

Fiscal Year 2010-11 Budget and Financial Position of the County

The Fiscal Year 2010-11 Adopted Budget for the County's General Fund included expenditures of approximately $3.74 billion and revenues and other financing sources of approximately $3.74 billion. In accordance with the normal practice of the County, the Fiscal Year 2010-11 Adopted Budget has been adjusted to reflect carry-over appropriations from the prior fiscal year and program needs not included in the Fiscal Year 2010-11 Adopted Budget. As of December 31, 2010, the County's Fiscal Year 2010-11 General Fund Amended Budget (the "Fiscal Year 2010-11 Amended Budget") included expenditures of $4.071 billion and revenues and other financing sources of $4.071 billion. As of December 31, 2010, as reported in the Fiscal Year 2010-11 Second Quarter Operational Plan Status Report and Budget Adjustments (the "Second Quarter Report") presented to the Board of Supervisors on March 1, 2011, which was based on the first six months of Fiscal Year 2010-11, the County projected that its General Fund expenditures for Fiscal Year 2010-11 would be below the Fiscal Year 2010-11 Amended Budget by $237.4 million and its General Fund revenues and other financing sources would be below the Fiscal Year 2010-11 Amended Budget by $114.6 million. The net variance was a projected savings to the County's

General Fund of $122.8 million, which would be added to any remaining unreserved and undesignated General Fund Balance as of June 30, 2011. See also "– Status of Available Fund Balance" below.

The lower than budgeted projected expenditures in the General Fund are primarily attributable to the following:

- $51.0 million in net appropriation savings, predominantly in the Public Safety Group and Health and Human Services Agency ("HHSA"), but also in Land Use and Environment Group, Community Services Group, and Finance and General Government Group, from lower than budgeted salaries and employee benefits costs due to staff turnover and department management of vacancies. Additional expenditures in the Public Safety Group in the Department of Public Defender are associated with the expiration of a contract for Dependency Representation and staff remaining on the payroll for a period of time following the expiration of the contract to perform services.

- $94.5 million in appropriation savings in services and supplies across the County, which consists of:

  - In the Public Safety Group, a net lower than budgeted expenditures of $15.9 million is projected. Savings are anticipated in the Public Defender's Office due to a year-end expenditure accrual and reversal, cost avoidance from the consolidation of the indigent defense program and the establishment of controls to eliminate unnecessary costs. Also, savings in Probation are projected as a result of efforts to reduce overall expenditures, savings in the Department of Child Support Services are primarily due to contract and lease/utility cost savings, and savings in the Public Safety Group Executive Office are primarily due to a spending delay for a tree removal grant while an environmental impact report is prepared, as well as funds not required to match grants and consultant contract cost savings.

  - In the HHSA, net expenditure savings of $66.8 million are projected primarily in contracted services (e.g., in Behavioral Health Services related to un-awarded and delayed Mental Health Services Act contracts; in Alcohol and Drug Services due to un-awarded contracts; in Early Periodic Screening, Diagnosis and Treatment services due to lower than projected service levels); in the Community Action Partnership program due to roll-over encumbrances that are now not needed and due to efforts to reduce spending; in Aging and Independence Services as a result of revised estimates of growth trends in IHSS Individual Provider costs; in Public Health Services primarily due to reductions in contracts for immunization services based on State funding reductions; in emergency appropriations for bio-terrorism; and in glide slope reserves, which are $5.0 million in appropriations set-aside to address unanticipated State budget cuts. Additional expenditure requirements are anticipated due to additional information technology activity in Administrative Support; increased costs associated with County Medical Services, the Coverage Initiative, refugee services and Strategic Planning and Operational Support; and additional projected services and supplies costs at Polinsky Children's Center and the San Pasqual Academy in County Child Welfare Services.

  - In the Land Use and Environment Group, a net lower than budgeted expenditures of $4.7 million is anticipated. Savings are anticipated in the Department of Planning and Land Use due to contracted services that were budgeted but not awarded related to a California Department of Transportation grant, contract service savings from multi-year implementation of the Business Case Management System ("BCMS") and the Zoning

Ordinance update, which has been delayed pending completion of the General Plan update, and savings in abatements which will not be needed this fiscal year due to increased homeowner compliance. Savings are also anticipated in Environmental Health due to efforts to reduce expenditures and ensure that costs do not exceed revenue as well as savings due to the multi-year implementation of the BCMS that will be re-budgeted. Savings are further anticipated in the Executive Office due to delays in several projects resulting in a decrease in the projected use of consultant and contract services for business process reengineering. Additional expenditure requirements are projected in Agriculture, Weights and Measures due to additional costs related to the implementation of a mobile wireless upgrade for the BCMS and additional management reports.

    - In the Finance and General Government Group, savings are anticipated primarily in the Auditor and Controller Department from pass through accounting for outside collection activity in Revenue and Recovery and in the Department of Human Resources due to positive claim experience associated with the County insurance policies and lower than anticipated expenses from the Workers' Compensation Internal Service Fund.

- $48.7 million in appropriation savings in other charges primarily reflects net variances from budgeted caseload and aid payments in the HHSA. Spending is projected to be over budget in Public Health Services because of a requirement for additional support and care costs in the California Children's Services (CCS) program and in Behavioral Health Services associated with an increase in State support and care hospital rates. These costs are offset by savings in Regional Operations, mainly the result of revised caseload levels in Child Care Stage 1, and savings in Child Welfare Services based on revised estimates of caseload levels, growth trends, and unit cost per case for the Foster Care program and the Kinship Guardianship Assistance Payment Program. In the Public Safety Group, savings are projected in the Contributions for Trial Courts to recognize the level of expenditures required to support the revenue sharing requirements of Government Code 77205, related to Trial Court funding. These savings are offset by additional expenditure requirements projected for Foster Care in the Probation Department. In the Community Services Group, savings are primarily in Housing and Community Development due to the postponement of digitizing loan and grant documents, reduced fuel and vehicle maintenance costs, and lower than anticipated expenditures on multi-year projects. In addition, savings occur from lower than budgeted tax and revenue anticipation note borrowing costs in Finance Other and from savings in various lease payments from interest credits.

- $1.3 million in appropriation savings primarily in the HHSA in operating transfers out to the IHSS Public Authority are related to health benefit costs for providers being less than budgeted.

- $20.0 million in contingency reserves are projected to be unspent at year-end.

- $22.5 million in management reserves in the HHSA ($20.0 million) and in the Community Services Group ($2.5 million) are projected to be unspent at year-end.

The overall lower than budgeted projected revenues in the General Fund of $114.6 million are a combination of higher than budgeted revenues of $23.6 million offset by lower than budgeted revenues of $138.2 million. Approximately 90% of the lower than budgeted revenues ($123.7 million) is from intergovernmental revenues and is largely the result of expenditure savings in caseload driven programs set forth above. A contributing factor to the lower than budgeted projected revenues is a change in projections for current property taxes, which is due largely to a revised estimate of $17.7 million in roll corrections and refund adjustments attributed to several large multi-year commercial reassessments, compared to $6.7 million projected for these adjustments in the first quarter. A positive revenue variance of $23.6 million is expected in the following categories: taxes other than current secured ($9.5 million); licenses permits and franchises ($1.8 million); revenue from use of money and property ($2.6 million); and miscellaneous revenue ($9.7 million).

Table 8 below sets forth the County's Adopted and final Amended Budgets for Fiscal Year 2009-10. The table also sets forth the Adopted Budget for Fiscal Year 2010-11, the Amended Budget as of December 31, 2010, the projected expenditures and revenues and other financing sources as reported in the Second Quarter Report, and the variance between the projected actual amounts and those contained in the Fiscal Year 2010-11 Amended Budget. The full report may be viewed on the County's website at http://www.sdcounty.ca.gov/auditor/pdf/2ndqtr1011.pdf. The information on such website is not incorporated herein by reference.

TABLE 8
GENERAL FUND
ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2009-10,
AND ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR
FISCAL YEAR 2010-11
(In Thousands)

	2009-10 Adopted Budget	2009-10 Amended Budget[1]	2010-11 Adopted Budget	2010-11 Amended Budget	Projected Year End Results[2]	Variance from Amended Budget[3]
EXPENDITURES						
Public Safety	$ 1,105,589	$ 1,154,069	$ 1,106,327	$ 1,154,387	$ 1,116,587	$ 37,800
Health and Human Services	1,825,155	1,842,712	1,820,717	1,839,981	1,703,859	136,122
Land Use and Environment	184,783	211,272	191,847	182,529	169,849	12,680
Community Services	58,203	68,128	70,769	87,698	66,870	20,828
Finance and General Government and Other	496,283	693,293	528,131	785,475	775,435	10,040
Contingency Reserve and Designations Increases	120,000	120,000	21,260	21,260	1,260	20,000
Total Expenditures[4]	$ 3,790,013	$ 4,089,474	$ 3,739,051	$ 4,071,330	$ 3,833,860	$ 237,470
REVENUES						
Current Property Taxes	$ 496,283	$ 496,283	$ 497,576	$ 497,576	$ 496,954	$ (622)
Taxes Other Than Current Property Taxes	404,514	382,414	383,235	383,234	392,693	9,459
Licenses, Permits and Franchises	38,863	38,863	40,189	40,189	42,007	1,818
Fines, Forfeitures and Penalties	55,954	57,170	54,668	56,134	53,527	(2,607)
Use of Money and Property	17,399	17,399	16,969	16,969	19,515	2,546
Aid from Other Government Agencies	1,893,796	1,950,379	1,912,830	1,938,931	1,815,201	(123,730)
Charges for Current Services	266,686	272,713	290,512	290,966	280,067	(10,899)
Miscellaneous Revenues and Other Financing Sources	272,792	278,772	251,712	265,342	274,742	9,400
Total Revenues[4]	$ 3,446,288	$ 3,493,993	$ 3,447,691	$ 3,489,341	$ 3,374,706	$ (114,635)
Estimated Use of Unreserved and Designated Fund Balance	$ 7,176	$ 7,176	$ 4,608	$ 4,608	$ 4,608	$ 0
Estimated Use of Unreserved and Undesignated Fund Balance	336,550	351,136	286,752	296,525	296,525	0
Estimated Use of Fund Balance Reserved for Encumbrances	0	237,169	0	280,856[5]	280,856[5]	0
Total Resources Utilized[4]	$ 3,790,013	$ 4,089,474	$ 3,739,051	$ 4,071,330	$ 3,956,695	$ (114,635)
Net Savings from the Fiscal Year 2010-11 Amended Budget					$ 122,835	$ 122,835

Source: County of San Diego Auditor and Controller.
(1) Reflects budgeted expenditures and revenues included in the 2009-10 Adopted Budget as amended and adjusted to include all budgeted appropriations and revenues as of June 30, 2010.

(Table continued from prior page.)

(2) Reflects, as of December 31, 2010, the amended budget and projections of the expenditures and revenues of the County's General Fund for Fiscal Year 2010-11.
(3) As currently projected; reflects the difference between the budgeted expenditures, revenues and other financing sources of the County's General Fund in the Fiscal Year 2010-11 Amended Budget as of December 31, 2010 and the projected expenditures, revenues and other financing sources of the County's General Fund for Fiscal Year 2010-11. Amounts without parentheses indicate a variance favorable to the County's General Fund. Amounts with parentheses indicate a variance unfavorable to the County's General Fund.
(4) Total may not equal the sum of the line items due to rounding.
(5) Reflects carry-over appropriations from the prior fiscal year.

Status of Available Fund Balance

The unreserved and undesignated portion of the General Fund Balance as of June 30, 2010 was $493.6 million. See Table 6 entitled "General Fund Balance Sheet" herein for a description of the fund balance of the General Fund for the Fiscal Years ending June 30, 2008, June 30, 2009, and June 30, 2010, respectively. Included in the Fiscal Year 2010-11 Adopted Budget were appropriations based on the unreserved and undesignated portion of the General Fund Balance of approximately $286.8 million. Accordingly, the available unreserved and undesignated portion of the General Fund Balance was reduced to $206.8 million. See "Summary of General Fund Financing Sources - Use of Fund Balance" for a description of the various one-time or project-specific purposes that used fund balance in the Adopted Operational Plan. Due to a technical oversight, during the year-end encumbrance carry-over process a $1.8 million encumbrance was carried forward into Fiscal Year 2010-11; however, the associated appropriations did not. This will result in the use of current year appropriations and funding to support the encumbrance. Available fund balance is increased by $1.8 million as a result of less fund balance being used in the carry forward budget. The total of this adjustment increases the available unreserved and undesignated fund balance to $208.6 million.

Subsequently, the Board of Supervisors approved the appropriation of an additional $6.0 million in unreserved and undesignated General Fund Balance for various items, including $3.5 million for the Rancho San Diego Sheriff's Station, $2.35 million to the District Attorney's Office to support programs promoting reentry and re-integration of offenders into San Diego communities, and $0.15 million to the Probation Department for salaries and benefits for the Reentry Court program. The total of these actual adjustments reduced the available unreserved and undesignated fund balance to $202.6 million.

Pursuant to the First Quarter Operational Plan Status Report and Budget Adjustments (the "First Quarter Report"), which is based on the first three months of Fiscal Year 2010-11, an additional $4.9 million in unreserved and undesignated General Fund Balance was approved to be used for various items, including appropriations for supplies and equipment, mobile data computers and vehicle depreciation costs in the Sheriff's Department, the designation of fund balance for Environmental Health in the amount of $1,170,821, appropriations in Parks and Recreation to provide funding for a Coordinator, Volunteer and Public Services position and for tree removal and replanting, for fixed assets equipment for trail maintenance, and for the purchase and installation of monument entry signs, as well as appropriations in Land Use and Environment Group Executive Office for a Public Facing Mapping Application, in Purchasing and Contracting to support the Documentum 6.5 upgrade, the Active Directory Integration, and other Enterprise Content Management projects, one-time costs in the Board of Supervisor's offices, and for Hilton Head Park Irrigation appropriations needed to complete the irrigation project. The total of these anticipated adjustments reduced the available unreserved and undesignated fund balance from $202.6 million to $197.7 million.

In the Second Quarter Report, no additional appropriations were proposed to be appropriated using General Fund Balance.

If there were no further uses of fund balance for the remainder of the year and the projected $122.8 million in net savings in the 2010-11 budget (as shown in Table 8) were to be realized, the unreserved and undesignated General Fund Balance as of June 30, 2011 would be $320.5 million. The County makes no assurances that no further use of available fund balance will occur. See “Fund Balance and Reserves Policy” below.

The County’s General Fund Balance projections are subject to change as additional information becomes available. The next formal update of the County’s General Fund Balance will occur in connection with the Fiscal Year 2010-11 Third Quarter Operational Plan Status Report and Budget Adjustments scheduled for May 10, 2011.

County’s Fiscal Year 2010-11 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 3, 2010 (the “Adopted Operational Plan”). The first year of the Adopted Operational Plan is the Fiscal Year 2010-11 Adopted Budget and the second year represents an estimate of the revenues and expenditures of the County for Fiscal Year 2011-12. The Operational Plan reflects the budgets for all funds within which the County accounts for the services it provides to its residents and property and business owners. 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 2010-11 is approximately $3.74 billion, with Total Appropriations of approximately $3.74 billion, Total Revenues of approximately $3.45 billion, and total estimated use of the Unreserved and Designated Fund Balance and the Unreserved and Undesignated Fund Balance of approximately $4.6 million and $286.8 million, respectively. See Table 8 entitled “GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2009-10, AND ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2010-11” herein for a summary of the County’s 2010-11 Adopted Budget.

Summary of General Fund Financing Sources

In the Adopted Operational Plan, General Fund Financing Sources total $3.74 billion for Fiscal Year 2010-11, a $51.0 million or 1.3% decrease from Fiscal Year 2009-10. They are expected to decrease further by $245.2 million or 6.6% in Fiscal Year 2011-12. In comparison, the Fiscal Year 2009-10 budget was 3.0% above the prior year, while the previous eight fiscal years saw an average annual growth rate of 5.3%. The Adopted Operational Plan decrease reflects the continued effects of the national and international economic downturn, the impact of the State’s budget constraints, 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 Revenue, or Fund Balance (including reserve/designation decreases).

Program Revenues. Program Revenues are expected to total approximately $2.49 billion in Fiscal Year 2010-11 and $2.44 billion in Fiscal Year 2011-12. These revenues make up 66.7% of General Fund Financing Sources in Fiscal Year 2010-11, and are derived primarily from State and federal subventions and grants, and charges and fees earned from specific programs. Program Revenues are expected to decrease by 0.1% over the Fiscal Year 2009-10 Adopted Budget compared to an average annual growth for the last seven years of 3.4%.

General Purpose Revenue. General Purpose Revenue, budgeted at approximately $954.4 million in Fiscal Year 2010-11 and $953.3 million in Fiscal Year 2011-12, comprise approximately 25.5% of General Fund Financing Sources. This revenue is derived from property taxes, property tax in lieu of Vehicle License Fees ("VLF"), the Teeter program, sales tax (and property tax in lieu of sales tax), real property transfer tax, Aid from Redevelopment Agencies, 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 with this revenue when allocating resources to fund programs and services.

The growth in this revenue is principally affected by the local and State economies, with over 85% of General Purpose Revenue tied to activity in the real estate market. From Fiscal Year 1999-2000 through Fiscal Year 2008-09, General Purpose Revenue grew by an annual average of $55.7 million. Fiscal Year 2009-10 saw a drop in budgeted General Purpose Revenue of $64.0 million.

For Fiscal Year 2010-11, the $954.4 million budgeted for General Purpose Revenue is an increase of $3.7 million from the Fiscal Year 2009-10 budgeted amount of $950.7 million. This revenue reflects the continued weakness in the real estate market and retail sales, but also reflects improvements in some of the other component accounts based on actual experience in Fiscal Year 2009 10. The Fiscal Year 2010-11 current secured property tax revenue amount assumes a 2.35% decrease in the local secured assessed value, but the impact on property tax revenues will be mitigated by an expected reduction in refunds and corrections. The assessed value decrease also results in a decrease in the property tax in lieu of Vehicle License Fees (VLF) account. Revenues related to the Teeter program and Real Property Transfer Tax show an increase from a conservatively budgeted amount in Fiscal Year 2009-10.

Use of Fund Balance. Use of Fund Balance, including reserve/designation decreases, totals approximately $291.4 million in Fiscal Year 2010-11 and $98.8 million in Fiscal Year 2011-12. It represents 7.8% of General Fund Financing Sources in Fiscal Year 2010-11. This resource is used for one-time expenses, not for the support of ongoing operations. This compares with $343.7 million in uses of fund balance in the Fiscal Year 2009-10 Adopted Budget, which equaled 9.1% 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: one-time capital needs for the volunteer fire protection districts via the Fire Protection and Emergency Medical Services Grant Program, Aerial Fire Suppression "Call When Needed" support, potential costs related to death penalty cases, Juvenile Voice Supervision Pilot Program in the Probation department, one-time needs associated with the Automated Field Reporting/Records Management System project, safety equipment replacement in the Sheriff's Department, Regional Communication System enhancements rebudget, one-time funding for a County Probation Officer dedicated to the Sports Training, Academics and Recreation/Police Athletic League program, Business Process Reengineering, Imaging and Information Technology ("IT") initiatives in the HHSA, one-time support for Juvenile Diversion Program, one-time support for the 211 San Diego initiative, one-time support for the Chronic Disease Program contract with the California Highway Patrol, peripheral relocations related to the County Operations Center ("COC") capital project, site search funding for COC Annex tenants, and major maintenance projects.

Other uses of unreserved General Fund fund balance are for capital projects, including the COC and Annex Redevelopment - Phase 1B project, Juvenile Probation Complex Parking Expansion, Multiple Species Conservation Program ("MSCP") land acquisition, Sweetwater Regional Park energy upgrades, Sweetwater Lane Park synthetic turf project, Agua Caliente Park water, sewer, and electrical line replacement, Animal Services South Shelter Cat Housing Facility replacement project, and Animal Services South Shelter multi-purpose barn.

Additional uses include: General Plan Update/Zoning Ordinance project costs rebudget, MSCP (North) Resource Management Plans to protect biological and cultural resources, consultants for work related to various Tribal councils, web-based Stormwater Outreach project, Smuggler's Gulch dredging project, Vector Disease and Diagnostic Laboratory equipment rebudget, vegetation management, fire suppression and debris clean up for Tijuana River and Otay River Valley, vegetation management environmental impact report, and for Fire program prevention and response activities, such as: Fire Safe Communities Evacuation Study, Volunteer personal safety equipment rebudget, Fire Prevention personal safety equipment, Volunteer Stipends rebudget, improvements to volunteer fire stations rebudget, Fire contract rebudget, dead, dying and diseased tree removal rebudget and Fire deployment study implementation plan augmentation.

Still further uses include Firestorm 2007 permit waiver rebudget, Parks and Recreation one-time support to maintain operational hours at twelve park facilities, Planning and Land Use Building Division core services support, Planning and Land Use Code Enforcement backlog rebudget, Campo Wastewater Plant upgrades, Inland Rail Trail project management rebudget, Valley Center Interpretive Trail signs rebudget, Sweetwater utility conversion rebudget, assorted stormwater, residential pest management and flood control costs rebudget, consultant expense rebudget for the Purchase of Agricultural Conservation Easements program and Otay Mesa Special Area Management Plan, Woodside Drainage improvement rebudget, Jamul Special Drainage Area rebudget, Contribution to the Environmental Trust Fund to sustain operations in future years at County-owned inactive or closed landfills, vehicle equipment rebudget for Agriculture, Weights and Measures and Parks and Recreation, Animal Services Central Shelter cat cages replacement, Animal Services flatbed trailers, Animal Services South Shelter equipment and major maintenance rebudget, fund balance designations for the Registrar of Voters for low revenue election years, Registrar of Voters November 2010 gubernatorial general election support, Workforce Academy for Youth program, various information technology projects, such as: document digitization in Planning and Land Use and Public Works, infrastructure and upgrade needs in the District Attorney's Office, Intergraph Computer Assisted Design in the Sheriff's Department, IT costs associated with the COC relocations in the Sheriff's Department, Take Me Home Project rebudget in the Sheriff's Department, Land Use and Environment Group BCMS rebudget and enhancements, Fleet Management Logic Routing system rebudget, Data imaging enhancements rebudget, Geographic Information System enhancements rebudget, Documentum electronic repository for CD files project in Housing and Community Development, centralized "on-boarding" process in the Department of Human Resources, Registrar of Voters IT enhancements and equipment, Learning Management System upgrade, Web Integrated Tax System 2.0 one-time project, one-time County Technology Office Initiatives and Integrated Property Tax System implementation rebudget, Service First on-line initiative rebudget, and for one-time match for library material donations for the new Ramona and Fallbrook library branches, replacement of the County Law Case Management System, grants provided to community organizations, one-time support to partially offset the dramatic decline in Proposition 172 revenues, and management reserves.

Summary of Total Appropriations in the Adopted Operational Plan

The Adopted Operational Plan includes appropriations totaling $4.96 billion for Fiscal Year 2010-11 and $4.47 billion for Fiscal Year 2011-12. This is a decrease of $51.2 million or 1.02% for Fiscal Year 2010-11 from the Fiscal Year 2009-10 Adopted Budget. Appropriations for the General Fund are $3.74 billion, a $51.0 million or 1.3% decrease from Fiscal Year 2009-10. The General Fund constitutes 75.4% of the County's total appropriations. Further, the Fiscal Year 2010-11 Adopted Operational Plan reflects a staffing reduction of 572.75 full time equivalents ("FTEs"), 508 of which are in the General Fund. This staffing reduction will lower budgeted FTEs for the County from 16,415 in Fiscal Year 2009-10 to 15,842.25 in Fiscal Year 2010-11.

The Adopted Operational Plan by Group/Agency includes decreased appropriations in Public Safety, HHSA, Community Services, Finance and General Government, and Finance Other, while they are increasing in Land Use and Environment and the Capital Program. HHSA, at $1.86 billion, continues to constitute the largest share of the budget at 37.5%, followed by the Public Safety Group at $1.3 billion, or 26.3%.

The appropriation and staffing changes by Group/Agency are summarized below.

Public Safety Group – includes a net decrease of 1.9% or $25.0 million from the Fiscal Year 2009-10 Adopted Budget. Resource reductions in local revenues and in State funding require continuing 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 are maintained.

Health and Human Services Agency – includes a net decrease of 0.2% or $4.5 million from the Fiscal Year 2009-10 Adopted Budget. The net decrease is associated with reductions due to State cutbacks and the struggling economy, and the return of Child Care Stages II/III and the Alternative Payment Program child care services to the State, offset by increases in payments for CalWORKs Assistance, Aid to Adoptive Children providers, IHSS providers and contracts for the Communities Putting Prevention to Work Initiative funded with a Centers for Disease Control grant of American Recovery and Reinvestment Act of 2009 ("ARRA") funds.

Land Use and Environment Group – includes a net increase of 15.6% or $66.9 million over the Fiscal Year 2009-10 Adopted Budget. Significant increases include Proposition 1B,Transportation Bond Act, funding for projects in the Road Fund, replacement reserves for the Spring Valley and Lakeside Sanitation Districts, one-time funding to augment fire protection services in the region and the rebudgeting of one-time appropriations for the BCMS. Significant decreases include a reduction in salaries and benefits due to a reduction in staffing levels, and a reduction in capital assets equipment due to a projected decrease in requirements.

Community Services Group – includes a net decrease of 6.3% or $19.9 million from the Fiscal Year 2009-10 Adopted Budget. The decrease is mainly due to the alignment of County Library resources to available funding and the non-recurrence of one-time funding that was included in the Fiscal Year 2009-10 Adopted Budget for the Documentum End Users License Agreement and for Housing and Community Development programs. Other significant decreases are in salaries and benefits due to a reduction in staffing levels and in capital assets - equipment from a reduction in the planned acquisition of replacement vehicles in the Fleet Internal Service Fund.

Finance and General Government Group – includes a net decrease of 11.5% or $46.9 million from the Fiscal Year 2009-10 Adopted Budget. The decrease is mainly due to the non-recurrence of one-time information technology costs included in the prior year budget to support the upgrade of core financial and human resource software applications. This decrease also reflects expenditure reductions due to decreased available funding levels. However, these decreases are offset by increased funding for non-recurring one-time information technology initiatives, including server consolidation/virtualization, upgrade of the internet/intranet portal, enhancements to the web-integrated property tax payment system, and replacement of the legal case management system. Salaries and benefits increase overall because of the negotiated increases in salaries and benefits, but the net amount also reflects reduced expenditures resulting from a decrease of 16.50 staff years or approximately $1.5 million in savings.

Capital Program – includes a net increase of $102.5 million (102.8%) from Fiscal Year 2009-10. The amount budgeted in the Capital Program can vary significantly from year to year. The Fiscal Year 2010-11 Capital Program includes: $119.8 million for the County Operations Center and Annex redevelopment - Phase 1B project (COC Phase 1B project), the addition of $55.0 million to the Women's Detention Facility replacement project, $10.0 million for land acquisition for the MSCP, $1.25 million for the Juvenile Probation Complex Parking Expansion project, $2.5 million for the Sweetwater Lane Park synthetic turf project, $1.5 million for Sweetwater Regional Park energy upgrades, $1.3 million for the Agua Caliente Park water, sewer and electrical line replacement project, $0.5 million for the Animal Services South Shelter Cat Housing Facility replacement project, $0.2 million for the multi-purpose barn at the Animal Services South Shelter, $0.25 million for the Lakeside Community Center Photovoltaic System project, and $0.25 million for the Fallbrook Community Center Photovoltaic Improvements project. The $55.0 million for the Women's Detention Facility replacement project is funded from General Purpose Revenue. The COC Phase 1B project is funded by $20.0 million of General Purpose Revenue and $99.8 million of General Fund fund balance. Both the Lakeside Community Center Photovoltaic System project and the Fallbrook Community Center Photovoltaic Improvements project will be offset by funds from ARRA. All of the other capital projects listed above will be funded by General Fund fund balance. Appropriations are also included in the Development Fund for the Edgemoor Distinct Part Skilled Nursing Facility ("Edgemoor") to pay debt service on the 2005 and 2006 Edgemoor Certificates of Participation and other costs to maintain the Edgemoor property.

Finance Other – includes a net decrease of $124.4 million or 21.9% from Fiscal Year 2009-10. 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. One-time appropriations in Fiscal Year 2009-10 included $100.0 million to pay off the Series B (variable rate) portion of the County's 2008 Pension Obligation Bond refunding and the creation of a $100.0 million fund balance Designation for Economic Uncertainty. A significant area of expenditure for Fiscal Year 2010-11 is in the general fund contribution to the Capital Program wherein $192.0 million is for several projects as discussed above.

Impact of the Governor's Fiscal Year 2011-12 Proposed Budget on the County's Fiscal Year 2011-12 Proposed Budget

On January 10, 2011, Governor Brown (the "Governor") released his 2011-12 Proposed Budget (the "Fiscal Year 2011-12 Proposed State Budget"), which projects an estimated $8.2 billion budget deficit for Fiscal Year 2010-11 and a $17.2 billion budget deficit in Fiscal Year 2011-12 absent corrective action. See "STATE OF CALIFORNIA BUDGET INFORMATION AND FEDERAL STIMULUS INFORMATION – State Budget for 2010-11" herein. Among other things, the Fiscal Year 2011-12 Proposed State Budget includes proposals to reduce expenditures by approximately $12.5 billion and generate an additional $14.0 billion in revenues ($3.0 billion of which is attributed to Fiscal Year 2010-11) by extending four temporary tax increases, subject to voter approval, and shifting funding and responsibility for certain services to local governments.

The Governor proposes to effect the realignment in two phases. The first phase of the Governor's proposed realignment focuses on public safety programs and includes shifting funding for local public safety programs as well as shifting state responsibility and authority to the local level in the areas of: management of low-level offenders and adult parolees, juvenile justice programs, court security, substance abuse disorder treatment, foster care and child welfare services, adult protective services, and mental health programs. The second phase of the Governor's proposed realignment would focus on implementation of national health care reform. The Governor's rationale for proposing such a significant realignment is based on the premise that local government can run programs in a more cost effective and efficient manner because they are much closer to the people who are receiving the services.

The details, process and structure of the realignment proposal and many aspects of the Fiscal Year 2011-12 Proposed Budget remain subject to negotiation, although certain legislative and executive actions have occurred. In March 2011, the State Legislature passed several bills implementing a portion of the Fiscal Year 2011-12 Proposed State Budget and purportedly closed approximately half of the State's estimated $26.6 billion budget gap. Subsequently, the Governor signed 14 bills to purportedly reduce California's budget deficit by a total of $11.2 billion, including expenditure reductions of $8.2 billion, revenue solutions of $0.3 billion and $2.6 billion in other solutions. The Governor also signed AB 109 (Public Safety Realignment), which approves the first phase of realignment and becomes effective only after a community corrections grant program is established and appropriation is made to support the program. However, funding for realignment is uncertain as a special election to consider extension of certain temporary income taxes has not been authorized. There is a proposed constitutional amendment (SCA 1X and ACA 2X) to guarantee funding to counties and constitutional protections to mitigate future financial risk, which the Governor reportedly supports. While the details of the proposed realignment of government services and funding levels are unclear at this time, certain aspects of the proposals are expected to have negative impacts on County operations, contract service providers and clients.

Separate from realignment costs, the County currently receives $20.6 million in funding supported by the temporary increase in Vehicle Licensing Fees, which is scheduled to expire June 30, 2011 unless the voters approve the temporary tax extensions proposed by the Governor. It is unclear whether such funding will continue to be available after the scheduled expiration date. Also, the Governor's proposed budget does not include reimbursement for any special election which, if one occurs, is estimated to cost the County up to $6 million. The Governor's 2011-12 Proposed State Budget does not address what additional cuts may be proposed in the event of an unsuccessful ballot measure for tax extensions. Should the tax measures be extended for an additional five years, the Governor's Office has suggested the State would remain responsible for continuing to provide funding after the tax extension sunsets. The absence of a dedicated funding source in future years could result in a significant impact for the County should the proposed realignment be adopted. Certain California counties have been working on a proposed State constitutional amendment to address certain protections and continuing funding of realignment.

The Governor's 2011-12 Proposed State Budget also aims to phase out redevelopment agencies beginning in Fiscal Year 2011-12. Redevelopment agencies would be directed to suspend the creation of new projects and successor agencies would assume existing debts and contracts to be retired according existing payment schedules. The Governor's 2011-12 Proposed State Budget suggests a new funding mechanism for local redevelopment, a shift in property taxes to other local entities and the diversion of $1.7 billion to the State's general fund in Fiscal Year 2011-12 for Medi-Cal and trial courts. One-time funding, equal to pass-through payments that otherwise would be received, would be provided. There would be an estimated $210 million left over for distribution to counties, cities, and special districts, according to their proportionate share of current property tax. Preliminary estimates indicate that the County General Fund would receive additional one time revenue of approximately $8 million. In subsequent budget years, the tax increment property tax that remains after payments on debt service and existing contracts would go to the counties, cities, non-enterprise special districts and schools. The impact in subsequent years as redevelopment agencies' debt and contracts are paid off is unknown.

State legislative actions have also resulted in substantial reductions in funding for child care, health care, CalWORKs cash assistance and people with disabilities, and a range of other State services. The CalWORKs funding reductions will be effected through, among other things, an 8% decrease in monthly aid benefits, a decrease in the amount of time parents or relative caretakers can receive aid (from 60 to 48 months) and a $50 million statewide reduction in administrative funding from Fiscal Year 2010-11 levels, the last of which may result in a loss of several million dollars to the County. Medi-Cal provider rates will be reduced by 10%, which may result in lower administrative funding for Edgemoor facility. In addition, local First Five Commissions (developed as part of the California Children and Families Commission approved by voters in 1998 pursuant to Proposition 10) statewide will be required to transfer over $950 million of reserves to the State for direct health services to children. Such transfer is estimated to result in an $88 million loss to the County. Further, the Governor is proposing to suspend reimbursements for most mandates not related to public safety or property taxes, including election related mandates which include voter registration, absentee ballots, and permanent absentee voters.

In addition to the above, the State, among other things, funds many County health and social services programs and provides funding to help sustain public safety, health and human services and transportation programs. The County continues to review the Fiscal Year 2010-11 State Budget Act to determine the appropriate course of action.

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 Revenue to fund legally declared emergencies; a Contingency Reserve (the "Contingency Reserve") with a targeted amount equivalent to 2% of budgeted General Purpose Revenue to fund unanticipated needs of the County or offset revenue shortfalls during the Fiscal Year; and a General Fund Designation of Fund Balance for Economic Uncertainty (the "Designation for Economic Uncertainty") at the targeted level of 10% of the budgeted General Purpose Revenue. In the event that the General Reserve, the Contingency Reserve or the Designation for Economic Uncertainty fall below their targeted levels, the CAO will present a plan to the Board of Supervisors for restoration of those levels.

The General Reserve, Contingency Reserve and the Designation for Economic Uncertainty balances set forth in the Fiscal Year 2010-11 Adopted Budget exceed the County's 17% Fund Balance and Reserves Policy target. The General Purpose Revenue in the Fiscal Year 2010-11 Adopted Budget total $954.4 million. For Fiscal Year 2010-11, the General Reserve is budgeted to remain at $55.5 million, exceeding the reserve requirement of $47.7 million; the Contingency Reserve is budgeted to remain at $20.0 million, exceeding the target level of $19.1 million; and the Designation for Economic Uncertainty is budgeted at $100.0 million, exceeding the target level of $95.4 million. See also "– Budget and Financial Position of the County" and "– County's 2010-11 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 Transfers 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 (2011 MTS Tower Refunding) (the "Series 2011 Certificates"), and the assets of the County's pension plan are not available for such payment. The Association issues publicly available reports, including its financial statements, required supplementary information and actuarial valuations for the herein described pension plan and retiree health plan. The reports are available on the Association's website: http://www.sdcera.org/investments.htm. Information on such site is not incorporated herein by reference.

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, 2010, there were 16,981 active members, 13,922 retired members and beneficiaries and 5,254 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 and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier B is the current open plan, which became effective on August 28, 2009. Tier A (with 13,468 active members as of June 30, 2010) and Tier I (with 42 active members as of June 30, 2010) 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 participate in the Association. In addition to the County, participating employers include the San Diego Superior Court (the "Court"), the Local Agency Formation Commission and the San Dieguito River Valley Joint Powers Authority. 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% of the annual Employer Contributions to the Association and the other participating Employers are obligated to make approximately 9% 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 2009-10. Separate from the Employers, the San Diego County Office of Education (the "Office of Education") has approximately 24 retirees who participate in the Association's retirement plan and receive benefits, but no longer makes contributions to the Association. Retirement benefits for these 24 retirees are funded by contributions previously made by the Office of Education.

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, 2010, prepared by The Segal Company, the Association's actuary (the "Actuary").

Normal Cost and UAAL and its Calculation. Currently, the Association uses the "entry age normal actuarial 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 normal cost contribution amount is calculated based on a set of actuarial assumptions about future events pertaining to the amount and timing of benefits to be paid and the accumulation of assets to pay the benefits. The UAAL may increase or decrease as a result of changes in actuarial assumptions or methods, statutory provisions, 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, 2010 apply to contributions to be made by the County and the other Employers for the Fiscal Year beginning July 1, 2011.

The UAAL calculation is necessary to determine 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. The UAAL is determined by comparing the actuarial assumptions made to actual experience. Examples of the data that are used in this process are the assumed (versus actual) rates of earnings on the assets of the plan, pay increases for current employees, disability retirements, retirement ages of active employees, and 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. For example, 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 8.00%, net of expenses), then the shortfall or excess, together with other experience gains or losses, is smoothed or spread over a five-year period. The impact of this will result in an actuarial value of assets which is 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. 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. Some plans use rolling periods and 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 normal cost rates against actual experience at least every three years. The Association's actuary last presented an experience study to the Association on April 1, 2010 with respect to results as of June 30, 2006 through June 30, 2009. The Association's actuary recommended changes to certain assumptions, including the assumed future merit and longevity 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 Association's actuary reported that the proposed set of assumptions would result in an increase in the aggregate contribution rate of less than 1%. At its June 3, 2010 meeting, the Retirement Board adopted the recommendations presented by the Association's actuary. The set of assumptions approved by the Retirement Board were used to prepare the actuarial valuation report as of the year ended June 30, 2010. The next experience study is expected to be conducted in 2013 with respect to results as of June 30, 2009 through June 30, 2012.

Economic Assumptions. The Association's actuary prepares a review of economic actuarial assumptions every three years in conjunction with the demographic study. At the May 6, 2010 Retirement Board meeting, the Association's actuary presented proposed new economic assumptions. The Association's actuary recommended a reduction of the current annual investment return assumption of 8.25% to 8.00%, a reduction in the assumed inflationary salary rate from 3.75% to 3.50%, an increase in the assumed "across the board" salary assumption from 0.50% to 0.75% and no overall change to the combined inflationary and real "across the board" salary increase assumption of 4.25%. These assumptions were included in the June 30, 2010 actuarial valuation report. The actuary stated at the

June 3, 2010 meeting that had the 8.00% rate of return assumption been in place for the June 30, 2009 actuarial valuation, the aggregate employer contribution rate for Fiscal Year 2010-11 would have been approximately 3 percentage points higher. The next economic assumptions review is expected to be conducted in conjunction with the next demographic experience study, which, as noted above, is expected to occur in 2013. The County cannot predict at this time the further recommendations to be made by the Association's 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, 2010, the date of the most recent actuarial valuation report, the valuation value of assets of the Association was approximately $8.433 billion and the actuarial accrued liability was approximately $9.999 billion, resulting in a funded ratio of approximately 84.3% and an UAAL of approximately $1.566 billion. By comparison, the funded ratio as of June 30, 2009 was 91.5% and the UAAL was $785.6 million. See Table 9 – Historical Funding Status. The decline in the funded ratio reflects, among other things, the recognition of a portion of prior years' investment losses. The total unrecognized investment loss as of June 30, 2010 was $1,690.0 million, which amount will be recognized in the determination of the actuarial value of assets for funding purposes over the next five years, to the extent it is not offset by recognition of investment gains derived from future experience. The actuarial value of assets and the UAAL may increase or decrease based on investment results of the Association being above or below the actuarially assumed rate of return of 8.00% per annum as a consequence of increases or decreases in the securities market. Based on the foregoing, earning the assumed rate of investment return of 8.00% per annum on a market value basis will result in investment losses on the actuarial value of assets and an increase in the County's contribution requirements in each of the next five years as the investment losses are recognized. No assurance can be given that the actuarial value of assets of the Association will not materially decrease. The Association reported a total portfolio market value of net pension assets of $6.878 billion as of June 30, 2010, compared to $6.192 billion as of June 30, 2009, a $0.686 billion increase in net assets or a 13.39% return on the market value of pension assets. Table 10 – Prospective Funding Status of the Association below reflects the projected funding status through Fiscal Year 2016-17. These projections are based on certain assumptions, including achieving an 8.00% return on investments described herein. As of February 28, 2011, the Association reported a total portfolio market value of net pension assets of $8.005 billion, an increase of approximately 16.4% since June 30, 2010. Investment results may help mitigate the material adverse effect of the losses experienced in Fiscal Year 2008-09 on the actuarial value of the assets, the funded ratio and the employer contributions beginning in Fiscal Year 2011-12. The impact of the Fiscal Year 2008-09 losses and the most recently adopted demographic and economic assumptions is illustrated in Table 10 - Prospective Funding Status of the Association below. See "County Financial Information – San Diego County Employees Retirement Association – General Funding Practices of the Association - Normal Cost and UAAL and its Calculation" herein.

Historical Funding Status. Table 9 below sets forth for each of the ten years ended June 30, 2010 the amount of the total Employer Contributions and Employer Offsets made by the County and the other Employers, and the market value of the pension assets, the valuation value of the pension assets, the actuarial accrued liability of the pension system, the UAAL 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, 2001 through 2010
($ In Millions)

Fiscal Year	Employer Contribution(1)	Employer Offsets(1)	Net Market Value of Assets	Valuation Value of Assets	Actuarial Accrued Liability	UAAL(2)	Funded Ratio
2001	$ 2.0	$ 39.1	$3,816.9	$3,745.6	$3,506.8	$ (238.8)(3)	106.8%
2002	5.3	45.2	3,533.6	3,831.3	5,078.1	905.1(3)(4)	82.5(3)(4)
2003	12.2(5)	53.9	4,103.3	4,417.8	5,853.1	1,435.4(3)(5)	75.5(3)(5)
2004	195.0(5)	55.2	5,508.6	5,166.8	6,369.5	1,202.7(5)	81.1(5)
2005	260.0(6)	56.1	6,358.5	5,612.3	6,990.7	1,378.4	80.3
2006	243.7(7)	58.8	7,330.9	6,263.0	7,495.3	1,232.3	83.6
2007	258.2(8)	62.3	8,444.5	7,250.4	8,082.5	832.1	89.7
2008	236.8	68.7	8,408.0	8,236.9	8,722.3	485.4	94.4
2009	219.6	71.6	6,192.0	8,413.1	9,198.6	785.6	91.5
2010	189.5	68.4	6,878.2	8,433.3	9,999.2	1,565.9(9)	84.3

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 91.0% based on the estimated relative percentage of payroll of the County for Fiscal Year 2009-10. 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 $1,690.0 million in unrecognized investment loss as of June 30, 2010, which amount will be spread over the five years ending June 30, 2015. See Table 10 and "County Financial Information – San Diego County Employees Retirement Association –General Funding Practices" and "– Funding Status of the Association" 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"). For non-safety employees, the Employer Offsets range from 3% to 9.5% of their salary, and for safety employees the Employer Offsets range from 2.75% to 16.73% 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, 2010. See "The County - County of San Diego Employees - Negotiated Retirement Amendments" herein for a description of negotiated changes to the Employer Offsets effective July 1, 2011.

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. The County cannot predict whether the Association will achieve its assumed rate of return in the current or future years. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 10
PROSPECTIVE FUNDING STATUS OF THE ASSOCIATION
Fiscal Years Ended June 30, 2011 through 2017
($ In Millions)

Fiscal Year	Employer Contributions(1)(2)(3)	Employer Offsets(1)(2)(3)	UAAL(1)(2)(3)	Funded Ratio(1)(3)
2011	$224	$77	$2,292	78.5%
2012	296	74	3,028	73.2
2013	372	77	3,661	69.5
2014	441	80	3,606	71.7
2015	504	83	3,599	73.4
2016	519	87	3,531	75.3
2017	541	91	3,440	77.3

Source: The Segal Company.

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

(a) It has been assumed that the annual investment return on the market value of assets will be 8.00% effective July 1, 2010, based on the 8.00% assumption adopted by the Retirement Board for the June 30, 2010 valuation. 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 $1,690.0 million in unrecognized investment loss as of June 30, 2010.

(b) With the exception of the recognition of the above investment loss, it has been assumed that all of the other actuarial assumptions that were approved for use with the June 30, 2010 valuation will be met in the future.

(c) In projecting the payroll, the Actuary assumed that the estimated Fiscal Year 2010-11 payroll of $1,095.6 million used in the June 30, 2010 actuarial valuation will increase by 4.25% per annum.

(d) The Employer Offsets (the County's pickup of member contributions) of approximately $68 million (reported by the Association for the 2009-10 Fiscal Year) will increase by 4.25% per year (3.50% inflation plus 0.75% across-the-board salary increase) as assumed in the June 30, 2010 valuation. This is a simplifying assumption as the actual Employer Offsets amount is governed by bargaining agreements with employee groups and actual membership demographics.

(e) The County adopted a new General Tier B and a new Safety Tier B plan for members hired on or after August 28, 2009. There will be a gradual reduction in the employer's aggregate normal cost as a bigger portion of the Association's active workforce is covered by the less expensive Tier B plans. The cost reductions are reflected in the projections.

(f) Assumes the Retirement Board will not restore the 1% Contingency Reserve until after the Association has Available Earnings remaining after crediting interest to all valuation reserves.

(g) 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, will remain unchanged. The above projections do not reflect the impact of any assumption changes that may be adopted by the Board after the June 30, 2010 valuation.

(2) The County is obligated to make approximately 91.0% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 9.0% 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 2009-10.

(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 and do not reflect the impact of the negotiated amendments to the Employer Offsets effective July 1, 2011.

Investment

General. The Retirement Law and the California Constitution grant the Retirement Board exclusive control over the investment of the Association's assets. The Retirement Law and the Constitution provide 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 and the Constitution further require the Retirement Board to manage the Association's investments prudently and to diversify investments in the manner and to the extent it deems appropriate. See "County Financial Information - San Diego County Employees Retirement Association - Investment - Investment Policy" below.

In 2009, the Retirement Board retained as its portfolio strategist Integrity Capital LLC ("Integrity Capital"), a consulting firm led by Lee Partridge, pursuant to a 39-month contract with two two-year extensions. The portfolio strategist serves as the Association's outsourced chief investment officer. Effective November 17, 2010, the ownership of Integrity Capital was acquired by Salient Partners, L.P. ("Salient"), an investment management firm based in Houston, Texas. Under this new ownership, and with the additional resources Salient provides, Integrity Capital has continued to perform under its existing contract with the Association according to its original terms. In addition, Lee Partridge continues to serve as the Association's portfolio strategist.

In March 2010, the Retirement Board adopted a "Dedicated Advisor" model for investment management services, pursuant to which an outside firm is engaged to focus on providing customized, top-tier investment management services to the Association. The Board subsequently determined not to pursue the "Dedicated Advisor" model. However, the Board has continued to consider other alternatives to support the Association's investment function, including options that call for a division of responsibility as to various asset classes between internal and outside resources. A final decision has not yet been reached on whether, and if so how, the Association's current investment staffing model will change.

Investment Policy. The Retirement Board has adopted an investment policy statement, last revised on March 18, 2010, and related policies that 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"), effective as of July 1, 2010. The asset allocation policy is managed and monitored by the Association's staff with the assistance of external investment consultants. That total investment portfolio was $8.408 billion as of June 30, 2008, $6.192 billion as of June 30, 2009, $6.878 billion as of June 30, 2010 and $8.092 billion as of February 28, 2011.

TABLE 11
SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
ASSET ALLOCATION POLICY[1]

Asset Class	Benchmark	Percentage Limits Target	Min.	Max.
Global Developed Equities	MSCI World Net Index	20	15	25
Emerging Market Equities	MSCI Emerging Markets Index	5	2	10
High Yield	ML High Yield Master II	5	2	10
Private Equity[2]	Uninvested Portion: Russell 3000 Invested Portion: Russell 3000 + 3%	10	5	15
Total Growth Oriented Assets	*Target Weighted Average*	*40*	*24*	*60*
Emerging Market Debt (Local)	JP Morgan GBI - EM Global Diversified (Unhedged)	10	5	15
Asset Allocation Strategies	2/3 HFRI Macro + 1/3 Barclays CTA Indices	10	5	15
Relative Value Strategies	Three-Month Treasury Bills + 2%	10	5	15
US Treasuries	Barclay's 10-year UST Futures Index[1]	40	20	60
Total Stable Value Assets	*Target Weighted Average*	*70*	*35*	*105*
Real Estate[2]	Uninvested Portion: DJ US Real Estate Invested Portion: NCREIF NPI	10	5	15
Treasury Inflation Protected Securities	Barclay's Capital US TIPS	5	2	15
Total Inflation-Sensitive Assets	*Target Weighted Average*	*25*	*12*	*45*
Total Fund	**Target Weighted Average**	**135**		

Source: San Diego County Employees Retirement Association.
(1) The benchmark for the cash backed portion of the 10-year Treasury futures allocation will include the return on three-month Treasury bills in addition to the Barclay's 10-year Futures Index.
(2) Returns for the privately invested portions of the real estate, private equity and real asset portfolios will be lagged by one quarter and compared to their respective benchmark returns for the same period.

The assumed rate of return adopted by the Retirement Board and applicable to the projection of the Association's assets and liabilities is lower than the expected compound annual passive return of the Association's Asset Allocation Policy, which is 8.2%, 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 2006 through 2009, 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 strategy, which the Association no longer uses, 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".

Historical Investment Return. The historical annual net investment return on the market value of the Association's entire investment portfolio, after management fees, was 13% for the year ended June 30, 2010, negative 4.9% for the three years then ended, 2.6% for the five years then ended and 3.7% for the ten years then ended. This compares to the 8.00% 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 period July 1, 2010 through February 28, 2011, the investment return was approximately 17.13%.

Hedge Funds. As of June 30, 2010, the fund was invested in 11 hedge funds with an approximate market value of $908.0 million or 13.2% of the total market value of the portfolio. As of February 28, 2011, the fund was invested in 13 hedge funds with an approximate market value of $2 billion or 14.5% of the total market value of the portfolio.

Litigation Involving Prior Investment

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 U.S. Securities and Exchange Commission (the "SEC") and Commodities Future Trading Commission ("CFTC"). As of December 31, 2008, the Association had $78 million (including retained earnings) invested with WG TC as reported by 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 CFTC and the SEC against WG TC, its principals and certain related entities. The motion to intervene was summarily denied, from which denial the Association has appealed; by agreement with the SEC and CFTC, the Association's appeal has been suspended pending further developments in the trial court, and may be revived at any time before July of 2011. In July 2009, the Chief Compliance Officer of WG TC pleaded guilty to certain charges. On July 28, 2010, Paul Greenwood, one of the two principals of WG TC, pleaded guilty to seven counts alleging violations of federal law, including securities fraud, wire fraud, commodities fraud, conspiracy, and money laundering. The receiver appointed by the United States District Court for the Southern District of New York (the "Receiver") has filed reports asserting that WG TC was operated as part of a Ponzi scheme because funds of WG TC were intermingled with those of a sister entity which was found by the court to have been operated as a Ponzi scheme, and proposed that WG TC's assets be distributed pro rata to investors in both WG TC and its insolvent sister entity, not just to investors in WG TC. Under this proposal, the Association would receive an interim distribution of approximately $35 million; it is not clear what future additional distributions the Association might receive under the proposal. The Association and six other investors in WG TC filed joint objections to the Receiver's proposal. At a hearing on the proposal held March 16, 2011 in the receivership proceedings, the United States District Court for the Southern District of New York approved the Receiver's plan of distribution, and on March 21, 2011, entered an order directing the Receiver to make a distribution in accordance with the plan commencing thirty days after entry of the order. The Association is evaluating whether to appeal the March 21, 2011 order, and has until April 20, 2011 to file a notice of appeal.

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 8.00% 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 an Association Contingency Reserve (the "Association Contingency Reserve") to maintain the amount on deposit in the Association 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 Association Contingency Reserve to valuation assets when current investment earnings are insufficient to credit the valuation asset reserves with the 8.00% interest target. Earnings in excess of the amounts transferred to the Association 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 Association 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, 2010.

TABLE 12
TRANSFERS OF INVESTMENT EARNINGS
TO NON-VALUATION RESERVES
Fiscal Years Ended June 30, 2001 through 2010
(In Millions)

Fiscal Year	Post-Retirement Healthcare[1]	STAR COLA[2]	Contingency Reserve[3]	Total
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)
2010	0.0	0.0	0.0	0.0
Total[6]	$193.9	$97.7	$81.8	$373.4

Source: The Association.

(1) Reflects amounts that the Association transferred to the Health Reserve from Excess Earnings for Fiscal Years 2000-01 through 2009-10. 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 with the June 30, 2007 Valuation Report.

(3) Reflects amounts that the Association has transferred from the Association's investment earnings to the Association Contingency Reserve. The Association Contingency Reserve was created in the Fiscal Year ended June 30, 2002. Before the creation of the Association 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, 2010, no funds were on deposit in the Association Contingency Reserve, $111.2 million was on deposit in the Supplemental Benefits Allowance Reserve (restructured from the Health Reserve during Fiscal Year 2007-08), $14.4 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" and "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. Effective July 1, 2007, 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.

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 focus on the entity that administers such benefits (the Association) while GASB 45 focuses 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. 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, 2010 (the "2010 OPEB Valuation") with respect to the eligible retirees and the benefit levels set by the Association. The 2010 OPEB Valuation reflected an increase in the actuarial accrued liability of $6.4 million from June 30, 2008. The 2010 OPEB Valuation also reflected an annual required contribution of 1.91% of payroll, which is an increase from the annual required contribution of 1.80% of payroll as of June 30, 2008, the date of the prior OPEB valuation. The change in the actuarial accrued liability and the annual required contribution are attributable to an increase in liabilities due to updated discount and mortality rate assumptions. The annual required contribution in the 2010 OPEB valuation will be used to determine the contribution requirement for Fiscal Years 2011-12 and 2012-13. The assumptions used in the 2010 OPEB Valuation included an individual entry-age normal cost method, 8.00% investment rate of return and a separate declining 20-year basis starting June 30, 2007, amortized as a level dollar amount. The next OPEB valuation will be as of June 30, 2012 and then every two years thereafter. Any changes made by the Retirement Board to the assumed investment rate of return will apply to future OPEB valuations.

Table 13 below sets forth the historical funding status of the Association's OPEB and the historical employer contribution amounts:

TABLE 13
HISTORICAL FUNDING STATUS
FOR POST-RETIREMENT HEALTHCARE BENEFITS
Years Ended June 30, 2007 through 2010
($ in thousands)

Funding Progress

Valuation Date	Valuation Assets	AAL	UAAL	Funded Ratio
June 30, 2007	$ --[(1)]	$ 235,755	$ 235,755	0.0%
June 30, 2008	18,206	217,559	199,353	8.4
June 30, 2010	9,221	206,447	197,226	4.5

Employer Contributions

Year Ended	Annual Required Contribution	Contributions Made	Percentage of Required Contribution Made
June 30, 2008	$ 23,616	$ 23,616	100.0%
June 30, 2009	23,237	23,237	100.0
June 30, 2010	18,789	18,789	100.0

Source: The Association's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010 - Required Supplemental Information, citing the Segal Group, Inc. Biannual Actuarial Valuation.
(1) Excludes $18.2 million available for benefits.

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, 2010, the employers collectively paid $18.8 million to the Association for deposit into the 401(h) account, which satisfied the ARC for that year.

Historical Payments. Table 14 below sets forth the amounts for each of the ten years ended June 30, 2010 that the Association has paid to its members for post-retirement healthcare benefits:

TABLE 14
PAYMENTS FOR POST-RETIREMENT HEALTHCARE BENEFITS
Years Ended June 30, 2001 through 2010

Fiscal Year Ended June 30	Payments for Retiree Healthcare Benefits (in millions)
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
2010	23.3

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 2009-10, a total of $19.8 million was paid from this reserve to Tier A retirees, leaving a balance in the reserve of $111.2 million on June 30, 2010 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 2009-10, a total of $2.4 million was paid to these disability retirees, leaving a balance in the Disability Supplemental Benefit Allowance Reserve on June 30, 2010 of $14.4 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 for eligible members. 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 15 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 15
PAYMENTS FROM STAR COLA RESERVE
Fiscal Years Ended June 30, 2001 through 2010

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
since 2008[(1)]	0.0

Source: The Association.
(1) As a result of the restructuring of the STAR COLA Reserve effective with the June 30, 2007 Valuation Report, the STAR COLA Reserve has held no assets since Fiscal Year 2007-08 and the liability for STAR COLA benefits are incorporated into the overall liabilities of the retirement fund.

Pension Obligation Bonds

Introduction. The County has issued taxable pension obligation bonds ("POBs") from time to time and transferred the proceeds to the Association to reduce the UAAL existing at the time of issuance of the POBs. 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 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, which resulted in approximately $4.5 million of annual interest savings. As of February 28, 2011, the County had POBs outstanding in the aggregate principal amount of $840.1 million. The County may, from time to time, finance all or a portion of the UAAL employer contributions through the additional issuances of POBs. The County has no variable rate POBs outstanding. See "County Financial Information – General Obligation Debt, Pension Obligation Bonds, Lease Obligations and Long-Term Loans" herein.

Pension Related Payments and Obligations

Payments. Table 16 below sets forth the historical and estimated Employer Contributions, Employer Offsets and POB debt service for Fiscal Years 2008 through 2017. The estimates and 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
PENSION RELATED PAYMENTS
Fiscal Years Ended June 30, 2008 through 2017
(In Millions)

Fiscal Year	Employer Contributions(1)	Employer Offsets(2)	County Pension Obligation Bonds Debt Service(3)	Total
2008(4)	$236.8	$68.7	$66.1	$371.6
2009(4)	219.6	71.6	82.0	373.2
2010(4)	189.5	68.4	81.4	339.3
2011(5)	224.0	71.0	81.3	376.3
2012(5)	296.0	74.0	81.4	451.4
2013(5)	372.0	77.0	81.4	530.4
2014(5)	441.0	80.0	81.4	602.4
2015(5)	504.0	83.0	81.4	668.4
2016(5)	519.0	87.0	81.4	687.4
2017(5)	541.0	91.0	81.3	713.3

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 91.0% based on the estimated relative percentage of payroll of the County for Fiscal Year 2009-10. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) Employer Offsets do not reflect negotiated reductions effective July 1, 2011. See "The County - County of San Diego Employees - Negotiated Retirement Amendments" herein.

(3) Consists of regular principal and interest payments. Prepayment amounts are allocated to the fiscal years in which the associated principal and interest payments are due.

(4) Actual.

(5) 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.

Pension – Rated Obligations. Table 17 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 Table 17 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 17
COUNTY PENSION RELATED OBLIGATIONS
Fiscal Years Ended June 30, 2008 through 2017
(In Millions)

Fiscal Year	UAAL	Outstanding Pension Obligation Bonds[1]	Total Outstanding Obligations
2008	$ 485.4	$1,068.2	$1,553.6
2009	785.6	1,006.0	1,791.6
2010	1,565.9	874.3	2,440.2
2011	2,292[2]	841.3	3,133.3
2012	3,028[2]	806.8	3,834.8
2013	3,661[2]	770.5	4,431.5
2014	3,606[2]	732.3	4,338.3
2015	3,599[2]	692.3	4,291.3
2016	3,531[2]	649.9	4,180.9
2017	3,440[2]	605.5	4,045.5

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.

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, 2010, the amount of these actuarial liabilities amount to $23.1 million for the public liability and $94.9 million in workers' compensation. The June 30, 2010 available cash balances for the ISFs combined were $132.9 million.

The County will maintain excess workers' compensation insurance for Fiscal Year 2010-11. The County does 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 murder. All of the plaintiff's claims have been dismissed and his appeal has been resolved in the County's favor. There is currently no pending litigation that would materially impact the financial or operational situation of the County or adversely affect the ability of the County to pay its obligations as and when due.

Short-Term Borrowing

In July 2010, the County issued its Tax and Revenue Anticipation Note Program Note Participations, Series 2010 (the "2010 TRANs") on behalf of itself and certain school districts within the County in an aggregate principal amount of $264,745,000, of which $140,000,000 represent notes issued by the County. The 2010 TRANs mature on June 30, 2011. The 2010 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures. The County intends to issue its Tax and Revenue Anticipation Note Program Note Participations, Series 2011 on behalf of itself and certain school districts within San Diego County in July 2011.

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

The County has no outstanding general obligation bonds. As of February 28, 2011, the County had POBs outstanding in the aggregate principal amount of $840.1 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 February 28, 2011, the County had LRBs and COPs outstanding in the aggregate principal amount of $388.5 million. As of February 28, 2011, there were approximately $1.2 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 $127.4 million for Fiscal Year 2010-11 and will aggregate to approximately $122.7 million for Fiscal Year 2011-12. Debt service on the aforementioned obligations and evidences of indebtedness are paid from amounts in the County's General Fund, a portion of which is reimbursed with amounts from various other revenue sources. The County has no outstanding variable rate obligations and does not have an outstanding liquidity facility in support of payment of any of its outstanding bonds payable from general fund revenues. See "County Financial Information – Pension Obligation Bonds" herein.

Table 18 below sets forth a summary of long-term obligations payable from the General Fund:

TABLE 18
COUNTY OF SAN DIEGO
SUMMARY OF LONG-TERM BONDED OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of February 28, 2011
(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	$ 7,400
2005 RCS Refunding, issued February 2005	3.00-5.00%	2019	28,885	13,455
2005 Edgemoor, issued February 2005	3.00-5.00%	2030	83,510	74,265
2005 North and East County Justice Facility Refunding, issued September 2005	3.25-5.00%	2019	28,210	19,915
2006 Edgemoor Completion Project, issued December 2006	4.00-5.00%	2030	42,390	39,790
2009 Justice Facilities Refunding, issued October 2009	2.00-5.00%	2025	80,940	74,680
Total SANCAL			$ 467,335	$ 229,505
San Diego Regional Building Authority (SDRBA):				
2001 MTS Tower Refunding, issued September 2001[(1)]	2.15-5.25%	2019	$ 36,960	$ 22,115
2009 COC Phase 1A, issued February 2009	3.00-5.375%	2036	136,885	136,885
Total SDRBA			173,845	159,000
Total Certificates of Participation and Lease Revenue Bonds			$ 641,180	$ 388,505
Taxable Pension Obligation Bonds:				
County of San Diego Pension Obligation Bonds, issued September 2002				
Series A	3.88-4.95%	2015	$ 132,215	$ 86,225
County of San Diego 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[(2)]	4.66-5.76%	2015	64,928	75,410
Less Unaccreted Value			-	(9,558)
County of San Diego Pension Obligation Bonds, issued August 2008				
Series A	3.33-6.03%	2027	343,515	327,370
Total Pension Obligation Bonds			$ 929,843	$ 840,142
Total General Fund Long-Term Bonded Obligations			$1,571,023	$1,228,647

(1) To be prepaid with a portion of the proceeds of the Series 2011 Certificates.
(2) 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.
Source: The County of San Diego Auditor and Controller.

Table 19 below sets forth a summary of outstanding principal and interest payments attributable to long-term obligations payable from the County 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 19
COUNTY OF SAN DIEGO
SUMMARY OF OUTSTANDING PRINCIPAL AND INTEREST PAYMENTS ATTRIBUTABLE TO LONG-TERM OBLIGATIONS PAYABLE FROM THE GENERAL FUND[1]

	Certificates of Participation and Lease Revenue Bonds										Pension Obligation Bonds				
Fiscal Year	1993 Master Refunding	2001 MTS Tower	2002 Motorola	2005 RCS Refunding	2005 Edgemoor	2005 North and East	2006 Edgemoor	2009 COC Phase 1A[2]	2009 Justice Facilities Refunding	Subtotal	2002 Pension Obligation Bonds	2004 Pension Obligation Bonds	2008 Pension Obligation Bonds	Subtotal	Total General Fund Obligation
2011	$8,024,375	$3,129,746	$3,474,890	$2,969,488	$6,140,113	$2,722,275	$3,134,983	$ -	$9,635,725	$39,231,594	$20,437,075	$33,960,701	$27,012,599	$81,410,375	$120,641,969
2012	3,915,000	3,017,121		2,961,238	6,137,663	2,717,825	3,131,983	7,626,996	9,620,725	39,128,550	20,435,532	35,320,701	25,578,765	81,334,997	120,463,547
2013	3,906,875	3,082,978		2,960,350	6,136,900	2,716,725	3,131,983	9,876,594	9,591,325	41,403,729	20,438,748	36,715,701	24,263,767	81,418,216	122,821,945
2014		3,040,103		2,962,350	6,136,150	2,724,563	3,134,783	9,874,844	7,377,475	35,250,266	20,438,346	38,210,701	22,763,875	81,412,922	116,663,188
2015		3,086,059		1,433,400	6,139,600	2,719,113	3,135,183	9,876,944	7,343,450	33,733,748	17,656,527	39,741,424	24,013,656	81,411,606	115,145,354
2016		3,021,109		1,427,750	6,140,750	2,722,300	3,132,683	9,874,744	7,341,375	33,660,710	17,656,443	41,337,148	22,420,907	81,414,497	115,075,207
2017		3,050,384		1,429,000	6,138,000	2,721,125	3,131,433	9,877,144	7,333,238	33,680,323		42,965,099	38,373,607	81,338,705	115,019,028
2018		3,065,476		1,427,250	6,138,000	2,719,000	3,136,183	9,878,744	7,329,625	33,694,278		44,717,296	36,694,015	81,411,311	115,105,589
2019		3,067,241		1,417,500	6,140,250	2,720,875	3,136,433	9,877,644	6,474,375	32,834,317		46,507,149	34,906,405	81,413,555	114,247,872
2020		3,058,225			6,139,250	2,721,375	3,132,183	9,875,044	6,474,000	31,400,076		48,369,669	33,038,654	81,408,323	112,808,399
2021					6,139,750		3,133,183	9,878,444	6,472,125	25,623,501		50,283,425	31,128,216	81,411,642	107,035,143
2022					6,136,250		3,135,983	9,876,569	6,467,500	25,616,301		52,322,691	29,085,382	81,408,073	107,024,374
2023					6,138,500		3,135,033	9,874,869	6,147,125	25,295,526		54,439,051	26,892,208	81,331,260	106,626,786
2024					6,135,750		3,135,258	9,876,394	4,171,625	23,319,026		56,663,519	24,750,780	81,414,299	104,733,325
2025					6,137,750		3,136,445	9,874,644	4,160,250	23,309,089		58,942,024	22,478,030	81,420,054	104,729,143
2026					6,138,750		3,133,383	9,874,813	2,916,125	22,063,070			81,415,400	81,415,400	103,478,470
2027					6,138,250		3,136,070	9,878,438		19,152,758			67,113,947	67,113,947	86,266,704
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) Does not include the Series 2011 Certificates described in the forepart of this Official Statement and includes the 2001 MTS Tower Certificates to be prepaid with a portion of the proceeds of the Series 2011 Certificates.
(2) Excludes interest payments through June 1, 2011, which are funded by capitalized interest.

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 2010-2015 CINA represents $308.7 million in currently funded and approved projects and $932.1 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 County Administrative Center Waterfront Park project, and the Cedar-Kettner 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 Financial Obligation Management 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 Financial Obligation Management Policy, a Debt Advisory Committee ("DAC") consisting of the Chief Financial Officer, the Auditor-Controller and the Treasurer-Tax Collector and established by the Chief Administrative Office, reviews proposed financings. DAC approval is required prior to consideration of a financing by the Board of Supervisors. The Long-Term Financial Obligation Management Policy requires that prior to any recommendation by DAC to move forward with a long-term financial obligation, there shall be an assessment of the ability to repay the obligation, identification of the funding source of repayment, evaluation of the impact of the ongoing obligation on the current budget and future budgets, assessment of the maintenance and operational requirements of the project to be financed, and consideration of the impact on the County's credit rating. The Long-Term Financial Obligation Management 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 Financial Obligation Management 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. Recently, the County's practice of using 5% of General Fund revenue as a not-to-exceed guideline for annual debt service requirements in long-term planning has been formalized and incorporated into the Long-Term Financial Obligation Management Policy. Exceptions to the provisions of the Long-Term Financial Obligation Management 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. The County has no outstanding swap agreements.

Overlapping Debt and Debt Ratios

Table 20 sets forth a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated as of February 28, 2011. 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, but includes the securities to be prepaid with a portion of the proceeds of the Series 2011 Certificates.

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 20
COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(As of February 28, 2011)

2010-11 Assessed Valuation:	$390,777,048,827	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	39,095,040,445	
Adjusted Assessed Valuation:	$351,682,008,382	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/28/11
Metropolitan Water District	18.533%	$ 47,273,050
Grossmont-Cuyamaca Community College District	100.	193,373,290
Palomar Community College District	100.	324,843,901
San Diego Community College District	100.	620,470,828
Other Community College Districts	100.	178,038,974
Carlsbad Unified School District	100.	126,245,441
Oceanside Unified School District	100.	193,410,045
Poway Unified School District SFID Nos. 2002-1 and 2007-1	100.	274,996,263
San Diego Unified School District	100.	1,700,910,669
Vista Unified School District	100.	132,674,882
Other Unified School Districts	100.	30,624,690
Grossmont Union High School District	100.	379,743,431
Sweetwater Union High School District	100.	338,354,415
Other Union High School Districts	100.	102,047,846
Cajon Valley Union School District	100.	99,900,000
Chula Vista City School District	100.	74,835,000
San Ysidro School District	100.	85,697,104
Other School Districts	100.	323,132,903

(Table continued on next page.)

(Table continued from prior page.)

Otay Municipal Water District	100.	7,260,000
Cities	100.	110,970,000
Grossmont Healthcare District	100.	85,422,076
Palomar Pomerado Hospital District	100.	481,514,998
Community Facilities Districts	100.	1,651,352,083
1915 Act Bonds (Estimated)	100.	155,787,374
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$7,718,879,263

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 2/28/11
San Diego County General Fund Obligations	**100. %**	**$ 388,505,000**
San Diego County Pension Obligations	**100.**	**820,288,160**[(1)]
San Diego County Superintendent of School Obligations	100.	19,992,500
Community College District Certificates of Participation	100.	14,150,000
Poway Unified School District Certificates of Participation	100.	127,465,490
Other Unified School District Certificates of Participation	100.	145,991,687
High School District Certificates of Participation	100.	85,662,500
Chula Vista City School District Certificates of Participation	100.	140,055,000
Other School District Certificates of Participation	100.	124,049,849
Otay Municipal Water District Certificates of Participation	100.	60,095,000
City of Chula Vista General Fund and Pension Obligations	100.	140,050,000
City of Escondido General Fund Obligations	100.	59,327,090
City of San Diego General Fund Obligations	100.	513,195,000
City of Vista General Fund Obligations	100.	116,225,000
Other City General Fund Obligations	100.	258,540,000
Special District Certificates of Participation	100.	17,155,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,030,747,276
Less: Otay Municipal Water District Certificates of Participation (100% supported)		60,095,000
City of El Cajon General Fund Obligations supported by sales tax revenues		25,195,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,945,457,276
GROSS COMBINED TOTAL DEBT		$10,749,626,539[(2)]
NET COMBINED TOTAL DEBT		$10,664,336,539

(1) Reflects principal amount of outstanding Series 2004C POBs; does not reflect the accreted amount on such bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:
Total Overlapping Tax and Assessment Debt.............. 1.98%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($1,208,793,160).................... 0.34%
Gross Combined Total Debt 3.06%
Net Combined Total Debt.. 3.03%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc.

SAN DIEGO COUNTY INVESTMENT POOL

General

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

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

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

Treasury Pool's Portfolio

As of February 28, 2011, the securities in the Treasury Pool had a market value of \$6,056,966,108 and a book value of \$6,046,119,806, for a net unrealized gain of \$10,846,302 of the book value of the Treasury Pool.

The effective duration for the Treasury Pool was 0.700 years as of February 28, 2011. The duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.700 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.700%.

As of February 28, 2011, approximately 8.10% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 11.17% by community colleges, 34.11% by the County, 6.69% by the Non-County and 39.93% by K-12 school districts.

Standard & Poor's Rating Group maintains ratings of "AAA" (extremely strong protection against losses and credit defaults) and "S-1" (low sensitivity to changing market conditions) on the Pool. The ratings reflect only the view of the rating agency and any explanation of the significance of such ratings may be obtained from such rating agency as follows: Standard & Poor's Rating Services, a Division of McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments

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

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. At all times, the Pool's investments will comply with California Government Code and the County's Investment Policy (the "Investment Policy").

The Investment Policy

The Investment Policy currently states the primary goals of the County Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the County 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 County 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 in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. Furthermore, at least 25% of the securities must mature within 90 days. The maximum effective duration for the Pool 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 and/or securities lending agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements shall be to invest the proceeds from the agreement into permissible securities that have the highest short-term credit ratings; to supplement the yield on securities owned by the Pool; or to provide funds for the immediate payment of an obligation. The maturity of the reverse repurchase agreement and the maturity of the security purchased shall be the same.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the simultaneous return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the

County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

The Investment Policy also authorizes investments in covered call options and put options, which are options that the Treasurer sells to a third party the right to buy an existing security in the Pool or sell a security to the Pool, both at a specific price within a specific time period. 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 written against them at any given time.

Beginning early August 2007, the County Investment Pool halted all investment in asset-backed commercial paper and has no plans to resume investment in this type of security until the current credit crisis has passed. Further, the County Pool is not invested in any structured investment vehicles and has never invested in collateralized debt obligations.

In order to limit exposure to credit risk, the County Pool has limited purchases of corporate securities to maturities less than 60 days.

Certain Information Relating to Pool

Table 21 below sets forth information with respect to the Pool as of the close of business February 28, 2011. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following table were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on February 28, 2011, the Pool necessarily would have received the values specified.

TABLE 21
TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS
(As of February 28, 2011)

	Percent of Portfolio	Book Value	Market Value	Accrued Interest	Market Value	Net Unrealized Gain/(Loss)	Yield to Maturity	Weighted Average Days to Maturity
US Treasury Bill	0.50%	$ 29,998,008	99.97%	$ 0	$ 29,990,990	(7,018)	0.14%	17
US Treasury Notes	4.79	280,972,343	103.53	1,483,102	289,885,786	8,913,443	2.82	699
FNMA Discount Notes	2.59	157,055,045	99.87	0	157,033,984	(21,061)	0.18	238
Federal Farm Credit Bank Notes	4.38	266,142,389	99.70	728,862	265,404,508	(737,881)	1.52	1,079
Federal Farm Credit Bank Disc Notes	9.40	569,366,503	99.85	0	569,170,630	(195,873)	0.23	169
Federal Home Loan Bank Notes	7.17	432,315,849	101.13	2,873,945	434,482,145	2,166,296	1.93	1,015
Federal Home Loan Bank Disc Notes	2.43	147,130,172	99.93	0	147,083,481	(46,691)	0.19	80
Federal Home Loan Mortg. Corp. Disc Notes	8.18	495,609,684	99.92	0	495,540,621	(69,063)	0.20	117
Federal Home Loan Mortg. Corp. Notes	7.69	463,779,109	101.49	3,416,808	466,061,029	2,281,920	2.06	800
Fannie Mae	15.52	941,665,756	100.63	6,787,639	939,561,710	(2,104,046)	1.61	1,047
Corporate Medium Term Notes	0.43	25,272,017	104.37	255,486	26,092,850	820,833	4.04	359
Bond Fund	0.58	35,000,000	100.30	41,196	35,105,105	105,105	0.71	431
Money Market Funds	0.99	59,955,000	100.00	4,267	59,955,000	0	0.02	43
Repurchase Agreements	3.00	181,888,849	100.00	1,128	181,888,849	0	0.22	1
Negotiable Certificates of Deposit	7.76	470,000,000	100.00	132,824	470,000,000	0	0.24	11
Commercial Paper	23.68	1,434,808,082	99.97	0	1,434,548,420	(259,662)	0.22	24
Collateralized/FDIC Certificates of Deposit	0.91	55,161,000	100.00	13,615	55,161,000	0	0.47	92
Totals for February 2011	100.00%	$6,046,119,806	100.43%	$15,738,872	$6,056,966,108	$10,846,302	0.90	423
Totals for January 2011	100.00%	$6,334,722,890	100.46%	$14,773,271	$6,351,916,955	$17,194,065	0.94	435
Change From Prior Month		($288,603,084)	(0.03%)	$965,601	($294,950,847)	($6,347,763)	(.04)	(12)
Portfolio Effective Duration	.700 years							

	August Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.063%	0.823%	0.562%	0.844%	0.122%	0.757%
Market Value	0.057%	0.737%	0.506%	0.760%	0.111%	0.688%

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 Fiscal Year 2010-11 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 Fiscal Year 2010-11 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.

Proposition 26

On November 2, 2010, voters approved Proposition 26, which amends the State Constitution to expand the definition of a tax so that certain fees and charges currently imposed by government will be subject to approval by two thirds of each house of the State Legislature or approval by local voters, as applicable. In addition, Proposition 26 requires a two-thirds approval by each of house the State Legislature to approve laws that increase taxes on any taxpayer, even if the law's overall fiscal effect does not increase State revenues. Proposition 26 also repeals recent State laws that conflict with the measure, unless approved again by two-thirds of each house of the State Legislature within one year of approval of Proposition 26. The State Legislative Analyst's Office ("LAO") states that Proposition 26 would make it more difficult for State and local governments to pass new laws that raise revenues and could reduce government revenues and spending statewide by up to billions of dollars annually compared to what otherwise would have occurred, particularly if the proposed voting requirements results in some proposes not being approved. The County can not presently estimate the potential future impact Proposition 26 will have on the County's finances. However, the County believes that Proposition 26 will not adversely affect the ability of the County to pay the principal and interest with respect to the Certificates as and when due.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, Proposition 62, Proposition 1A and Proposition 26 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 2010-11

State Budget for 2010-11. On October 8, 2010, the Governor signed the Fiscal Year 2010-11 State Budget Act to address a then-projected $19.3 billion shortfall in revenues. The Fiscal Year 2010-11 State Budget Act estimates Fiscal Year 2009-10 revenues and transfers of $86.92 billion, total expenditures of $86.35 billion and a year-end deficit of $4.80 billion, which included a negative $5.38 billion prior-year State General Fund balance, $6.34 billion withdrawal from the reserve for economic uncertainties and an allocation of $1.54 billion to the reserve for the liquidation of encumbrances. The Fiscal Year 2010-11 State Budget Act projects 2010-11 revenues and transfers of $94.23 billion, total expenditures of $86.55 billion and a year-end surplus of $2.87 billion (net of the $4.80 billion deficit from Fiscal Year 2009-10), of which $1.54 billion is budgeted to be reserved for the liquidation of encumbrances and $1.34 billion is budgeted to be deposited in a reserve for economic uncertainties.

The Fiscal Year 2010-11 State Budget approves placement of a constitutional amendment on the State's reserve funds on the March 2012 ballot. If approved, the State would increase the maximum size of its Budget Stabilization Account from five percent to ten percent of annual State General Fund revenues and provide new requirements for depositing State funds into the Budget Stabilization Account. If the ballot measure were approved, the law would further restrict the State's ability to withdraw funds from its reserves.

Certain of the features of the Fiscal Year 2010-11 State Budget Act affecting counties include the following:

1. The Fiscal Year 2010-11 State Budget Act includes a $187.1 million General Fund decrease in funding resulting from the enrollment of seniors and people with disabilities in managed care and deferring a managed care payment for two-plan and geographic managed care counties.

2. The Fiscal Year 2010-11 State Budget includes a $84.5 million General Fund funding decrease resulting from freezing daily per diem hospital inpatient rates at existing levels.

3. The Fiscal Year 2010-11 State Budget includes a $365.9 million funding decrease from utilization of an advance of Temporary Assistance for Needy Families Block Grant funds for the quarter ending June 30, 2011 in lieu of General Fund.

4. The Fiscal Year 2010-11 State Budget includes a $300 million decrease in IHSS program, consisting of (1) using IHSS provider-generated revenue to draw down additional federal funds and offset General Fund expenditures in the program ($190 million), (2) imposing a 3.6% across-the-board reduction to the hours assessed for IHSS recipients ($35 million) and (3) reflecting an updated caseload estimate based on an actual decline in recipients as compared to the previous caseload projection ($75 million).

5. The Fiscal Year 2010-11 State Budget includes approximately $162.4 million funding decrease as a result of maintaining the level of Child Welfare Services program funding at Fiscal Year 2009-10 budgeted levels, eliminating State funding for the Seriously Emotionally disturbed portion of the Foster Care program and reducing the reimbursement rates for license-exempt child care providers.

6. The Fiscal Year 2010-11 State Budget includes a one-time reduction of $365 million resulting from the suspension of most mandates not related to elections, law enforcement and property taxes.

Fiscal Year 2010-11 LAO Budget Overview. On October 8, 2010, the LAO released a report entitled "Major Features of the Legislature's 2010-11 Budget" (the "Fiscal Year 2010-11 LAO Budget Overview"), which provides an analysis by the LAO of the Fiscal Year 2010-11 State Budget. The 2010 11 LAO Budget Overview is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference. The Fiscal Year 2010-11 LAO Budget Overview states that more than two-third's of the budget solutions contained State Legislature's budget for 2010-11 are one-time or temporary in nature. Accordingly, the LAO cautions that the State will continue to face sizable annual budget problems in Fiscal Year 2011-12 and thereafter.

Fiscal Year 2011-12 LAO Fiscal Outlook. On November 10, 2010, the LAO released a report entitled "The 2011-12 Budget: California's Fiscal Outlook" (the "Fiscal Year 2011-12 LAO Fiscal Outlook"), which updates the LAO's forecast of the State's General Fund revenues and expenditures. The LAO projects that, absent corrective action, the State will have a budget deficit of approximately $25.4 billion at the end of Fiscal Year 2011-12 (inclusive of a budget deficit of $6 billion at the end of Fiscal Year 2010-11) and budget deficits of approximately $20 billion per fiscal year through Fiscal Year 2015-16. The LAO notes that the Fiscal Year 2010-11 State Budget included $4 billion in assumed federal funding that had not been approved at the time of its adoption, and projects that $3.5 billion of such amount (or flexibility related thereto) will not be received. The LAO cautions that a net $3 billion of additional budget solutions will not be achieved and that Proposition 22, which was approved in November 2010, will reduce State General Fund solutions by approximately $800 million. In order to address the State's structural budget deficit, the LAO recommends the State take a multi-year approach and minimize the use of risky budgetary measures that it believes contribute to fiscal year-end deficits. The LAO further recommends that the State Legislature consider revenue policies including, among other things, tax expenditure programs such as special credits, deductions and exemptions, increasing charges for program beneficiaries, extending certain temporary tax increases, and reconsidering the optional single sales factor for multistate companies. According to the LAO, the approval of permanent actions and certain temporary budget solutions could eliminate the State's structural deficit and allow the State to build reserves to address the next economic downturn and any long-term fiscal liabilities.

State Budget for Fiscal Year 2011-12

Proposed State Budget for Fiscal Year 2011-12. On January 10, 2011, Governor Brown released his 2011-12 Proposed Budget (the "2011-12 Proposed State Budget"), which projects an estimated $8.2 billion budget deficit for Fiscal Year 2010-11 and a $17.2 billion budget deficit in Fiscal Year 2011-12 absent corrective action.

The Fiscal Year 2011-12 Proposed State Budget includes proposals to (i) reduce expenditures by approximately $12.5 billion, (ii) generate an additional $3.0 billion in revenues for Fiscal Year 2010-11 and $12.0 billion in revenues for Fiscal Year 2011-12 by extending four temporary tax increases, subject to voter approval, and shifting funding and responsibility for certain services to local governments, and (iii) borrow $1.9 billion from special funds and other sources. Assuming the Governor's proposals are approved, the Fiscal Year 2011-12 Proposed State Budget estimates a Fiscal Year 2010-11 budget deficit of $4.1 billion (inclusive of $770 million of encumbrances) and projects State General Fund revenues and transfers for Fiscal Year 2011-12 of $89.7 billion (a decrease of approximately 4.8 percent from the projected revenues and transfers for Fiscal Year 2010-11) and State General Fund expenditures of $84.6 billion (a decrease of approximately 8.2 percent from the projected expenditures for Fiscal Year 2010-11). With an anticipated operating surplus of $5.1 billion, the Fiscal Year 2011-12 Proposed State Budget projects ending Fiscal Year 2011-12 with a State General Fund balance of $1.7 billion, of which $770 million will be reserved for the liquidation of encumbrances and $955 million will be deposited in a reserve for economic uncertainties.

Approximately $12 billion of the additional revenues included in the Fiscal Year 2011-12 Proposed State Budget depends on voter approval at a June 2011 special election of: (i) a constitutional measure to extend certain temporary tax increases by another five years and to dedicate two of these revenues to realignment and (ii) a measure to change the Children and Family Act of 1998 ("Proposition 10") to allow a portion of the funds to be used in the Medi-Cal Program. The Governor proposes an accelerated budget process with a target date of March 1, 2011 to put in place all of the enabling legislation necessary to implement the budget proposals, which would permit finalizing action on the budget bill prior to the Legislature's June 15 constitutional deadline for adopting a balanced budget and allow for the incorporation of any updated May Revision forecasts and the results of the special election.

Certain of the features of the Fiscal Year 2011-12 Proposed State Budget affecting counties include the following:

1. The Fiscal Year 2011-12 Proposed State Budget proposes to realign government services, returning authority and responsibility for certain of those services to counties, cities, special districts and school districts. While the details of the realignment remain unclear, complete implementation of the realignment is expected to restructure over $10 billion in a wide range of public services. The first phase of the process is proposed for Fiscal Year 2011-12 and would restructure over $5.9 billion in public services. The first phase includes realigning public safety services, fire protection services and medical emergency response in highly populated areas, transferring funding and responsibility for court security to counties, transferring to counties the responsibility for low-level offenders, the adult parole program, and juvenile offenders beginning July 1, 2014, shifting responsibility and funding (including $0.9 billion in the Mental Health Services Act ("Proposition 63") amounts) for certain mental health programs to counties, shifting substance use disorder treatment funds and services to counties, transferring the primary program responsibility for child welfare services to counties and realigning the adult protective services program to counties.

2. The Fiscal Year 2011-12 Proposed State Budget proposes to eliminate redevelopment agencies effective July 1, 2011, remove the State's financial commitment therefor and provide for new local authority to dedicate resources to local projects. The Governor estimates that, after payment of redevelopment agency debts and contractual obligations, $3 billion in tax increment will be available for statutory pass-through payments ($1.1 billion), Medi-Cal ($840 million) and trial courts ($860 million), with the remaining $210 million to be distributed to cities, counties and special districts in proportion to their current property tax shares.

3. The Fiscal Year 2011-12 Proposed State Budget proposes to eliminate enterprise zone incentives and similar tax incentives for specific areas for tax years beginning on or after January 1, 2011 to provide to the State $343 million additional revenues in Fiscal Year 2010-11 and $581 million additional revenues in Fiscal Year 2011-12.

4. The Fiscal Year 2011-12 Proposed State Budget includes a $1.7 billion reduction in funding to Medi-Cal, which is proposed to be achieved through limitations on the number of prescriptions and doctor visits, increases in the co-payments for services (subject to a change in State law and receipt of a federal waiver), caps on the annual benefit levels for certain services and equipment, elimination of certain over-the-counter medications and supplements, elimination of the Adult Day Health Care program, reductions in State payments to certain health care providers and facilities, and a shift of $1 billion in Proposition 10 funding (subject to voter approval) from the State and local commission to fund Medi-Cal services for children up to age five.

5. The Fiscal Year 2011-12 Proposed State Budget includes a $1.5 billion reduction in State and federal funding to CalWORKs, which is proposed to be achieved through a reduction in the time limit for receipt of CalWORKs benefits, a reduction in the maximum monthly grant for certain families, the maintenance of the CalWORKs single allocation funding levels at 2009 and 2010 budget levels and a reduction in the eligible age for subsidized child care services.

6. The Fiscal Year 2011-12 Proposed State Budget proposes to reduce monthly State supplemental payment grants for individuals to the federally required minimum, which is projected to

result in a $14.7 million funding reduction in Fiscal Year 2010-11 and a $177.3 million funding reduction in Fiscal Year 2011-12.

7. The Fiscal Year 2011-12 Proposed State Budget includes funding reductions to the IHSS program through implementation of an 8.4 percent reduction to the assessed hours for all IHSS recipients (reducing State General Fund funding by $127.5 million in Fiscal Year 2011-12), the elimination of domestic and related services for certain consumers (reducing State General Fund funding by $236.6 million in Fiscal Year 2011-12), the conditioning of services upon a physician's written certification (reducing State General Fund funding by $120.5 million in Fiscal Year 2011-12) and the elimination of the mandate for counties to establish advisory committees (reducing State General Fund funding by $1.6 million in Fiscal Year 2011-12).

8. The Fiscal Year 2011-12 Proposed State Budget proposes to suspend most mandates not related to elections or law enforcement, fund the AB 3632 mandate (provision of mental health services to special education pupils) on counties through Proposition 63 funds, and defer the annual payment to counties for pre-2004 mandate obligations, as has been done for the past several years.

LAO Analysis of the Fiscal Year 2011-12 Proposed State Budget. On January 12, 2011, the LAO released a report entitled "The 2011-12 Budget: Overview of the Governor's Budget" (the "2011 LAO Budget Overview"), which provides an analysis by the LAO of the Fiscal Year 2011-12 Proposed State Budget. The 2011 LAO Budget Overview is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference. The 2011 LAO Budget Overview states that the Fiscal Year 2011-12 Proposed State Budget provides a reasonable estimate of the size of the budget problem that must be addressed prior to passage of a 2011-12 budget package and includes many significant ongoing program reductions that touch nearly every area of the State budget, although the Governor's estimated savings may be optimistic in certain key program areas. The LAO Budget Overview also states that the Fiscal Year 2011-12 Proposed State Budget is heavily focused on multiyear and ongoing solutions that would contribute to eliminating the State's persistent budget gap, although the LAO's early assessment of the longer-term effects of the Governor's budget is somewhat less favorable than the administration's.

The 2011 LAO Budget Overview notes that the proposed realignment of state and local program responsibilities and funding has "much merit" and the proposed elimination of redevelopment agencies "makes sense", and provides several other proposals for legislative consideration. According to the 2011 LAO Budget Overview, there are some significant risks in the Fiscal Year 2011-12 Proposed State Budget stemming from the considerable work required of the State Legislature to implement some of the Governor's proposals - especially the realignment and redevelopment proposals, which involve many legal, financial, and policy issues - and to pass key budget legislation by March 1, 2011, as the Governor proposes. The 2011 LAO Budget Overview further notes that if voters reject some or all of the budget proposals to be included in the June 2011 special election, the State Legislature would need to promptly enact an additional $12 billion in cuts or alternative revenue solutions prior to the start of the new fiscal year in July.

See "County Financial Information - County's Fiscal Year 2010-11 Adopted Budget and the Operational Plan - Impact of the Governor's Fiscal Year 2011-12 Proposed Budget on the County's Fiscal Year 2011-12 Proposed Budget" for a description of certain subsequent actions of the State Legislature and the Governor.

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 2010-11 Adopted Budget and the Operational Plan" herein.

Federal Stimulus Information

As of March 14, 2011, the County had received 41 awards pursuant to ARRA, totaling approximately $119.7 million in ARRA funds. Details of the awards and programs benefitting from the awards may be found on the County's website at http://www.recoverysdcounty.org. Information on the referenced website is not incorporated herein by reference. The County has established an Economic Stimulus Team composed of key stakeholders across the County to address the accountability, compliance, and reporting provisions of the ARRA. The Economic Stimulus Team has performed 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. San Diego County covers 4,261 square miles, extending 75 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 includes 2.6 million total gross square feet and plans are in progress to expand the Convention Center into the nearby bayfront area. The Convention Center generated approximately $1.27 billion in fiscal year 2009-10 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 22 below sets forth the population in San Diego County, the State and the United States for the years 2001 to 2010.

TABLE 22
POPULATION ESTIMATES
(In Thousands)
(Calendar Years 2001-2010)

Year	San Diego County[1]	Percent Change	State of California[1]	Percent Change	United States[2]	Percent Change
2001	2,864	1.78%[3]	34,431	1.65%[3]	285,082	1.03%[4]
2002	2,921	1.99	35,064	1.84	287,804	0.95
2003	2,971	1.71	35,653	1.68	290,326	0.88
2004	3,010	1.31	36,199	1.53	293,046	0.94
2005	3,039	0.96	36,677	1.32	295,753	0.92
2006	3,065	0.86	37,087	1.12	298,593	0.96
2007	3,097	1.04	37,464	1.02	301,580	1.00
2008	3,142	1.45	37,872	1.09	304,375	0.93
2009	3,185	1.37	38,256	1.01	307,007	0.86
2010	3,224[5]	1.22	38,648[5]	1.02	N/A	N/A

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

(1) As of January 1 of the year shown. Reflects revised estimates as of May, 2010.
(2) As of July 1 of the year shown.
(3) Percentage change from population benchmark for April 1, 2000.
(4) Percentage change from population benchmark for July 1, 2000.
(5) Provisional estimate.

Employment

Table 23 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 for 2006 through 2010.

TABLE 23
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES 2006-2010[1][2]
By Place of Residence
(In Thousands)

	2006	2007	2008	2009	2010
San Diego County					
Labor Force	1,504.8	1,524.5	1,555.1	1,557.4	1,557.5
Employment	1,445.1	1,455.4	1,462.3	1,406.1	1,393.2
Unemployment	59.6	69.1	92.9	151.3	164.3
Unemployment Rate	4.0%	4.5%	6.0%	9.7%	10.6%
State of California					
Labor Force	17,686.7	17,928.7	18,191.0	18,204.2	18,176.2
Employment	16,821.3	16,970.2	16,883.4	16,141.5	15,916.3
Unemployment	865.4	958.5	1,307.6	2,067.2	2,259.9
Unemployment Rate	4.9%	5.3%	7.2%	11.3%	12.4%
United States					
Labor Force	151,428.0	153,124.0	154,287.0	154,142.0	153,889.0
Employment	144,427.0	146,047.0	145,362.0	139,877.0	139,064.0
Unemployment	7,001.0	7,078.0	8,924.0	14,265.0	14,825.0
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.6%

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

(1) County and State Data – March 2010 benchmark, except for County data for 2006-2009, which reflects a March 2009 benchmark.

(2) Data Not Seasonally Adjusted.

The State of California Employment Development Department, Labor Market Information Division (the "EDD"), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the County in January 2011 was 1,556,300, of which approximately 161,000 persons were unemployed. Based on preliminary estimates of the EDD as of March 4, 2011, the County's unemployment rate in January 2011 of 10.3%, on a seasonally unadjusted basis, was below that of the State at 12.7%.

Table 24 below sets forth the annual average employment within San Diego County by employment sector, other than farm industries, for 2006 through 2010. In 2010, the service providing sector constituted the largest non-farm employment sector in San Diego County, representing approximately 88% of all non-farm employment.

TABLE 24
SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES 2006-2010
(In Thousands)

	2006	**2007**	**2008**	**2009**	**2010**
Employment Sector					
Mining and Logging	0.5	0.4	0.4	0.4	0.4
Construction	92.7	87.0	76.1	61.1	55.5
Manufacturing	103.9	102.5	102.8	95.3	92.4
Trade, Transportation and Utilities	222.0	222.3	215.9	199.6	196.7
Information	31.7	31.3	31.4	28.2	25.2
Financial Activities	83.7	80.3	75.2	69.8	67.1
Professional and Business Services	219.2	223.2	222.3	206.8	208.0
Educational and Health Services	125.1	129.5	137.3	144.3	147.1
Leisure and Hospitality	156.5	161.8	164.0	154.8	154.6
Other Services	48.4	48.3	48.4	46.8	47.2
Government	217.9	222.4	225.1	224.5	226.0
Total[1]	1,301.6	1,308.8	1,298.7	1,231.4	1,220.2

Source: California Employment Development Department, March 2010 Benchmark.
(1) Reflects independent rounding.

Largest Employers

Table 25 below sets forth the ten largest employers in the County as of August 10, 2010.

TABLE 25
SAN DIEGO COUNTY
Ten Largest Employers
(As of August 10, 2010)

Employer	Description	Employees
Federal Government	Administration of federal functions, services and agencies	44,000
State Government	Administration of state functions, services and agencies	42,300
University of California San Diego	Higher education, research and health care	26,823
County of San Diego	Municipal and regional government services	15,527[(1)]
Sharp HealthCare	Health care, hospitals, medical groups, health services and health plans	14,832
San Diego Unified School District	Public education	14,485
Scripps Health	Hospitals, medical offices, clinics and home health services	13,823
Qualcomm Inc.	Develops and delivers digital wireless communications products and services	11,847
City of San Diego	Municipal government public agency	10,470
Kaiser Permanente	Non-profit health maintenance hospital and outpatient medical, urgent care and medical offices	7,404

Source: San Diego Business Journal (October 2010).
(1) Employment figure as shown in Table 1 as of June 30, 2010.

Regional Economy

Table 26 below sets forth San Diego County's Gross Domestic Product, which is an estimate of the value for all goods and services produced in the region, from 2007 through 2011.

TABLE 26

SAN DIEGO COUNTY
GROSS DOMESTIC PRODUCT
2007-2011

		Annual Percent Change	
Year	**Gross Domestic Product (In Billions)**	**Current Dollars San Diego**	**Constant Dollars* San Diego**
2007	$162.1	4.3%	1.7%
2008	169.3	4.4	2.6
2009(1)	168.8	(0.3)	(1.3)
2010(2)	174.8	3.6	2.8
2011(2)	182.1	4.2	2.5

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; National University System Institute for Policy Research; reflects data as of July 2010.
* Adjusted using the GMP/GSP/GDP implicit price deflator.
(1) Estimate.
(2) 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 approximately $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 2010 increased relative to 2009 levels by approximately 12%. Between 2009 and 2010, new single family housing unit permits increased by 24% while new multiple family housing unit permits decreased by 7%.

Table 27 below sets forth the annual total building permit valuation and the annual new housing permit total from 2006 through 2010.

TABLE 27
COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2006-2010
(In Thousands)

	2006	2007	2008	2009	2010
Valuation:					
Residential	$2,470,685	$1,852,381	$1,339,245	$ 878,700	$ 973,856
Non-Residential	1,621,608	1,416,823	1,061,802	583,969	659,150
Total	$4,092,293	$3,269,204	$2,401,047	$ 1,462,669	$ 1,633,006
New Housing Units:					
Single Family	4,753	3,503	2,352	1,786	2,221
Multiple Family	6,024	3,942	2,802	1,204	1,121
Total	10,777	7,445	5,154	2,990	3,342

Source: Construction Industry Research Board.

Commercial Activity

Table 28 below sets forth information regarding taxable sales in San Diego County for calendar years 2004-2008. Table 29 below sets forth the taxable sales in the County for calendar year 2009. Due to a revision in the business categories used by the Board of Equalization, the data for calendar years 2007, 2008 and 2009 are not directly comparable to the data for prior years, with calendar year 2009 requiring a substantial change in presentation.

TABLE 28
SAN DIEGO COUNTY
TAXABLE SALES
2004-2008
(In Thousands)

Type of Business	2004	2005	2006	2007[(1)]	2008[(1)]
Apparel Stores	$ 1,644,428	$ 1,798,104	$ 1,909,011	$ 2,034,512	$ 2,205,568
General Merchandise	5,204,962	5,406,091	5,594,621	5,673,538	5,305,252
Specialty Stores[(2)]	4,541,225	4,728,028	4,926,656	--	--
Food Stores	1,736,610	1,858,152	1,928,274	1,994,237	1,868,466
Eating and Drinking Establishments	4,047,726	4,267,302	4,521,392	4,784,500	4,869,497
Home Furnishings/Appliances	1,549,482	1,566,046	1,511,389	1,420,933	1,590,329
Building Materials	3,341,105	3,376,009	3,331,161	2,768,385	2,183,006
Automotive[(3)]	9,318,277	9,739,136	9,819,932	6,321,987	5,010,084
Service Stations[(3)]	--	--	--	3,755,121	4,154,465
Other Retail Stores[(2)]	961,645	1,045,927	1,076,631	5,285,332	4,529,006
Business and Personal Services	2,146,781	2,239,304	2,302,057	2,298,265	2,255,309
All Other Outlets	9,978,097	10,655,372	10,914,390	11,149,178	11,358,155
TOTAL ALL OUTLETS:	$ 44,470,338	$ 46,679,471	$ 47,835,514	$47,485,988	$ 45,329,136

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

(1) 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.

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

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

TABLE 29
SAN DIEGO COUNTY
TAXABLE SALES
Calendar Year 2009

Type of Business	2009
Retail and Food Services:	
Motor Vehicle and Parts Dealers	$ 4,196,256
Furniture & Home Furnishings Stores	823,551
Electronics & Appliance Stores	1,200,897
Building Materials and Garden Equipment and Supplies	1,841,740
Food and Beverage Stores	1,934,812
Health & Personal Care Stores	732,221
Gasoline Stations	3,153,090
Clothing and Clothing Accessories Stores	2,560,683
Sporting Goods, Hobby, Book & Music Stores	989,236
General Merchandise Stores	4,254,037
Miscellaneous Store Retailers	1,405,774
Food Services and Drinking Places	4,717,292
Nonstore Retailers	148,931
Total Retail and Food Services	$27,958,518
All Other Outlets	11,770,139
Totals All Outlets	$39,728,657

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

Personal Income

Table 30 below sets forth the median household income for San Diego County, the State, and the United States between 2005 and 2009.

TABLE 30
MEDIAN HOUSEHOLD INCOME[(1)]
2005 through 2009

Year	San Diego County	California	United States
2005	$56,335	$53,629	$46,242
2006	59,591	56,645	48,451
2007	61,794	59,948	50,740
2008	63,026	61,021	52,029
2009	60,231	58,931	50,221

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

Foreclosures; Notices of Loan Default

The number of foreclosures and notice of loan defaults issued in San Diego County increased between calendar years 2008 and 2009, and has since declined. For the three calendar years from 2005 through 2007, an average 23.0% of notices of loan default resulted in foreclosures. The percentage of notices of loan default resulting in foreclosures was 57.46% in 2008, 40.43% in 2009 and 54.23% in 2010. In 2008 an average of 16.94% of total deeds recorded were foreclosures. This percentage decreased to 13.00% in 2009 and 11.25% in 2010.

The 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 31 below sets forth information relating to notices of defaults and foreclosures in San Diego County for failure to pay mortgages from calendar years 2001 through 2010.

TABLE 31
NOTICES OF DEFAULT AND FORECLOSURES
Calendar Years 2001 through 2010

Calendar Year	Notices of Default	Foreclosures
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	34,069	19,577
2009	38,308	15,487
2010	24,835	13,467

Source: County of San Diego Assessor/Recorder/County Clerk.

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 $7.08 billion in 2010, according to an estimate by the San Diego Convention and Visitors Bureau (the "Visitors Bureau"), an increase of approximately 120 million, or 1.7%, from the prior year. San Diego County hosted 64 conventions and trade shows in 2010, attended by approximately 543,931 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, 2010

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MGO Certified Public Accountants.

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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, 2010, 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, 2010. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the 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 units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, 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.

3000 S Street Suite 300 Sacramento CA 95816 | 2121 N. California Blvd. Suite 750 Walnut Creek CA 94596 | 505 14th Street 5th Floor Oakland CA 94612 | 515 S. Figueroa Street Suite 325 Los Angeles CA 90071 | 2029 Century Park East Suite 500 Los Angeles CA 90067 | 1201 Dove Street Suite 680 Newport Beach CA 92660 | 225 Broadway Suite 1750 San Diego CA 92101

The management's discussion and analysis and budgetary comparison information on pages 17 through 30 and 80 through 85, 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 fund information and other supplementary information section, 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 fund information and other supplementary information 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 by us and the other auditors 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
November 22, 2010

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, 2010.

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 2010 by $3.63 billion (net assets). Of this amount, $2.76 billion is invested in capital assets, net of related debt; $248 million is restricted for specific purposes (restricted net assets); and the remaining portion represents unrestricted net assets of $622 million.
- Total net assets increased by $176 million. For governmental activities, revenues exceeded expenses by $161 million. For business-type activities, revenues exceeded expenses by $15 million.
- General revenues for governmental activities were $1.055 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $902 million or 86%; other taxes, sales and uses taxes, investment income and other general revenues accounted for $153 million or 14%.
- Program revenues for governmental activities were $2.67 billion. Of this amount, $2.19 billion or 82% was attributable to operating grants and contributions while charges for services accounted for $445 million or 17%.
- The total expenses for governmental activities were $3.57 billion. Public assistance accounted for $1.17 billion or 33%, while public protection accounted for $1.09 billion or 31% of this amount. Additionally, health and sanitation accounted for $681 million or 19%.

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.

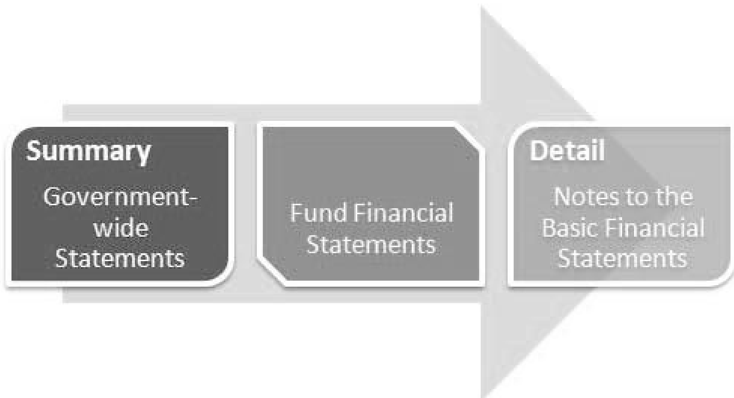
The Government-wide financial statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

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, sanitation districts and wastewater management.

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 Endowment 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 supplementary information section in this report.

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

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for airport operations, sanitation services and wastewater management. These nonmajor enterprise funds are combined and aggregated. Individual fund data for each nonmajor enterprise fund is provided in the combining financial statements and supplementary 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 supplementary information section in this report.

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

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

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund and the Tobacco Endowment 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 supplementary information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise 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, 2010 and 2009 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009 (1)	2010	2009	2010	2009
ASSETS						
Current and other assets	$ 2,989,720	2,936,339	95,076	91,415	3,084,796	3,027,754
Capital assets	2,968,953	2,933,805	166,654	150,184	3,135,607	3,083,989
Total assets	5,958,673	5,870,144	261,730	241,599	6,220,403	6,111,743
LIABILITIES						
Long-term liabilities	2,115,347	2,275,911	2,269	2,486	2,117,616	2,278,397
Other liabilities	465,533	377,603	7,362	2,058	472,895	379,661
Total liabilities	2,580,880	2,653,514	9,631	4,544	2,590,511	2,658,058
NET ASSETS						
Invested in capital assets, net of related debt	2,595,105	2,582,854	164,845	148,146	2,759,950	2,731,000
Restricted	247,585	239,487			247,585	239,487
Unrestricted	535,103	394,289	87,254	88,909	622,357	483,198
Total net assets	$ 3,377,793	3,216,630	252,099	237,055	3,629,892	3,453,685

(1) Note: 2009 Adjustments for Comparative Purposes

Certain fiscal year 2009 balances were adjusted to conform to the proper current year presentation as a result of the change in treatment of the net assets' restriction for realignment health, mental health and social services to unrestricted. As a result, adjustments were made to **Table 1**, 2009 as follows: Unrestricted net assets were increased by $74.620 million coupled with a $74.620 million decrease in Restricted net assets.

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 $3.63 billion at the close of fiscal year 2010, an increase of $176 million or 5% over fiscal year 2009. This included an increase of $147 million in the County's restricted and unrestricted net assets (a 20% increase over fiscal year 2009) and an increase of $29 million in capital assets, net of related debt (a 1% increase over fiscal year 2009).

The aforementioned increase of $176 million in net assets was composed of the following changes in total assets and liabilities:

- Total assets increased by $109 million. This included an increase of $57 million in current and other assets and a $52 million increase in capital assets. The $57 million increase in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of $115 million, a decrease of $25 million in receivables, net (excluding property taxes), a $26 million decrease in property taxes receivables, net, and a $7 million decrease in other assets. The increase in cash is principally due to the $25 million and $26 million decreases in receivables, net and property tax receivables, net respectively, coupled with a $47 million increase in unearned revenue (explained below), all of which have the effect of increasing cash; and also includes a $21 million increase in California Proposition B monies provided to the County for road-purpose projects. The $25 million decrease in receivables, net is principally due to a decrease of $32 million in amounts due from other governments offset by a $7 million increase in loans and other receivables. The $26 million decrease in property taxes receivables, net was principally attributable to the reduction of the County's Teeter buy out of delinquent property taxes receivables as a result of a decrease in foreclosures during fiscal year 2010; as banks took possession of foreclosed properties, taxes that would otherwise have been delinquent, were paid on time. The increase in capital assets was due in part to approximately $21 million of infrastructure donated by developers.

- Total liabilities decreased by $68 million. This included an increase in other liabilities of $93 million and a decrease in long-term liabilities of $161 million. The increase in other liabilities of $93 million was primarily due to a $47 million increase in unearned revenue due to the result of delays in securing contracts related to the Mental Health Services Act, coupled with a $42 million increase in accounts payable ($35 million vendors, $7 million due to other government agencies), and a $4 million increase in accrued payroll. The decrease of $161 million in long-term liabilities was mainly due to a $169 million decrease in long-term debt (see Long-Term Liabilities discussion), coupled with a net $8 million increase in other long-term liabilities (including a $9 million increase in claims and judgments offset by a $1 decrease in compensated absences.

The largest portion of the County's net assets (76%) reflects its investment of $2.76 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 $248 million and represents 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 $622 million in unrestricted net assets.

Table 2

Changes in Net Assets

For the years ended June 30, 2010 and 2009 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009 (1)	2010	2009	2010	2009
Revenues:						
Program Revenues						
Charges for services	$ 445,369	444,638	35,738	36,078	481,107	480,716
Operating grants and contributions	2,192,591	2,181,366	15,330	12,974	2,207,921	2,194,340
Capital grants and contributions	33,246	60,703			33,246	60,703
General revenues						
Property taxes	593,553	618,048			593,553	618,048
Other taxes	15,991	15,167			15,991	15,167
Property taxes in lieu of vehicle license fees	308,842	316,925			308,842	316,925
Sales and use taxes	20,576	22,435			20,576	22,435
Investment income	30,941	57,859	1,046	2,237	31,987	60,096
Other	85,693	117,407	18	68	85,711	117,475
Total revenues	3,726,802	3,834,548	52,132	51,357	3,778,934	3,885,905
Expenses:						
Governmental Activities:						
General government	304,305	275,508			304,305	275,508
Public protection	1,091,910	1,158,162			1,091,910	1,158,162
Public ways and facilities	131,982	151,125			131,982	151,125
Health and sanitation	681,448	678,217			681,448	678,217
Public assistance	1,171,603	1,177,320			1,171,603	1,177,320
Education	39,165	42,424			39,165	42,424
Recreation and cultural	33,629	34,542			33,629	34,542
Interest expense	111,942	118,927			111,942	118,927
Business-type Activities:						
Airport			12,389	10,614	12,389	10,614
Sanitation districts			18,831	16,666	18,831	16,666
Wastewater management			5,523	5,794	5,523	5,794
Total expenses	3,565,984	3,636,225	36,743	33,074	3,602,727	3,669,299
Changes in net assets before transfers	160,818	198,323	15,389	18,283	176,207	216,606
Transfers	345	151	(345)	(151)		
Change in net assets	161,163	198,474	15,044	18,132	176,207	216,606
Net assets at beginning of year	3,216,630	3,018,156	237,055	218,923	3,453,685	3,237,079
Net assets at end of year	$ 3,377,793	3,216,630	252,099	237,055	3,629,892	3,453,685

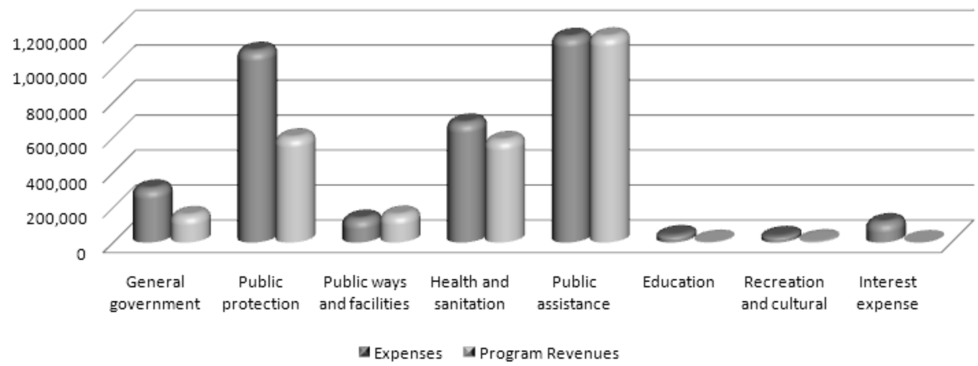
(1) Note: 2009 Adjustments for Comparative Purposes

Certain fiscal year 2009 balances were adjusted to conform to the proper current year presentation as a result of the reclassification of marriage license revenue. As a result, adjustments were made to **Table 2**, 2009 as follows: Charges for services were increased by $1.522 million coupled with a $1.522 million decrease to Other revenue.

Analysis of Changes in Net Assets

At June 30, 2010, changes in net assets before transfers (revenues minus expenses) equaled $176 million, a $40 million or 19% decrease from the previous year. Principal revenue sources contributing to the change in net assets were operating grants and contributions of $2.21 billion and taxes of $902 million (including: property taxes and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 82% of total revenues. Principal expenses were in the following areas: public assistance, $1.17 billion; public protection, $1.09 billion; and health and sanitation, $681 million. These expense categories accounted for 82% of total expenses.

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



Governmental activities

At the end of fiscal year 2010, total revenues for the governmental activities were $3.73 billion, while total expenses for were $3.57 billion. Governmental activities increased the County's net assets by $161 million, accounting for 91% of the total increase in net assets (Business-type activities accounted for the remaining 9%, $15 million).

Expenses:

Total expenses for governmental activities were $3.57 billion, a decrease of $70 million or 2% ($63 million decrease in functional expenses and $7 million decrease in interest expense (due to the full redemption of $100 million Series 2008B Variable Rate Demand Obligations)) from the prior year. Public assistance was the largest functional expense (33%), followed by public protection (31%) and health and sanitation (19%).

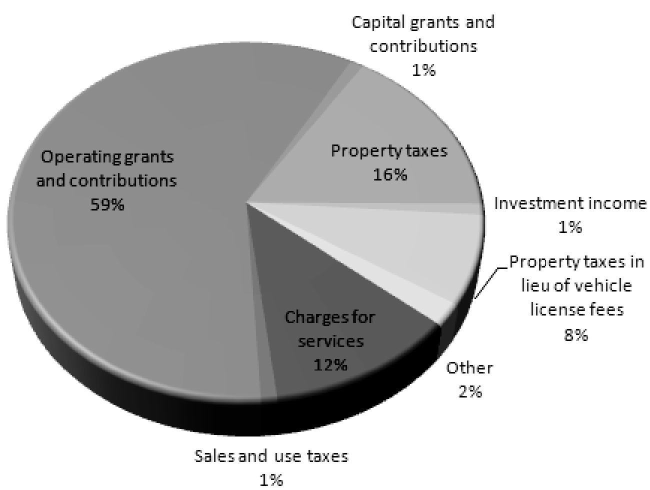
As noted below, the $63 million decrease in functional expenses was made up of a $79 million increase and $142 million in decreases:

The $79 million increase in functional expenses was mainly due to the loss on disposal of assets, principally due to the transfer of various court facilities from the County to the State in fiscal year 2010. Senate Bill 1732, Court Facilities Legislation, the Trial Court Facility Act, and Assembly Bill 1491, Court Facilities Transfer Deadline Extension, provided for the transfer of the responsibility and in some instances, the title deed, from the County to the State to provide necessary and suitable court facilities. This transfer resulted in the removal of these buildings from the County's books. County financial responsibility for facility maintenance costs for courts' space will continue as a statutorily required County facility payment.

The $142 million decrease in functional expenses consisted of:

- $100 million in salaries and benefit costs. As a service delivery entity, the County's major cost component is salaries and benefits, which accounts for approximately 38% of the total expenses. The County's overall strategy of deleting and freezing positions minimized the impact of salary increases and benefit costs;
- $17 million in contracted road services;
- $17 million payment made in fiscal year 2008-09 to terminate two interest rate swap agreements relating to the advance refunding of the County of San Diego 2002 Series B Taxable Pension Obligation Bonds;
- $5 million in depreciation; and,
- $3 million utilities expenses.

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



Revenues:

Total revenues for governmental activities were $3.73 billion, a decrease of 2.8% or $108 million from the previous year. This decrease consisted of decreases in program revenue of $16 million coupled with a $92 million decrease in general revenues as follows:

The $16 million decrease in program revenue was chiefly due to increases of $45 million and decreases of $61 million noted below:

Increases in program revenues of $45 million were composed of the following:

- $16 million in operating grants and contributions resulting from federal housing and urban development section 8 choice vouchers revenue;
- $13 million in operating grants and contributions resulting from an increase in federal case counts for the CalWORKs program;
- $8 million in operating grants and contributions for homeland security grant revenue; and
- $8 million in operating grants and contributions due to centralized child welfare services revenue.

Decreases in program revenue of $61 million were attributable to:

- $27 million in capital grants and contributions consisting of $20 million in donated assets coupled with $7 million in other capital contributions;
- $14 million in operating grants and contributions resulting from tax increment revenue from non-County redevelopment agencies due in part to lower assessed property values;
- $13 million in operating grants and contributions for state aid realignment tied to sales tax and vehicle license fees which have been declining statewide;
- $5 million in operating grants and contributions for state aid child care aid payments;
- $1 million in operating grants and contributions resulting from federal aid for rain damage; and
- $1 million in operating grants and contributions due to aid from various other governmental agencies.

General revenues decreased overall by approximately $92 million. This decrease was due to the following:

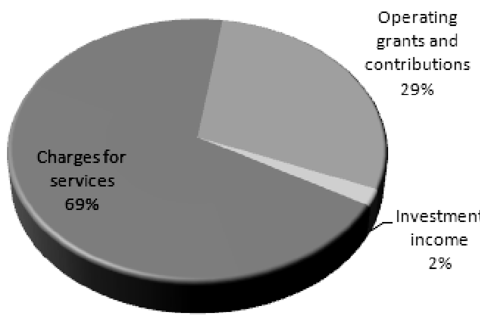
- $27 million decrease in investment income due to the 45% decrease in annualized interest rates earned by the County Treasury Pool;
- $22 million in property taxes consisting of $16 million property tax current secured and $6 million property tax prior secured supplemental as a result of lower assessed property values;
- $21 million other revenue due to a 2009 settlement agreement reached with a vendor;
- $8 million other revenue due to the February 2008 Special Presidential Primary;
- $8 million property taxes in lieu of vehicle license fees;
- $2 million Teeter property taxes;
- $2 million sales and use taxes; and
- $2 million in various other general revenues.

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 $2.19 billion accounted for 59%, 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 equaled $902 million and accounted for 24% of governmental activities. Additionally, charges for services were approximately $445 million and accounted for 12% of revenues applicable to governmental activities.

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 $36 million or 69% while grants ($15 million) and investment income ($1 million) represent 29% and 2% of total revenues respectively.

Net assets of business-type activities increased by $15 million or 6%. This increase primarily included the following:

- a $17 million increase in capital assets principally due to airport and sewer improvements;
- a $3 million increase in current and other assets due to: i) a $6 million increase in airport receivables, chiefly as a result of increase in accrual related to the aid from Federal Aviation Administration for improvements to the McClellan-Palomar airport. ii) a $3 million decrease in pooled cash and investments; and
- a $5 million increase in other liabilities, due to increases principally in accounts payable.

Financial Analysis of 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 Endowment Special Revenue Fund. Nonmajor governmental funds include special revenue funds, debt service funds, and capital project funds.

At June 30, 2010, the County's governmental funds had combined ending fund balances of $2.19 billion, a decrease of $38.466 million in comparison to the prior fiscal year. Of the total June 30, 2010 amount, $1.853 billion constituted unreserved fund balance, which is available for spending at the County's discretion. The remaining $338 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) $182 million reserved for other purposes; (2) $79 million reserved for debt service; (3) $65 million reserved for loans, due from other funds and prepaids; and (4) $12 million reserved for inventories ($11 million) and landfill closure costs ($1 million).

Governmental revenues overall totaled $3.70 billion representing a 1.2% decrease. Governmental expenditures totaled $3.74 billion, a 1.2% decrease from the fiscal year ended June 30, 2009.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2010, its unreserved fund balance was $1.058 billion, while total fund balance was $1.22 billion, an increase of $30 million from fiscal year 2009.

This $30 million increase in fund balance was composed of $102 million in increases and $72 million in decreases as follows:

Increases to fund balance of $102 million were composed of:

- $28 million decrease in salaries and benefits for the Sheriff's department as part of the County's overall strategy of deleting and freezing positions to minimize the impact of salary increases and benefit costs;
- $19 million American Recovery and Reinvestment Act revenue for the In-Home Supportive Services program;
- $17 million payment made in 2009 to terminate two interest rate swap agreements relating to the advance refunding of the 2002 Series B Taxable Pension Obligation Bonds;
- $13 million in operating grants and contributions resulting from an increase in CalWORKs program federal case counts;
- $8 million in operating grants and contributions for homeland security grant revenue;
- $8 million in operating grants and contributions due to centralized child welfare services revenue;
- $5 million decrease in Defense Attorney contract administration costs; and,
- $4 million decrease in Sheriff Detention Area 3 contracted services.

Decreases to fund balance of $72 million were composed of:

- $21 million other revenue due to a 2009 settlement agreement reached with a vendor;
- $20 million in property taxes consisting of $14 million property tax current secured and $6 million property tax prior secured supplemental as a result of lower assessed property values;
- $8 million other revenue due to the February 2008 Special Presidential Primary;
- $8 million property taxes in lieu of vehicle license fees;
- $5 in charges for services - $4 million election services; $1 million recording fees;
- $5 million in pooled investment income;
- $3 million decrease in AB2890 recovered costs; and
- $2 million Teeter property taxes.

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 Section 30052, a "maintenance of effort" (pre-Proposition (Prop) 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, 2010, the total (unreserved) fund balance in the Public Safety Special Revenue Fund was $4.8 million, a $1.1 million increase from the previous fiscal year. This increase was mainly due to a $6.1 million or 3% decrease in the primary revenue source for this fund - Prop 172 revenues (one-half sales and use tax) due to the ongoing economic recession; offset by a decrease in transfers of these monies to the General Fund by $7.7 million or 4% in fiscal year 2010.

Tobacco Endowment 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. At the end of fiscal year 2010, fund balance was $412 million, a decrease of $14.7 million from fiscal year 2009, principally due to a decline in investment income of $13.3 million.

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 2010, the fund balances of the other governmental funds totaled $554 million, a net decrease of $55 million from the prior year. This $55 million decrease consisted of $36 million in increases, offset by decreases of $91 million as follows:

$36 million increase to Other Governmental Funds' fund balance:

- $4 million increase in Housing and Community Development Special Revenue Fund's fund balance due to a one time loan repayment to the General Fund in fiscal year 2009.
- $32 million increase to the Road Special Revenue Fund's fund balance due in part to a $21 million increase in proposition 1B monies received from the State for road projects, coupled with a $14 million increase in the TransNet half-cent sales intergovernmental fund revenue; offset by a $3 million decrease in charges for services.

$91 million decrease to Other Governmental Funds' fund balance:

- $12 million decrease to the Pension Obligation Bond debt service fund due to a $64 million increase in principal paid on pension obligation bonds (consisting of a $100 million redemption of Series 2008B variable rate demand bond obligations in fiscal year 2010, $9 million first time principal payments made on the 2004 Series C Capital Appreciation Bonds in fiscal year 2010; offset by a $44 million in principal payments in 2009 towards the refunding of 2002 Series B Subseries B-1 Auction Rate Securities; and a $1 million decrease in other principal payments); offset by an $8 million decrease in interest paid on bonds due to the decrease in bonds outstanding (attributable to the increase in principal payments made on outstanding debt); and a $3 million decrease in bond issuance costs incurred in fiscal year 2009; an increase in other revenue of $2 million and a $39 million increase in transfers in from other funds to provide funding for the aforementioned $100 million principal payment in fiscal year 2010.
- $6 million decrease to the San Diego Regional Building Authority fund's fund balance due to approximately $7 million increase in interest paid on the 2009 Series A County Operations Center debt; offset by a $1 million increase in investment income.
- $9 million decrease to the SANCAL debt service fund's fund balance principally attributable to the $94 million payments to the refunded bond escrow agent, and $1 million bond issuance costs offset by a $80 million in refunding bond proceeds, and $8 million premium on bond issuance, all due to the fiscal year 2010 refunding of the 1997 Central Jail Refunding and 1998 Downtown Courthouse Certificates of participation; coupled with an increase of $2 million of principal paid.
- $64 million decrease to the San Diego Regional Building Authority Capital Projects Fund's fund balance mainly due to $64 million incurred in capital outlay expenditures incurred related to the ongoing construction of the County Operations Center.

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.

Internal Service Funds:

Net Assets of the internal service funds (ISF) totaled $113 million, a net increase of $10 million from the prior year. This change was predominantly accounted for by the following increases to net assets:

- $4 million in the Public Liability Insurance Fund primarily due to net operating income of $4 million.
- $6 million primarily as a result of: 1) Information Technology Fund - transfers in of $3 million; 2) Employee Benefits Fund - $1 million non-operating revenue; 3) Purchasing Fund - operating loss of $4.5 million, transfers in of $6 million and transfers out of $.5 million for a total of $1 million; and 4) Other Miscellaneous Internal Service Funds - operating revenues of $6 million, operating expenses of $3 million and transfers out of $2 million for a total increase of $1 million.

Fiduciary Funds:

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

Investment Trust Funds:

These funds were established for the purpose of reporting pooled and specific investments. The Investment Trust Funds' net assets totaled $3.15 billion, a decrease of $628 million, from the previous year. This decrease was substantially due to distributions from investments of $5.97 billion offset by contributions to investments of $5.3 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, 2010 net expenditure appropriations increased by $57.5 million and appropriations for transfers-out decreased by $17.0 million for a net increase of $40.5 million.

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

- $9.4 million for Homeland Security in various departments including the Office of Emergency Services, Department of Planning and Land Use, Department of Environmental Health, Department of Agriculture, Weights and Measures, Medical Examiner, Sheriff and Health and Human Services for emergency planning, continued development of a disaster preparedness exercise program, equipment purchases, regional projects and grant administration, funded by revenue from the federal Department of Homeland Security;
- $7.2 million to bolster preparedness and response capabilities for the Pandemic 2009 H1N1 influenza based on funding from the Centers for Disease Control and Prevention and the U.S. Department of Health and Human Services;
- $11.5 million in cancelled appropriations due to reductions in State funding resulting from the States July 28, 2009 amended budget for Fiscal Year 2009-10. The budget cuts which affected the Probation Department, the Sheriff and the Health and Human Services Agency included a $4.2 million reduction in salaries and benefits reflecting a reduction of 83 staff years;
- $3.0 million in the Health and Human Services Agency's Child Welfare Services to fund the multi-year Early Childhood Welfare Project, based on funding from the First Five Commission;
- $13.8 million in the Sheriff to provide funding to designated agencies working within the San Diego County region to enhance cooperation and coordination between law enforcement agencies in a joint mission to reduce border related crimes and assist in securing the United States land borders, funded by the Governor's office of Homeland Security Operation Stonegarden grant funds;
- $3.5 million in the Department of Environmental Health to provide funding for the Business Case Management System (BCMS) based in the Department's fund balance designation within the General Fund. The BCMS will replace all the inspection and permitting systems;
- $3.0 million to the Department of Medical Examiner for furniture, fixtures, and equipment for the new Medical Examiner and Forensic Center, based on a transfer from the Justice Facility Construction Fund;
- $2.5 million in the Sheriff and District Attorney to fund Operation Vise Grip based on a grant from the U.S. Department of Justice Bureau of Justice Assistance. The goal of the project was control, reduce and/or prevent criminal narcotics activity along the southern border region of the U.S; and,
- $3.2 million for the Public Law Library based on a donation from the San Diego Public Law Library Board of Trustees.

Actual revenues fell short of the final budgeted amounts by $192.9 million, while actual expenditures were less than the budgeted amount by $517.7 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/ expenditure operating variance of $324.8 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $197.0 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 $521.3 million.

Health and Human Services Agency Programs:

Funded by a combination of State, federal, and County revenues, most Health and Human Services Agency programs are carried out in the functional areas of health and sanitation and public assistance, with budget over expenditure variances of $78.5 million and $97.0 million, respectively. Overall, these expenditure variances primarily resulted from a lower demand for services than budgeted levels in the following areas:

- Revised estimates of growth trends in In-Home Supportive Services Individual Provider costs;
- Aid payment expenditures for the Severely Emotionally Disturbed, Foster Care, and KinGap in Child Welfare Services;
- Contracted services (e.g., in Behavioral Health Services and un-awarded Mental Health Services Act contracts);
- Early Periodic Screening; and Diagnosis and Treatment (EPSDT) services contractor expenditures;
- Bio-terrorism emergency appropriation savings associated with unsecuritized tobacco revenue; and
- Lower than expected expenditures for H1N1.

These lowered expenditures were offset by corresponding reductions in federal and State revenue.

Salaries and Benefits:

With the economic recession and the continuing uncertainty over State and federal funding, many County functions have significantly reduced spending for salaries and benefits in an effort to mitigate revenue shortfalls. The total budget over expenditures variance across all functions in this category was $61.0 million. A significant portion of these savings were in the Public Safety Group due to reduced Prop 172 revenues (See previous discussion of the Public Safety Special Revenue Fund). The economic downturn and continued decline in the housing market resulted in reduced consumer spending and reduced sales tax revenues which are the basis for Prop 172 revenues. The total budget over expenditures variance across Public Safety for salaries and benefits was $30.1 million, of which $16.0 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:

- The Department of Planning and Land Use rebudgeted $5.7 million of one-time funding for the Business Case Management System, Service First Initiative, General Plan Update and the Fire Prevention Program to continue to supplement fire services in the unincorporated area of the county.
- The Department of Planning and Land Use rebudgeted $1.3 million in LUEG fund balance, including $0.7 million for a Vegetation Management Environmental Impact Report, $0.3 million station improvements to the volunteer fire stations and the remaining $0.2 for miscellaneous projects in the department.
- The Sheriff rebudgeted $17.0 million for various law enforcement grants, including $10.0 million for Operation Stonegarden, $3.4 million for the Urban Area Security Initiative, $2.3 million for Homeland Security and $1.1 million for the Public Safety Interoperable Communications grant.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations based on both prior years' fund balance and ongoing general purpose revenues. Management reserve appropriations are primarily used to fund one-time projects at the Group/Agency level. Contingency reserve appropriations are a source of funding for unanticipated needs, events, or for various uncertainties that may occur during the fiscal year at a county-wide level. Examples of potential needs include emergency repairs, one-time projects or countywide appropriation and revenue shortfalls.

Unexpended appropriations in these areas resulted in a budget over actual variance of $47.0 million; $27 million in management reserve appropriations and $20 million in contingency reserve appropriations. The $27 million variance in management reserve appropriations is principally attributable to $20 million in Health and human services agency - health administration; $3.6 million in Financing and general government - other general; and $3.3 million in Community services.

Additionally, in Fiscal Year 2010, Countywide general expense included appropriations of $30.4 million for economic uncertainty with the intent that it not be spent unless unanticipated needs arose; of that amount, $25.2 million was unexpended at year end.

Capital Assets and Commitments

Capital Assets

At June 30, 2010, the County's capital assets for both governmental and business-type activities was $2.97 billion and $167 million, respectively, net of accumulated depreciation. Investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure (including roads, bridges, flood channels, and traffic signals), equipment, software and easements. Significant increases to capital assets in fiscal year 2010 included:

Governmental Activities:

- $65.8 million towards construction at the County Operations Center. Total project costs are estimated at $181.5 million.
- $47.6 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure.
- $20.6 million in infrastructure donated by developers.
- $20 million towards various land acquisitions.
- $13.9 million towards the construction of various miscellaneous capital outlay fund projects.
- $10.7 million towards the construction of the Medical Examiner Building at the County Operation Center in Kearny Mesa. Total project costs are estimated at $68.7 million.
- $8.5 million towards development of various software applications.
- $8.1 million towards purchase of software licenses.
- $6 million towards the construction of the Fallbrook Branch Library. Total project costs are estimated at $10.6 million.
- $4.5 million towards acquisition of easements.

- $4.2 million towards the construction of the Ramona Branch Library. Total project cost are estimated at $11.7 million.
- $3 million towards improvements at Otay Valley Regional Park Trail. Total cost are estimated at $10 million.
- $1.9 million towards the construction of flood control drainage channels.

Business-type Activities:

- $9.1 million towards improvements at the Palomar Airport runway. Total project costs are estimated at $10.8 million.
- $2.8 million towards taxiway improvements at the Gillespie Field Airport. Total project costs are estimated at $5.3 million.
- $2.2 million towards Rehabilitation of Spring Valley Outfall Sewer, Manhole 31-33A.

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

Capital Commitments:

As of June 30, 2010, capital commitments included the following:

Governmental Activities:

- $86 million for the construction of: the County Operations Center, Ramona and Fallbrook Libraries, South Santa Fe Ave., Valley Center Road Bridge, Jamacha Blvd., Olive Vista Dr., Sweetwater Summit Campground, acquisition of Del Dios Highlands preserve and purchase of license agreements and upgrade of Oracle Enterprise Resources.

Business-type Activities:

- $1 million for the construction of improvements at McClellan Palomar Airport runway.

(Please refer to Note 7 in the notes to the financial statements for more details concerning capital assets and capital commitments.)

Long-Term Liabilities

Governmental Activities:

At June 30, 2010, the County's governmental activities had outstanding long-term liabilities of $2.12 billion.

Of this amount, approximately $1.88 billion pertained to long-term debt outstanding. Principal debt issuances included: $874 million in taxable pension obligation bonds; $574 million in Tobacco Settlement Asset-Backed Bonds; and $422 million in certificates of participation (COPs) and lease revenue bond (LRBs).

Other long-term liabilities included $118 million in claims and judgments; $100 million in compensated absences; $21 million for landfill closure and postclosure costs and $.242 million in capital leases.

During fiscal year 2010, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by $168.64 million.

The $168.64 million decrease was due to the following increases and decreases:

Increases to debt were $101.152 million and included:

- $80.940 million of fixed rate serial certificates of participation issued by the San Diego County Capital Asset Leasing Corporation to advance refund $55.475 million of outstanding 1997 Central Jail Refunding Certificates of Participation and $42.270 million 1998 Downtown Courthouse Refunding Certificates of Participation;
- $1.03 million of California Energy Conservation loans;
- $4.047 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal balances outstanding;
- $4.011 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding; and,
- $11.124 million due to the effects of arbitrage, unamortized issuance premiums, unamortized issuance discounts, and unamortized deferred amounts on refundings.

Decreases to debt were $269.792 million and included:

- $97.745 million advance refunding of the outstanding 1997 Central Jail Refunding Certificates of Participation and 1998 Downtown Courthouse Refunding Certificates of Participation referred to above;
- $100 million redemption of the Series 2008B Variable Rate Demand Obligations; and
- $72.047 million in principal debt service payments.

Business-type Activities:

Long-term liabilities for business-type activities totaled $2.27 million and consisted of $1.81 million for capital loans and $460 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by $217 thousand. This was due to a combination of $229 thousand in debt service payments on capital loans and a net increase of $12 thousand in compensated absences.

(Please refer to Notes 13 through 15 in the notes to the financial statements for more details concerning long-term debt; changes in long-term liabilities; and funds used to liquidate liabilities.)

Credit Ratings

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	Aa1	AAA	AAA
Certificates of Participation San Diego Capital Asset Leasing Corporation (SANCAL)	Aa3	AA+	AA+
Certificates of Participation San Diego Regional Building Authority (SDRBA) Metropolitan Transit System Towers	Aa3	AA+	AA+
Lease Revenue Bonds SDRBA County Operations Center 1A	Aa3	AA+	AA+
Refunding Lease Revenue Bonds SDRBA San Miguel	A1	not rated	not rated
Pension Obligation Bonds	Aa2	AA+	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A (Senior)	Baa3	BBB	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006B (First Subordinate)	not rated	BBB-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C (Second Subordinate)	not rated	BB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D (Third Subordinate)	not rated	BB-	not rated
County Redevelopment Agency Bonds	not rated	not rated	not rated

In 2010, Moody's recalibrated the County's ratings on its outstanding lease financings from A1 to Aa3 (SANCAL, SDRBA Metropolitan Transit System Towers and SDRBA County Operations Center 1A), from A2 to A1 (SDRBA San Miguel) and Aa3 to Aa2 (Pension Obligation Bonds); and raised the County's issuer rating to Aa1. Standard and Poor's lowered its ratings on the outstanding Tobacco Settlement Asset-Backed Bonds (TSAB) - Series 2006B First Subordinate (BBB to BBB-), TSAB Series C Second Subordinate (BBB- to BB+) and TSAB Series 2006D Third Subordinate (BB to BB-). Standard and Poor's also affirmed its ratings on the remaining outstanding debt, and its AAA County issuer credit rating; and according to its RatingsDirect report issued in September 2009, "the stable outlook reflects the County's deep and diverse economic base, strong reserve levels, formalized policies, manageable debt burden and long track record of conservative budgeting where actual results typically exceed initial projections." Fitch also recalibrated its ratings assigned to the County's outstanding lease revenue and Pension Obligation Bonds from AA to AA+ (except for SDRBA San Miguel which remained not rated); and raised the County's issuer rating to AAA.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2011 General Fund adopted budget utilizes as funding sources for one-time expenditures \$286.8 million out of \$493.6 million in unreserved undesignated fund balance and \$4.6 million out of \$564.2 million unreserved designated fund balance.
- The fiscal year 2011 General Fund adopted budget contains total appropriations of \$3.74 billion. This is a decrease of \$51.0 million or 1.3% from the fiscal year 2010 General Fund adopted budget. A number of risk factors continue to be tracked closely: the state of the economy, which is suffering from high unemployment, a struggling real estate market and consumer spending weakness, the State of California's inability to address budget impasses timely, and the State of California's projected budget imbalances for fiscal year 2012, 2013 and beyond.
- The U.S. economy's Gross Domestic Product (GDP) for 2009 showed a decline of 2.6% compared to no change in 2008 after a 1.9% gain in 2007. GDP is expected to rebound in 2010, with a current growth projection of 2.8%, and GDP growth for 2011 is forecasted to be 2.1%.
- California's economy has been negatively impacted by the same financial market, housing and real estate, employment and personal income trends experienced at the national level. In 2009, key indicators of California's economy confirmed these trends. Payroll employment declined by 6.0%, real personal income declined by 2.8%, and adjusted taxable sales is estimated to have declined by 14.6%. California's 2010 economy is expected to remain weak with payroll employment expected to decline by 1.2%, real personal income is expected to increase by 0.6%, and taxable sales is expected to increase by 0.1%.
- The State's budget outlook continues to be strained, with the slow pace of economic recovery contributing significantly to the ongoing structural imbalance between revenues and expenditures.
- San Diego was one of the first areas in California and the nation to experience the housing price meltdown, feel the financial impacts from the credit crisis, and experience a jump in loss of jobs. 2010 continues to be another unsettled year for our region's economy. San Diego's index of leading economic indicators has trended higher for the past year, indicating gradual economic improvement overall. While a strong economic recovery is not expected for some time, 2011 should see continued signs of improvement for the region.
- The state of the economy plays a significant role in the County's ability to provide core services and the mix of other services sought by the public. Building permit applications have been down making it difficult to maintain core services for these fee-based programs. The real estate market slump has impacted the County's general purpose revenue (GPR), although GPR is expected to increase marginally in fiscal year 2011 from fiscal year 2010. GPR is relied upon to fund local

discretionary services, as well as to fund the County's share of costs for services that are provided in partnership with the State and federal government. Additionally, the State's budget, severely impacted by the recession, has cut funding to local governments in many program areas.

As discussed below, the County's GPR is projected to increase by 0.4% (with budgeted revenue of $954.4 million in fiscal year 2011 compared to $950.7 million budgeted in fiscal year 2010).

- The largest source of general purpose revenue is property taxes ($497.6 million budgeted in fiscal year 2011), representing 52.2% of the total. For the last ten years, property tax growth has been high (6.7% average annual growth) due to the County's overall stable economy and healthy real estate market. In 2011, property taxes are budgeted to increase by $1.3 million, or 0.3%, from the 2010 budget. The budgeted property tax revenue factors in the current soft commercial and residential real estate conditions as evidenced by the continued low level of building permits; gradually improving median price of homes; the continued high level of foreclosures; and a continued 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 ($477.2 million) assumes a net local assessed secured property value decline of 2.35% from the actual local assessed secured property value figure for 2010, and makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, and the amount of tax roll corrections and refunds on prior year assessments. The actual change in the net local assessed secured property value was better than assumed for the fiscal year 2011 budget, declining by only 1.7%. Consequently, the actual current secured property tax revenues in fiscal year 2011 will likely come in higher than budget. In fiscal year 2012, the projected amount of revenues from current secured property taxes assumes no growth in local assessed secured property values.
- Current supplemental property taxes ($3.1 million budgeted in fiscal year 2011) are derived from net increases to the tax roll from either new construction or changes in ownership that occur subsequent to the January 1 lien date and are, therefore, more difficult to predict. The slowdown in new construction and the decline in real estate prices are being acutely felt in supplemental property tax revenues. In many change of ownership transactions, instead of a property owner being billed for an additional amount of property tax because the value of the property after the transaction is higher than the value as of the lien date, the property owner receives a refund because the value is lower than it was on the lien date. In fiscal year 2006, refunds countywide totaled $4.0 million. They increased to $6.2 million in fiscal year 2007, increased to $15.0 million in 2008, and increased again to $38.3 million in 2009. Supplemental refunds exceeded $21.6 million in fiscal year 2010 and are anticipated to gradually decline in fiscal year 2011. Current supplemental property tax revenues were $29.5 million in fiscal year 2006. They dropped to $23.4 million in fiscal year 2007, to $14.0 million in fiscal year 2008, and to $2.4 million in 2009. In fiscal year 2010, current supplemental property tax revenues were $1.9 million. The Adopted Operational Plan assumes that this weakness will continue through the next two fiscal years.
- Current unsecured property tax revenues ($17.3 million budgeted in fiscal year 2011) are forecasted based on trends and available information at the time the budget is developed. Growth of 3.0% is budgeted for fiscal year 2011 over the fiscal year 2010 adopted budget.
- Property taxes in lieu of vehicle license fees (VLF) comprises 31.6% (an estimated $301.8 million) of budgeted general purpose revenue in fiscal year 2011. 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 rate of decline for 2011 is 1.69%. Similar to current secured property tax revenue, no growth is expected for fiscal year 2012.
- Teeter revenues represent 4.2% (an estimated $40.3 million) of budgeted general purpose revenue. In Fiscal Year 2004, 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"). Under this plan, the County advances funds to these entities to cover the unpaid (delinquent) taxes (the "Teetered Taxes"). The County's general fund benefits from this plan by being entitled to future collections of penalties and interest that are also due once the delinquent taxes are paid. A legal requirement of the Teeter Plan requires the County to maintain a tax loss reserve fund to cover losses that may occur if delinquent taxes are not paid and the property goes into default and is sold for less than the outstanding taxes and assessments. Throughout the year, all interest and penalties collected on Teetered secured and supplemental property taxes are first deposited into the Teeter Tax Loss Reserve Fund. Any excess amounts above 25% of the total delinquent secured taxes and assessments may be transferred to the general fund. For Fiscal Year 2011, collections from previous years' receivables are budgeted to decrease by $1.1 million based on the size of the outstanding annual receivables and based on anticipated collection trends and market conditions. In Fiscal Year 2011, excess amounts from the Teeter Tax Loss Reserve Fund increase from the $14.0 million that was budgeted in Fiscal Year 2010 to $21.5 million budgeted in Fiscal Year 2011, based on the change in the expected level of Teetered taxes. These revenues are expected to decrease by $3.3 million in 2012.
- Sales and use tax revenue and in lieu local sales and use tax ($20.0 million in fiscal year 2011) represents about 2.1% of budgeted general purpose revenue. These revenues are derived from taxable sales by retailers who sell or rent tangible

personal property in unincorporated areas of the county or from use taxes from consumers who purchase tangible personal property from out of state. Use taxes are also imposed on the storage, use, lease or other consumption of tangible personal property at any time a sales tax has not been paid by the retailer. The growth in this funding source is generally impacted by population growth, new retail business formation and consumer spending trends. The in lieu local sales and use tax revenue replaces regular sales and use tax revenue with monies transferred from the Educational Revenue Augmentation Fund (ERAF) under the provisions of AB7 X1, one of the 2004 State budget bills. This legislation 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 redirected local sales and use tax revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. This funding mechanism is known as the "triple flip."

Retail sales revenue grew moderately from fiscal year 2006 through fiscal year 2008 in concert with population growth and new retail business formation in the unincorporated area. However, the recent economic volatility, housing market declines, and unemployment trends have impacted retail sales at the statewide, southern California and San Diego regional levels. Sales tax revenues showed signs of improvement in the first six months of 2010 compared to 2009 and this trend is expected to continue through the end of the calendar year. The amount of budgeted revenue in fiscal year 2011 is approximately $3.4 million (14.6%) below the fiscal year 2010 budgeted revenue. Growth of $0.3 million or 1.5% is projected for 2012.

- Intergovernmental Revenue ($35.6 million budgeted in fiscal year 2011) is approximately 3.7% of the total GPR in 2011 and represents funding the County receives from various intergovernmental sources including Redevelopment Agencies, the City of San Diego (pursuant to a Memorandum Of Understanding related to the County's Central Jail), the federal government (Payments in Lieu of Taxes (PILT) for tax-exempt federal lands administered by the Bureau of Land Management, the National Park Service, and the U.S. Fish and Wildlife Service), and the State of California (reimbursement to the County for the Homeowner's Property Tax Relief (HOPTR) program). The largest portion of this funding is from redevelopment agencies based on the provisions of Article 16, Section 16 of the California Constitution, and Health and Safety Code Section 33670 which provides for the division of certain portions of property tax revenues between redevelopment projects and other taxing agencies.
- Other revenues budgeted for fiscal year 2011 total $59.1 million, and comprise 6.2% of budgeted general purpose revenue. The fiscal year 2011 amount represents an 8.6% or $4.7 million increase over the fiscal year 2010 Adopted Budget total. Various revenue sources make up this category including Real Property Transfer Tax (RPTT), interest on deposits, fines, fees and forfeitures, prior year property taxes, penalty and cost delinquency taxes, franchise revenue, cable and video licenses and other miscellaneous revenues. The increase in other revenues is primarily from anticipated higher RPTT revenue than budgeted in fiscal year 2010.

The County's Operational Plan for fiscal year 2011 and for fiscal year 2012 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, 2010 (In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	First 5 Commission Fund
ASSETS				
Pooled cash and investments	$ 1,724,202	78,297	1,802,499	57,730
Cash with fiscal agents	31		31	
Investments with fiscal agents	448,621		448,621	126,311
Receivables, net	505,120	13,362	518,482	6,630
Property taxes receivables, net	196,250		196,250	
Internal balances	(3,417)	3,417		
Inventories	12,280		12,280	
Deposits with others	31		31	
Prepaid items	503		503	3
Deferred charges	14,620		14,620	
Restricted assets:				
Cash with fiscal agents	283		283	3,481
Investments with fiscal agents	73,844		73,844	
Lease receivable	17,352		17,352	
Capital assets:				
Land, easements and construction in progress	563,102	32,751	595,853	
Other capital assets, net of accumulated depreciation	2,405,851	133,903	2,539,754	
Total assets	5,958,673	261,730	6,220,403	194,155
LIABILITIES				
Accounts payable	172,961	7,126	180,087	17,406
Accrued payroll	39,711	199	39,910	
Accrued interest	26,291		26,291	
Unearned revenue	226,570	37	226,607	
Non-current liabilities:				
Due within one year	143,336	430	143,766	64
Due in more than one year	1,972,011	1,839	1,973,850	35
Total liabilities	2,580,880	9,631	2,590,511	17,505
NET ASSETS				
Invested in capital assets, net of related debt	2,595,105	164,845	2,759,950	
Restricted for:				
Creditors - Capital projects	61,488		61,488	
Grantors - Housing assistance	60,325		60,325	
Donations	2,082		2,082	
Laws or regulations of other governments:				
Landfill closure costs	927		927	
Defray administrative costs, other general reserves	26,104		26,104	
Teeter Tax Loss	29,960		29,960	
Emergency medical services, various construction costs	24,899		24,899	
Mental health	12,949		12,949	
Social programs	3,328		3,328	
Vector Control	12,602		12,602	
Domestic violence and child abuse prevention	3,130		3,130	
Sheriff vehicle maintenance and replacement	1,138		1,138	
Fingerprinting equipment purchase and operation	8,227		8,227	
Housing repairs and improvements	426		426	
First 5 Commission				176,650
Unrestricted	535,103	87,254	622,357	
Total net assets	$ 3,377,793	252,099	3,629,892	176,650

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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010 (In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			Component Unit
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	First 5 Commission Fund
Governmental Activities:								
General government	$ 304,305	90,503	49,739	12,282	(151,781)		(151,781)	
Public protection	1,091,910	204,405	392,342	257	(494,906)		(494,906)	
Public ways and facilities	131,982	17,899	116,429	20,707	23,053		23,053	
Health and sanitation	681,448	110,081	471,523		(99,844)		(99,844)	
Public assistance	1,171,603	14,271	1,159,686		2,354		2,354	
Education	39,165	1,068	2,362		(35,735)		(35,735)	
Recreation and cultural	33,629	7,142	510		(25,977)		(25,977)	
Interest expense	111,942				(111,942)		(111,942)	
Total governmental activities	3,565,984	445,369	2,192,591	33,246	(894,778)		(894,778)	
Business-type activities:								
Airport	12,389	9,299	15,330			12,240	12,240	
Sanitation Districts	18,831	19,823				992	992	
Wastewater Management	5,523	6,616				1,093	1,093	
Total business-type activities	36,743	35,738	15,330			14,325	14,325	
Total primary government	3,602,727	481,107	2,207,921	33,246	(894,778)	14,325	(880,453)	
Component Unit:								
First 5 Commission	$ 59,178		37,062					(22,116)

Continued

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010 (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	$ (894,778)	14,325	(880,453)	(22,116)
General revenues				
Taxes:				
Property taxes	593,553		593,553	
Other taxes	15,991		15,991	
Property taxes in lieu of vehicle license fees	308,842		308,842	
Sales and use taxes	20,576		20,576	
Total general tax revenues	938,962		938,962	
Investment income	30,941	1,046	31,987	3,965
Other	85,693	18	85,711	
Total general revenues	1,055,596	1,064	1,056,660	3,965
Transfers	345	(345)		
Total general revenues and transfers	1,055,941	719	1,056,660	3,965
Change in net assets	161,163	15,044	176,207	(18,151)
Net assets at beginning of year	3,216,630	237,055	3,453,685	194,801
Net assets at end of year	$ 3,377,793	252,099	3,629,892	176,650

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010 (In Thousands)

	General Fund	Public Safety Fund	Tobacco Endowment Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled cash and investments	$ 1,121,752	18,315	2,530	402,237	1,544,834
Cash with fiscal agents	31				31
Investments with fiscal agents	2		408,027	40,592	448,621
Receivables, net	338,969	33,423	5,032	125,641	503,065
Property taxes receivables, net	195,499			751	196,250
Due from other funds	67,382			11,971	79,353
Inventories	9,418			1,512	10,930
Deposits with others				31	31
Prepaid items	62			441	503
Restricted assets:					
Cash with fiscal agents	146			137	283
Investments with fiscal agents				73,844	73,844
Lease receivable	8,454			8,898	17,352
Total assets	1,741,715	51,738	415,589	666,055	2,875,097
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	96,014			39,516	135,530
Accrued payroll	36,576			2,168	38,744
Due to other funds	36,888	46,939	3,314	21,633	108,774
Deferred revenues	130,190			44,527	174,717
Unearned revenue	221,939			3,990	225,929
Total liabilities	521,607	46,939	3,314	111,834	683,694
FUND BALANCES					
Reserved fund balance:					
Reserved for loans, due from other funds and prepaids	6,765			58,349	65,114
Reserved for deposits with others				19	19
Reserved for landfill closure costs	927				927
Reserved for inventories	9,418			1,512	10,930
Reserved for debt service				78,839	78,839
Reserved for housing repairs and improvements				426	426
Reserved for other purposes	145,147			36,755	181,902
Unreserved:					
Designated for encumbrances	267,340	3,606			270,946
Designated for economic uncertainty	100,000				100,000
Designated for realignment health, mental health and social services	73,729				73,729
Designated for unforeseen catastrophic events	55,500				55,500
Designated for subsequent years' expenditures	66,815				66,815
Designated for landfill postclosure and landfill closure costs	852				852
Undesignated	493,615	1,193	412,275		907,083
Unreserved, reported in nonmajor:					
Special Revenue Funds					
Designated for encumbrances				24,881	24,881
Designated for subsequent years' expenditures				31,095	31,095
Designated for landfill postclosure and landfill closure costs				60,972	60,972
Undesignated				171,447	171,447
Capital Projects Funds					
Undesignated				89,926	89,926
Total fund balances	1,220,108	4,799	412,275	554,221	2,191,403
Total liabilities and fund balances	$ 1,741,715	51,738	415,589	666,055	2,875,097

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2010
(In Thousands)

Total fund balances - governmental funds.	$	2,191,403
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.		2,901,048
Unamortized issuance costs - bonds, notes and loans payable deferred charges (to be amortized over the life of the debt).		14,620
Accrued interest on long-term debt.		(26,287)
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.		174,717
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.		(1,990,073)
Internal service funds are used by management to charge the costs of information technology, vehicle operations and maintenance, employee benefits, public liability, road and communications services, materials and supplies (purchasing), and facilities services to individual funds; loans for start-up services for new and existing county service districts; and the financing of clothing and personal sundry items for persons institutionalized at various county facilities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		112,365
Net assets of governmental activities	$	3,377,793

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, 2010 (In Thousands)

	General Fund	Public Safety Fund	Tobacco Endowment Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 904,515			41,809	946,324
Licenses, permits and franchise fees	40,967			6,611	47,578
Fines, forfeitures and penalties	53,996			3,873	57,869
Revenue from use of money and property	23,171		9,470	13,459	46,100
Aid from other governmental agencies:					
State	814,553	189,376		132,827	1,136,756
Federal	824,821			138,464	963,285
Other	91,478			11,230	102,708
Charges for current services	277,252			41,031	318,283
Other revenue	33,757			47,462	81,219
Total revenues	3,064,510	189,376	9,470	436,766	3,700,122
Expenditures:					
Current:					
General government	197,124			8,332	205,456
Public protection	1,055,315			8,575	1,063,890
Public ways and facilities	10,063			56,330	66,393
Health and sanitation	635,148			40,108	675,256
Public assistance	1,034,340			134,947	1,169,287
Education	906			36,516	37,422
Recreation and cultural	28,102			1,880	29,982
Capital outlay	27,184			178,328	205,512
Debt service:					
Principal	28,777			140,282	169,059
Interest and fiscal charges	17,025			84,011	101,036
Bond issuance costs				739	739
Payment to refunded bond escrow agent	4,436			10,941	15,377
Total expenditures	3,038,420			700,989	3,739,409
Excess (deficiency) of revenues over (under) expenditures	26,090	189,376	9,470	(264,223)	(39,287)
Other financing sources (uses):					
Sale of capital assets	338			27	365
Issuance of bonds and loans:					
Premium on issuance of refunding bonds				7,803	7,803
Refunding bonds issued				80,940	80,940
Payment to escrow agent/refunded bond				(83,173)	(83,173)
Transfers in	226,039			225,979	452,018
Transfers out	(223,042)	(188,226)	(24,200)	(22,215)	(457,683)
Total other financing sources (uses)	3,335	(188,226)	(24,200)	209,361	270
Net change in fund balances	29,425	1,150	(14,730)	(54,862)	(39,017)
Fund balances at beginning of year	1,190,038	3,649	427,005	609,177	2,229,869
Increase (decrease) in					
Reserve for inventories	645			(94)	551
Fund balances at end of year	$ 1,220,108	4,799	412,275	554,221	2,191,403

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, 2010
(In Thousands)

Net change in fund balances - total governmental funds	$	(39,017)
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.		(7,362)
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.		(7,216)
Adjustment to reserve for inventories.		551
Change in accounting estimate for closure and postclosure costs - (public protection function) - San Marcos Landfill.		376
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.		103,872
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(68,690)
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.		182,133
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.		(14,032)
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.		10,548
Change in net assets - governmental activities	$	161,163

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2010 (In thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
ASSETS		
Current assets:		
Pooled cash and investments	$ 78,297	179,368
Receivables, net	13,362	2,055
Due from other funds	266	31,337
Inventories		1,350
Total current assets	91,925	214,110
Noncurrent assets:		
Due from other funds	3,363	98
Capital assets:		
Land	11,565	
Construction in progress	21,186	341
Buildings and improvements	102,874	
Equipment	1,307	127,324
Software		66,697
Road network	6,362	
Sewer network	85,632	
Accumulated depreciation	(62,272)	(126,457)
Total noncurrent assets	170,017	68,003
Total assets	261,942	282,113
LIABILITIES		
Current liabilities:		
Accounts payable	7,126	37,431
Accrued payroll	199	967
Accrued interest		4
Due to other funds	703	4,940
Unearned revenue	37	641
Bonds and loans payable	242	698
Capital lease payable		28
Compensated absences	188	900
Claims and judgments		32,066
Total current liabilities	8,495	77,675
Noncurrent liabilities:		
Bonds and loans payable	1,567	4,035
Capital lease payable		214
Compensated absences	272	1,300
Claims and judgments		86,033
Total noncurrent liabilities	1,839	91,582
Total liabilities	10,334	169,257
NET ASSETS		
Invested in capital assets, net of related debt	164,845	67,663
Unrestricted net assets	86,763	45,193
Total net assets	$ 251,608	112,856

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	$ 251,608
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	491
Net assets of business-type activities	$ 252,099

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2010 (In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Operating revenues:		
Charges for current services	$ 35,738	316,559
Other revenue	18	4,162
Total operating revenues	35,756	320,721
Operating expenses:		
Salaries and employee benefits	6,766	33,526
Repairs and maintenance	7,698	37,622
Equipment rental	930	1,118
Sewage processing	11,119	
Contracted services	4,315	149,065
Depreciation	3,493	16,983
Utilities	245	17,748
Cost of material		1,815
Claims and judgments		30,551
Fuel	9	9,577
Other operating expenses	1,926	25,466
Total operating expenses	36,501	323,471
Operating income (loss)	(745)	(2,750)
Nonoperating revenues (expenses):		
Grants	15,330	5,166
Investment income	1,046	1,573
Interest expense	(115)	(144)
Gain (loss) on disposal of assets		(647)
Total nonoperating revenues (expenses)	16,261	5,948
Income (loss) before capital contributions and transfers	15,516	3,198
Capital contributions		1,213
Transfers in	309	10,737
Transfers out	(654)	(4,727)
Change in net assets	15,171	10,421
Net assets (deficits) at beginning of year	236,437	102,435
Net assets (deficits) at end of year	$ 251,608	112,856

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	$ 15,171
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(127)
Change in net assets of business-type activities	$ 15,044

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, 2010 (In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	$ 29,789	11,502
Cash received from other funds	6,903	309,767
Cash payments to suppliers	(26,704)	(231,270)
Cash payments to employees	(6,724)	(33,736)
Cash payments to other funds	(1,403)	(14,114)
Cash paid for judgments and claims		(20,980)
Net cash provided (used) by operating activities	1,861	21,169
Cash flows from noncapital financing activities:		
Operating grants	7,934	6,432
Transfers from other funds	309	10,737
Transfers to other funds	(654)	(4,727)
Advances to other funds		107
Principal paid on long-term debt		(522)
Interest paid on long-term debt		(129)
Proceeds from loans		1,028
Net cash provided (used) by non-capital financing activities	7,589	12,926
Cash flows from capital and related financing activities:		
Capital contributions		146
Acquisition of capital assets	(13,267)	(14,613)
Proceeds from sale of assets	8	1,453
Principal paid on long-term debt	(229)	
Principal paid on capital lease		(26)
Interest paid on long-term debt	(115)	
Interest paid on capital lease		(14)
Net cash provided (used) by capital and related financing activities	(13,603)	(13,054)
Cash flows from investing activities:		
Investment income	1,174	1,756
Net increase (decrease) in cash and cash equivalents	(2,979)	22,797
Cash and cash equivalents - beginning of year	81,276	156,571
Cash and cash equivalents - end of year	78,297	179,368
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(745)	(2,750)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in accounts receivables	696	1,899
Decrease (increase) in due from other funds	229	(4,809)
Decrease (increase) in inventory		397
Increase (decrease) in accounts payable	(1,441)	(352)
Increase (decrease) in accrued payroll	31	127
Increase (decrease) in due to other funds	(423)	58
Increase (decrease) in unearned revenue	9	333
Increase (decrease) in compensated absences	12	(288)
Increase (decrease) in claims and judgments		9,571
Depreciation	3,493	16,983
Total adjustments	2,606	23,919
Net cash provided (used) by operating activities	1,861	21,169
Non-cash investing and capital financing activities:		
Capital acquisitions included in accounts payable	6,705	3,096
Acquisition of capital leased asset		268
Governmental contributions of capital assets	$	1,067

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010 (In Thousands)

	Investment Trust Funds	Agency Funds
ASSETS		
Pooled cash and investments	$ 2,982,687	351,847
Cash with fiscal agents		1,685
Investments with fiscal agents	156,034	
Receivables:		
Accounts receivable		282
Investment income receivable	6,831	6,645
Total assets	3,145,552	360,459
LIABILITIES		
Accounts payable		23,151
Warrants outstanding		171,207
Accrued payroll		38
Due to other governments		166,063
Total liabilities		360,459
NET ASSETS		
Held in trust for pool participants	2,989,491	
Held in trust for individual investment accounts	156,061	
Total held in trust	$ 3,145,552	

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, 2010 (In Thousands)

	Investment Trust Funds
ADDITIONS	
Contributions:	
Contributions to investments	$ 5,303,460
Total contributions	5,303,460
Investment earnings:	
Net increase (decrease) in fair value of Investments	(1,850)
Investment income	43,905
Total investment earnings	42,055
Total additions	5,345,515
DEDUCTIONS	
Distributions from investments	5,973,768
Total deductions	5,973,768
Change in net assets	(628,253)
Net assets at beginning of year	3,773,805
Net assets at end of year	$ 3,145,552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NOTE 1

Summary of Significant Accounting Policies

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.

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.

Air Pollution Control District (APCD) - The *APCD* was established to protect the people and the environment from the harmful effects of air pollution. Air quality is continuously monitored throughout the San Diego Air Basin, and programs are developed to bring about the emission reductions necessary to achieve clean air. The District issues permits to limit air pollution, ensures that air pollution control laws are followed, and administers funding that is used to reduce regional mobile source emissions. *APCD* is reported as a *special revenue fund*.

County of San Diego In-Home Supportive Services Public Authority (IHSSPA) - The *IHSSPA* was established to assist eligible low-income elderly and persons with disabilities in San Diego County to live high quality lives in their own homes. The *IHSSPA* program is mandated by the State. *As* the employer of record, *IHSSPA* recruits, screens, and trains home care workers who are available to assist eligible consumers in their own homes. *IHSSPA* is reported as a *special revenue fund.*

County Service Area Districts (CSAD)- The CSADs were established to provide authorized services such as road, park, fire protection and ambulance 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. The CSADs are reported as *special revenue funds*.

Flood Control District (FCD)- The *FCD* was established to provide flood control in the County's unincorporated area. It is financed primarily by ad valorem property taxes and charges to property owners. The *FCD* is reported as a *special revenue fund*.

Lighting Maintenance District (LMD) - The *LMD* 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. The *LMD* is reported as a *special revenue fund*.

San Diego County Housing Authority (SDCHA) - The *SDCHA* was established to provide 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. *SDCHA* is reported as a *special revenue fund*.

San Diego County Redevelopment Agency (SDCRA) - *SDCRA* 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. *SDCRA* financial activities are reported in a *special revenue fund* and a *debt service fund*.

Sanitation Districts (SD) - The *SDs* were established to construct, operate and maintain reliable and sustainable sanitary sewer systems. Revenue sources include charges to property owners and grants. The *SDs* are reported 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) - *SANCAL* 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. *SANCAL* financial activities are reported in a *debt service fund*.

San Diego County Tobacco Asset Securitization Corporation (SDCTASC)) - The *SDCTASC* was created under the California Nonprofit Public Benefit Corporation Law and was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to a Tobacco Master Settlement Agreement.

SDCTASC is governed by a Board of Directors consisting of three members, two of which are employees of the County and one independent director who is not an employee of the County. The *SDCTASC* is reported as a *special revenue fund*.

San Diego Regional Building Authority (*SDRBA*) - The *SDRBA* was established under the Mark-Roos Local Bond Pooling Act of 1985 and authorized to issue bonds for the purpose of acquiring and constructing public capital Improvements and to lease them to its members, the County and the San Diego Metropolitan Transit Development board (MTDB). The services provided by the SDRBA to the MTDB are insignificant.

The *SDRBA* is governed by a Commission consisting of three members, two of which are County Supervisors appointed by the County Board of Supervisors and concurrently serve on the Board of Directors of the San Diego Trolley, Inc and the Board of Directors of MTDB. The third Commissioner is a member of MTDB and is appointed by the MTDB Board. The SDRBA's financial activities are reported in a *debt service fund* and a *capital projects fund*.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) - The *TSJPA* was created by a joint exercise of powers agreement between the County and the County of Sacramento pursuant to Government Code Sections 6500 et seq. The *TSJPA*'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 *TSJPA* in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under a purchase and sale agreement. The *TSJPA* 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. The *TSJPA*'s is reported 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.

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 issued financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 201, (MS-A211), San Diego, CA, 92101-6466.

Financial Reporting Structure

Basic Financial Statements

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model, based on GASB Statement No. 34, *"Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,"* focuses on the County as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the County as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the County (including its blended component units) as well as its discretely presented component unit. In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates capital assets as well as long-term debt and obligations.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available to generate or use cash within twelve months of the end of the fiscal period. Examples include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

Major individual governmental funds are reported as separate columns in the fund financial statements and are presented on a current financial resources and modified accrual basis of accounting. Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The 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 activities. Expenditures also include capital outlay and debt service.

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 Section 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 *Tobacco Endowment 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 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.

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.

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.

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 susceptible to accrual 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 government-wide (governmental and business-type activities) and proprietary fund 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 for business-type activities and proprietary funds. 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.

Assets, Liabilities, and Net Assets or Fund Balance

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.

The Pool is available for use by all funds. Each fund type’s portion of the Pool is displayed on the statements of net assets/balance sheets as “pooled cash and investments.” The share of each fund’s pooled cash and investments account is separately accounted for and interest earned, net of related expenses, is apportioned quarterly based on the fund’s average daily balance in proportion to the total pooled cash and investments. In accordance with Government Code Section 53647, apportionments applicable to certain agency funds accrue to the benefit of the General Fund.

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

Receivables and Payables

The major receivables for governmental and business-type activities are taxes, due from other governmental agencies and loans. All property taxes and accounts receivable are shown net of an allowance for uncollectibles ($8.379 million and $3.477 million, respectively). Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are 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.”

Noncurrent interfund receivables between funds are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

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 (levy date). 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)

County Leased Property

The County and its blended component units lease real property to the private sector and other governmental agencies. Capitalized lease receivables are shown as restricted assets on the government-wide statement of net assets - governmental activities and governmental funds balance sheets. Revenue from non-cancelable and cancelable capital and operating leases is reported in the applicable government-wide statement of activities - governmental activities, governmental funds statements of revenues, expenditures, and changes in fund balances and proprietary funds, statements of revenues, expenses, and changes in fund net assets, as applicable.

Inventories and Prepaid Items

Inventories include both inventories on hand for sale and consumable inventories. Inventories are valued at average cost. They are accounted for as expenditures at the time of purchase and reported in governmental funds as an asset with an offsetting reserve. Proprietary fund types are carried at average cost and are expended when consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. 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.

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.

Capital Assets

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

Infrastructure assets include roads, bridges and sewers.

Capital assets are recorded at *historical cost* if purchased or constructed. Donated capital assets are recorded at *estimated fair value* at the date of donation. Capital assets with original unit costs equal to or greater than the *capitalization thresholds* shown in **Table 1** are reported in the applicable *governmental* or *business-type activities* columns in the government-wide financial statements.

Table 1

Capitalization Thresholds		
Land	$	0
Buildings and improvements		50
Infrastructure		25-50
Equipment		5
Software		50-100
Easements		50

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	10-50 years
Infrastructure	10-50 years
Equipment	5-20 years
Software	3-10 years

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. 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.

Lease Obligations

The County leases various assets under both operating and capital 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.

Long-Term Obligations

Long-term liabilities reported in the statement of net assets include the amount due in one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of the noncurrent portion of claims and judgments, compensated absences, landfill closure and post closure and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. General long-term debt is not limited to liabilities arising from debt issuances but may also include noncurrent liabilities on other commitments that are not current liabilities properly recorded in governmental funds.

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). Occasionally, the County also refunds some of its existing debt. When this 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.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued and premiums 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.

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.

Employees' 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 Standards Act (FLSA) rules or the California Labor Code. All vacation pay and a certain portion of compensatory and sick pay for specified employee classes is accrued 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 the purpose of calculating retirement benefits.

Accumulated leave benefits including vacation, sick leave, and compensatory time worked are 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 noted above. 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 Section 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. This liability 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 conversion of these balances to retirement service credits is included in the County's actuarial accrued liability, as part of the annual actuarial valuation which includes assumptions regarding employee terminations, retirement, death, etc.

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; and the Debt Service and Capital Projects Funds (other governmental funds). Please refer to the notes to required supplementary information for more details regarding the County's general budget policies.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used in the governmental funds. Encumbrances outstanding at year end are reported as designations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

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 County does not employ the use of a specified time at the beginning of a given budget period during which encumbrances outstanding at the end of the prior budget period may be liquidated using the prior year's budgetary authority (lapse period) for encumbrance liquidation, encumbered amounts that are reappropriated as part of the following year's budget, including contract contingencies encumbered on a project basis, are presented as unreserved fund balance designated for encumbrances.

Fund balance reserve and designated fund balances for governmental funds are classified to reserved, unreserved/ designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets that, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for general purposes. Designations reflect self-imposed limitations on the use of available current financial resources.

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation reduced by 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.

The County reports net assets as restricted when constraints placed on net assets are externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

Indirect Costs

County indirect costs are allocated to benefiting departments and are included in the program expense reported for individual functions and activities. 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.

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. Significant estimates made in preparing the financial statements are described in the applicable notes.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 2

Reconciliation of Government-Wide and Fund Financial Statements

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, 2010

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 ($1,990,073) difference are as follows:		
Bonds, notes and loans payable		
Certificates of participation and lease revenue bonds	$	(422,260)
Taxable pension obligation bonds		(874,336)
Tobacco settlement asset-backed bonds		(574,157)
San Diego County Redevelopment Agency revenue refunding bonds		(14,640)
Loans - non-internal service funds		(2,671)
Subtotal		(1,888,064)
Add: Unamortized issuance premiums		(15,499)
Less: Unamortized issuance discounts (to be amortized as interest expense)		16,126
Less:		
Beginning balance - Unamortized deferred amounts on refundings		18,037
Add: Remaining unamortized cost of issuance on refunded debt		1,773
Add: Remaining unamortized discount on refunded debt		1,729
Add: Deferred amount on refunding attributable to reacquisition price of new debt in excess of outstanding debt refunded		805
Less: Amortization of deferred amount on refunding (as shown on **Table 4**)		(5,842)
Ending balance - Unamortized deferred amounts on refundings (to be amortized as interest expense)		16,502
Arbitrage		(455)
Compensated absences (excluding Internal Service Funds)		(97,766)
Landfill closure and postclosure - San Marcos landfill		(20,917)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$	(1,990,073)
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 $112,365 difference are as follows:		
Net assets of the internal service funds	$	112,856
Less: Internal payable representing charges in excess of cost to business-type activities - prior years		(618)
Add: Internal payable representing charges in excess of cost to business-type activities - current year		127
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$	112,365

(Amounts Expressed in Thousands Unless Otherwise Noted)

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, 2010

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 $103,872 difference are as follows:		
Capital outlay	$	205,512
Depreciation expense		(101,640)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	103,872
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. The details of this $(68,690) difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(365)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets		(89,945)
Donations of assets to the County do not provide current financial resources but resources increase net assets		21,620
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(68,690)
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 $182,133 difference are as follows:		
Debt issued or incurred:		
Refunding bonds issued	$	(80,940)
Plus: Premiums		(7,803)
Less: Issuance costs		739
Payment to escrow agent/refunded bond		83,173
Payment to refunded bond escrow agent		15,377
Principal repayments		169,059
Accreted interest paid		2,466
Arbitrage		62
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	182,133
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 $(14,032) difference are as follows:		
Compensated absences	$	1,071
Accrued interest		731
Accretion of capital appreciation bonds		(8,058)
Amortization of premiums		1,001
Amortization of discounts		(1,120)
Amortization of deferred amounts on refundings		(5,842)
Amortization of issuance costs		(1,815)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(14,032)
Internal Service Funds. The net revenue of certain activities of internal service funds is reported with governmental activities. The details of this $10,548 difference are as follows:		
Change in net assets of the internal service funds	$	10,421
Add: Gain from charges to business activities		127
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	10,548

NOTE 3

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.

Pursuant to Sections 27130-27137 of the California Government Code, the Board of Supervisors has established the Treasurer's Oversight Committee ("TOC") that monitors and reviews the Investment Policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public, having expertise in, or an academic background in public finance. This Committee requires a financial audit to be conducted annually on a fiscal year basis, which includes limited tests of compliance with laws and regulations. The Investment Pool is not registered with the Securities and Exchange Commission ("SEC") as an investment company. The Investment Pool does not have any legally binding guarantees of share values.

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.

Total pooled cash and investments totaled $5,194,763 consisting of: $5,175,446 investments in the County pool; $16.741 million in demand deposits; $2.044 million of collections in transit; and, $532 thousand in imprest cash.

Deposits

Government Code Section 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 $250,000 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. These securities shall be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed upon third party custodian bank.

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 102% of the deposit amount in accordance with California Government Code.

California Government Code Section 53652 et. seq. requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. At June 30, 2010, the County's deposits were not exposed to custodial credit risk as these deposits were either covered by FDIC insurance or collateralized with securities held by a named agent depository as noted below:

a. Cash in banks is defined as short-term, highly liquid deposits with an original maturity of three months or less. At year-end, the carrying amount of the Investment Pool's deposits was $16,741, and the bank balance at June 30, 2010 was $14,290, consisting of demand deposits with various financial institutions. The difference between the carrying amount and the bank balance includes temporary reconciling items such as cash on hand, outstanding checks, and deposits in transit. Of the bank balance, $350 thousand was covered by federal deposit insurance and $13,940 was collateralized with securities held by a named agent depository on behalf of the Investment Pool as required by California Government Code Section 53656. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

b. The carrying amount of demand deposits with Fiscal Agents (outside of the Pool) was $1.999 million and the bank balance per various financial institutions was $2.272 million. Of the total bank balance, $410 thousand was covered by federal deposit insurance and $1.862 million was collateralized by a named agent depository.

Investments

Government Code Section 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments in the Investment Pool are stated at fair value. Securities, which are traded on a national exchange, are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and is provided by the custodian bank. Repurchase agreements and Institutional money market funds are carried at portfolio book value (carrying cost). All purchases of investments are accounted for on a trade-date basis. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Realized gains and losses on investments that were held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

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 Section 53601 but adds further specificity and restrictions to permitted investments.

No policies have been established for investments with fiscal agents, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements.

In conjunction with the discussion below concerning investment risks, please refer to **Tables 7** and **8** respectively, which provide details on pooled investments and those held with fiscal agents at fiscal year-end. Additionally, **Table 9** provides a comparison of Investment Pool policy restrictions with Government Code Section 53601 requirements**.**

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 the Investment Pool requires at least 25 percent of securities to mature within 90 days, at least 50 percent of securities to mature within one year, and no more than 50 percent of securities to mature within one to five years. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. As of June 30, 2010, the Investment Pool was in full compliance with its own more restrictive Investment Policy, and therefore was also in compliance with California Government Code. Actual weighted average days to maturity by investment type is presented in **Table 7**.

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.

Credit Risk - Investments

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations.

The Pooled Money Fund Investment Policy and the California 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:

Table 5

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	

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 Investment Policy limits the amount of exposure to any one single issuer to the percentages listed in **Table 9**. As noted in **Table 9**, the Pooled Money Fund Investment Policy is more restrictive, in most cases, than the California Government Code. As of June 30, 2010, all Pool investments were in compliance with State law and with the Investment Policy.

The County Investment Pool's investment in the securities of the Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) are issued by agencies that remain under conservatorship by the Director of the Federal Housing Finance Agency. The U.S. government does not guarantee, directly or indirectly, the securities of the FHLMC, Federal Home Loan Bank (FHLB), or FNMA. The County Investment Pool's investments in FHLMC, FHLB, and FNMA securities as of June 30, 2010 comprised 17.82%, 19.27%, and 17.40% of the total County Investment Pool's investments, respectively.

No general policies have been established to limit the amount of exposure to any one single issuer, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements. Instruments in any one issuer that represent 5% or more of the County investments with fiscal agents by individual major fund or nonmajor funds in the aggregate at June 30, 2010 are shown in **Table 6**.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 6

Concentration of Credit Risk - Investment With Fiscal Agents

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	$ 50,970	12	$	
Allied Irish Bank			34,140	30
Federal farm credit bank			20,282	18
Federal national mortgage association			14,970	13
Federated treasury obligation			14,063	12
Federal home loan bank			10,117	9
Federal home loan mortgage corporation			10,194	9

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 outside party.

The investment policy does not permit investments in uninsured and unregistered securities not held by the County. The County of San Diego utilizes third party delivery versus payment custodian which mitigates any custodial credit risk. Securities purchased by the County Investment Pool are held by a third-party custodian, the Bank of New York Mellon Corporation, in their trust department to mitigate custodial credit risk.

Foreign Currency Risk - Investments

This is the risk that investments are exposed to foreign currency risk.

The County's investments do not have any foreign currency risk as all investments are in U.S. dollar-denominated assets.

Table 7

Pooled Investments At June 30, 2010

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US government agencies:						
Federal home loan mortgage corporation notes	$ 922,160	0.20% - 6.00%	07/10 - 04/15	630	AAA	17.82%
Federal home loan bank notes	997,386	0.11% - 6.63%	07/10 - 05/14	509	AAA	19.27%
Federal national mortgage association notes	900,417	0.13% - 5.00%	07/10 - 11/14	823	AAA	17.40%
Federal farm credit bank notes	125,676	1.99% - 5.05%	07/10 - 05/14	738	AAA	2.43%
US treasury notes	287,990	0.88% - 4.88%	09/10 - 08/14	785	AAA	5.56%
US treasury bills	104,974	0.11% - 0.31%	07/10 - 09/10	54	AAA	2.03%
Commercial paper	905,922	0.10% - 0.37%	07/10 - 10/10	23	A-1/A-1+	17.50%
Corporate medium-term notes	51,599	4.25% - 5.88%	09/10 - 03/12	372	AA+	1.00%
Repurchase agreements collateralized by:						
Money market securities	175,000	0.16%	07/10	1	N/A	3.38%
Government securities	2,251	0.10%	07/10	1	N/A	0.04%
Money market mutual funds	137,210	0.02% - 0.06%	08/10	32	AAA	2.65%
Certificates of deposit	529,791	0.15% - 1.20%	07/10 - 12/10	25	N/A	10.24%
Bond funds	35,070	0.64%	07/11	391	AA	0.68%
Total investments	$ 5,175,446			429		100.00%

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Investments with Fiscal Agents
At June 30, 2010

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
County investments with fiscal agents						
Unrestricted:						
Federal farm credit bank notes	$ 20,282	2.45%	5/14	1413	AAA	3.88%
Federal home loan bank notes	10,117	2.00%	4/13	1020	AAA	1.94%
Federal home loan mortgage corp notes	10,194	4.50%	12/10	169	AAA	1.95%
Fixed income tax exempt bonds	21,852	0% - 5.75%	9/10 - 7/14	762	A	4.18%
Fixed income tax exempt bonds	12,986	0% - 5.25%	7/11 - 4/35	3820	A+	2.49%
Fixed income tax exempt bonds	79,577	5% - 6.50%	11/10 - 8/15	764	AA	15.23%
Fixed income tax exempt bonds	25,001	5.50% - 5.63%	10/10 - 5/12	312	AA-	4.78%
Fixed income tax exempt bonds	61,641	3.5% - 5.5%	7/10 - 1/15	648	AA+	11.80%
Fixed income tax exempt bonds	136,703	0% - 8.95%	7/10 - 1/14	770	AAA	26.16%
Fixed income tax exempt bonds	8,280	5.25% - 5.75%	6/12 -7/14	1287	BBB	1.58%
Fixed income tax exempt bonds	11,018	5.50% - 8.25%	7/11 - 6/28	2548	NA	2.11%
MuniFunds	50,970	0.15%	7/10 - 8/10	33	AAA	9.76%
Subtotal	448,621					
Restricted:						
Federal home loan bank notes	1,719	1.63% - 3.5%	7/10 - 1/11	41	AAA	0.33%
Federal home loan bank step-up	832	5.00%	7/10	17	AAA	0.16%
Federal home loan mortgage corp. disc. notes	1,987	0.00%	1/11	188	AAA	0.38%
Federal home loan mortgage corp. strip	564	0.00%	7/10 - 7/11	189	NR/NA	0.11%
Federal national mortgage assn. notes	14,970	2.75% - 4.63%	2/14 - 10/14	1397	AAA	2.87%
Federal national mortgage assn. step-up	268	5.00%	7/10	28	AAA	0.05%
Federal nat'l mortgage assn. strip	2,851	0.00%	1/11 - 7/11	316	NA	0.55%
Money market funds	50,163	0.00% - 0.02%	7/10 - 8/10	25-58	AAA/A-1+	9.60%
Certificates of deposit	490	0.15% - 0.25%	8/10 -9/10	77	AAA	0.09%
Subtotal	73,844					
Total County investments with fiscal agents	522,465					100.00%
External specific investments:						
Federal farm credit bank notes	3,322	1.85% - 2.45%	9/12 - 5/14	1002	AAA	2.13%
Federal home loan bank notes	367	4.88%	6/12	709	AAA	0.24%
Federal home loan mortgage corp. notes	505	4.75%	9/10	84	AAA	0.32%
Guaranteed investment contracts	151,327	5.07%	9/10	92	NA	96.99%
Medium term notes	506	4.87	10/10	113	AA+	0.32%
Money market funds	7	0.17%	7/10 - 8/10	35	AAA	0.00%
Total external specific investments	156,034					100.00%
Total investments with fiscal agents	$ 678,499					

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 9

Investment Pool Policy Restrictions versus California Government Code Section 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 obligations	5 years	5 years	None	None	None	None	None	None
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-1
Commercial paper (1)	270 days	270 days	40%	40%	10%	5%	A	A
Certificates of deposit	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	10%	None	None
Corporate medium-term notes	5 years	5 years	30%	30%	30%	5%	A	A
Money market mutual funds	N/A	N/A	20%	15%	10%	10%	AAAf	AAAf
Bond funds	N/A	N/A	None	2.5%	None	2.5%	None	None
Pass-through securities (3)	5 years	5 years	20%	20%	None	5%	A/AA	A/AA

(1) Government code Section 53635 (a) (1-2) specifies percentage limitations for this security type for county investment pools.
(2) Maximum exposure per issue - The maximum exposure to a single Repurchase Agreement (RP) issue shall be 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.
(3) Rating of "A" required for issuer, if rated; and rating of "AA" required for issue.

NOTE 4

Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under Debt covenants; and to comply with other legal or contractual requirements. For fiscal year 2010 restricted assets were as follows:

Table 10

Restricted Assets

Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	$ 146	$ 8,454
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	732	
Tobacco Securitization Joint Special Revenue Fund		47,038
Pension Obligations Bonds Debt Service Fund		22
Redevelopment Agency Debt Service Fund		1,155
San Diego Regional Building Authority Debt Service Fund		28,811
SANCAL Debt Service Fund		5,121

NOTE 5

Receivables

Details of receivables reported in the government-wide Statement of Net Assets are presented in **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 - $50.686 million.

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

Loans - Governmental activities- $63.5 million

This amount includes: $35.153 million in housing rehabilitation loan programs for low-income or special need residents, loans for low income housing downpayments, and redevelopment agencies; and $28.347 million in community development block grant loans.

Loans- Business-type activities- $3.886 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 leases.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2010

		Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$	5,266	2,819	328,693	5,592	76	342,446	(3,477)	338,969
Public Safety Special Revenue Fund				33,423			33,423		33,423
Tobacco Endowment Fund			5,032				5,032		5,032
Other Governmental Funds		28,484	1,309	37,462	57,908	478	125,641		125,641
Internal Service Funds		426	313	1,291		25	2,055		2,055
Total governmental activities	$	34,176	9,473	400,869	63,500	579	508,597	(3,477)	505,120
Business-type activities:									
Enterprise Funds	$	274	158	9,044	3,886		13,362		13,362
Component Unit:									
First 5 Commission	$		963	5,667			6,630		6,630

NOTE 6

County Property on Lease to Others

The County's blended component unit - SDRBA has a direct financing capital lease with the San Miguel Consolidated Fire Protection District (District) for two District fire stations. Additionally, the County has a sublease of a share of the Metropolitan Transit System (MTS) Towers. The share of the County's property under the MTS Towers' sub lease is an estimated $12.74 million in structures and improvements with accumulated depreciation of $5.47 million at June 30, 2010. The lease revenue received by the SDRBA and the County for the year ended June 30, 2010 was approximately $888 thousand and $843 thousand, respectively.

The County also has noncancelable operating leases for certain properties which are not material to the County's governmental operations. 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 $2.47 million in land at June 30, 2010.

Lease revenue from noncancelable operating leases for the year ended June 30, 2010 was approximately $15.8 million. Future minimum lease payments to be received under the capital leases and noncancelable operating leases are noted in **Table 12**.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year	Capital Leases	Operating Leases
2011	$ 1,755	$ 15,466
2012	1,723	14,932
2013	1,742	14,639
2014	1,729	14,164
2015	1,738	10,952
2016-2020	8,665	46,060
2021-2025		39,059
2026-2030		37,200
2031-2035		30,344
2036-2040		18,437
2041-2045		11,030
2046-2050		8,165
2051-2055		6,605
2056-2060		2,471
2061-2065		2,311
Total	$ 17,352	$ 271,835

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 7

Capital Assets

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, 2009	Increases	Decreases	Ending Balance at June 30, 2010
Capital assets, not being depreciated:				
Land	$ 307,417	30,208	(15,540)	$ 322,085
Easements		4,581		4,581
Construction in progress	233,620	129,779	(126,963)	236,436
Total capital assets, not being depreciated	541,037	164,568	(142,503)	563,102
Capital assets, being depreciated:				
Buildings and improvements	1,186,056	100,434	(138,528)	1,147,962
Software (1)	55,480	19,353		74,833
Equipment	246,517	18,679	(23,991)	241,205
Road infrastructure	2,356,840	60,706		2,417,546
Bridge infrastructure	51,380	9,401		60,781
Total capital assets, being depreciated	3,896,273	208,573	(162,519)	3,942,327
Less accumulated depreciation for:				
Buildings and improvements	(369,521)	(23,706)	64,860	(328,367)
Software (1)	(55,480)	(6,349)		(61,829)
Equipment	(128,998)	(22,355)	20,792	(130,561)
Road infrastructure	(933,896)	(65,227)		(999,123)
Bridge infrastructure	(15,610)	(986)		(16,596)
Total accumulated depreciation	(1,503,505)	(118,623)	85,652	(1,536,476)
Total capital assets, being depreciated, net	2,392,768	89,950	(76,867)	2,405,851
Governmental activities capital assets, net	$ 2,933,805	254,518	(219,370)	$ 2,968,953

(1) In 2009, this amount was reported as Equipment.

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2009	Increases	Decreases	Ending Balance at June 30, 2010
Capital assets, not being depreciated:				
Land	$ 11,338	227		$ 11,565
Construction in progress	63,580	19,971	(62,365)	21,186
Total capital assets, not being depreciated	74,918	20,198	(62,365)	32,751
Capital assets, being depreciated:				
Buildings and improvements	59,547	43,327		102,874
Equipment	1,331		(24)	1,307
Road infrastructure	335	6,027		6,362
Sewer infrastructure	72,848	12,784		85,632
Total capital assets, being depreciated	134,061	62,138	(24)	196,175
Less accumulated depreciation for:				
Buildings and improvements	(25,323)	(2,021)		(27,344)
Equipment	(1,104)	(37)	16	(1,125)
Road infrastructure	(19)	(8)		(27)
Sewer infrastructure	(32,349)	(1,427)		(33,776)
Total accumulated depreciation	(58,795)	(3,493)	16	(62,272)
Total capital assets, being depreciated, net	75,266	58,645	(8)	133,903
Business-type activities capital assets, net	$ 150,184	78,843	(62,373)	$ 166,654

Depreciation

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

Table 15

Depreciation Expense - Governmental Activities

General government	$ 3,055
Public protection	22,931
Public ways and facilities	65,503
Health and sanitation	5,403
Public assistance	1,228
Education	761
Recreation and cultural	2,759
Internal Service Funds	16,983
Total	$ 118,623

Table 16

Depreciation Expense - Business-type Activities

Airport Fund	$ 2,008
Sanitation Districts Fund	1,468
Wastewater Management Fund	17
Total	$ 3,493

(Amounts Expressed in Thousands Unless Otherwise Noted)

Capital Commitments

At June 30, 2010, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities were as follows:

Table 17

Capital Commitments
At June 30, 2010

		Remaining Commitments
Governmental Activities		
Other Governmental Funds:		
Upgrade of Oracle Enterprise Resources	$	27,050
Construction of County Operations Center		20,833
Construction of South Santa Fe Ave.		15,284
Construction of Ramona Branch Library		5,058
Construction of Jamacha Blvd.		4,506
Construction of Valley Center Road Bridge Over San Luis Rey River		4,065
Construction of Fallbrook Branch Library		2,890
Construction of Sweetwater Summit Campground Expansion		2,464
Construction of Olive Vista Dr.		2,002
Acquisition of Del Dios Highland Preserve		1,150
Acquisition of Software AG License Agreement		1,091
Subtotal		86,393
Business-type Activities		
Enterprise Funds:		
Construction of McClellan Palomar Airport Runway		1,011
Subtotal		1,011
Total	$	87,404

NOTE 8

Interfund Balances

Interfund balances at fiscal year-end consisted of the following amounts:

Table 18

Interfund Balances
At June 30, 2010

		Due From						
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
Due To	General Fund	$	46,939	3,314	14,171	48	2,910	$ 67,382
	Nonmajor Governmental	9,374			1,431	348	818	11,971
	Nonmajor Enterprise	30			3,370	229		3,629
	Internal Service	27,484			2,661	78	1,212	31,435
	Total	$ 36,888	46,939	3,314	21,633	703	4,940	$ 114,417

Descriptions of amounts not due to be repaid in the subsequent year are discussed below:

a. $1.111 million is due to the General Fund from the Redevelopment Agency Special Revenue Fund (Upper San Diego River Project) as a result of a loan to provide funding for Project improvements. $1.018 million of this balance is not scheduled to be collected in the subsequent year.

b. $3.363 million is due from the Redevelopment Agency Special Revenue Fund to the Airport Enterprise Fund as a result of a loan to fund airport projects. Loans repayments are based on the condition that the collection of property tax revenue per Health and Safety Code Section 33670 is sufficient to allow the payment of the loan. $3.363 million of the balance is not scheduled to be collected in the subsequent year.

(Amounts Expressed in Thousands Unless Otherwise Noted)

c. $147 thousand is due to the Special District Loans Fund from the County Service District Fund as a result of a loan to improve and maintain County roads. Loan repayments are made from property tax collections. $98 thousand of the balance is not scheduled to be collected in the subsequent year.

All remaining 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.

NOTE 9

Interfund Transfers

Interfund transfers at fiscal year-end consisted of the following amounts:

Table 19

Transfers In/Transfers Out At June 30, 2010

TRANSFERS IN	TRANSFERS OUT: General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	188,226	24,200	12,979		634	$ 226,039
Nonmajor Governmental	212,221			9,011	654	4,093	225,979
Nonmajor Enterprise	309						309
Internal Service	10,512			225			10,737
Total	$ 223,042	188,226	24,200	22,215	654	4,727	$ 463,064

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.

NOTE 10

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 20

Payables At June 30, 2010

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 74,857	16,139	5,018	$ 96,014
Other Governmental Funds	35,613	2,893	1,010	39,516
Internal Service Funds	36,345	1,086		37,431
Total governmental activities	$ 146,815	20,118	6,028	$ 172,961
Business-type activities:				
Enterprise Funds	$ 7,126			$ 7,126
Component Unit:				
First 5 Commission	$ 9,005	8,299	102	$ 17,406

NOTE 11

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 21

Short-Term Obligations

	Beginning Balance at July 1, 2009	Issued	Redeemed	Ending Balance at June 30, 2010
Tax and revenue anticipation notes	$	220,000	220,000	$

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 12

Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2022 (**Table 22**). 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, 2010 was approximately $30.98 million, including $18.8 million for non-cancelable leases.

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

Table 22

Lease Commitments - Real Property

Fiscal Year		Minimum Lease Payments
2011	$	20,595
2012		18,066
2013		12,061
2014		8,918
2015		5,007
2016-20		8,676
2021-22		3,014
Total	$	76,337

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, 2010, was approximately $2.7 million.

Capital Lease

Minimum Lease Payments

Equipment has been leased from the Bowe Bell and Howell Company. The present value of the minimum lease obligation has been capitalized in the Facilities Management internal service fund statement of net assets and in the government-wide statement of net assets; and is reflected as a liability in those statements. The County assumes responsibility for all maintenance and repair of the equipment under the terms of the lease agreement. Future minimum lease payments under this capital lease are as follows:

Table 23

Capital Leases - Future Minimum Lease Payments

Fiscal Year		Amount
2011	$	40
2012		40
2013		40
2014		40
2015		40
2016-2018		95
Total minimum lease payments		295
Less: Amount representing interest		(53)
Net lease payments	$	242

Book Value

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

Table 24

Capital Leases - Book Value At June 30, 2010

Capital Lease Property		Original Cost	Accumulated Amortization	Net Book Value
Equipment	$	310	80	230
Total	$	310	80	230

The amortization of this capital leased asset was $80 thousand in fiscal year 2010 and is included in the Internal Service Funds depreciation of $16.983 million in **Table 15**.

NOTE 13

Long-Term Debt

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs)

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) provide funds for the acquisition and construction of major capital facilities and equipment. The repayment of these COPs and LRBs is secured by a lease structure where the borrowing entity, such as the County or the San Miguel Consolidated Fire Protection District (SMCFPD) (not a component unit of the County), leases certain properties to another entity, a lessor, which in turn leases the properties back to the County or the SMCFPD. These lessors are the San Diego Capital Asset Leasing Corporation (SANCAL), and the San Diego Regional Building Authority (SDRBA); both blended component units of the County. (See discussion of Blended Component Units under Note 1 “Summary of Significant Accounting Policies”.)

COPs and LRBs are secured by: a) (lease) base rental payments, for the use of certain facilities or equipment and b) encumbrances on the facilities. The leased premises are typically facilities or equipment purchased with proceeds of the COPs or LRBs. In the case of the County, the base rental payments are made primarily from the County General Fund to the SANCAL or SDRBA; in the case of the SDRBA's financing for the SMCFPD, base rental payments are made from SMCFPD to the SDRBA. Under lease terms, the County and the SMCPFD are required to make the necessary annual appropriations for lease payments, except to the extent those payments are eligible to be abated in accordance with the terms of the leases.

(Amounts Expressed in Thousands Unless Otherwise Noted)

COPs and LRBs evidence a pro rata share in a specific pledged revenue stream of lease payments, and investors in the certificates or bonds are entitled to receive a share in these lease payments from a particular project. Lease payments are passed through the lessor to the investors. The lessor assigns the lease and lease payments to a trustee, which distributes the lease payments to the investors.

In October 2009, the San Diego County Capital Asset Leasing Corporation issued $80.940 million of fixed rate serial certificates of participation titled, Justice Facilities Refunding (Certificates). These certificates have maturity dates beginning October 1, 2010 with a final maturity of October 1, 2025. Each maturity date carries a different fixed interest rate beginning in April 2010 at a fixed rate of 2 percent with fixed rates ranging to 5 percent.

These Certificates were issued with a premium of $7.803 million. The $88.743 million in proceeds of the Certificates along with $18.077 million of funds held by the 1997 Central Jail Refunding and 1998 Downtown Courthouse Refunding trustee (trustee) were distributed as follows: 1) $98.550 million (consisting of $83.173 million of new Certificate proceeds plus $15.377 million of funds held by the trustee) was transferred to an escrow agent to advance refund the entire $55.475 million 1997 Central Jail Refunding Certificates of Participation (Jail COPs) and $42.270 million 1998 Downtown Courthouse Refunding Certificates of Participation (Courthouse COPs) outstanding, respectively, and to pay future interest payments; 2) $1.010 million was used to pay interest on the refunded Jail COPs and Courthouse COPs due on the closing date at the time of the refunding; 3) $4.818 million to fund a Certificate reserve fund; 4) $752 thousand was set aside to pay certain costs of issuance; 5) $1.595 million was transferred to the Base Rental Payment Fund and was used to fund the April 2010 Certificate interest payment; and, 6) $95 thousand of existing funds were set aside to be used for various ongoing debt related costs.

The $98.550 million transfer referred to above was placed in an irrevocable trust with an escrow agent to provide for the payment of the remaining principal and interest due on the Jail COPs and Courthouse COPs along with a 0.01 percent premium attributable to the Courthouse COPs. As a result, the Jail COPs and Courthouse COPs are considered legally defeased and the liability for those certificates has been removed from the government-wide statement of net assets governmental activities' liabilities due within one year and due in more than one year. This advance refunding will result in reducing the County's principal and interest payments by $11.232 million over the next 17 years to obtain an economic gain of $8.742 million (i.e. difference between the present values of the debt service payments on the refunded debt and the refunding debt). The interest on the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes.

Details of COPs and LRBs outstanding at June 30, 2010 are as follows:

Table 25

Certificates of Participation (COP) and Lease Revenue Bonds (LRB)

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
1993 Master Refunding COP	$ 203,400	2.50 - 5.625%	2013	$ 14,800
2001 Metropolitan Transit System Towers Refunding COP	36,960	2.15 - 5.25%	2020	24,075
2002 Motorola COP	26,060	2.00 - 5.00%	2011	3,320
2003 San Miguel Consolidated Fire Protection District Refunding LRB	10,005	2.00 - 5.00%	2020	7,020
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	76,680
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	15,730
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	21,695
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	41,115
2009 Series A COC and Annex Project LRB	136,885	3.00 - 5.50%	2036	136,885
2009 Justice Facilities Refunding of 1998 Courthouse COP	32,640	2.00 - 5.00%	2023	32,640
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	48,300
Total	$ 677,245			$ 422,260

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

Table 26

Certificates of Participation and Lease Revenue Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2011	$ 27,305	19,209 $	46,514
2012	23,745	18,226	41,971
2013	24,745	17,207	41,952
2014	19,525	16,355	35,880
2015	18,825	15,535	34,360
2016-2020	104,520	63,683	168,203
2021-2025	79,995	41,749	121,744
2026-2030	74,065	23,065	97,130
2031-2035	40,160	8,322	48,482
2036	9,375	294	9,669
Subtotal	$ 422,260	223,645 $	645,905
Add:			
Arbitrage	455		
Unamortized issuance premium	15,499		
Less:			
Unamortized deferred amounts on refundings	(5,454)		
Total	$ 432,760		

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.

In July 2009, the County redeemed, in full, $100 million Series 2008B Variable Rate Demand Obligations (the “Series 2008B Obligations”) issued in two subseries consisting of $50 million Series 2008B-1 Variable Rate Demand Obligations and $50 million Series 2008B-2 Variable Rate Demand Obligations.

The sources of funds used to redeem the Series 2008B Obligations were as follows: 1) $63.9 million internal loan granted from the General Fund to the Pension Obligation fund which will be repaid to the General Fund via charges to County departments made possible by a reduction in the required retirement system contribution rates for fiscal years 2010 and 2011; 2) $24.1 million contribution from the General Fund to the Pension Obligation Bond Debt Service Fund; and, 3) $12 million from Pension Obligation Debt Service Fund monies on hand.

The redemption of the $100 million Series 2008B Obligations is anticipated to result in approximately $4.5 million of annual debt service savings.

Details of POBs outstanding at June 30, 2010 are as follows:

Table 27

Taxable Pension Obligation Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
2002 Series A	$ 132,215	3.88 - 4.95%	2016	$ 102,215
2004 Series A	241,360	3.28 - 5.86%	2023	212,870
2004 Series B1-2	147,825	5.91%	2025	147,825
2004 Series C CABs	64,928	4.66 - 5.76%	2016	88,445
2004 Series C Unaccreted Interest CABs				(11,954)
2008 Series A	343,515	3.33 - 6.03%	2027	334,935
Total	$ 929,843			$ 874,336

Annual debt service requirements to maturity for POBs are shown below in **Table 28**.

Table 28

Taxable Pension Obligation Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2011	$ 36,590	3,591	44,446 $	84,627
2012	33,176	3,053	43,391	79,620
2013	33,215	2,386	42,313	77,914
2014	33,042	1,575	41,233	75,850
2015	38,240	1,202	39,556	78,998
2016-2020	226,575	147	165,967	392,689
2021-2025	315,670		84,312	399,982
2026-2028	140,370		4,986	145,356
Subtotal	$ 856,878	11,954	466,204 $	1,335,036
Add:				
Accreted appreciation through June 30, 2010	$ 23,288			
Less:				
Accreted appreciation paid through fiscal year 2010	(2,467)			
Less:				
Accreted appreciation to be paid in fiscal year 2011	(3,363)			
Subtotal	874,336			
Less:				
Unamortized deferred amounts on refundings	(1,796)			
Total	$ 872,540			

(Amounts Expressed in Thousands Unless Otherwise Noted)

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).

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). 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 (collections).

Details of TSAB outstanding at June 30, 2010 are as follows:

Table 29

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2016-2030	$ 510,145
Series 2006B CABs	19,770	6.25%	2032	93,711
2006B unaccreted appreciation CABs				(68,287)
Series 2006C CABs	8,686	6.40%	2033	46,268
2006C unaccreted appreciation CABs				(35,032)
Series 2006D CABs	20,565	7.10%	2036	150,768
2006D unaccreted appreciation CABs				(123,416)
Total	$ 583,631			$ 574,157

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

Table 30

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

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2011	$ 11,275	4,321	25,540	$ 41,136
2012	10,770	4,613	25,006	40,389
2013	11,690	4,926	24,491	41,107
2014	12,645	5,260	23,932	41,837
2015	13,635	5,617	23,327	42,579
2016-2020	94,070	34,343	105,169	233,582
2021-2025	142,650	47,697	76,656	267,003
2026-2030	200,210	66,270	34,649	301,129
2031-2035	58,460	51,802	620	110,882
2036	3,761	1,886		5,647
Subtotal	$ 559,166	226,735	339,390	$ 1,125,291
Add:				
Accreted appreciation through June 30,2010	14,991			
Subtotal	574,157			
Less:				
Unamortized issuance discount	(16,088)			
Unamortized deferred amounts on refundings	(9,252)			
Total	$ 548,817			

(Amounts Expressed in Thousands Unless Otherwise Noted)

TSAB pledged revenue for the year ended June 30, 2010 was as follows:

Table 31

Tobacco Settlement Asset-Backed Bonds - Pledged Revenues

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2010 Debt Principal & Interest Paid	Fiscal Year 2010 Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,140,284	$ 30,298	$ 28,352

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, 2010 were the following:

Table 32

CRA Revenue Refunding Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 14,640
Total	$ 16,000			$ 14,640

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

Table 33

CRA Revenue Refunding Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2011	$ 360	782	$ 1,142
2012	375	766	1,141
2013	395	748	1,143
2014	415	728	1,143
2015	430	708	1,138
2016-2020	2,510	3,179	5,689
2021-2025	3,230	2,427	5,657
2026-2030	4,230	1,390	5,620
2031-2033	2,695	212	2,907
Total	$ 14,640	10,940	$ 25,580
Less:			
Unamortized issuance discount	(38)		
Total	$ 14,602		

CRA pledged revenue for the year ended June 30, 2010 was as follows:

Table 34

CRA Revenue Refunding Bonds - Pledged Revenues

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2010 Debt Principal & Interest Paid	Fiscal Year 2010 Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 25,579	$ 1,143	$ 793

Loans - Governmental Activities

Loans for various governmental activities included 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.

As of June 30, 2010, the County has borrowed $1.91 million from the California Energy Commission (CEC Loan 3) from an existing authorized loan amount of $3 million. The loan amount of $1.91 million, in addition to future loan proceeds representing costs incurred before the completion of the project on June 30, 2010, have been used to fund multiple energy efficient projects in County facilities. Semi-annual interest and principal payments will be made in twenty equal installments at a fixed interest rate of 4.50% with the first loan repayment commencing on December 22, 2010 and every June 22 and December 22 thereafter.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of loans outstanding at June 30, 2010 for governmental activities are as follows:

Table 35
Loans - Governmental Activities

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
Loans - non internal service funds (ISF)				
Firebird Manor	$ 4,486	1.00%	2028	$ 2,671
Total loans - non-ISF	4,486			2,671
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	970
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	1,853
California Energy Comm Loan 3 (Facilities ISF)	1,910	4.50%	2020	1,910
Total loans - ISF	6,888			4,733
Total	$ 11,374			$ 7,404

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

Table 36
Loans - Governmental Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2011	$ 836	217	$ 1,053
2012	866	187	1,053
2013	898	155	1,053
2014	930	123	1,053
2015	845	89	934
2016-2020	1,800	218	2,018
2021-2025	776	46	822
2026-2028	453	9	462
Total	$ 7,404	1,044	$ 8,448

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, 2010 for business-type activities are as follows:

Table 37
Loans - Business-type Activities

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 1,205
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	604
Total	$ 3,584			$ 1,809

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

Table 38
Loans - Business-type Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2011	$ 242	102	$ 344
2012	254	88	342
2013	267	74	341
2014	279	59	338
2015	292	43	335
2016-2017	475	36	511
Total	$ 1,809	402	$ 2,211

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, 2010, $415.5 million of bonds were legally defeased and remain outstanding.

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, 2010, a $455 estimate of probable arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 14

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2010 were as follows:

Table 39

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2009	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2010	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and Lease Revenue Bonds	$ 469,970	80,940	(128,650)		422,260	$ 27,305
Taxable pension obligation bonds	1,005,955		(135,630)	4,011	874,336	36,590
Tobacco settlement asset-backed bonds	574,610		(4,500)	4,047	574,157	11,275
CRA revenue refunding bonds	14,985		(345)		14,640	360
Loans - non-internal service funds	2,816		(145)		2,671	138
Loans - internal service funds (ISF)	4,227	1,028	(522)		4,733	698
Arbitrage	517		(62)		455	
Unamortized issuance premiums	8,697	7,803	(1,001)		15,499	1,156
Unamortized issuance discounts	(18,975)		2,849		(16,126)	(1,071)
Unamortized deferred amounts on refundings	(18,037)	(4,307)	5,842		(16,502)	(5,370)
Total COPs, bonds & loans	2,044,765	85,464	(262,164)	8,058	1,876,123	71,081
Other long-term liabilities:						
Capital Leases - ISF	$	268	(26)		242	$ 28
Claims and judgments - ISF	108,528	30,551	(20,980)		118,099	32,066
Compensated absences -non-ISF	98,837	66,411	(67,482)		97,766	38,483
Compensated absences - ISF	2,488	1,608	(1,896)		2,200	900
Landfill closure and postclosure	21,293	442	(818)		20,917	778
Total Other long-term liabilities	231,146	99,280	(91,202)		239,224	72,255
Total Governmental Activities	$ 2,275,911	184,744	(353,366)	8,058	2,115,347	$ 143,336
Business-type activities:						
Loans	$ 2,038		(229)		1,809	$ 242
Compensated absences	448	354	(342)		460	188
Total Business-type Activities	$ 2,486	354	(571)		2,269	$ 430

NOTE 15

Funds Used to Liquidate Liabilities

The following funds presented in **Table 40** below have typically been used to liquidate other long-term obligations in prior years:

Table 40

Liquidated Liabilities

Liability	Fund(s) Used to Liquidate in Prior Years
Claims & Judgments	Internal Service Funds - Employee Benefits Fund and Public Liability Insurance Fund
Compensated Absences	General Fund; Special Revenue Funds - County Library, Road, and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing; and, Enterprise Funds - Airport and Wastewater Management.
Landfill Closure and Postclosure	General Fund

NOTE 16

Reassessment District Improvement Bonds

In July of 1991, the County issued $28.804 million of 4-S Ranch bonds to finance the acquisition and construction of various public improvements required for the development of land located in north San Diego County west of Interstate 15 and the community of Rancho Bernardo. In July of 1997 the 4-S Ranch bonds were refunded. The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated to pay for any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The County has covenanted to initiate judicial foreclosure in the event of a delinquency in the payment of reassessments. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is $5.655 million at June 30, 2010.

NOTE 17

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 and b) four 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 incomes. Conduit debt is secured by the property that is financed and is payable from the respective COPs' base rentals; and underlying payments on mortgage loans. 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, 2010, the aggregate conduit debt principal amount outstanding was $341,037 million.

NOTE 18

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 projected landfill closure and postclosure care liability at June 30, 2010 for the San Marcos Landfill was $20.917 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2010 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 thousand 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, 2010, $24.793 million has been spent on closure costs, including revegetation costs. Prior to final closure in 2007, the County agreed to vegetate the surrounding areas of the landfill. These costs are projected to continue through 2011. Also, $927 thousand 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)

NOTE 19

Fund Balances Reserved For Other Purposes

At June 30, 2010, the fund balances reserved for other purposes are presented in **Table 41** as follows:

Table 41

Fund Balances Reserved For Other Purposes At June 30, 2010

General Fund		
Defray administrative costs, other general reserves	$	26,223
Improvement and maintenance of recorded document systems		11,941
Teeter tax loss		29,960
Emergency medical services, various construction costs		24,899
Mental health		12,949
Social programs		3,328
Vector control		12,602
Real estate fraud prosecution		817
Domestic violence and child abuse prevention		3,130
Sheriff vehicle maintenance and replacement		1,138
Fingerprinting equipment purchase and operation		8,227
Sheriff automated warrant system		5,396
Donations		4,537
Total General Fund	$	145,147
Special Revenue Funds		
Road-future road improvements	$	24,953
Flood Control-future drainage improvements		11,802
Total Special Revenue Funds	$	36,755
Total Fund Balances Reserved for Other Purposes	$	181,902

NOTE 20

Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2010, the fund balances designated for subsequent years' expenditures are presented in **Table 42** as follows:

Table 42

Fund Balances Designated for Subsequent Years' Expenditures At June 30, 2010

General Fund		
Sheriff Department future capital expenditures	$	4,000
Assessor/Recorder/County Clerk future expenditures		111
Clerk of the Board future expenditures		5
Department of Planning and Land Use future expenditures		659
Housing Authority future lease payments		218
Management of conduit financing program		511
Registrar of Voters Equipment replacement		445
Preventative health care for children		384
South County Shelter capital improvements		85
Senior Volunteer Patrols Program in the unincorporated communities		51
Regional communication system infrastructure enhancements		13,959
Sheriff Department helicopter replacement		2,666
Health based programs aimed at reducing adult and youth smoking		8,007
Equipment replacement/system enhancement-Caller ID Remote Access Network		1,160
Future lease payments		1,633
Contingency set-aside - cost reimbursement for 2003/2007 County fires		32,921
Total General Fund	$	66,815
Special Revenue Funds		
Road - planning, review, design and construction of road projects	$	26,000
Housing and Community Development		4,469
Building maintenance		450
Equipment acquisition		176
Total Special Revenue Funds	$	31,095

NOTE 21

Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (California Government Code Section 990), medical malpractice (California Government Code Section 990.9), automobile liability (California Vehicle Code Section 16020(b)(4)) and workers' compensation (California Code of Regulations, Title 8, Section 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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. These evaluations include estimates for claims incurred but not reported; allocated and unallocated loss adjustment expenses; and amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

At June 30, 2010, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 4%), totaled $118.1 million, including $23.1 million in public liability and $95 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2010 and 2009 are shown below:

Table 43

Risk Management - Changes in Claim Liabilities

	2010	2009
Employee Benefits Fund		
Unpaid claims, July 1	$ 88,563	$ 86,802
Incurred claims	26,376	18,903
Claim payments	(19,966)	(17,142)
Unpaid claims, June 30	$ 94,973	$ 88,563
Public Liability Insurance Fund		
Unpaid claims, July 1	$ 19,965	$ 19,442
Incurred claims	4,175	4,480
Claim payments	(1,014)	(3,957)
Unpaid claims, June 30	$ 23,126	$ 19,965

NOTE 22

Contingencies

Litigation

The County has a potential liability of $18.2 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.

Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $169.8 million in sick leave, holiday and compensatory time. With the exception of sick leave for eligible employees, these benefits are not payable to employees upon termination and are normally liquidated at year end or as employees elect to use their benefits per 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 liabilities in the appropriate proprietary funds and the statement of net assets.

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.

NOTE 23

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 a decrease in net assets of $.66 million and ending net assets of $.150 million for the fiscal year ended June 30, 2009. 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 decrease in net assets of $.270 million and ending net assets of $.377 million for the fiscal year ended June 30, 2009. 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. For the year ended June 30, 2009, the Partnership reported an increase in net assets of $.086 million. 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 24

Pension and Retiree Health Plans

Pension Plan

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 four Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier B is the current open system. Tier I and Tier A are closed to new entrants but have 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 below regarding SDCERA Financial Report information.)

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 10.38% for all categories combined (General Tier I, General Tier A, General Tier B and Safety members). The employer contribution rate for all categories combined was 18.23%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2010, which equaled or exceeded the required contributions, were the following:

Table 44

CoSD Employer Contributions - SDCERA - PP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2010	$ 172,453	$ 176,243	102.2%
2009	200,146	200,146	100.0%
2008	214,665	214,665	100.0%

Retiree Health Plan

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 below regarding SDCERA Financial Report information.)

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. 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 contributions to SDCERA-RHP for the three years ended June 30, 2010, which equaled or exceeded the required contributions, were the following:

Table 45

COSD Employer Contributions - SDCERA-RHP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2010	$ 16,886	$ 17,920	106.1%
2009	20,838	20,838	100.0%
2008	21,304	21,304	100.0%

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 92108-1685 or by calling (619) 515-6800.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 25

Fund Deficit

Table 46		
Fund Deficit At June 30, 2010		
Internal Service Fund:		
Facilities Management	$	(155)

The deficit within the Facilities Management Internal Service fund decreased from $345 thousand at June 30, 2009 to $155 thousand at June 30. 2010. 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 2020.

NOTE 26

Subsequent Events

Tax and Revenue Anticipation Notes

In July 2010, the County issued tax and revenue anticipation notes (TRANS) totaling $140 million due June 30, 2011 at a coupon rate of 2.00% and a yield of 0.38%. Proceeds from the notes will be used to meet fiscal year 2011 cash flow requirements. Fiscal year 2011 unrestricted revenues collateralize the notes.

NOTE 27

New Governmental Accounting Standards

Implementation Status

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. The County chose not to retroactively report such assets. No restatement of beginning net assets was necessary as the assets either met this criteria or were already reported as capital assets under another category. This statement is effective for the County's fiscal year ending June 30, 2010.

Please refer to Note 7 “Capital Assets.”

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.

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.

The County does not currently invest in derivatives, consequently this Statement is not currently applicable.

In December 2009, the GASB issued Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

The County of San Diego is not an agent employer. It contributes to SDCERA's cost-sharing multiple-employer defined benefit health plan administered by SDCERA which is not an agent multiple employer plan; consequently this Statement is not applicable.

In December 2009, the GASB issued Statement 58, *Accounting and Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan.

For governments that are not expected to emerge from bankruptcy as going concerns, this Statement requires remeasurement of assets to a value that represents the amount expected to be received. This Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services.

This Statement is effective for the County's fiscal year ending June 30, 2010.

The County does not have a going concern issue; consequently this Statement is not applicable.

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 March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is effective for the County's fiscal year ending June 30, 2011.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

This Statement provides for the following amendments:

National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.

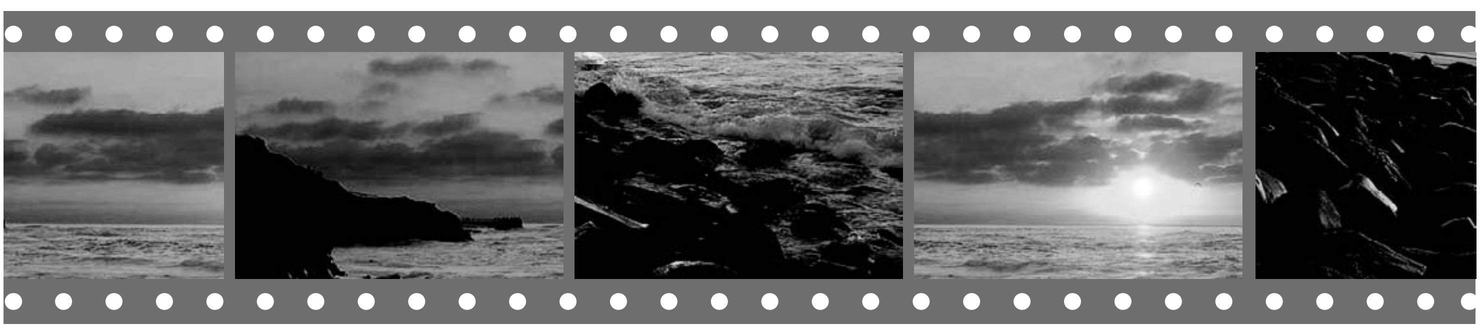
Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

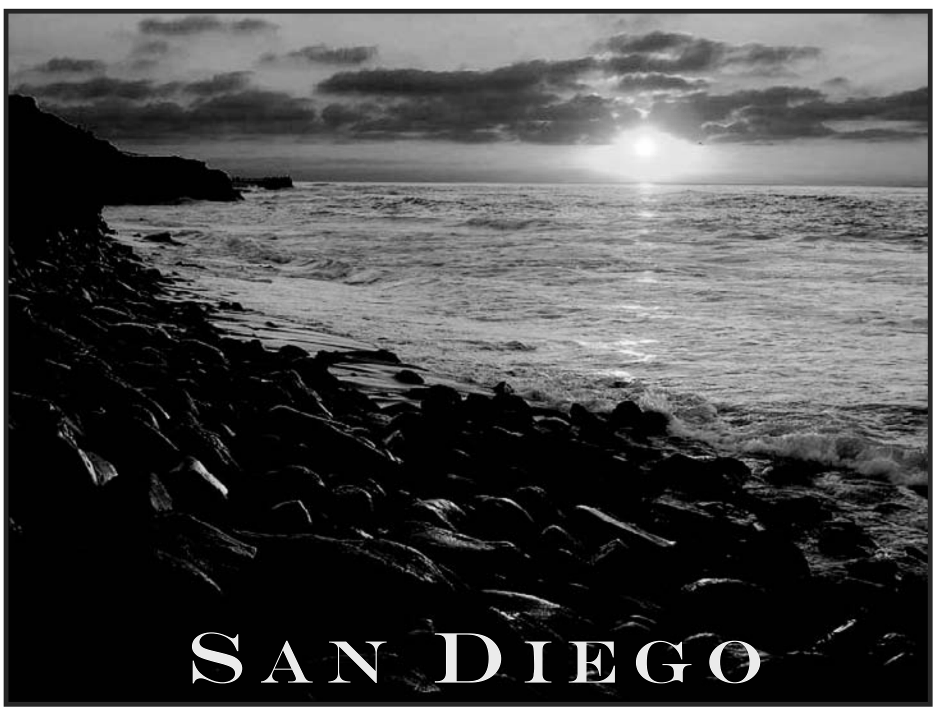
Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools-such as bond mutual funds and external bond investment pools-that do not meet the requirements to be reported as a 2a7-like pool.

Statement 53 is amended to clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance.

This statement is effective for the fiscal year ended June 30, 2011.



Required Supplementary Information



SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

General Fund

For the Year Ended June 30, 2010 (In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	$ 900,753	878,653	904,515
Licenses, permits and franchise fees	38,863	38,863	40,967
Fines, forfeitures and penalties	55,957	60,381	53,996
Revenue from use of money and property	17,399	17,699	23,171
Aid from other governmental agencies:			
State	940,251	931,274	814,553
Federal	878,298	917,476	824,821
Other	81,931	101,673	91,478
Charges for current services	266,956	272,714	277,252
Other revenue	39,116	38,711	33,757
Total revenues	3,219,524	3,257,444	3,064,510
Expenditures:			
Current:			
General government:			
Assessor/recorder/county clerk - finance	30,723	30,704	29,402
Auditor and controller	26,574	26,929	24,275
Auditor and controller - information technology mgt services	7,142	6,787	5,419
Board of supervisors district #1	1,216	1,416	1,160
Board of supervisors district #2	1,300	1,300	1,167
Board of supervisors district #3	1,202	1,209	1,194
Board of supervisors district #4	1,137	1,337	1,122
Board of supervisors district #5	1,306	1,506	1,182
Board of supervisors general office	1,091	1,091	1,027
CAC major maintenance	3,039	3,039	2,201
Chief Administrative office - legislative and administrative	4,735	4,736	4,399
Civil service commission	583	583	542
Clerk of the board of supervisors - legislative and administrative	2,944	3,546	2,822
Clerk of the board of supervisors - property management	3,646	3,034	3,120
Community enhancement	3,529	3,529	3,474
Community projects	11,327	10,092	8,245
Community services	8,640	8,640	1,665
Contributions to capital outlay		12,000	
County communications office	3,096	3,096	2,524
County counsel	20,866	20,866	20,130
County technology office	6,990	8,161	6,868
Countywide general expense	32,938	32,355	5,670
Financing and general government - legislative and administrative	11,407	10,236	2,970
Financing and general government - other general	82,990	82,990	6,349
Health and human services - legislative and administrative	419	419	404
Human resources - other general government	4,230	4,230	3,860
Human resources - personnel	17,403	17,402	14,580
Land use and environment - legislative and administrative	7,250	2,838	1,818
Public safety - legislative and administrative	11,167	11,167	7,554
Registrar of voters	24,591	24,819	15,097
Treasurer/tax collector	16,929	17,902	16,884
Total general government	350,410	357,959	197,124

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, 2010 (In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Public protection:			
Agriculture weights and measures	$ 15,014	15,281	13,997
Agriculture weights and measures - sealer	2,687	2,687	2,576
Assessor/recorder/county clerk - other protection	22,427	22,428	16,737
Child support	48,952	48,952	44,711
Citizens law enforcement review board	481	481	340
Contributions for trial courts	73,769	74,269	72,290
Defense attorney/contract administration	411	411	369
Department of animal services	14,008	14,105	13,299
District attorney-judicial	132,654	133,063	124,531
Grand jury	671	671	627
LAFCO administration	343	343	343
Medical examiner	7,827	9,117	8,727
Office of emergency services	7,540	11,443	5,639
Planning and land use - fire protection	30,947	31,847	18,666
Planning and land use - other protection	27,650	32,776	21,392
Probation - adult detention	2,660	2,660	3,120
Probation - detention and correction	106,285	107,549	99,446
Probation - juvenile detention	42,541	42,529	40,500
Probation - police protection	2,199	584	654
Public defender	74,149	74,143	68,354
Public works, flood control, soil and water, general	16,292	16,262	8,779
Public works, general - other protection	2,333	2,318	1,029
Sheriff - adult detention	189,190	186,431	175,946
Sheriff - other protection	1,350	1,350	968
Sheriff - police protection	328,864	349,286	312,275
Total public protection	1,151,244	1,180,986	1,055,315
Public ways and facilities:			
Public Works, Dept of Gen	9,773	9,843	9,471
Public works, general - public ways	733	2,562	592
Total public ways and facilities	10,506	12,405	10,063
Health and sanitation:			
Environmental health	39,581	43,907	33,226
Health and human services agency - drug and alcohol abuse services	51,224	51,053	40,143
Health and human services agency - health	102,825	106,121	97,884
Health and human services agency - health administration	52,437	52,304	31,461
Health and human services agency - medical care	136,407	136,407	147,177
Health and human services agency - mental health	333,240	333,155	283,923
Public works, general - sanitation	1,628	1,543	1,334
Total health and sanitation	717,342	724,490	635,148
Public assistance:			
Health and human services agency - aid programs	51,136	49,950	29,211
Health and human services agency - other assistance	319,096	318,874	291,704
Health and human services agency - social administration	744,053	742,001	692,905
Health and human services agency - veterans' services	877	877	877
Housing Authority	10,189	10,189	9,148
Probation - care of court wards	9,672	9,672	10,495
Total public assistance	1,135,023	1,131,563	1,034,340
Education			
Agriculture weights and measures	1,084	1,084	906
Total education	$ 1,084	1,084	906

Continued

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

General Fund

For the Year Ended June 30, 2010 (In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Recreation and cultural:			
Parks and recreation	$ 33,676	36,903	28,102
Total recreation and cultural	33,676	36,903	28,102
Contingency reserve	20,000	20,000	
Capital outlay	25,087	36,521	27,184
Debt service:			
Principal	28,807	28,807	28,777
Interest and fiscal charges	20,990	20,990	17,025
Payment to refunded bond escrow agent	4,436	4,436	4,436
Total expenditures	3,498,605	3,556,144	3,038,420
Excess (deficiency) of revenues over (under) expenditures	(279,081)	(298,700)	26,090
Other financing sources (uses):			
Sale of capital assets			338
Transfers in	248,920	240,438	226,039
Transfers out	(450,686)	(433,658)	(223,042)
Total other financing sources (uses)	(201,766)	(193,220)	3,335
Net change in fund balances	(480,847)	(491,920)	29,425
Fund balances at beginning of year	1,190,038	1,190,038	1,190,038
Increase (decrease) in			
Reserve for inventory of materials and supplies		645	645
Fund balances at end of year	$ 709,191	698,763	1,220,108

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Public Safety Fund

For the Year Ended June 30, 2010 (In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Aid from other governmental agencies:			
State	$ 210,919	210,919	189,376
Total revenues	210,919	210,919	189,376
Excess (deficiency) of revenues over (under) expenditures	210,919	210,919	189,376
Other financing sources (uses):			
Transfers out	(214,524)	(214,524)	(188,226)
Total other financing sources (uses)	(214,524)	(214,524)	(188,226)
Net change in fund balances	(3,605)	(3,605)	1,150
Fund balances at beginning of year	3,649	3,649	3,649
Fund balances at end of year	$ 44	44	4,799

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Tobacco Endowment Fund

For the Year Ended June 30, 2010 (In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Revenue from use of money and property	$ 10,500	10,500	9,470
Total revenues	10,500	10,500	9,470
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	7,200	7,200	9,470
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 balances	(17,000)	(17,000)	(14,730)
Fund balances at beginning of year	427,005	427,005	427,005
Fund balances at end of year	$ 410,005	410,005	412,275

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; 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 Fund and the Tobacco Endowment 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 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 features of the Trust Agreement, the Lease, the Assignment Agreement, the Ground Lease and the Nondisturbance 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 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 Payments” means the additional payments payable by the County under and pursuant to the Lease.

“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 May 1, 2011, by and between the Authority and the Trustee, as it may from time to time be amended.

“Authority” means the San Diego Regional Building Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

“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 aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Lease.

“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” and “Requisition” of the Authority or of the County means, respectively, a written certificate, statement, request or requisition signed in the name of the Authority 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 (2011 MTS Tower Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

"Chief Financial Officer" means the person holding the office of Chief Financial Officer of the County, including any Acting or Interim Chief Financial Officer.

"Closing Date" means the date on which the Certificates are initially delivered to the Purchaser thereof, as provided in the Trust Agreement.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Costs" has the meaning set forth for such term in the Sublease.

"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.

"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 Lease, the Assignment Agreement, Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the lease of the 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 and 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.

"County Proportionate Share" means 75.05%.

"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

"Earnings Fund" means the fund by that name established in the Trust Agreement.

"Escrow Agreement" means the Escrow Agreement dated as of May 1, 2011, by and between the Escrow Bank and the County, under which funds are deposited with the Escrow Bank to defease the Prior Obligations.

"Escrow Bank" means Zions First National Bank.

"Event of Default" means, unless the context indicates otherwise, any occurrence or event specified in and defined by the Trust Agreement.

"Excess Amount" has the meaning set forth in the Lease.

"Expiry Date" means November 1, 2086, or the earlier date on which the Lease is terminated as provided therein.

"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.

"Fitch" means Fitch, Inc., or any successor credit rating agency selected by the County.

"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.

"Insurance Consultant" means an individual or firm retained by the County as an independent insurance consultant, experienced in the field of risk management.

"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.

"Insurance Proceeds and Condemnation Awards Fund" means the fund by that name established in accordance with the Trust Agreement.

"Interest Fund" means the fund by that name established in accordance with the Trust Agreement.

"Interest Payment Date" means November 1, 2011 and each May 1 and November 1 thereafter.

"Lease" means that certain Lease, dated as of May 1, 2011, with respect to a portion of the Property, by and between the County, as lessee, and the Authority, as lessor, as originally executed and as it may be amended from time to time in accordance therewith.

"Lease Year" means the period from each July 1 to and including the following June 30 during the term of the Lease.

"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 Trust Agreement or any Supplemental Trust Agreement.

"Mandatory Sinking Account Payment Date," if applicable, means November 1 of each year as set forth in the Trust Agreement or 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., or any successor credit rating agency selected by the County.

"MTDB" means San Diego Metropolitan Transit Development Board, an agency organized and existing under and by virtue of the laws of the State of California.

"Nondisturbance Agreement" means the Nondisturbance Agreement and Agreement Re: Ground Lease (2011 MTS Tower Refunding), made as of May 1, 2011, by and between MTDB, the Authority for the benefit of the Trustee.

"Office Building" means the ten-story office building constructed on the real property described in Exhibit A to the Sublease, executed and entered into as of April 1, 2011, by and between San Diego Metropolitan Transit Development ("MTDB"), an agency organized and existing under and by virtue of the laws of the State of California, as lessee, and the County, as lessor, which real property is also covered by the that certain Ground Lease dated as of November 1, 1987, by and between MTDB and the Authority, a Memorandum of Ground Lease for which was recorded on November 3, 1987, in the Official Records of MTDB as Document Number 87-617734, as amended by an amendment dated April 19, 1988, by and between MTDB and the Authority, a First Amendment of Memorandum of Ground Lease for which was recorded in the Official Records of MTDB on May 25, 1988, as Document Number 88-244926, a Second Amendment to Ground Lease Agreement dated as of January 1, 1994, by and between MTDB and the Authority, as amended and restated in the Amended and Restated Ground Lease dated as of September 1, 2001, by and between MTDB and the Authority which was recorded in the Official Records of the County on September 26, 2001, as Document Number 2001-0694986, as amended and restated in the Amended and Restated Ground Lease dated as of April 1, 2011, by and between MTDB and the Authority.

"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 or the Authority and satisfactory to and approved by the Trustee.

"Outstanding" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates 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 in accordance with 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, 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 Lease, permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Lease, as it may be amended from time to time; (iv) the Sublease, as it may be amended from time to time; (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of initial delivery of the Certificates; and (vii) 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 this Lease and to which the Authority and the County consent in writing and certify to the Trustee will not materially impair the interests of the Authority or use of the Property 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 this 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 53601;

(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 this 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 this 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 corporate parent 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 November 1 of each year, commencing November 1, 2012.

"Prior Obligations" means Certificates of Participation (2001 MTS Tower Refunding Project) which were issued under the Prior Trust Agreement.

"Prior Trust Agreement" means that Trust Agreement, dated as of September 1, 2001, between the Authority and the Prior Trustee, pursuant to which the Prior Obligations were executed and delivered.

"Prior Trustee" means Zion first National Bank, acting as trustee under the Prior Trust Agreement.

"Property" means the real property and all the improvements located or to be located thereon described in the Trust Agreement and in the Lease and all the improvements located or to be located thereon (as the same may be changed from time to time by Removal or Substitution, as defined in the Lease).

"Purchase Contract" means that certain Purchase Contract by and between the Purchaser and the County relating to the Certificates.

"Purchaser" means Citigroup Global Markets Inc., as senior manager, and Stone & Youngberg LLC, as co-manager, as underwriters and purchasers of the Certificates pursuant to the Purchase Contract.

"Rebate Requirement" means the Rebate Requirement as defined in the Tax Certificate.

"Record Date" means the close of business on the fifteenth 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 Property from the leasehold of the Lease as provided in the Lease.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Payments.

"Repair Fund" means the fund by that name established in accordance with the Trust Agreement.

"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 an amount with respect to all Certificates and Additional Certificates equal, as of any date of calculation, to the lesser of (a) 50% of Maximum Annual Debt Service on all Outstanding Certificates and Additional Certificates or (b) 125% of Average Annual Debt Service on all Outstanding Certificates and Additional Certificates; provided however, that the Reserve Fund Requirement with respect to any Series of Certificates or Additional Certificates shall be the least of (i) or (ii) above, or an amount equal to, or derived by the addition of, 10% of the proceeds from the sale of such Series of Certificates or Additional Certificates to the Reserve Fund.

"Sublease" means the Sublease executed and entered into as of May 1, 2011, by and between MTDB, as lessee, and the County, as lessor.

"Substitution" means the release of all or a portion of the Property from the leasehold of the Lease and of the Lease, and the lease of substituted real property and improvements under the Lease and under the Lease as provided in the Lease.

"S&P" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the County.

"Supplemental Trust Agreement" means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms of the Trust Agreement.

"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 Authority, dated as of May 1, 2011, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

"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 acting as Trustee under the Trust Agreement, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

TRUST AGREEMENT

TERMS AND CONDITIONS OF CERTIFICATES

Form of Certificates. The Certificates and the assignment to appear thereon shall be in substantially the forms, respectively, provided in the Trust Agreement, with necessary or appropriate insertions, omissions and variations as permitted or required by the Trust Agreement.

Execution of Certificates and Replacement Certificates. The Certificates shall be executed by the Trustee by the manual signature of an authorized signatory of the Trustee.

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 Authority 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 hereinabove described. 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 as described in the foregoing and of the expenses which may be incurred by it as described in the foregoing. Any Certificate executed and delivered as described in the foregoing 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 the foregoing, 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 if so instructed by the County.

Execution and Delivery of Additional Certificates. In addition to the County's Certificates of Participation (2011 MTS Tower Refunding), the County, the Authority 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 Authority, 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 conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Authority shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease;

(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) The 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 Property and evidence of the satisfaction of this condition shall be made by a Certificate of the County.

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 to the Insurer notice of any execution and delivery of Additional Certificates.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Authority shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Authority 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 Authority shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel (which may rely upon a Certificate of the County) setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Lease 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 Authority; (3) that said amendments to the Lease and the Supplemental Trust Agreement, when duly executed by the County and the Authority, will be valid and binding obligations of the County and the Authority; (4) that said amendments to the Lease have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to the Lease do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that certain 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 Authority, authorizing the execution of the amendments to the Lease required by the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to the Lease required by the Trust Agreement;

(e) Certified copies of the policies of insurance required by the Lease or certificates thereof, which shall evidence that the amounts of the insurance required under the Lease 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 the Lease

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.

TRUST FUNDS

Reserve Fund.

(a) There is by the Trust Agreement 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 Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the 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 the Lease in accordance with its 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 semi-annually on or before each Interest Payment Date 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 this 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 prior to 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.

For purposes of the foregoing, the term "substitution" 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 described in the foregoing and satisfying the Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

Cost of Issuance Fund. The Trust Agreement establishes in trust a special fund designated as the "Cost of Issuance Fund" which is 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 by the Trust Agreement 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 to the Base Rental Payment Fund.

Earnings Fund. The Trust Agreement establishes 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 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.

Repair Fund. There is by the Trust Agreement established in trust a special fund designated as the "Repair 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 disburse moneys from the Repair Fund on such dates and in such amounts as are necessary to pay costs of repair, rehabilitation and reconstruction of the Office Building and of expenses incident thereto (or for making reimbursements to the County or any other person, firm or corporation for such costs theretofore paid by him or it), including, without limitation, architectural and engineering fees and expenses, equipment, tests and inspections, surveys, insurance premiums and losses during construction not insured against because of deductible amounts. Before any such disbursement is made, the County shall have caused to be filed with the Trustee a written request substantially in the form provided in the Trust Agreement.

Upon receipt of each such Written Request of the County, the Trustee will pay the amount set forth in such Written Request of the County as directed by the terms thereof.

Any remaining balance in the Repair Fund following completion of the repair, rehabilitation and reconstruction of the Office Building as evidenced by a Certificate of the County shall be transferred, first to the Reserve Fund to the extent the amount on deposit therein is less than the Reserve Fund Requirement, and thereafter to the Base Rental Payment Fund; provided, however, the Trustee shall, upon written direction of the County, deposit the remainder in the Prepayment Fund to be applied to the prepayment of such Certificates pursuant to the optional prepayment provisions of the Trust Agreement.

Notwithstanding anything to the contrary contained in the Trust Agreement, funds in the Repair Fund shall be invested only in Permitted Investments upon the direction of the County Treasurer.

RENTAL PAYMENTS

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 hereinafter described in the following respective funds, each of which the Trustee by the Trust Agreement agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease 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 under 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. Monies in the Interest Fund shall be used and withdrawn by the Trustee for the purpose of paying the interest represented by the Certificates and any 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. Principal or interest then due on Certificates shall be transferred first to the Reserve Fund to make up any deficiency in the Reserve Amount, and, if no Event of Default has occurred and is continuing, any necessary amount may be transferred to the County.

(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 the Lease, 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.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease 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

Authority. Delivery to the Trustee of the schedule of insurance policies under the Lease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies.

Except as hereinafter described, in the event of any damage to or destruction of any part of the Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Lease, the County and the Authority 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 Lease. 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 Authority 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 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 the 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 Property and thereupon shall cause the said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates; 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 Property.. Notwithstanding any other provision herein, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the 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 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 Authority or the Trustee in respect of the Property shall be applied and disbursed by the County, the Authority or the Trustee as follows:

If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Property and will not result in an abatement of Rental Payments payable by the County under the Lease, 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 not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

If any portion of the Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Rental Payments payable by the County under the Lease, then the County, the Authority and 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 the neither of the County or the Authority 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 Lease and Lease. The County and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Authority 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 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 and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the County ten (10) 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 Authority 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.

Prosecution and Defense of Suits. 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 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.

Accounting Records and Statements. 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 Authority 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.

Recordation and Filing. The Authority 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 Lease, 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 Authority will do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of the Lease, the Assignment Agreement and the Trust Agreement.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Authority 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 or the Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants.

Pursuant to the Trust Agreement, 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 as set forth in a written direction fromn 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 Trustee 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 written direction of 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 as described under this heading 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.

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 under this heading, shall be transferred to the County to be used for any lawful purpose.

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. The following events shall be Events of Default with respect to Certificates:

(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 thirty (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 Authority by the Trustee, or to the County, the Authority 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 thirty (30) day period and if the County has taken all action reasonably possible to remedy such default within such thirty (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 the Lease.

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 certain provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Authority, to exercise any of the remedies granted to the Authority under the Lease, 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 remedies set forth in the Trust Agreement and as described under the next heading.

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 Authority or any director, officer or employee thereof, and to compel the County or the Authority 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 Authority 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 Authority 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 in the Trust Agreement conferred upon or reserved to the Trustee 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.

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 Property after a default by the County pursuant to the Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the 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 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 or 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 in the Trust Agreement provided 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 Certificates at and after the maturity or earlier prepayment.

THE TRUSTEE

Employment of the Trustee. The County and the Authority by the Trust Agreement 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 hereinabove referred to 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 Authority may, by an instrument in writing and up to 30-day written notice remove the Trustee initially party hereto 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 $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 Authority 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 Authority shall promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event the County and the Authority 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.

Compensation and Indemnification of the Trustee. 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 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 established under the Trust Agreement or under the Lease (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 the application of amounts after default as provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Authority. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Lease.

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.

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 Authority, 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 experienced in the field of law relating to municipal bonds. 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 Lease, 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 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 Authority 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 Authority, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the County or the Authority 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 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 Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease, the Lease or the Trust Agreement for the existence, furnishing or use of the Property.

Every provision of this Trust Agreement, the Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of this 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 Authority, 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 Authority, 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 Authority, 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 disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the fixed Principal Payment Date of any 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 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, or (4) modify any provision of this 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 as described under this heading without the prior written consent of the Insurer and the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Authority, 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 the County or the Authority, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County or the Authority, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Property as may be requested from time to time by the County in accordance with the Lease; 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 Authority 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, *provided further* that the County, the Authority and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this clause (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 thereunder 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 the Trust Agreement, 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 the Trust Agreement.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as hereinabove described and as provided in the provisions of the Trust Agreement relating to amendment of or supplement to 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 and Additional Certificates 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. 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 shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates or Additional Certificates such new 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 provisions of the Trust Agreement relating to amendment of or supplement to 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.

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 to the Trust Agreement and 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 Authority, the County, the Authority 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 redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed under this heading if (i) in case said Certificates or Additional Certificates are to be redeemed 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 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 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 and to the securities depository 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 as described in 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 the provisions described in 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 the Trust Agreement, 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 the foregoing shall preclude prepayments pursuant to the provisions of the Trust Agreement relating to terms of prepayment.

Any release as described in the preceding paragraph 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 provisions of the Trust Agreement relating to defeasance.

(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 County and the Authority 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 Lease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

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 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 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 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 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 Authority, 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 hereof, and all covenants, stipulations, promises and agreements in this Trust Agreement contained by and on behalf of the County or the Authority shall be for the sole and exclusive benefit of the County, the Authority, the Trustee, the Insurer and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever any of the County, the Authority or the Trustee or any officer thereof is named or referred to in this summary of the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the County, the Authority or the Trustee or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the County, the Authority or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

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 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 (11) 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 the Trust Agreement. 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) 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.

THE LEASE

THE PROPERTY

Lease of the Property. The Authority by the Lease leases to the County, and the County by the Lease rents and hires from the Authority, the Property on the conditions and terms hereinafter set forth. The County by the Lease agrees and covenants that during the term of the Lease, except as hereinafter *provided*, it will use the Property for public purposes so as to afford the public the benefits contemplated by the Lease and so as to permit the Authority to carry out its agreements and covenants contained in the Lease and in the Trust Agreement, and the County by the Lease further agrees and covenants that during the term of the Lease that it will not abandon or vacate the Property. The rights of the County to occupy a portion of the Property, and the improvements thereon are subject to the rights of MTDB, as Lessor, under the Ground Lease.

Quiet Enjoyment. The parties to the Lease mutually covenant that, subject to the preceding paragraph, 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 Lease and is not in default under the Lease, shall at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Right of Entry and Inspection. The Authority shall have the right to enter the Property and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease and for all other lawful purposes.

Additions and Improvements; Prohibition Against Encumbrance or Sale. The County shall have the right during the lease term to make any additions or improvements to the Property, to attach fixtures, structures or signs, and to affix any personal property to the Property, so long as the fair rental value of the Property is not thereby reduced. Title to all fixtures, equipment or personal property placed by the County on the Property shall remain in the County. The title to any personal property, improvements or fixtures placed on the Property by any sublessee or licensee of the County shall be controlled by the sublease or license agreement between such sublessee or licensee and the County, which sublease or license agreement shall not be inconsistent with this Lease.

The County and the Authority will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Certificates as contemplated by the Lease. The County and the Authority will not sell or otherwise dispose of the Property or any property essential to the proper operation of the Property, except as otherwise provided in the Lease. Notwithstanding anything to the contrary in the Lease contained, but subject to the Ground Lease, with the consent of the Insurer, which shall not be unreasonably withheld, the County may assign, transfer or sublease any and all of the Property or its other rights under the Lease, *provided* that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of MTDB under the Ground Lease and the Authority under the Lease, (b) no such assignment, transfer or lease shall relieve the County of any of its obligations under the Lease, (c) the assignment, transfer or lease shall not result in a breach of any covenant of the County described elsewhere in this summary or in this Official Statement, (d) any such assignment, transfer or lease shall by its terms expressly provide that the fair rental value of the Property for all purposes shall be first allocated to the Lease, as the same may be amended from time to time before or after any such assignment, transfer or lease and (e) no such assignment, transfer or lease shall confer upon the parties thereto any remedy which allows reentry upon the Property unless concurrently with granting such remedy the same shall be also granted under the Lease by an amendment to the Lease which shall in all instances be prior to and superior to any such assignment, transfer or lease.

Liens. In the event the County shall at any time during the term of the Lease cause any improvements to the Property to be constructed or materials to be supplied in or upon or attached to the 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 Property and shall keep the Property free of any and all liens against the Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Property or the Authority'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 Authority 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 Property or the Authority's interest therein.

Substitution or Removal of Property.

(a) The County may amend the Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property, upon compliance with all of the conditions set forth in the Lease. After a Substitution or Removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Lease.

(b) No Substitution or Removal shall take place under the Lease until the County delivers to the Authority and the Trustee the following:

(1) A Certificate of the County containing a description of all or part of the 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 Property after a Substitution or Removal, in each year during the remaining term of the Lease, is at least equal to the maximum annual Base Rental Payments attributable to the Property prior to said Substitution or Removal, as determined by the County on the basis of an appraisal of the 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 Property after Substitution or Removal equals or exceeds the remaining term of the Lease;

(3) An Opinion of Counsel to the effect that the amendments to the Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Authority 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 same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments, 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 particular covenants contained in the Lease relating to insurance 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 LEASE

Commencement of the Lease. The effective date of the Lease is the Closing Date, and the term of the Lease shall end on the Expiry Date, unless such term is sooner terminated as hereinafter provided. The County has the option to terminate the Lease on November 1, 2042, and on each tenth anniversary thereafter, upon six months prior written notice to the Authority.

USE OF PROCEEDS; TAX COVENANTS

Use of Proceeds. The parties to the Lease agree that the proceeds of the Certificates will be used to refund and defease the Prior Obligations on the earliest possible date 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 and 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 described under this heading 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 Lease. In the event that at any time the County is of the opinion that for purposes of the foregoing 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 the Lease, the County by the Lease specifically agrees to ensure that the following requirements are met:

(1) No more than five percent of the Property (determined both on the basis of space and on the basis of cost) shall be used in the trade or business of one or more nongovernmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code).

(2) The County will not invest or allow to be invested proceeds of the Lease, the Certificates or any Additional Certificates at a yield in excess of the yield on the Lease, the Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(3) 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 Authority, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Property, the following amounts at the following times:

(a) Base Rental. The County shall pay to the Authority as Base Rental Payments with respect to the Property in the amounts set forth in the Base Rental Payment Schedule attached to the Lease. Notwithstanding the dates designated for the payment of the Base Rental Payments on such Schedule, all Base Rental Payments due in any Lease Year shall be due and payable in one sum on the Closing Date in the case of Base Rental Payments payable prior to July 1, 2011, as set forth in the Base Rental Payment Schedule attached to the Lease, and on July 5 of each year (or the next Business Day if July 5 does not fall on a Business Day), commencing on July 5, 2011, in the case of Base Rental Payments accruing in each Lease Year ending after June 30, 2011. Failure of the County to comply with these provisions shall constitute an event of default under the Lease. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the County under the Lease. The obligation to make the Base Rental Payments shall commence as of the Closing Date.

(b) Additional Payments. The County shall also pay, as rental under the Lease in addition to the Base Rental Payments, to the Authority or the Trustee, as hereinafter provided, such amounts ("Additional Payments") in each year as shall be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease or the assignment thereof, the Trust Agreement or the respective interests in the Property and the lease of the Property by the Authority to the County under the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, all Common Costs, 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 Authority 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 other than that related to Common Costs 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.

With respect to Common Costs:

(i) During the last month of each Lease Year, the Authority shall give to the County notice of the Authority's budget estimate of the amounts payable as Common Costs for the following Lease Year. On or before the first day of each month during the following each such Lease Year, the County shall pay to the Authority one-twelfth (1/12th) of such estimated budget amounts; provided, however, that if the Authority fails to give such notice in the last month of the prior Lease Year, then the County shall continue to pay on the basis of the prior Lease Year's budget estimate until the first day of the calendar month next succeeding the date such notice is given by the Authority. If at any time or times the Authority determines that the amounts payable as Common Costs for the then current Lease Year vary from its budget estimate given to the County, the Authority, by notice to the County, may revise its budget estimate for such Lease Year, and subsequent payments for such shall be based upon such revised budget estimate.

(ii) Following the end of each Lease Year, the Authority shall deliver to the County a statement of amounts payable by the County as Common Costs for such Lease Year. If such statement shows an amount owing by the County that is less than the payments for such Lease Year previously made by the County, and if no Event of Default has occurred and is continuing at the time such statement is delivered, the Authority shall credit such amount to the next payments of Base Rental Payment falling due under this Lease. If such statement shows an amount owing by the County that is more than the estimated payments for such Lease Year previously made by the County, the County shall pay the deficiency to the Authority within thirty (30) days after delivery of such statement. The respective obligations of the Authority and the County under this paragraph shall survive the Expiry Date, and, if the Expiry Date is a day other than the last day of a Lease Year, the adjustment in rent payments for Common Costs pursuant to the Lease Year in which the Expiry Date occurs shall be prorated in the proportion that the number of days in such Lease Year preceding the Expiry Date bears to 365.

Any taxes levied against the Authority with respect to the Property, the fees of the Trustee, and any other expenses directly attributable to the Property shall be included in the Additional Payments payable hereunder. Any taxes levied against the Authority with respect to real property other than the Property, the fees of any trustee or paying agent under any resolution securing bonds of the Authority or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Property shall not be included in the administrative costs of the Property and shall not be paid from the Additional Payments payable under the Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the 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 Authority 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 Authority in making any determination that costs are payable as Additional Payments hereunder, 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 Property.

(c) Consideration.

(i) Such payments of Base Rental Payments and Additional Payments for each Lease Year or portion thereof during the term of this Lease shall constitute the total rental 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 Property. On the Closing Date, the County shall deliver a certificate to the Authority and the Trustee, which shall set forth the annual fair rental value of the Property. The parties hereto have agreed and determined that the annual fair rental value of the Property is not less than the maximum Base Rental Payments payable hereunder 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 Property, other obligations of the parties under this Lease, the uses and purposes which may be served by the improvements on the Property and the benefits therefrom which will accrue to the County and the general public..

(ii) The parties hereto hereby acknowledge that the parties hereto may amend this Lease from time to time to increase the Base Rental Payments payable hereunder so that Additional Certificates may be executed and delivered pursuant to the 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 Lease, the 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 Property and other land and improvements leased to the County hereunder.

(d) Payment; Credit. Each installment of Base Rental Payments payable under the Lease shall be paid in lawful money of the United States of America to or upon the order of the Authority at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Authority shall designate. Any such installment of rental accruing under the Lease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the 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 Lease until the same shall be paid. Notwithstanding any dispute between the County and the Authority, 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 Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to the Lease 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.

Annual Budgets; Reporting Requirements. The County has covenanted under the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under this Lease in its operating budget for each Fiscal Year commencing (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Payments.

Application of Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Lease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Lease and thereafter to all Additional Payments due under the 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 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 Property, rental payments due under the Lease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental, 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 Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments, annual fair rental value of the Property shall first be allocated to the Lease as provided therein. Any abatement of rental payments pursuant to the Lease shall not be considered an Event of Default as defined in the Lease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference and the 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 Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the County has agreed under the Lease 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 Property.

Prepayment of Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Lease, all or any portion of the components of Base Rental Payments relating to any portion of the 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 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 represented by the Certificates and any Additional Certificates, with respect to the portion of the Property so prepaid.

Before making any prepayment pursuant to the Lease, at least 45 days before the prepayment date the County shall give written notice to the Authority 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 Authority and the Trustee.

MAINTENANCE; TAXES;
INSURANCE AND OTHER CHARGES

Maintenance of the Property by the County. The County agrees that, at all times during the term of the Lease at its own cost and expense, will maintain, preserve and keep or cause to be maintained, preserved and kept the 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 Authority shall have no responsibility in any of these matters or for the making of additions or improvements to the Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Lease contemplate that the Property will be used for public purposes by the County and, therefore, that the 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 Authority of the Property is found to be subject to taxation in any form, the County will pay during the term of the 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 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 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 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 Lease is in effect.

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility or through a program of self-insurance or self-funding to the extent specifically permitted under the Lease, all coverage on the Property described under this heading. Such insurance shall consist of :

(1) A policy or policies of insurance against loss or damage to the 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 greater of (i) the cumulative replacement values of the Property and, in the case of a policy covering more than the 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 hereunder; provided that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice 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 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 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 retained by the County provides written advice 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 Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the 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) So long as any Certificates or Additional Certificates are Outstanding, rental interruption insurance to cover loss, total or partial, of the use of any part of the 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 this Lease for a period of not less than two years' Base Rental Payments for the 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 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), (2) and (3) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided herein or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance herein required. 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), (2) and (3) above shall be so written or endorsed as to make losses, if any, payable to the County, the Authority and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1), (2) or (3) above shall be applied as provided in the 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 this Section 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 Authority or the Trustee without first giving written notice thereof to the Authority 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 and the Insurer not later than January 31 of each year certifying that the insurance policies required by the Lease are in full force and effect and that the Authority and/or the Trustee is named as a loss payee on each insurance policy which the Lease requires to be so endorsed. The County will provide the Insurer with copies of such insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Lease.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the Lease or shall fail to keep the Property in good repair and operating condition, the Authority 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 Authority shall become Additional Payments, 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 Property with liability in the aggregate amount equal to the principal amount of Certificates secured by the Property. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Property subject only to the rights of MTDB under the Ground Lease and to such other exceptions as do not materially affect the County's right to the use and occupancy of the Property.

DAMAGE, DESTRUCTION, TITLE DEFECT AND CONDEMNATION

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the Lease (a) the 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 Property or any portion thereof or the estate of the County or the Authority in the 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 Authority 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 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 with the express written consent of Authority and MTDB, 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 principal and interest represented by Outstanding Certificates and Additional Certificates attributable to the portion of the 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 Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the 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 of the Lease, the County shall only prepay less than all of the Outstanding Certificates if the annual fair rental value of the Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates 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 Property so that the fair rental value of the 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, 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 Lease.

DISCLAIMER OF WARRANTIES;
VENDOR'S WARRANTIES; USE OF THE PROPERTY

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE AUTHORITY 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 PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE AUTHORITY IS A MANUFACTURER OF ANY PORTION OF THE PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the County's use of the Property as provided by the Lease.

Use of the Property; Improvements. The County will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease. The County shall provide all permits and licenses, if any, necessary for the use of the 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 Property) with all laws of the jurisdictions in which its operations involving any portion of the Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the 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 Authority in and to the Property or its interest or rights under the Lease.

ASSIGNMENT AND INDEMNIFICATION

Assignment by Authority. The parties understand that certain of the rights of the Authority under the Lease and under the Ground Lease will be assigned to the Trustee pursuant to the Assignment Agreement, and accordingly the County agrees to make all payments due under the Lease to the Trustee under the Trust Agreement, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Lease or otherwise) that the County may from time to time have against the MTDB or the Authority. The County agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements which may be reasonably requested by the Authority or the Trustee to protect their interests in the Property during the term of the Lease.

Assignment by County. The Lease and the interest of the County in the Property may not be assigned or encumbered by the County except as permitted expressly by the Lease.

Indemnification. The County shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Authority 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 Lease, the acquisition, construction, installation and use of the Property and each portion thereof or any accident in connection with the operation, use, condition or possession of the 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 Authority; any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Property; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising as described under this heading shall continue in full force and effect notwithstanding the full payment of all obligations under the Lease or the termination of the Lease for any reason. The County, the Trustee and the Authority mutually agree to promptly give notice to each other of any claim or liability by the Lease indemnified against following the learning thereof by such party.

DEFAULT

Default. (a) The following events shall be "Events of Default" under the Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Lease, any one or more of the following events:

(i) 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 Lease, *provided*, that the failure to deposit any Base Rental Payments abated pursuant to the Lease shall not constitute an Event of Default;

(ii) The County shall fail to pay any item of Additional Payments when the same shall become due and payable pursuant to the Lease; or

(iii) The County shall breach any other terms, covenants or conditions contained in the 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 Authority to the County; *provided, however*, that if the failure stated in the notice cannot be corrected within such period, then the Authority 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.

(b) Upon the happening of any of the Events of Default specified in paragraph (a) or (e) under this heading, then it shall be lawful for the Authority or its assignee, subject to the terms of the Lease to exercise any and all remedies available or granted to it under the Lease.

(c) Upon the occurrence of an Event of Default, the Authority or its assignee must thereafter maintain the 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 Property, regardless of whether or not the County has abandoned the Property; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE LEASE OR OTHERWISE. In such event, the County shall remain liable and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the County and, to pay the rent to the end of the term of the Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent hereunder (without acceleration).

(e) In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Lease, if the County's interest in the Lease or any part thereof assigned, sublet or transferred without the written consent of the Authority (except as otherwise permitted by the 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 Property or any portion thereof (except as permitted by the Lease); then in each and every such case the County shall be deemed to be in default under the Lease.

(f) Neither the County nor the Authority shall be in default in the performance of any of its obligations under the Lease (except for the obligation to make Base Rental Payments pursuant to the Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County or the Authority, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

(g) The County and Authority and its successors and assigns shall honor the exclusive rights of the County to use the Property.

MISCELLANEOUS

Trustee as Third Party Beneficiary. The Trustee is by the Lease designated a third party beneficiary under the Lease for the purpose of enforcing any of the rights under the Lease assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Authority and the County that lease payments under the Lease shall be absolutely net to the Authority so that the Lease shall yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as in the Lease specifically otherwise provided. The Authority shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Lease except as in the Lease expressly set forth, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Property which may arise or become due during the term of the Lease shall be paid by the County.

Amendments. The Lease may be amended in writing as may be mutually agreed by the Authority 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 Lease.

The Lease and the rights and obligations of the Authority and the County under the Lease may also be amended or supplemented at any time by an amendment of the Lease or supplement to the Lease 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 Authority or the County to be observed or performed in the Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the County, or to surrender any right or power reserved in the Lease to or conferred in the Lease on the Authority 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 Lease or in regard to questions arising under the Lease which the Authority or the County may deem desirable or necessary and not inconsistent with the Lease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Lease;

(d) to facilitate the issuance of Additional Certificates as provided in the 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 all Base Rental Payments, Additional Payments and other rent payable under the Lease, all of the obligations of the County under the 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 Lease pursuant to the Trust Agreement, then the obligation of the County under the Lease to make Base Rental Payments under the 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 Authority and the Trustee specified in the 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 Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

ASSIGNMENT AGREEMENT

The Authority will assign its rights to receive Base Rental Payments from the County under the Lease to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement, the terms of which are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Assignment Agreement.

Assignment. The Authority unconditionally and irrevocably grants, transfers and assigns to the Trustee, without recourse or warranty, (i) all right, title and interest of the Authority as lessee under the Ground Lease; (ii) all rights of the Authority to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Lease for the benefit of the Owners of the Certificates; (iii) all rents, profits and products from the Property to which the Authority has any right or claim whatsoever under the Lease; (iv) the right to take all actions and give all consents under the Lease; (v) the right of access more particularly described in the Lease; and (vi) any and all other rights and remedies of the Authority in the Lease as lessor thereunder for the purpose of (a) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (b) performing and discharging each agreement, covenant and obligation of the County contained in the Lease 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 shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Conditions. The Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. The Trustee shall not be responsible for the accuracy of the recitals therein. The Trustee is entering into the Assignment Agreement solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not responsible for the duties or obligations of the Authority under the Lease or for any recitals, covenants, representations or warranties of the Authority thereunder.

GROUND LEASE

General. The Ground Lease provides the terms and conditions of the lease of a portion of the Property (the "Ground Lease Property") by MTDB, as lessor, to the Authority, as lessee. Certain provisions of the Ground Lease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Ground Lease.

Property. MTDB leases to the Authority, and the Authority leases from MTDB, on the terms and conditions set forth in the Ground Lease, the Ground Lease Property.

Term. The term of the Ground Lease commenced on the November 3, 1987 and terminates on November 1, 2086. The Authority shall have the option to terminate the Ground Lease on November 1, 2042 and each tenth anniversary thereafter, upon six months' prior written notice to MTDB.

Rent. Commencing November 1 of each Lease Year, the Authority shall pay to MTDB in advance, without offset, for each remaining month in lease term, as minimum rent, the sum of $32,164.34, subject to periodic adjustment pursuant to the Ground Lease (the "Minimum Rent"). The County's share of the Minimum Rent is equal to 73.4% of the Minimum Rent. MTDB, as lessor under the Ground Lease, acknowledges receipt of MTDB's share of the Authority's Minimum Rent, which is equal to 26.6% of the Minimum Rent. So long as the Sublease is in effect, and MTDB receives a rent credit against its rental payment under the Sublease equal to the County's 73.4% share of Minimum Rent (as adjusted pursuant to the Ground Lease), the Authority's obligation to pay the Minimum Rent shall be reduced to $1 for each twelve-month period during the term beginning November 1, 2001.

Defaults. The occurrence of any one or more of the following events shall constitute a default under the Ground Lease by the Authority:

(a) The abandonment of the Ground Lease Property by the Authority.

(b) The failure by the Authority to make any payment of rent, additional rent, or other payment required to be made by the Authority under the Ground Lease, as and when due, where such failure shall continue for a period of ten (10) days after written notice thereof from MTDB to the Authority, provided, however, that any such notice shall be in lieu of, and not in addition to any notice required under California Code of Civil Procedure Section 1161, as amended.

(c) The failure by the Authority to observe or perform any of the express covenants or provisions of the Ground Lease to be observed or performed by the Authority, other than as specified in clause (a) and (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from MTDB to the Authority; provided, however, that any such notice shall be In lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161, as amended; provided further, that if the nature of the Authority's default is such that more than thirty (30) days are reasonably required for its cure, then the Authority shall not be deemed to be in default if the Authority shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion.

(d) (i) The making by the Authority of any general assignment for the benefit of creditors; (ii) the filing by or against the Authority of a petition to have the Authority adjudged bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against the Authority, the same is dismissed within ninety (90) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of the Authority's assets located at the Ground Lease Property or of the Authority's interest in the Ground Lease, where possession is not restored within ninety (90) days; (iv) the attachment, execution or other judicial seizure of substantially all of the Authority's assets located at the Ground Lease Property or of the Authority's interest in the Ground Lease, where such seizure is not discharged within ninety (90) days; or (v) the Authority's convening of a meeting of its creditors or any class thereof for the purpose of effecting a moratorium upon or composition of its debts.

Remedies.

(a) In the event of any default by the Authority as defined in the Ground Lease, MTDB shall provide written notice thereof to the Trustee. In the event such default is not cured by the Trustee within thirty (30) days after the date of such notice (or, if due to the nature of the default more than thirty (30) days are reasonably required for its cure, in the event the Trustee does not commence such cure within said thirty (30) day period and thereafter diligently prosecute such case to completion), then MTDB may exercise the following remedies:

(i) Terminate the Authority's right to possession of the Ground Lease Property by any lawful means, in which case the Ground Lease shall terminate and the Authority shall immediately surrender possession of the Ground Lease Property to MTDB. In such event MTDB shall be entitled to recover from the Authority: (A) The worth at the time of award of the unpaid rent and additional rent which had been earned at the time of termination; (B) The worth at the time of award of the amount by which the unpaid rent and additional rent which would have been earned after termination until the time of award exceeds the amount of such loss that the Authority proves could have been reasonably avoided; (C) The worth at the time of award of the amount by which the unpaid rent and additional rent for the balance of the term after the time of award exceeds the amount of such loss that the Authority proves could be reasonably avoided; (D) Any other amount necessary to compensate MTDB for all the detriment proximately caused by the Authority's failure to perform its obligations under the Ground Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Ground Lease Property, expenses of reletting, including necessary repair, renovation and alteration of the Ground Lease Property, reasonable attorneys' fees, and any other reasonable costs; and (E) At MTDB's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

(ii) Without terminating or effecting a forfeiture of the Ground Lease or otherwise relieving the Authority of any obligation thereunder in the absence of express written notice of MTDB's election to do so, MTDB may, but need not, relet the Ground Lease Property or any portion thereof at any time or from time to time for such terms and upon such conditions and rental as MTDB in its sole discretion may deem proper. Whether or not the Ground Lease Property are relet, the Authority shall pay to MTDB all amounts required to be paid by the Authority under the Ground Lease up to the date that MTDB terminates the Authority's right to possession of the Ground Lease Property. Such payments by the Authority shall be due at the times provided in the Ground Lease, and MTDB need not wait until the termination of the Ground Lease to recover them by legal action or in any other manner. If MTDB relets the Ground Lease Property or any portion thereof, such reletting shall not relieve the Authority of any obligation thereunder, except that MTDB shall apply the rent or other proceeds actually collected by it for such reletting against amounts due from the Authority thereunder to the extent such proceeds compensate MTDB for non-performance of any obligation of the Authority thereunder. MTDB may execute any lease made pursuant to the Ground Lease in its own name, and the lessee thereunder shall be under no obligation to see to the application by MTDB of any proceeds to MTDB, nor shall the Authority have any right to collect any such proceeds. MTDB shall not by any re-entry or other act be deemed to have accepted any surrender by the Authority of the Premises or the Authority's interest therein, or be deemed to have terminated the Ground Lease, or to have relieved the Authority of any obligation thereunder, unless MTDB shall have given the Authority express written notice of MTDB's election to do so.

(iii) MTDB may terminate the Ground Lease by express written notice to the Authority of its election to do so. Such termination shall not relieve the Authority of any obligation under the Ground Lease which has accrued prior to the date of such termination. In the event of such termination, MTDB shall be entitled to recover from the Authority the amounts determined pursuant to paragraph (i) above. In the event of a default by reason of an event stated in paragraph (d) under the heading "Defaults" above the Ground Lease and any interest in the Ground Lease Property shall not become an asset in any such proceeding and, in any such event and in addition to all other remedies of MTDB under the Ground Lease or provided by law, MTDB may declare the term of the Ground Lease ended and re-enter the Ground Lease Property and take possession thereof and remove all persons therefrom, and the Authority and its creditors (other than MTDB) shall have no further claim thereon or under the Ground Lease.

(b) MTDB shall be under no obligation to observe or perform any covenant of the Ground Lease on its part to be observed or performed which accrues after the date of any default by the Authority thereunder.

(c) In any action for unlawful detainer commenced by MTDB against the Authority by reason of any default under the Ground Lease, the reasonable rental value of the Ground Lease Property for the period of the unlawful detainer shall be deemed to be the amount of rent and additional rent reserved in the Ground Lease for such period, unless MTDB or the Authority shall prove to the contrary by competent evidence.

(d) The rights and remedies reserved to MTDB in the Ground Lease, including those not specifically described, shall be cumulative, and, except as provided by California statutory law in effect at the time, MTDB may pursue any or all of such rights and remedies, at the same time or otherwise.

(e) No delay or omission of MTDB to exercise any right or remedy shall be construed as a waiver of an such right or remedy or of any default by the Authority under the Ground Lease. The acceptance by MTDB of rent or any additional rent under the Ground Lease shall not be a waiver of any preceding breach or default by the Authority of any provision thereof, other than the failure of the Authority to pay the particular rent or any additional rent accepted, regardless of MTDB's knowledge of such preceding breach or default at the time of acceptance of such rent or any additional rent, or a waiver of MTDB's right to exercise any remedy available to MTDB by virtue of such breach or default. The acceptance of any payment from a debtor in possession, a trustee, a receiver or any other person acting on behalf of the Authority or the Authority's estate shall not waive or cure a default under paragraph (d) under the heading "Defaults" above.

Default by MTDB. MTDB shall not be deemed to be in default in the performance of any obligation required to be performed by it under the Ground Lease unless and until it has failed to perform such obligation within ninety (90) days after written notice by the Authority to MTDB specifying wherein MTDB has failed to perform such obligation; provided, however, that if the nature of MTDB's obligation is such that more than ninety (90) days are required for its performance then MTDB shall not be deemed to be in default if it shall commence such performance within such ninety (90) day period and thereafter diligently prosecute the same to completion.

NONDISTURBANCE AGREEMENT AND AGREEMENT RE: GROUND LEASE (2011 MTS TOWER REFUNDING)

MTDB agrees under the Nondisturbance Agreement that in the event the Trustee obtains possession of the land and facilities covered by the Ground Lease through actions taken under the Lease, MTDB will recognize the

Trustee, and one claiming through the Trustee as the rightful occupier of the Ground Lease Property under the Lease and will not withhold consent to such a transfer, provided that the Trustee or new occupying lessee assumes obligations under the Lease and there does not occur thereafter an event of default under the Lease or event which with the passing of time or giving of notice or both would constitute such an event of default. MTDB further acknowledges that performance by the County under the Lease will satisfy performance by the Authority under the Ground Lease. Upon and event of default under the Ground Lease, MTDB will give notice of such event of default to the Trustee and the Insurer and will accept tender and performance from the Trustee and/or the Insurer as if the same were tender and performance by the Authority.

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APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

Upon execution and delivery of the Series 2011 Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel, proposes to render its final approving opinion with respect to the Series 2011 Certificates in substantially the following form:

[Date of Delivery]

County of San Diego
San Diego, California

County of San Diego
Certificates of Participation
(2011 MTS Tower 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 $19,260,000 aggregate principal amount of County of San Diego Certificates of Participation (2011 MTS Tower Refunding) (the "Certificates"), executed and delivered pursuant to a trust agreement, dated as of May 1, 2011 (the "Trust Agreement"), by and among the County, the San Diego Regional Building Authority (the "Authority") 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 Lease, dated as of May 1, 2011 (the "Lease"), between the Authority and the County, the Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the County and the Assignment Agreement, dated as of May 1, 2011 (the "Assignment Agreement"), between the Authority and the Trustee, opinions of counsel to the County, the Authority, the San Diego Metropolitan Transit Development Board ("MTDB") and the Trustee, certificates of the County, the Authority, MTDB, 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 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 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 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 and the 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, although we observe that it is 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,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of May 1, 2011, is executed and delivered by the County of San Diego, California (the "Issuer") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent" or "DAC") for the benefit of the Holders (hereinafter defined) of the Certificates (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Certificates in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Report" means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"Annual Filing Date" means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Audited Financial Statements" means the financial statements (if any) of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Certificates" means the certificates as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Certificates and the 9-digit CUSIP numbers for all Certificates to which the document applies.

“Disclosure Representative” means the Chief Financial Officer of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Failure to File Event” means the Issuer’s failure to file an Annual Report on or before the Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries) or (b) treated as the owner of any Certificates for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Certificates (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Certificates, as listed on Appendix A.

“Trustee” means the institution identified as such in the document under which the Certificates were issued.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than nine months after the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2011. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit B, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on 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, IRS notices or events affecting the tax status of the security;"

7. "Modifications to rights of securities holders, if material;"

8. "Certificate calls, if material;"

9. "Defeasances;"

10. "Release, substitution, or sale of property securing repayment of the securities, if material;"

11. "Rating changes;"

12. "Tender offers;"

13. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"

14. "Merger, consolidation, or acquisition of the obligated person, if material;" and

15. "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"
2. "change in obligated person;"
3. "notice to investors pursuant to bond documents;"
4. "certain communications from the Internal Revenue Service;"
5. "secondary market purchases;"
6. "bid for auction rate or other securities;"
7. "capital or other financing plan;"
8. "litigation/enforcement action;"
9. "change of tender agent, remarketing agent, or other on-going party;"
10. "derivative or other similar transaction;" and
11. "other event-based disclosures;"

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. "quarterly/monthly financial information;"
2. "change in fiscal year/timing of annual disclosure;"
3. "change in accounting standard;"
4. "interim/additional financial information/operating data;"
5. "budget;"
6. "investment/debt/financial policy;"

7. "information provided to rating agency, credit/liquidity provider or other third party;"

8. "consultant reports;" and

9. "other financial/operating data."

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement in the tables with the following headings in the Appendix A to the Official Statement for the most current fiscal year available:

TOTAL COUNTY EMPLOYEES

ASSESSMENT APPEALS

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION

TEN LARGEST TAXPAYERS

SECURED TAX ROLL STATISTICS

GENERAL FUND BALANCE SHEET

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2009-10 AND ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2010-11

HISTORICAL FUNDING STATUS

TRANSFERS OF INVESTMENT EARNINGS TO NON-VALUATION RESERVES

HISTORICAL FUNDING STATUS FOR POST-RETIREMENT HEALTHCARE BENEFITS

PAYMENTS FOR POST-RETIREMENT HEALTHCARE BENEFITS

SUMMARY OF LONG-TERM BONDED OBLIGATIONS PAYABLE FROM THE GENERAL FUND

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

An update of the financial and operating data relating solely to the County contained under the heading "SAN DIEGO COUNTY INVESTMENT POOL" in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The County shall clearly identify each such other document so included by reference.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, in a format similar to the financial statements contained in the final Official Statement, will be included in the Annual Report; and audited financial statements will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been previously filed with the MSRB or the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Certificates constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements relating to the Certificates reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;

7. Modifications to rights of Certificate holders, if material;

8. Certificate calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Certificates, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

    Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Issuer shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this

Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, Failure to File Event notices, Voluntary Event Disclosures and Voluntary Financial Disclosures, the Issuer shall indicate the full name of the Certificates and the 9-digit CUSIP numbers for the Certificates as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination

Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(c) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Certificates upon the legal defeasance, prior redemption or payment in full of all of the Certificates, when the Issuer is no longer an obligated person with respect to the Certificates, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Certificates. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent.

The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Certificates or under any other document relating to the Certificates, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Certificates or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Certificates.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Certificates and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee of the Certificates, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Issuer have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Disclosure Dissemination Agent

By: ______________________________
Name: Paula Stuart
Title: Chief Executive Officer

COUNTY OF SAN DIEGO,
as Issuer

By: ______________________________
Name: Donald F. Steuer
Title: Chief Financial Officer

EXHIBIT A

NAME AND CUSIP NUMBERS OF CERTIFICATES

Name of Issue:	County of San Diego Certificates of Participation (2011 MTS Tower Refunding)
Obligated Person(s):	County of San Diego
Date of Issuance:	May 3, 2011
Date of Official Statement:	April 20, 2011

CUSIP Numbers:

797391R68
797391R76
797391R84
797391R92
797391S26
797391S34
797391S42
797391S59
797391S67

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Issuer:	County of San Diego
Obligor:	County of San Diego
Name of Certificate Issue:	$19,260,000 County of San Diego Certificates of Participation (2011 MTS Tower Refunding)
Date of Issuance:	May 3, 2011

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Certificates as required by the Disclosure Agreement, dated as of April 1, 2010, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____________.

Dated: ______________

Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, on behalf of the Issuer

____

cc: Issuer
Obligated Person

EXHIBIT C-1
EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name: County of San Diego

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the Certificates to which this material event notice relates:

____

Number of pages of attached: _____

____ Description of Notice Events (Check One):

1.______"Principal and interest payment delinquencies;"
2.______"Non-Payment related defaults, if material;"
3.______"Unscheduled draws on 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, IRS notices or events affecting the tax status of the security;"
7.______"Modifications to rights of securities holders, if material;"
8.______"Certificate calls, if material;"
9.______"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14._____"Merger, consolidation, or acquisition of the obligated person, if material;" and
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

____ Failure to provide annual financial information as required

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ______________________________ Title: ______________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of __________ between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

County of San Diego

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the Certificates to which this notice relates:

____

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1.______"amendment to continuing disclosure undertaking;"
2.______"change in obligated person;"
3.______"notice to investors pursuant to Certificate documents;"
4.______"certain communications from the Internal Revenue Service;"
5.______"secondary market purchases;"
6.______"bid for auction rate or other securities;"
7.______"capital or other financing plan;"
8.______"litigation/enforcement action;"
9.______"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ______________________________Title: ______________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying “voluntary financial disclosure” will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of ________ between the Issuer and DAC.

Issuer’s and/or Other Obligated Person’s Name:

County of San Diego

Issuer’s Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the Certificates to which this notice relates:

____

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1.______“quarterly/monthly financial information;”
2.______“change in fiscal year/timing of annual disclosure;”
3.______“change in accounting standard;”
4.______“interim/additional financial information/operating data;”
5.______“budget;”
6.______“investment/debt/financial policy;”
7.______“information provided to rating agency, credit/liquidity provider or other third party;”
8.______“consultant reports;” and
9.______“other financial/operating data.”

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ____________________________________ Title: ____________________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

APPENDIX F

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS APPENDIX F CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY, THE COUNTY AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE AUTHORITY, 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 2011 Certificates. The Series 2011 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 2011 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 2011 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Certificates on DTC's records. The ownership interest of each actual purchaser of each Series 2011 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 2011 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 2011 Certificates, except in the event that use of the book-entry system for the Series 2011 Certificates is discontinued.

To facilitate subsequent transfers, all Series 2011 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 2011 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 2011 Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such Series 2011 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 2011 Certificates. Beneficial Owners of the Series 2011 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011 Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Series 2011 Certificates. For example, Beneficial Owners of the Series 2011 Certificates may wish to ascertain that the nominee holding the Series 2011 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 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 Series 2011 Certificates of such maturity to be prepaid. None of the Authority, the County or the Trustee can provide any assurance that DTC, the Direct Participants or the Indirect Participants will allocate prepayments of the Series 2011 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 2011 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 2011 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments evidenced by the Series 2011 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 2011 CERTIFICATES (i) PAYMENTS OF PRINCIPAL OF AND INTEREST EVIDENCED BY THE SERIES 2011 CERTIFICATES, (ii) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2011 CERTIFICATES OR (iii) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2011 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 2011 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 TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2011 CERTIFICATES.

DTC may discontinue providing its services as depository with respect to the Series 2011 Certificates at any time by giving reasonable notice to the Authority, the County or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2011 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 2011 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 Authority and the County believe to be reliable, but the Authority and the County take no responsibility for the accuracy thereof.

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COUNTY OF SAN DIEGO • CERTIFICATES OF PARTICIPATION (2011 MTS TOWER REFUNDING)

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